

Italy Spotlight – 2024

Q
SPOTLIGHT
Savills Research

Italian Investment Market



66 Retail and office lead the market again

Highlights

- 2024 saw a strong rebound with investment volumes overtaking the 10 bln mark
- Despite some caution related to monetary policy and geopolitical uncertainties, international capital continued to remain relevant
- Development projects, redevelopments and changes of use involved around 25% of volumes
- For the first time in a decade, retail has emerged as the top asset class by investment volume
- Office investments saw a strong rebound, reflecting the momentum of the occupier market
- Hospitality continues to attract interest, with investors' strategies shifting towards new leisure locations and asset types
- Logistics confirmed its relevance in the Italian CRE scenario, representing around 17% of total investment volume
- The living sector bucked the trend, being the only one to experience a slowdown in volumes
- The market was still characterized by granular activity, but big deals and portfolio transactions are coming back as financial conditions are easing and confidence is returning positive
- Although a general compression is likely, yields will remain higher than seen in recent years of expansionary policy

2024 KPIs

-  **TOTAL VOLUMES**
10.3 bn €
+56% YoY
-  **NUMBER OF DEALS**
275
+9 YoY
-  **SOURCE OF CAPITAL**
68% foreign
-  **GEOGRAPHIES**
37% Milan
-  **OFFICE | PRIME NET YIELD**
4.25%
+15 bps 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 uncertainty, but the economy showed good resilience. In the Eurozone, the economic growth remains in positive territory with wage growth slowing and energy prices likely to fall. The latest rate cut in January will probably be followed by other cuts until the deposit rate reaches 1.75% this next summer. Italy economic trend remains positive although slowing, supported by the expansion in the service sector and a still positive trend in the labour market. In January, household confidence returned to grow, supported by positive expectations on the macro-economic outlook.

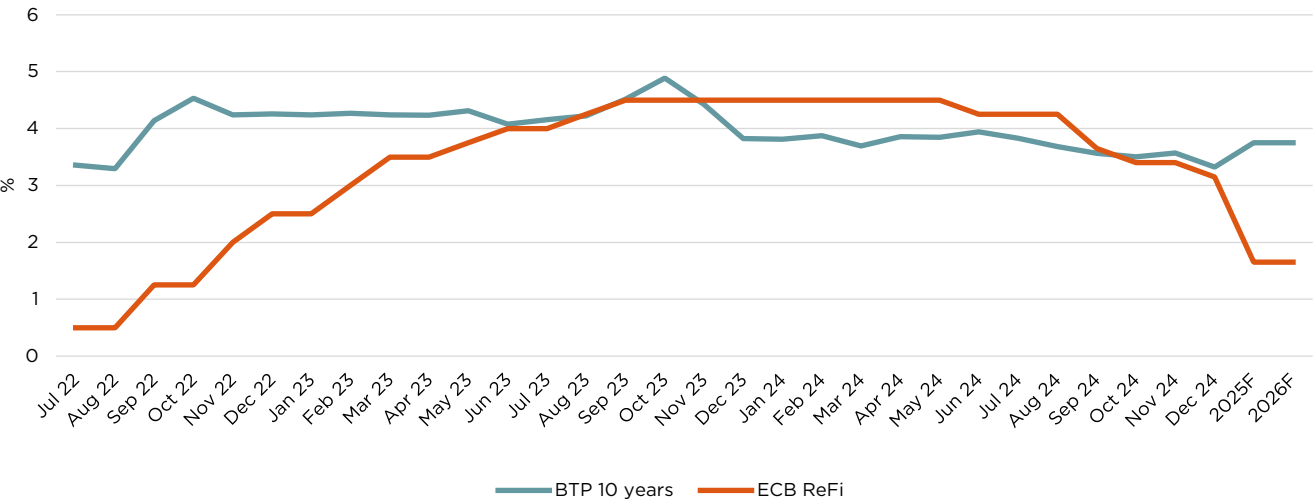
In December, inflation stabilised at +1.3%; services and food goods remained above the inflation rate. In 2024, CPI was +1%, recording a strong downturn from +5.7% of 2023. The marked decline is mostly attributable to the drop in energy and food goods prices. Core inflation declined at +2%, as the shopping one.

