Real Estate Research

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Italy Reconsidered

Identifying the sectors which may offer the most compelling opportunities for risk-adjusted returns

IN A NUTSHELL

- Italy has re-emerged as a compelling investment market, supported by relatively resilient returns and improving fundamentals. While national GDP growth remains moderate, Milan continues to drive the market, reinforcing its role as the country's liquidity and performance hub. Recent investor surveys indicate growing confidence, highlighting increasing recognition of Italy as a selective, high-potential investment destination.

- Independent industry benchmark confirms this shift.[1] INREV fund and asset-level indices show that Italian-focused vehicles have outperformed broader European trends in recent years, exhibiting comparatively lower volatility and a faster recovery through the latest downturn, pointing to a more resilient return profile than in previous cycles.

- Opportunities in Italy currently are concentrated in specific sectors and prime locations. Industrial and logistics asset benefited from structural demand and constrained supply, prime offices offer repositioning potential, residential and PBSA may provide income growth, and hospitality appears accessible and attractive. Retail remains selective, focused on high-quality, destination-led formats. Overall, Milan acts as the liquidity anchor, with opportunities elsewhere generally asset specific.

From Overlooked Market to Selective Opportunity

Italy is often overlooked by international real estate investors, overshadowed by the scale and liquidity of markets such as London and Paris. This caution, however, has increasingly created opportunities rather than risks, as pricing has adjusted and market fundamentals have strengthened. Italy has re-emerged as a compelling source of solid, income-driven real estate returns within Europe, with Milan in particular at the forefront of market performance and investor interest.

While recent headlines have at times focused on political uncertainty or governance-related issues, these narratives obscure a more important reality. Over the past decade, Italy's real estate market has matured significantly, with higher-quality stock, improved transparency and a more institutional investor base pursuing long-term strategy. For investors, market performance has become less sensitive to headline macroeconomic growth and is increasingly driven by location quality, sector fundamentals and active asset management.

[1] Source: INREV, 31 December 2025

This report draws on industry benchmarking from INREV, alongside internal market insights and house views, to assess how these dynamics are translating into actual market performance and trends. It reviews sector-level developments, compares Italy with broader European benchmarks and sets out where we believe capital can be deployed most effectively as Italy enters the next phase of its real estate cycle.

PART I - Performance in Context

Returns highlight logistics resilience, office polarization and selective retail strength

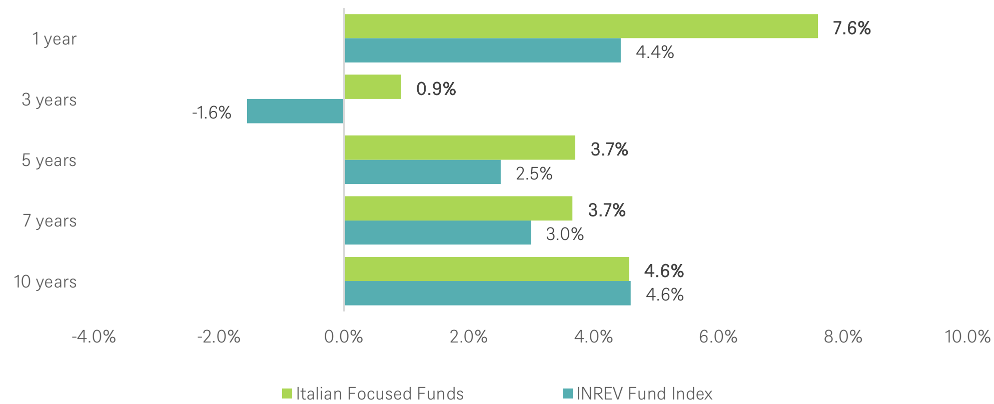
Over more than a decade, Italy's real estate market has demonstrated a strong capacity to deliver resilient and competitive returns across different phases of the real estate cycle, despite periods of macroeconomic volatility and sector-specific disruption. While performance has varied meaningfully by asset type and vintage, industry benchmarks indicate that Italian real estate has compared favorably with broader European trends in recent years, highlighting the growing importance of selectivity and sector positioning.

