

Italy Spotlight – Q1 2025

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SPOTLIGHT
Savills Research

Italian Investment Market



66 Italian CRE continued to expand across all asset classes

Highlights

Q1 2025 confirmed the positive trend of the Italian CRE market, consolidating the rebound of the last 18 months

Despite persistent caution related to monetary policy and geopolitical risks, international capital remained relevant

Development projects, redevelopments and changes of use involved around 11% of volumes

Logistics were once again the leading asset class by investment volume, driven by some portfolio deals

Office continued to record a positive trend in investment volumes, reflecting the momentum of the occupier market

Hospitality continues to attract interest, with investors' strategies shifting towards new leisure locations and asset types

In the retail sector, the out-of-town segment recorded the best Q1 performance of the last 10 years thanks to a significant transaction in the factory outlet segment

After the slowdown of 2024, living returned in positive territory, although volume remained subdued

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

Although a general compression is likely in the second part of the year, yields will remain higher than seen in recent years of expansionary policy

Q1 2025 KPIs



TOTAL VOLUMES
2.7 bn €
+46% YoY



NUMBER OF DEALS
68
+14 YoY



SOURCE OF CAPITAL
59% foreign



GEOGRAPHIES
30% Milan



OFFICE | PRIME NET YIELD
4.25%
Stable YoY



LOGISTICS | PRIME NET YIELD
5.25%
+25 bps YoY



HIGH STREET | PRIME NET YIELD
3.75%
Stable YoY



SHOPPING CENTRE | PRIME NET YIELD
7.25%
Stable YoY

Macro-economic Outlook

The global scenario is still dominated by growing uncertainty. Announcements on tariffs and tariffs themselves are holding back trade and, with the instability of financial markets, spending and investment decisions as well. The latest rate cut in April will probably be followed by other cuts until the deposit rate reaches 1.80% by the end of 2025. The Italian economic trend remains positive, supported by the expansion in the service sector and a still positive trend in the labour market, but is slowing down its pace. In April, the second consecutive drop in consumer confidence expresses a general worsening of consumer opinions, in particular of expectations about the Italian economic situation.

In April, inflation increased to +2%, mainly due to the increase in food products prices and transport costs. Core inflation returned to grow to +2.1%, while 'shopping trolley' inflation increased to +2.6%, following the acceleration in food products.

The inflationary pressure of recent years is still affecting consumption and sales, which decreased both in value and volume terms.

After 2 years below the last 10-year average, the propensity towards savings is rapidly recovering (13.5% in Q4 2024), supported by the growth in household disposable income (+1.9% YoY). The slowdown in inflation helped not only the expansion in purchasing power (+0.7% YoY) and savings, but also in final consumption expenditure (+2.9%).

According to Oxford Economics, the Italian GDP is forecast to increase by 0.5% in 2025, below the Euro Area average. In 2025 and 2026 economic growth will be sustained by a strengthening of the German economy, the Italian main trading partner. Inflation will settle close to the 2% medium-term target in both Italy and the Euro Area.



GDP
+0.6% YoY
(Q1 2025, preliminary)



UNEMPLOYMENT RATE
6.0% (-90 bps YoY)
(March 2025)