The inflationary pressures of recent years are still affecting consumption and sales, which have grown in value mainly due to food products, despite a decline in volume.

After the record lows of the last 2 years, the propensity to save is recovering (9.2% in Q3 2024), supported by the growth in household disposable income (+3.7% YoY). The slowdown in inflation led to an expansion in purchasing power (+2.6% YoY) and savings, but this only partially translated into final consumption expenditure (+1.5%).

According to Capital Economics, Italian GDP is forecast to increase by 0.5% in 2025 and will remain stable in the coming year, as the Italy's fiscal position and demographics will impact potential growth. In the Euro Area, the bounce in inflation was smaller than forecast and growth remains slow, so the rate-cut path is expected to continue for at least the next two quarters.

BTP 10 years and ECB ReFi



Source: Savills Research on ISTAT and Capital Economics data

Commercial Real Estate Investment Market

In 2024, around €10.3 bln was invested in the Italian commercial real estate market, registering a 56% YoY increase and confirming the positive trend that began in the second half of 2023. Investors' strategies remain focused on sectors with solid fundamentals characterised by resilient demand. However, it is the significant mismatch between supply and demand that drove the market in 2024. Where the gap remains wide, rents continue to rise, although its impact is starting to be reflected in absorption rates. Development projects, redevelopments of large areas and changes of use involved around 25% of volumes.

Considering the number of deals, the market remained dynamic with 275 deals closed, against a five-year average of 226. The market continues to be characterized by a predominance of deals smaller than €50 million, which accounted for approximately 82% of transactions. Meanwhile, by value, the 10 largest transactions of the year represented around 38% of the total volume.

Despite some caution related to monetary policy and geopolitical risks, international currency remained relevant (68%), further confirming the competitiveness of the Italian market.

In terms of geographies, Milan remained the preferred destination, recording 37% of the investment volume, followed by Rome (17%), which registered a strong increase in market share compared to 2023. Thanks to the positive trend of the retail, hospitality and logistics sectors, other Italian cities accounted for 46% of total volumes.

On the other hand, retail and office are once again the leading asset classes by investment volume, driven by the year's largest deal involving the acquisition of Via Montenapoleone 8 in Milan.

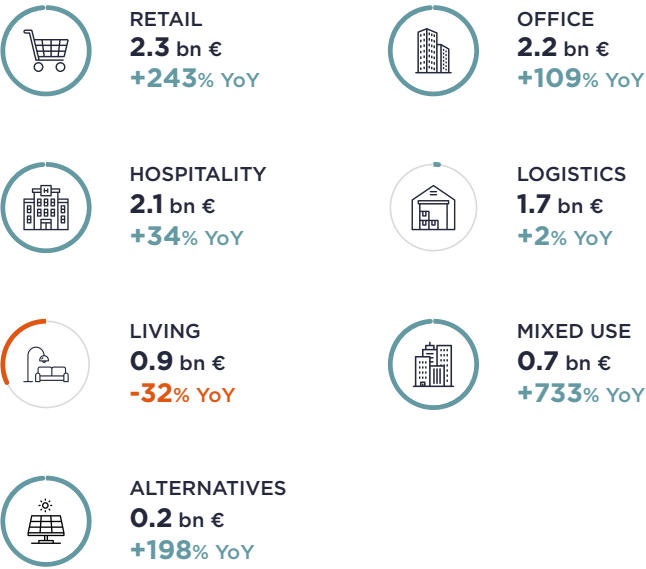
For the first time in a decade, retail has become the leading asset class by investment volume, with around €2.3bn, fuelled by strong fundamentals in out-of-town retail, unique high-street locations opportunities, and a convergence in price expectations between buyers and sellers. Four of the largest transactions of the period were recorded in this segment. The high street component remained relevant, while shopping centres and essential retail—such as grocery and DIY stores—continued to be a key focus of investors' strategies and will keep driving the segment in the coming quarters.

