

Italy Spotlight - YTD Q3 2024

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SPOTLIGHT
Savills Research

Italian Investment Market



66 Offices and retail make a comeback

Highlights

The first 9 months of 2024 consolidated the positive trend in investment volumes started at the end of 2023

Despite some caution related to monetary policy and geopolitical uncertainties, international currency continued to remain relevant

Development projects, redevelopments and changes of use involved around 27% of volumes

Offices and retail return to be the top asset classes, thanks to 3 of the biggest transactions of the period

In the retail sector, high street is driving volumes but the out-of-town component will continue to attract interest in the coming quarters

Logistics registered an increase in terms of investment volume, underpinned by the transactions of some portfolios

Hospitality continued to perform well, focusing on leisure locations and asset types

The living sector volumes continued to be subdued, slowed down by a lack of up-and-running products

The market was still characterised by granular activity, but big deals and portfolio transactions are coming back as financial conditions are easing

In the next months, rental levels will register further increase in asset classes characterised by supply constraints and strong occupancy

YTD Q3 2024 KPIs



TOTAL VOLUMES
6.5 bln €
+62% YoY



NUMBER OF DEALS
165
-9 YoY



SOURCE OF CAPITAL
67% foreign



GEOGRAPHIES
44% Milan



OFFICE | PRIME NET YIELD
4.25%
+25 bps YoY



LOGISTICS | PRIME NET YIELD
5.50%
+30 bps YoY



HIGH STREET | PRIME NET YIELD
3.75%
+25 bps YoY



SHOPPING CENTRE | PRIME NET YIELD
7.25%
+50 bps YoY

Macro-economic Outlook

The global scenario is still dominated by uncertainty as geopolitical risks are escalating. In the Eurozone, the economic growth remains in positive territory and inflation is now below the ECB target. The rate cut in September will probably be followed by other cuts until the deposit rate reaches 2.5% next spring. The Italian economic trend remains positive, supported by the expansion in the service sector and the positive trend in the labour market. In September, household confidence returned to grow supported by positive expectations on savings and household budget.

In September, inflation stabilized at +0.7%, mainly due to the continued decline in energy products. Core inflation declined at +1.8%, while 'shopping trolley' inflation increased at 1.1%, following the slow acceleration in food products.

The inflationary pressure of recent years is still affecting consumption and sales, which grew in value terms, only thanks to food products, but decreased in volume.

After the record lows of the last 2 years, the propensity to save is rapidly recovering (10.2% in Q2 2024), supported by the strong growth in household disposable income (+4.1% YoY). The slowdown in inflation led to an expansion in purchasing power (+2.9% YoY) and savings, but only partially in final consumption expenditure (+0.8%).

According to Capital Economics, Italian GDP is forecasted to increase by 0.7% in 2024 and will be slower in the coming year, as Italy's fiscal position and demographics will impact on potential growth. Inflation returned below the target in September in the Euro Area average, so rate cut path will probably accelerate.



GDP
+0.6% YoY
(Q2 2024)



UNEMPLOYMENT RATE
5.2% (-173 bps YoY)
(August 2024)