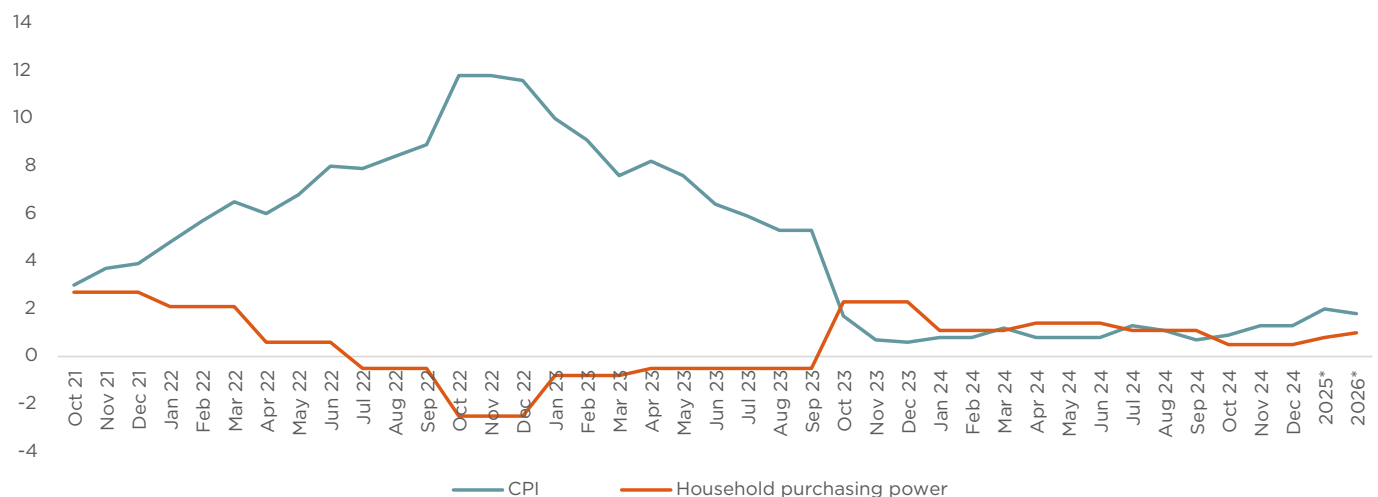


CPI
+2.0% YoY
(April 2025, preliminary)



**GOVERNMENT BOND YIELDS
10 YEARS**
3.9% (+19 bps YoY)
(March 2025)

CPI and Household purchasing power | Q3 2021-2026 Forecast



Source: Savills Research on ISTAT data; *forecast

Commercial Real Estate Investment Market

In Q1 2025, around €2.7 bn was invested in the Italian CRE market, registering a 46% increase YoY and confirming the positive trend that began back in H2 2023. All sectors showed a positive signs in this first part of the year: the Italian market remains central to investors' strategies, with interesting opportunities and risk-return profiles in all asset classes. Development projects, redevelopments of large areas and changes of use involved around 11% of volumes.

Considering the number of deals, the market remained dynamic with 68 deals closed, against a five-year average of 56. The market continues to be characterised by a predominance of deals below €50 millions, which accounted for approximately 76% of transactions. Meanwhile, the 10 largest transactions of the period by value represented around 60% of the total volume.

Despite persistent caution related to monetary policy and geopolitical risks, international capital remained relevant (59%), further confirming the competitiveness of the Italian market.

In terms of geographies, Milan remained the preferred destination, collecting 30% of the investment volume, followed by Rome (11%); other geographies registered a strong increase in market share compared to 2024 thanks to the positive trend of the retail, hospitality and logistics sectors.

Logistics was once again the leading asset class by investment volume, driven by several portfolio deals involving only international capital. The sector confirmed its relevance in the Italian CRE scenario, representing around 24% of total investment volume.

With around €640 mln, offices continued to record a positive trend in investment volumes in line with a market that, on the occupier side, is dynamic and points to Q1 2025 as the best first quarter of the past 10 years.

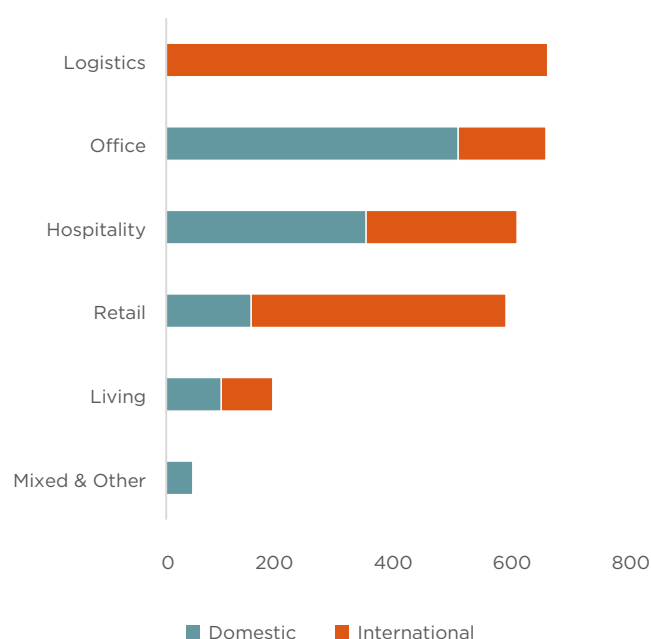
Hospitality continued to perform very well, representing one of the most sought-after sectors. Luxury is still a focus for investors, with Italy as the leading luxury market in Europe. Redevelopment activity continues, but investors are becoming more cautious.