With around €2.2 bln, offices have seen a strong rebound in investment volumes in line with a market that, on the occupier side, is dynamic and points to 2024 as the year with the highest number of transactions.

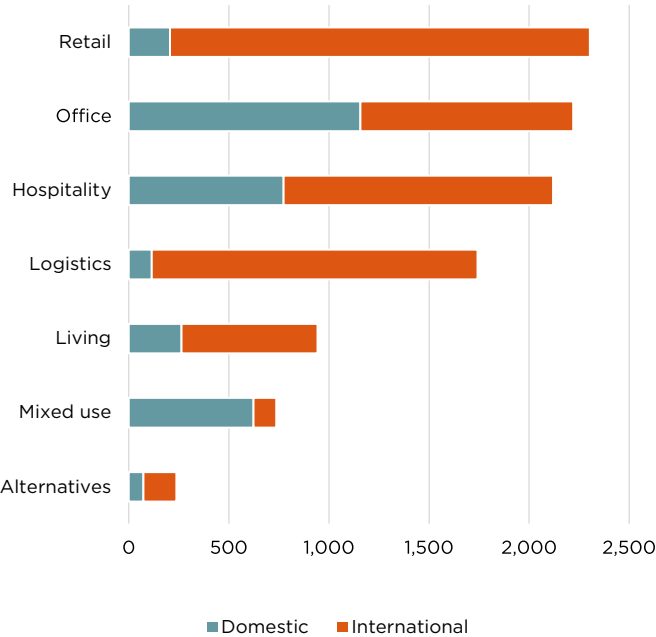
Hospitality continued to perform very well, representing one of the most sought-after sectors. Luxury locations such as Sicily, the Amalfi coast, and ski and lake markets are central in investors' strategies.

Logistics confirmed its relevance in the Italian CRE scenario, representing around 17% of total investment volume; thanks to the closing of some portfolio deals, the share of traditional logistics on total volumes returned to grow.

2024 investment volumes



Total investment volume by source of capital (2024; € mln)



Market Outlook

2024 saw a reversal of the downward trend that characterised the previous year's market. The rebound in investment activity is partly due to some large deals that drove the market. For H1 2025 we expect a substantial stability, while a new revival is postponed until the second half of 2025. Financing costs have not yet significantly reduced, and global economy is still dominated by uncertainties. Value-add investors will predominate, but core will also return to be active.

Like interest rates, yields will remain higher than seen in recent years of expansionary policy. A general compression is likely in later in 2025, although with limited scope compared to past recoveries. Today and in the coming months, price corrections will continue to affect secondary assets, contributing to deepen the polarisation between prime and potentially stranded assets. As affordability impacts absorption, rental growth will slow down even in sectors characterised by demand constraints. Stabilising financing costs will most likely result in increased activity in H2 2025.

Living will remain one of the most highly sought-after, especially for the more mature PBSA segment, although volumes are expected to remain subdued due to a lack of income producing products. 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.

66 A strong 2024 across real estate capital markets is providing good momentum for the beginning of 2025. The Italian market is experiencing a consolidating investment activity, focused on sectors characterised by strong fundamentals. The reversal of monetary policy will revive core/core+ capital, but value-add investors will prevail.

Office

In 2024, the office sector rose back on the top asset class podium in terms of investments, reaching a total of €2.2 bln, reaffirming its centrality in the Italian market, despite investors being more selective than in the past.