Data from INREV provides context for this evolution. Fund and asset-level indices show that Italian-focused strategies have delivered competitive returns with lower volatility than the wider European universe during the most recent downturns, reflecting a more stable income profile and faster recovery than in previous cycles. Within this broader market framework, industrial and logistics assets have consistently demonstrated resilience, supported by strong structural demand, constrained supply in core corridors and improving tenant quality. These characteristics make logistics a key driver of stable cash flows across the Italian market.

Office performance has been increasingly polarized, broadly in line with European trends observed across Europe. INREV indices show a wide dispersion of outcomes within the office sector, reflecting differences in asset quality, location, and leasing profiles. In practice, well-located, modern offices - particularly in Milan - have continued to benefit from stronger occupier demand and more resilient income, while secondary stock has faced greater pressure. As for retail, performance has been more selective but compelling, particularly where assets benefit from dominant positioning, strong footfall, and resilient tenant demand. Italy's city-centre and high-street retail dynamics continue to support performance in prime locations, where supply is structurally limited and consumer spending remains robust.

These insights suggest that Italy has transitioned from a recovery story to a more mature and resilient investment market. These dynamics provide a clearer framework for capital deployment and directly inform where opportunities seem to be emerging.

CHART 1: Italian focused Funds & INREV Fund Index
Italy on the rise with short- and mid-term outperformance



Source: INREV, 31 December 2025
Note: As of Q3 2025, the index includes eight Italian closed end funds with a combined gross asset value of €1.9 billion. With historical data dating back to Q2 2008, the index provides over 15 years of continuous evidence on performance trends in the Italian non-listed real estate fund universe. To place Italian results into a broader context, performance has been compared with the INREV Fund Index, composed of 302 vehicles with a GAV of €298.7 billion, as of Q3 2025.

PART II - Why Italy Now

Macro stability, Milan's strength and an increasingly investable market structure

Italy offers a compelling investment backdrop, supported by improving macro stability, strategic geographic positioning and strengthening structural fundamentals. While economic growth remains moderate by European standards, inflation has been contained, domestic demand has held up, and fiscal policy is more balanced than in previous cycles. For real estate investors, this may translate into more predictable occupier demand and improved income visibility across the market.

The country's strategic location within Southern Europe further reinforces its investment case. Positioned at the intersection of core European and Mediterranean trade routes, Italy plays an increasingly important role in logistics, manufacturing and distribution networks serving both EU and non-EU markets. This structural advantage should support sustained demand for modern logistics and industrial real estate along key corridors.

Italy's economy has historically faced structural challenges, including moderate GDP growth, productivity gaps, and regional disparities. Despite this, real estate markets have performed well, supported by resilient occupier demand, low vacancy in core sectors, and structural supply constraints. These factors have enabled stable income generation and selective value creation, showing that real estate outcomes have not been tightly correlated with headline economic growth.
Milan remains the primary drive of Italy's real estate market, benefitting from a deep pool of occupier demand, international connectivity, and a concentration of high-quality stock. While Italy's GDP growth remains moderate, Milan has demonstrated a significantly stronger growth trajectory, reflecting its role as the country's economic and business hub. No other Italian cities currently appear capable of replacing Milan as the primary center of attraction; on the contrary, the ongoing trend towards market polarization is expected to further intensify, with prime assets in Milan continuing to command a disproportionate share of capital and interest.

