

Real Estate Strategic Outlook: Italy

Italian Economic outlook

Improving Economy, But Tariff Risks Loom

Italy's economy showed resilience in Q1 2025, with domestic demand supporting growth despite elevated global trade policy uncertainty¹. Business and consumer sentiment saw tentative improvement, although recent tariff announcements - not yet fully captured in surveys - could dampen confidence in the months ahead. The labour market is solid, with the unemployment rate standing at 6% in March, close to its lowest level since 2007. We forecast GDP growth of 0.4% y/y in 2025 and 0.8%² y/y in 2026. Inflation is falling faster than expected, with the headline rate projected to average 1.8%³ this year. However, tariffs and weaker sentiment may gradually start to weigh on exports and industrial activity.

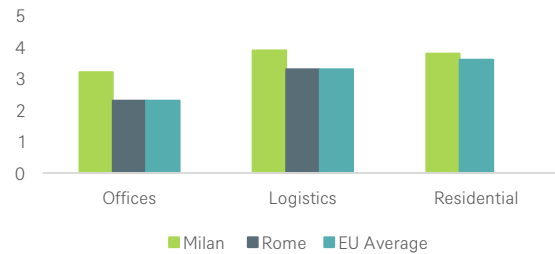
Focus on Milan: Rising Real Estate City

Why Milan? Why now? The Investment Case

Milan ranks as one of the top-performing cities in our latest European real estate forecasts, with strong rental growth expected across offices, logistics and residential. As rental income becomes the primary driver of returns rather than yield compression, Milan's outlook stands out. Office rents are forecast to grow by over 3% p.a. through 2029, outpacing the European average. Logistics and residential sectors show similar momentum, underpinned by resilient occupier demand, limited prime supply, and ongoing infrastructure investment. In the residential market, demand for purpose-built student accommodation (PBSA) is rising rapidly, with over 10,000 new beds planned by 2027 to meet growing need.

This broad-based growth reinforces Milan's position as a leading market for income-driven real estate performance. Milan has long been Italy's financial capital, but in 2025, it's emerging as a global real estate hotspot. Its appeal lies in robust economic growth and rising international visibility. Now is a particularly compelling time to invest in Milan, with property values stabilising and prime yields expected to compress by 25bps this year, supporting capital appreciation.

Milan Rental Growth in Key Sectors, 2025-29 (% p.a.)



Source: DWS, Q1 2025

Focus on Logistics

More rental growth still to come in the logistics sector

Over the next five years, Italy's logistics sector appears poised for steady growth, driven by e-commerce, nearshoring, and supply chain optimisation. Vacancy remains below 3%⁴, and despite a slowdown in 2024 take-up, demand has stayed resilient. Limited development (mostly speculative) and strong demand should support continued rent growth, making Milan an outperforming market. In Rome, although 2024 was quieter than previous years, take-up remained above the ten-year average. Vacancy contracted slightly, and with sustained demand and low availability despite some obsolete stock, we also expect above-average rental growth over the next five years.

In Conclusion...

Despite an uncertain macro climate, Italy's real estate market demonstrates resilient fundamentals, with Milan leading demand in offices and logistics, while residential performs well, particularly in regeneration zones. Solid rental growth and improving yields are expected to support attractive total returns, especially in core assets. The best opportunities in the short term may lie in Grade A offices, urban logistics, and student housing - sectors driven by structural demand, constrained supply, and stable economic conditions.

¹ Oxford Economics, June 2025

² DWS Forecasts, May 2025

³ Oxford Economics, June 2025

⁴ CBRE Research, Q1 2025

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