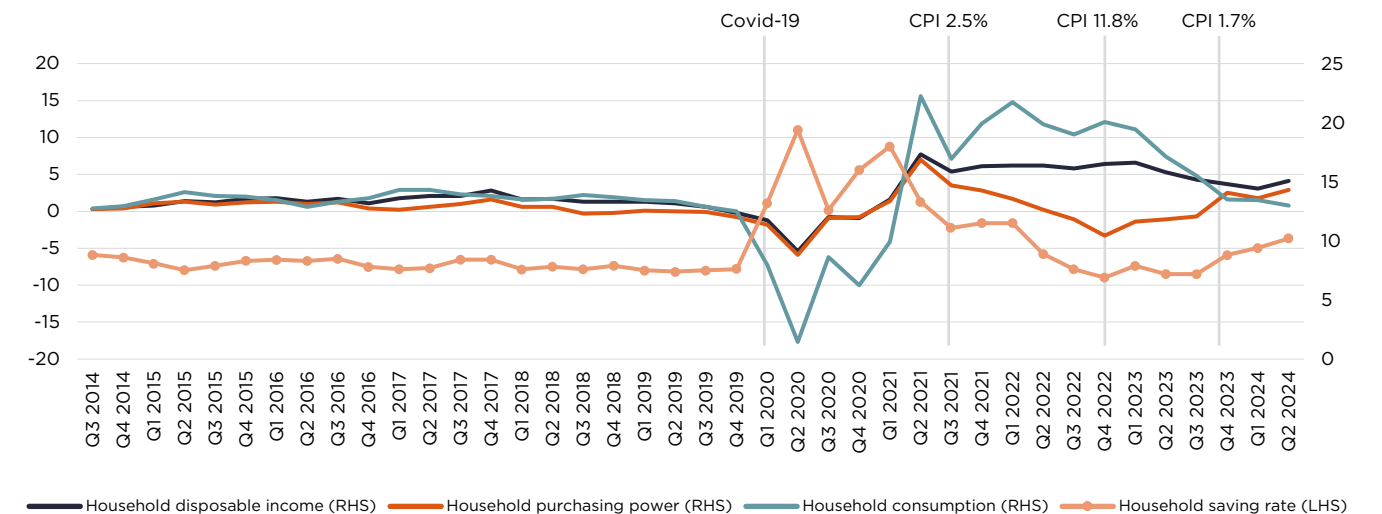


CPI
+0.7% YoY
(September 2024)



GOVERNMENT BOND YIELDS 10 YEARS
3.68% (-54 bps YoY)
(August 2024)

Households economic conditions (% change YoY)



Source: Savills Research on ISTAT data

Commercial Real Estate Investment Market

In YTD Q3 2024, around €6.5 bln was invested in the Italian commercial real estate market, registering a 62% YoY increase. The slowdown, started in Q4 2022, ended in the last part of 2023; the first 9 months of 2024 saw an increase that turned into a consolidated positive trend. Investors' strategies remain focused on sectors with solid fundamentals characterised by resilient demand, but it is the strong mismatch between supply and demand that drove the market in 2024: assets in unique locations for office and high street, hotels and resorts, and redevelopment of assets for living purpose. Development projects, redevelopments of large areas and changes of use involve around 27% of volumes.

Considering the number of deals, the market remained dynamic with 165 deals closed in the first 3 quarters compared to a five-year average of 141. Market continues to be characterised by a numerical predominance of deals with a size lower than €50 mln, which account for about 82% of transactions, while, by value, the 5 largest transactions of the semester account for around 40% of the volumes.

Despite some caution related to monetary policy and geopolitical risks, international currency continues to remain relevant (66%), confirming the competitiveness of the Italian market.

In terms of geographies, Milan confirmed to be the preferred destination, recording 44% of the investment volume, followed by Rome (19%) that registered a strong increase in market share compared to 2023. Thanks to the positive trend of logistics, hospitality and retail sectors, the other Italian cities accounted for 37%.

Thanks to the year's largest deal involving the acquisition of the asset in Via Montenapoleone 8 in Milan, office and retail are once again the leading asset classes by investment volume. With around €1.5 bln, offices returned to be the top sector, recording growing investment volumes in line with a market that, on the occupier side, is dynamic. Pent-up demand for high-quality, ESG-compliant offices will result in further rental growth in the coming months.

Transaction volumes in retail, at around €1.5 bln, put the sector on a clear upward trajectory from the lows recorded since 2020. Two of the largest transactions of the period were recorded in this segment. The high street component drives volumes, but shopping centres, retail warehouses and supermarkets remain at the centre of investors' strategies and, together with tourist and luxury destinations, will continue to drive the segment in the coming quarters.