Milan's investment case is further reinforced by its growing appeal to high-net-worth individuals and global wealth. According to a recent Henley & Partners analysis, Milan has one of the highest concentrations of millionaires worldwide, with roughly one millionaire for every 12 residents, a rate superior to major cities such as New York and London. This reflects a decade-long increase in affluent residents and broader migration trends that saw Italy attract an estimated 3,600 millionaires in

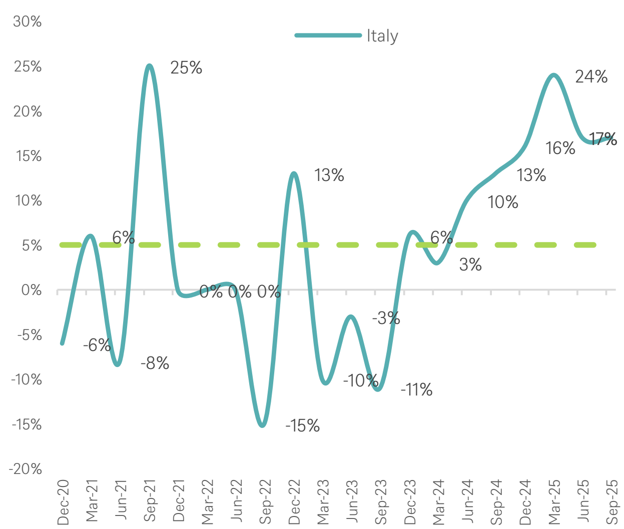
2025, driven in part by favorable tax regimes and quality-of-life considerations. These dynamics support demand across prime residential, office and lifestyle-oriented real estate, strengthening the depth of Milan's occupier and investor base.

As illustrated in the first chart below, the INREV Consensus Indicator shows a clear and sustained positive sentiment towards the Italian real estate market over the past six quarters. Net sentiment has consistently stayed above its long-term average of 5%, highlighting a solid recovery in investor and manager expectations. Within the European context, Italy ranks second, tied with Germany, among the main European markets, positioning itself as one of the most preferred markets in the current cycle.

The Milan-led dynamic is also reflected in European city-level investment outlooks, where Milan continues to rank among the top-tier cities for future real estate prospects. This is confirmed by ULI/PWC's latest trend report which confirms Milan's position of seventh in the city rankings for a second year in a row. The city is favored across all sectors, with mentions also for data centres and hospitality. Milan is seen to combine economic growth with improved real estate fundamentals. It also benefits from a new perception of risk among investors, making its pricing competitive against other cities of comparable size and liquidity.

CHART 2: Net Sentiment Towards Italian Real Estate

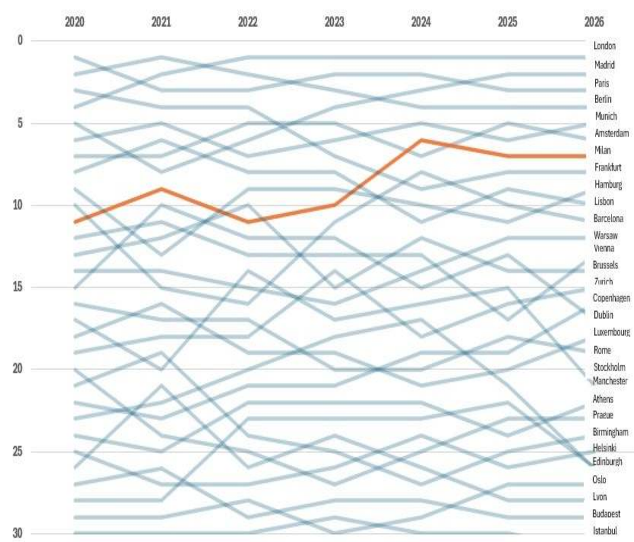
Strong sentiment over the past six quarters



Source: INREV, As of 31 December 2025.

CHART 3: City Prospects in 2026

Milan reinforces its position of seventh in city rankings



Source: PWC/ULI 'Emerging Trends in Real Estate, Europe 2026' As of November 2025.

PART III - Priority Sectors & Cities

Where structural demand and selectivity align

Our analysis suggests that capital is best directed towards sectors and locations in Italy where structural scarcity, strong occupier demand, and stable income combine to create the most compelling opportunities. The following represent areas we believe offer durable, risk-mitigated exposure.