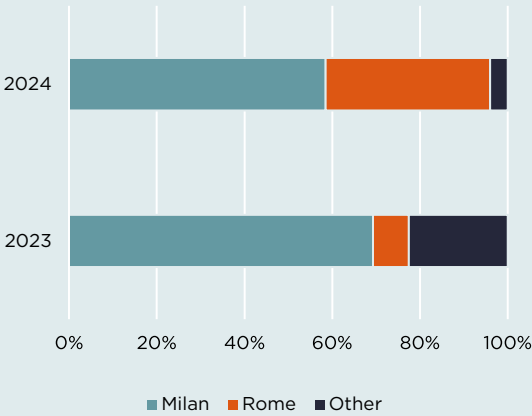
Milan was still the strongest location, making up to half of both investment volumes and transactions in 2024, for a total of €1.1 bn over 26 deals. On the other hand, Rome continued to attract investors and increased its market share throughout the year, reaching €850 mln with the closing of three large deals above €100 mln.

The calling card of 2024 was an increase in average deal size to €41 mln (almost doubled compared to 2023), matched by a resilient share of international investors accounting for 48% of volumes.

With 380,000 sqm of take-up, 2024 in Milan has been the third best performing year in the past five, although 11% lower than 2023. While take-up values are slowing down compared to previous post pandemic rebound years, the number of deals continued its climb, growing by 6% compared to 2023 and marking 2024 as the year with the highest number of transactions so far, confirming the trend in tenants' preference for smaller spaces.

Strong demand for Grade A assets withstanding, both CBD Historic Centre and CBD Porta Nuova suffered from a very tight availability this year, which will keep on supporting rental growth in the future.

Investment volumes by geography



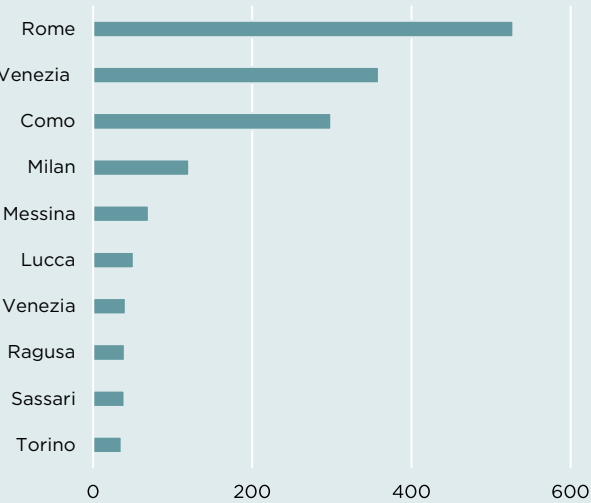
Hospitality

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, Bologna, Genova, Palermo and Verona. Value add strategy is becoming more and more recurrent, in many cases including changes of use.

Investments continue to show positive trends: 2024 recorded a total of €2.1 bln, a figure 34% up YoY and above the last five-year average. Moreover, the sector was the most dynamic in the Italian landscape, recording the highest number of deals (75) throughout the year. Since the beginning of the year, three portfolio transactions have been recorded, one of which involved campsites, a transaction that also contributed to driving volumes. International investors characterised most of the activity since the beginning of the year (63%).

In terms of geographies, Rome saw its market share increase, collecting around 25% of volumes across 10 transactions. Sea and lake destinations have attracted significant interest, confirming the strong appetite for leisure locations.

Top 10 locations by investment volume (2024; € mln)



Logistics

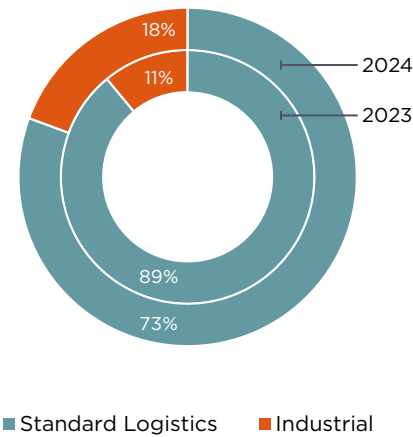
In 2024, logistics was the fourth most requested sector, collecting 17% of total Italian investment volumes, for a total of around € 1.75 bln (+2% YoY).