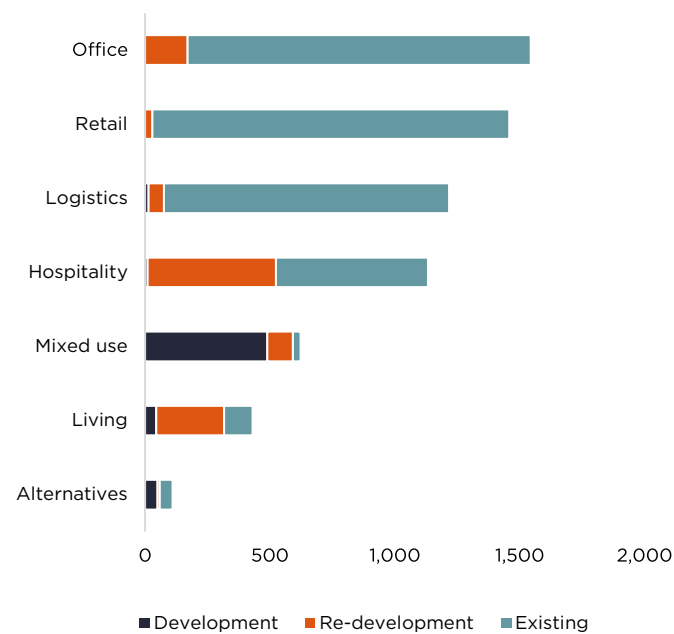
Logistics confirmed its relevance in the Italian CRE scenario, representing around 19% of total investments; thanks to the closing of some portfolio deals, the share of traditional logistics on total volumes returned to grow.

Hospitality continued to perform well. Investors' strategies are shifting towards new leisure locations and asset types. Rome, Lake Como, Sardinia and Milan lead the volumes of the period.

YTD Q3 2024 investment volumes



Total investment volume by type (YTD Q3 2024; € mln)



Market Outlook

The recovery in investment activity that characterised the market in the last 12 months will consolidate in the coming quarters. The Italian macro-economic scenario remains positive supported by a strong labour market and by the recovery of household purchasing power. Financing costs are slightly decreasing, and a firmer rebound is postponed to 2025, when the effects of a looser monetary policy will start to hit the market.

Like interest rates, yields will remain higher than seen in recent years of expansionary policy. The expected reversal of monetary policy began in June 2024 and could accelerate due to slowing inflation in Europe. Uncertainties remain regarding where interest rates will settle, as well as related to international geopolitical situation. Risk premiums will be more comparable with pre-GFC levels, than what we observed pre-pandemic.

Today and in the coming months, price correction will continue to affect secondary assets, contributing to a further polarisation between prime and potentially stranded assets. In demand-constrained sectors, rental growth and a slight yield compression will drive income returns.

Investors' strategies remain focused on sectors with solid fundamentals: prime offices, hotels and resorts, redevelopment areas with a predominance of residential; these sectors are characterised by strong demand and, consequently, good prospects for growth in values and occupancy. In the next quarters we will continue to see a gradual recovery in investment activity and rising rents in sectors characterised by low supply.

66 In the current complex scenario, the Italian market is experiencing a consolidating investment activity focused on sectors characterised by strong demand and, consequently, good prospects for growth in values and occupancy. The reversal of monetary policy in recent months will reactivate core capital. In the next quarters, the improvement in financial conditions could be a driving force for a substantial recovery of the living sector and more generally of the entire real estate market.



Office

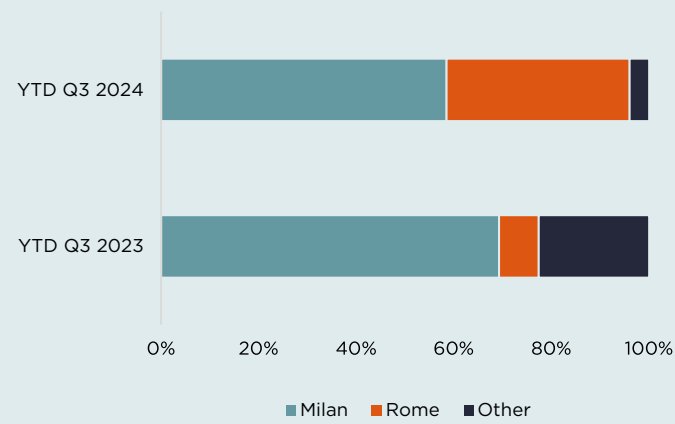
In the first nine months of 2024, office sector leads the market as the top asset class in terms of investments, reaching a total of € 1.5 bln, showing a growth that matched the dynamicity of the market.