In line with the positive trend of 2024, retail volumes expanded their growth in Q1 2025, totalling around €570 bn, a figure 5 times greater than the same period last year and 3 times the last 5 years average. Two of the largest transactions of the period were recorded in this segment. The out-of-town segment recorded the best Q1 performance of the last 10 years, fuelled by the factory outlet sub-sector. The high street component remained relevant, while shopping centres and essential retail (grocery and DIY stores) continued to be a key focus of investors' strategies and will keep driving the segment in the coming quarters.

Q1 2025 investment volumes



Total investment volume by source of capital (Q1 2025; € mln)



Market Outlook

The strong performance seen in Q1 2025 builds on the positive momentum gained in 2024, marking a clear shift from the slowdown experienced in 2023. The rebound in investment activity is partly due to some large deals that drove the market. We expect a substantial stability going into the second quarter of the year, while a new revival is postponed until the second half of 2025, when financing costs are expected to ease. Value-add investors are set to take the lead, with core investors also returning to the market.

Just like interest rates, yields will settle on a higher value than seen in recent years of expansionary policy. A general compression is likely later in 2025, although with limited scope compared to past recoveries. Price corrections will continue to affect secondary assets in the coming months, further widening the gap between prime and potentially stranded assets. As affordability impacts absorption, rental growth will slow down even in sectors characterised by demand constraints.

Living will remain among the most sought-after asset classes, especially for the more mature PBSA segment, although the lack of income producing products might subdue volumes. Office and logistics will remain relevant in the Italian landscape. The hospitality sector is expanding thanks to new locations and formats. Selective propositions in the out-of-town market will offer appealing risk-return profile; the high street segment will attract institutional investors and see vibrant brands demand.

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The good momentum of 2024 positively influenced the first part of 2025. The Italian market is experiencing a consolidation in investment activity, involving all asset classes and confirming the central role of the Italian market in investors' strategies. All asset classes present attractive opportunities and risk-return profiles.

Office

After the rebound in 2024, office confirmed its place as one of the most sought-after asset classes in 2025. The sector was the most dynamic of the quarter with 20 deals, despite investors being more selective than in the past.

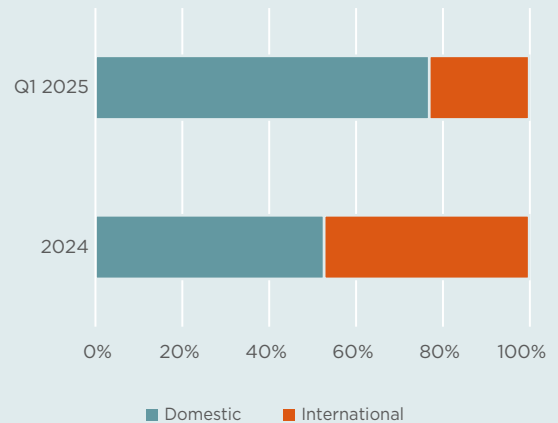
Milan was still the strongest location, accounting for 75% of investment volumes through 13 transactions, with activity ranging from CBD Historic Centre to periphery and hinterland locations. On the other hand, Rome saw its market share decrease to 8% of quarterly volumes recording 2 transactions, with the closing of two small deals in CBD and Greater EUR area.

The average deal size returned to decrease compared to the previous year, standing at €32 mln from the €41 mln of 2024. Domestic investors had the upper hand this quarter, accounting for 77% of volumes.