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 28% 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 decreased by 25 bps in the Milan cluster at the end of the year and remained stable in all the other primary geographies, standing at 5.25% in Milan and at 5.50% in Rome, Bologna, Bergamo-Brescia and Piacenza clusters. In the coming months, a possible slight compression of yields is expected following more favourable financing conditions, strong interest for the sector and for the country.

On the leasing side, take-up activity faced a slowdown in 2024 (2.3 mln sqm, -18% YoY), after two years of record levels. The activity has been characterised by the high number of owner occupier transactions, covering 33% of absorption.

Investment volumes by type



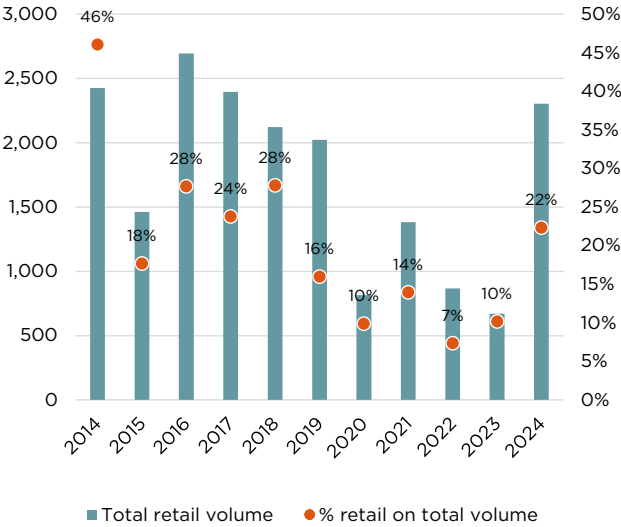
Retail

Retail volumes returned to grow in 2024, totalling around €2.3 bln — x times higher than in 2023 and double the 5-year average. The acquisition of the high street portion of via Montenapoleone 8 by Kering sustained the sector and represented the largest single-asset transactions in the Italian market ever recorded.

High street represented 49% of the volumes across 8 deals, three of which located in the city of Milan. This confirms that tourist and luxury destinations are at the centre of investors and retailers' strategies and will continue to attract both investors and new operators, although the limited availability of trophy assets is likely to constrain future volume growth.

Out of town segments also performed well, recording 22 deals for around €1.2 bln: this represents the highest value since 2019. Shopping centres drove the activity with the closing of 6 deals, two above €150 mln located in Rome and in Palermo. The interest in grocery continues totalling circa €550 mln and accounting for over 45% of total out-of-town volumes.

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



Living & Healthcare

The sector bucked the trend, being the only one to experience a slowdown in volumes compared to the previous year. A total of €950 mln has been recorded, 32% down YoY. International operators were the most active (72%), eager to expand their model more widely in Italy. The sector continued to suffer a lack of up-and-running transactions in both student housing and residential segments, following the continued slowdown in construction and planning permits.

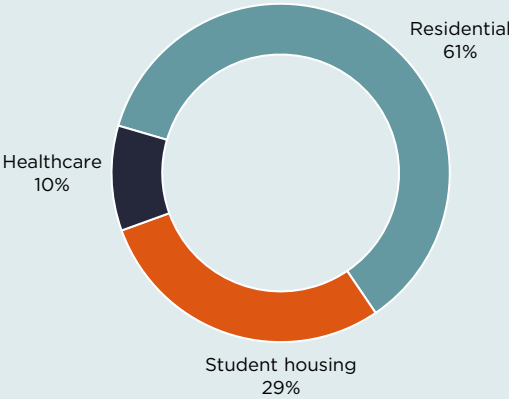
The residential subsector remained the most sought-after, recording 61% of volumes across 25 deals, primarily located in Milan, but also in Rome. These transactions mainly refer to reconversions of assets into build to sell dwellings.