Milan represents the preferred location both in terms of volumes and number of deals. The city attracts in fact 58% of yearly volumes across the closing of 19 transactions, with activity ranging from CBD Historic Centre to more peripheral areas. The office portion of via Montenapoleone deal acquired by Kering drove the volumes. However, Rome saw its market share increase, reaching €430 mln since the beginning of the year thanks to the closing of three large deals (> €100 mln).

YTD Q3 2024 was characterised by an increase of average deal size, amounting to € 47 mln (against € 16 mln in 2023), and by a return of international investors, accounting for 57% of the volumes.

Office take-up in Milan has seen a mild surge in Q3 2024, bringing the YTD total to approximately 266,000 sqm (-5% YoY). Number of deals however increased by 7% compared to the same period in 2023, since tenants' appetite for smaller spaces continues to impact take-up. The limited availability of prime product and asking rent on the rise dampen absorption but strong demand for high-quality space is not matched by current supply and supports further rent increases.

Investment volumes by geography



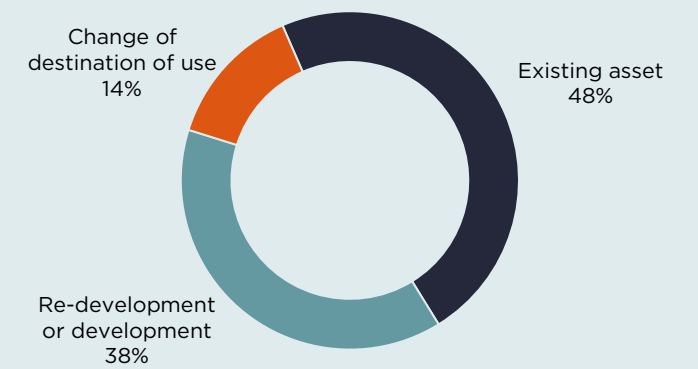
Hospitality

The sector continues to attract interest, thanks to the recovery of tourist flows in Italy, growing international tourists' spending and increases in ADR and RevPAR. The return in our Country of non-European tourists, U.S. in particular, is sustaining the leisure segment.

Investments continue to show positive trends: in the first nine months of the year a total of €1.15 bln have been recorded, a figure 17% up YoY and in line with the YTD Q3 of the last five years. Moreover, the sector was the most dynamic in the Italian landscape, recording the highest number of deals (44) in the nine-months period. Transactions mainly involved value-add strategy; just two portfolios were recorded since the beginning of the year, one of which related to campsites has driven volumes. International investors characterised most of the activity since the beginning of the year (58%).

Regarding geographies, Rome has seen its market share increase, collecting around 28% of volumes across 6 transactions. Sea and lake destinations have attracted a lot of interest, confirming the appetite for leisure locations.

Deals by status (%; YTD Q3 2024)



Logistics

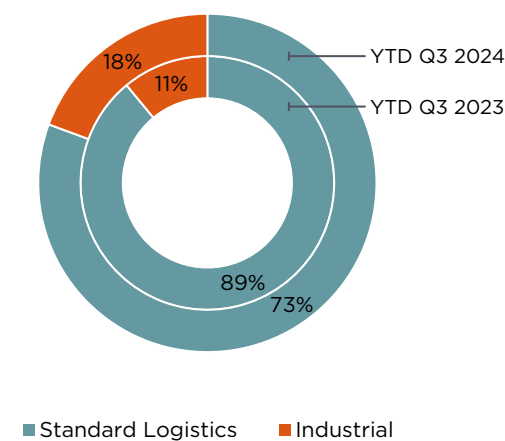
In the first three quarters of the year, logistics reached a total of around €1.2 bln, a figure 17% up YoY.

After a first semester characterised by the prevalence of the industrial and light industrial components, the share of volumes absorbed by traditional logistics returned to grow again. Volumes were in fact driven by the closing of two large standard logistics portfolios (> €100 mln), covering together 36% of yearly volumes. Value add and core plus capitals are leading the market, with a potential return of core capitals in the next months.