With 110,000 sqm of take-up, Q1 2025 in Milan has been the best performing first quarter of the past ten years, marking a +17% increase over Q1 2024. While take-up values are finally stabilising in a newly found recovery, the number of deals grew by 28% year-on-year, confirming the ongoing trend of tenants' preference for smaller spaces.

Strong demand for Grade A assets withstanding, both CBD Historic Centre and CBD Porta Nuova suffered from very tight availability last year, although new completions in Porta Nuova will help ease pressure and boost activity in the areas in the future. Grade A take-up accounted for 82% of the total, the highest share recorded in the last decade.

Investment volumes by source of capital



Logistics

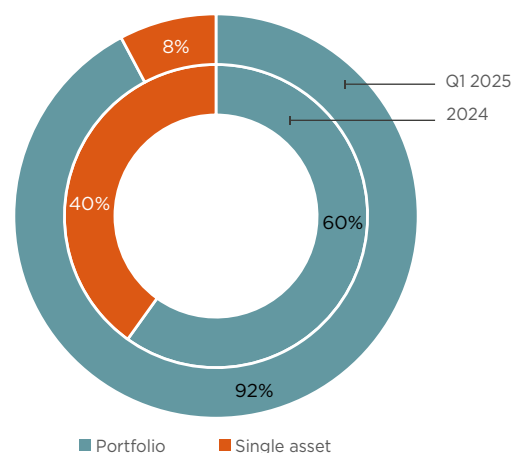
Logistics was the most requested sector in Q1 2025, collecting 24% of total Italian investment volumes, for a total of around € 640 mln (+95% YoY).

After a 2024 characterised by some industrial and light industrial deals, traditional logistics reaffirmed its central role in the sector, accounting for the entirety of investment volume. Volumes were driven by the closing of two large standard logistics portfolios (> €200 mln), covering together 72% of quarterly volumes. Value add and core plus capitals are leading the market, with a potential return of core capitals in the coming months.

After a period of decompression, in Q4 2024 prime net yields decreased by 25 bps in the Milan cluster, remaining stable in all other primary geographies. In Q1 2025, prime net yields remained stable in all clusters, standing at 5.25% in Milan and at 5.50% in Rome, Bologna, Bergamo-Brescia and Pavia-Piacenza clusters. Going forward, a yield compression is likely, following more favourable financing conditions and a great appetite for the sector.

After two years of record numbers, take-up activity faced a slowdown in 2024, and Q1 2025 is continuing the trend. A total of 500k sqm were taken, a figure down both YoY (-9%) and compared to the last 5-years average (-16%).

Investment volumes by deal type

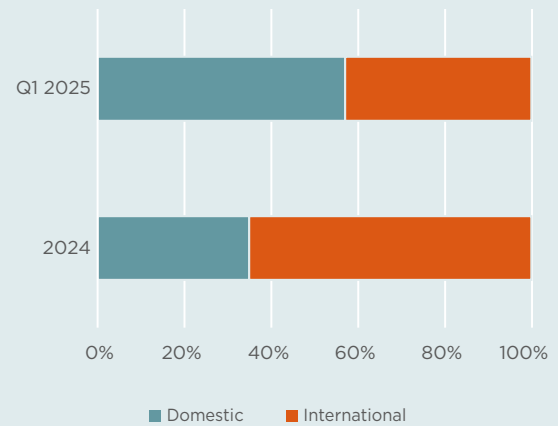


Hospitality

The sector continued to attract interest, with investors' strategies shifting towards new leisure locations and asset types. Milan, Rome, Firenze and Venezia remained top destinations, but interest is also shifting towards regional markets such as Napoli, Lecce, Torino, Palermo and Padova. Leisure destinations stand out for their solid fundamentals and promising growth prospects. Value add strategy is becoming more and more recurrent, in many cases involving changes of use.

Investments continue to show positive signs: 2025 saw record figures in terms of investment volume, electing the period as the best Q1 in the last 10 years. The sector was dynamic also in terms of number of transactions, thanks to the closing of 17 deals involving 20 assets. Transactions were particularly heterogeneous considering both location (prime markets, regional cities and leisure) and asset types (resorts, luxury hotels, conversions). International investors characterised most of the activity since the beginning of the year (65%).