Twelve student housing assets and developments were transacted in the year, for a total of around €270 mln. Interest remained high in consolidated geographies (Milan, Rome, Bologna, Torino, Firenze), but at the same time it is expanding in regional markets with a strong university presence, such as Padova and Pisa.

Healthcare collected just 10% of volumes in the year, remaining a target mostly for specialised investors.

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 2025.

Living investment volumes by subsector (2024)

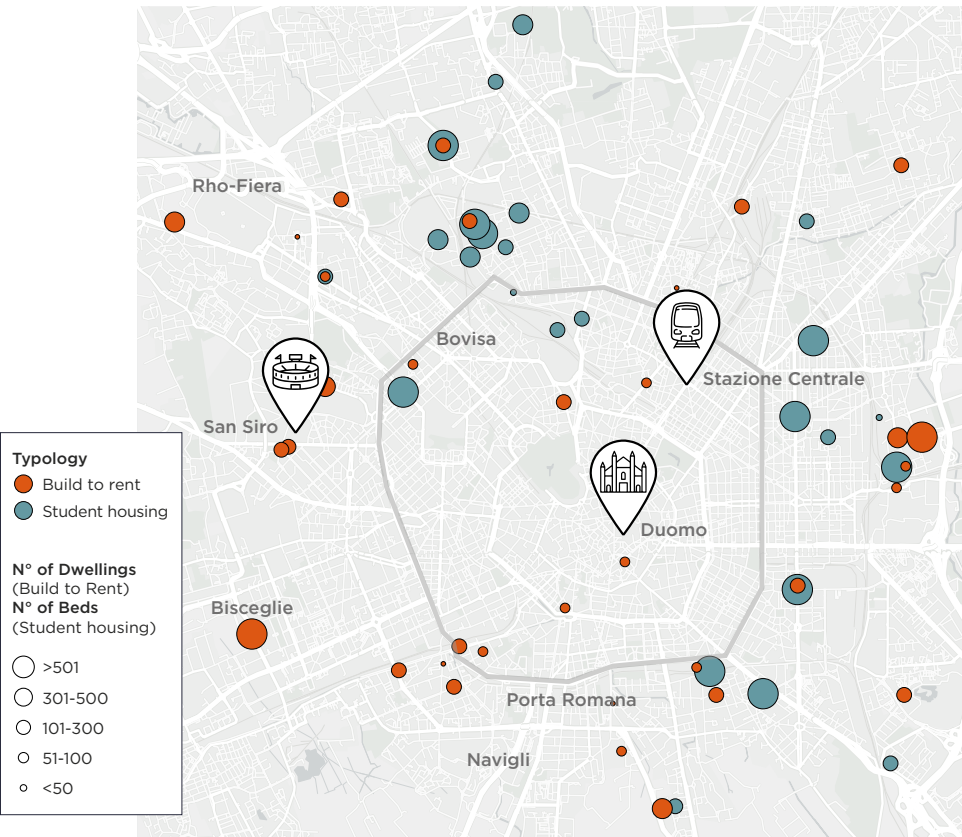


Milan, main multifamily and PBSA projects

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 strength of the multifamily product lies in the quality and diversification of services offered, which are designed to meet changing tenants' needs. Investors interest remains high, sustained by positive rental growth, but the lack of pent-up products is slowing down volumes. A stabilisation in volumes is anticipated in 2025, but because of lengthening administrative processes, several major BTR projects are expected to open in the market in 2025.

Milan showcases most of the opportunities: 36 projects have been identified to be completed by 2027, adding 6,800 new dwellings to the city. Most of the new offer consists of large size projects (> 100 dwellings) and will be part of larger regeneration schemes (i.e. MilanoSesto, Milan Santa Giulia, Mo.Le.Co.La.).



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