After months of decompression, prime net yields remained stable in all the geographies during the last quarter, standing at 5.50% in Milan, Rome, Bologna and Piacenza clusters. In the coming months, a possible slight compression of yields is expected as a result of more favourable economic conditions.

On the leasing side, take-up activity faced a slowdown in the first nine months of 2024 (1.6 mln sqm, -25% YoY), after two years of record levels. The activity has been characterised by the high number of owner occupier transactions, covering 34% of absorption, while speculative transactions slowed down.

Investment volumes by type



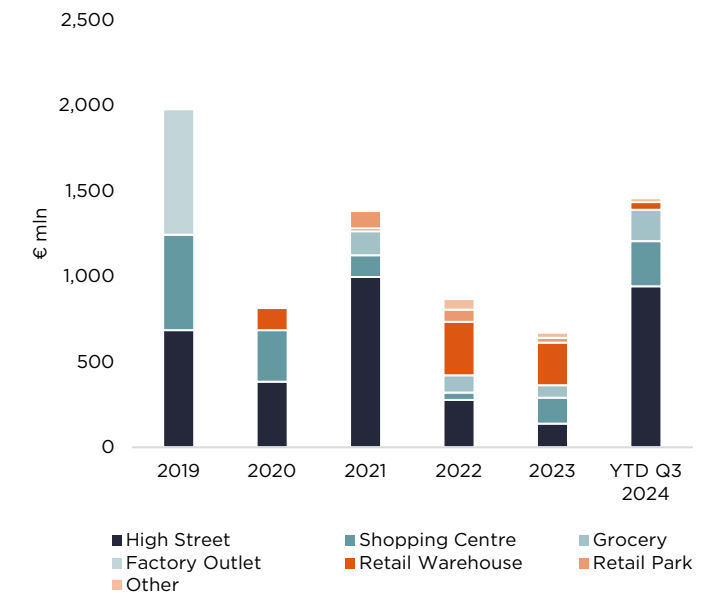
Retail

Retail experienced a significant upsurge in volumes in the third quarter of the year, thanks to the high street portion of via Montenapoleone 8 acquired by Kering. This represents one of the largest transactions in the past decade for the Italian market. Total retail volumes in the year amounted to around €1.45 bln, a figure 5 times greater than the same period of 2023 and doubled compared to the YTD Q3 average of the last 5 years.

High street represented the main subsector, covering 65% of the volumes across 4 deals, two of which located in the city of Milan. This confirms that tourist and luxury destinations remain a key focus for both investors and retailers and will continue to attract strong interest.

Out of town segments also performed well, recording 17 deals for around €520 mln: this represents the highest value for a YTD Q3 since 2020. Shopping centres drove the activity thanks to the closing of 4 operations, one of which above €200 mln located in Rome. The interest in supermarkets continues as confirmed by the acquisition of 16 assets for approximately €180 mln.

Investment volume by subsector



Living & Healthcare

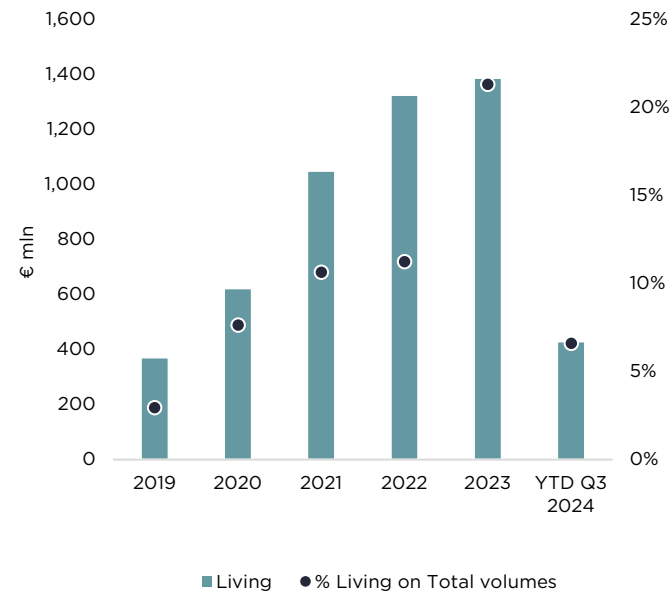
The sector bucked the trend, being the only one to experience volume compression compared to the previous year. A total of €450 mln have been recorded, a figure 63% down YoY. The sector continues to suffer a lack of up-and-running transactions in the period in either the student housing or the residential segments.