Investment volume by source of capital



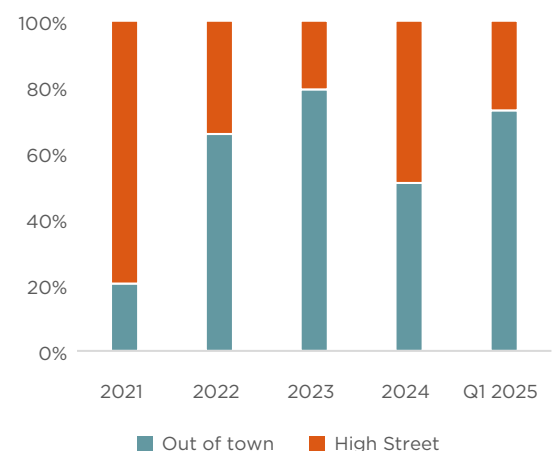
Retail

After the positive trend of 2024, retail volumes continued to grow in Q1 2025, totalling around €570 mln, a figure 5 times greater than that of Q1 2024 and 3 times the last 5 years average. A total of 10 deals were recorded, 4 of which were portfolio deals. 2024 volumes were impacted by the acquisition of the asset at Via Montenapoleone 8 in Milan, the largest single asset transaction ever recorded in the Italian market

The out-of-town segment recorded the best Q1 performance of the last 10 years, across 7 deals for around € 420 mln. The factory outlet sub-sector drove the activity thanks to the closing of one major transaction related to two assets. In addition, the "other" component showed a strong growth, mainly thanks to the sale of a portfolio of 9 cinemas in Rome.

High street retained a steady appeal, covering 27% of the volumes across 3 deals, two of which located in the city of Firenze. The renewed influx of tourists, which grew in the first part of the year, continues to drive the high street segment and supports prime rent levels. Luxury beach, lake, and ski destinations are becoming established hotspots for brands and investors.

Investment volumes by subsector



Living & Healthcare

After the slowdown of 2024, the sector returned in positive territory in Q1 2025, although volumes remained subdued. A total of €180 mln has been recorded, 50% up YoY. Both domestic and international (48%) operators were active, eager to expand their activity in the sector in the country. The lack of up-and-running transactions persists in both the student housing and residential segments, following the slowdown in construction and planning permits.

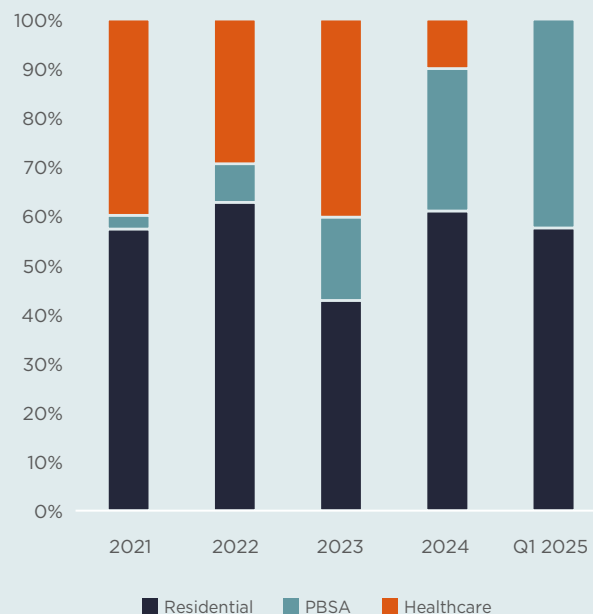
The residential subsector remained the most sought-after instead, recording 57% of volumes across 6 deals, primarily located in Milan, but also in Rome and Torino. These transactions mainly refer to reconversions of assets into build to sell dwellings.

Two student housing assets and developments were transacted in the quarter, for a total of around €80 mln. Interest remained high in consolidated geographies (Milan, Rome, Bologna, Torino, Firenze), but at the same time it is expanding in regional markets with strong university presence, such as Padova and Pisa.