The residential subsector remains the most sought after, recording 58% of volumes across 13 deals, six of which in the city of Milan and four in Rome. The transactions mainly refer to reconversions of assets into build to sell dwellings.

Eight student housing assets were transacted in the year for a total of around €120 mln. Interest remains high in consolidated geographies (Milan, Rome, Bologna, Torino), but at the same time it is expanding in less established markets such as Padova and Pisa. Healthcare collected just 13% of volumes in the year, recording 3 transactions.

In general, the positive expectations on rent and price growth and the strong dynamics of demand in many cities are held back by still high construction costs and uncertainty related to return profile and management costs. However, expectation is for investments to pick up in the next quarters thanks to the softening of yields, combined with a looser monetary policy.

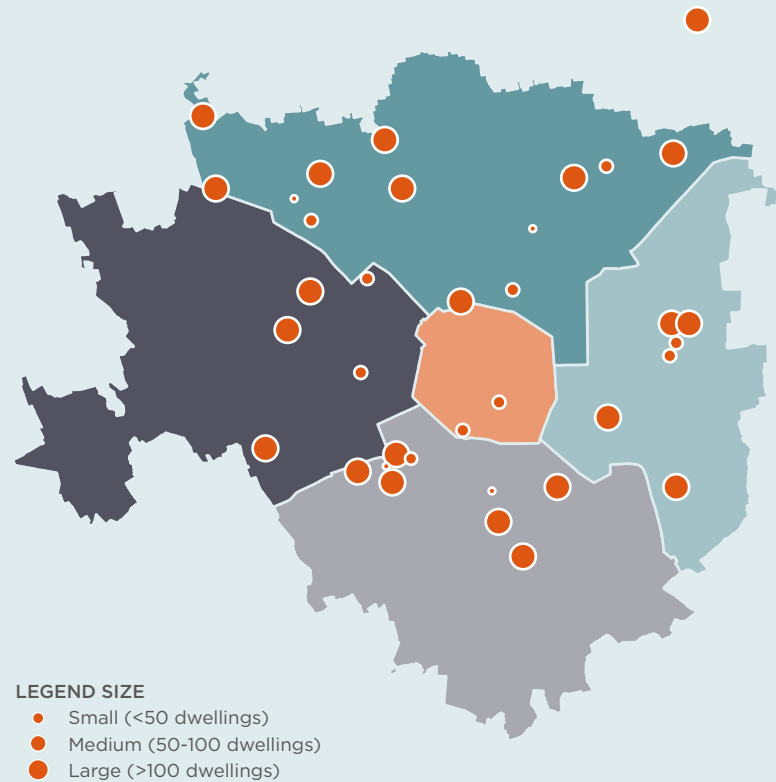
Living investment volumes (LHS) and % on total volumes (RHS)



Milan, main multifamily projects

In recent years, the Italian residential market has seen the rise of a new type of product: multifamily properties. This type of solution is still being tested, since the offer of existing products is low, but the pipeline is rich of new projects. The strength of this product lies in the quality and diversification of services offered which are designed to adapt to the always ready to meet changing needs of the tenants.

Milan showcases most of the opportunities: 36 projects have been identified to be completed by 2027, adding 6,500 new dwellings to the city. Most of the new offer consists of large size projects (> 100 dwellings) and will be part of larger urban regenerations (i.e. MilanoSesto, Milan Santa Giulia, Mo.Le.Co.La.) involving build to sell, student housing, hospitality, retail and office uses. The build to rent offer includes and it is distinguished by social housing schemes, co-living, micro-living, senior living and short rent typologies. International operators are the most active (76%), eager to expand this model more widely in Italy; the offer is set to meet the highest ESG standards: 68% of dwellings are already planned to be green certified.



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