Healthcare remains a target mostly for specialised investors, and no deals were recorded in Q1 2025.

In general, the positive expectations on rent and price growth and the strong demand dynamics in many cities are held back by still high construction costs and uncertainty related to return profile and management costs. A stabilisation in volumes and yields is anticipated in H2 2025.

Living investment volumes by subsector

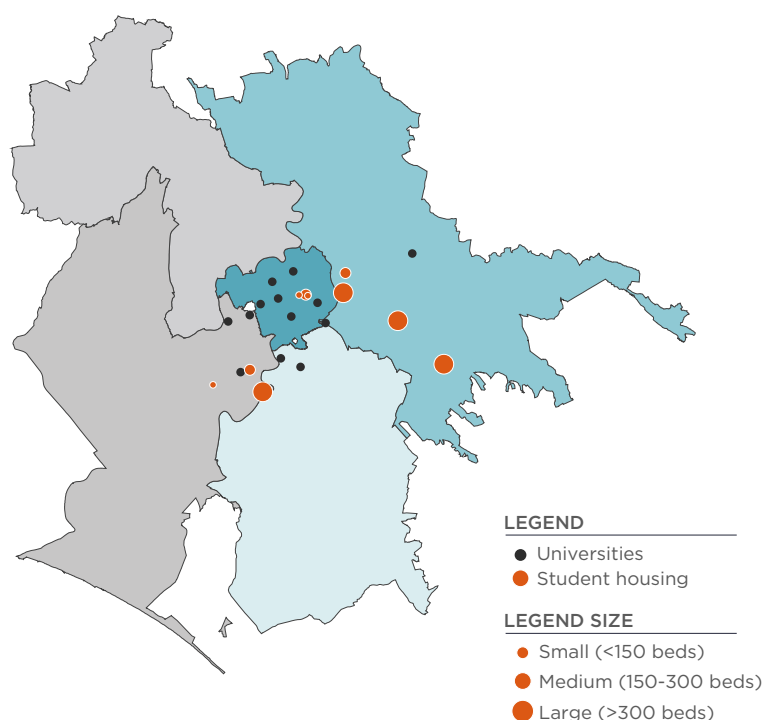


The acceleration in urbanisation and people moving to large cities to work and study are boosting the demand for flexible and innovative rental solutions. The supply and demand imbalance will maintain the focus on living, particularly PBSA, which is expected to be the most dynamic segment in the sector as transactions of up & running assets begin to be recorded.

Rome is the leading Italian city in terms of both number of schools (28 Universities and AFAM together) and tertiary students. In the last academic year, approximately 334,000 students enrolled in the Capital, 38% of which attending online universities. If we exclude the online component, the number of students in Rome is higher than in Milan.

The limited availability of student accommodations is contributing to keep the sector in the players' radar. Rome hosts around 7,000 beds and 10 projects are set to be completed by 2027, adding more than 2,100 beds to the market and taking the city's provision rate to around 4%.

Rome, main PBSA projects





Savills Team

Please contact us for further information

Davide Dalmiglio

Managing Director,
CEO Italy
+39 335 8473054
davide.dalmiglio@savills.it

Marco Montosi

Head of
Investment
+39 02 632814749
mmontosi@savills.it

Carlo Walder

Head of
Industrial & Logistics
+39 349 9777787
carlo.walder@savills.it

Gianni Flammini

Chairman, Head of
Valuation & Advisory
+39 348 7717661
gianni.flammini@savills.it

Elena Zanlorenzi

Head of
Research & Marketing
+39 340 7701607
elena.zanlorenzi@savills.it

Giacomo De Feo

Investment
Director
+39 02 632814748
gdefeo@savills.it

Dario Leone

Head of
Hospitality & Leisure
+39 335 5834151
dario.leone@savills.it

Nunzia Moliterni

Head of Building
& Project Consultancy
+39 347 7500606
nunzia.moliterni@savills.it

Manuela Nitti

Research
Associate Director
+39 340 4773859
manuela.nitti@savills.it

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