1. Modern Logistics

Scarcity drives stability and upside

Demand for logistics space in Italy continues to be driven by e-commerce growth, supply-chain diversification and nearshoring, particularly across northern corridors anchored by Milan. In Milan itself, we forecast market rental growth average around 3.5%[2] p.a. over the 2026-2030 period, outpacing the broader European average. Compared with other major European markets, logistics assets in Italy typically offer higher entry yields and lower prevailing ERVs, creating an attractive starting point for income and value creation.

Even though land values have increased in the last decade, the underlying asset remains highly resilient. Converting agricultural land to logistics is time-consuming and complex, and developing new Grade A facilities typically takes several years, limiting near-term competition. Combined with extremely low vacancy in core corridors and improving building specifications, these structural factors support stable cash flows and rental growth, while also creating opportunities for value-add through lease reversion, tenant upgrades, and selective expansions. As a result, modern logistics in Italy remain well suited to both core/core-plus and value-add execution.

2. Prime Milan Offices

Strong fundamentals underpin broad-based growth

Office demand in Italy remains highly concentrated in Milan and is increasingly focused on high-quality, well-located Grade A space. Modern offices with strong sustainability credentials continue to benefit from low vacancy and positive rental momentum, supported by limited new supply. Indeed, prime Grade A offices show a vacancy rate of just 3%[3], compared with 10% for broader stock, while rental growth is projected at 3.2%[4] p.a. over 2026-2030, among the strongest in Europe. Leasing activity is expected to remain steady, and limited Grade A supply should ensure offices remain highly resilient in the short to medium term. The specific dynamics of the Milan office market, characterized by a limited pipeline of new developments over the coming years, are expected to support rental levels, which already show peaks in the range of €750–850 per sqm.

While prime assets benefit from strong occupancy, compressed yields mean the most compelling opportunities often lie in Grade B offices that can be refreshed to Grade A standard. Selective repositioning and modernization allow investors to capture rental upside, meeting evolving tenant expectations, and take advantage of supply constraints. This approach balances stable income from prime assets with potential upside from strategically upgraded stock, helping to ensure offices remain attractive for long-term capital in Milan and select urban hubs.

3. Residential and PBSA

Supply gaps support income growth

Although historically under-represented within the institutional real estate market, residential and purpose-built student accommodation (PBSA) benefit from clear structural tailwinds. Italy's national PBSA provision rate remains very low relative to more mature European markets, with only around 4%[5] of students currently accommodated in purpose-built beds, compared with provision rates exceeding 30% in the UK and other well-established markets.

Within Italy's major university cities, provision rates are still low, even as pipelines expand. Milan's provision rate is set to increase from about 5% to an estimated 9% by 2028, while Florence and Turin are expected to rise to around 5-6%. In

[2] DWS Forecasts, Dec 2025
[3] CBRE Research, Dec 2025
[4] DWS Forecasts, Dec 2025
[5] Bonard, Dec 2025 (for all provision rates provided)

contrast, cities such as Rome and Padua are likely to remain near 3% without further development. These low supply ratios, coupled with growing student populations and limited high-quality built stock support predicable, inflation-linked income streams and meaningful development or refurbishment opportunities. Over 26,000 new beds are planned by 2028 across key cities, led by Milan, Bologna and Turin, but even this pipeline will not close the structural supply gap, suggesting sustained demand and attractive fundamentals for PBSA investment.

4. Hospitality

Tourism demand underpins resilient returns

Italy's hospitality sector continues to benefit from strong tourism fundamentals, particularly in major cities and cultural destinations such as Rome, Milan, Florence, and Venice. Demand is supported by both international visitors and domestic travel, while supply remains constrained in prime locations. Selective investments in city-centre hotels, lifestyle-led boutique properties, and well-located resorts offer attractive income stability and potential for asset repositioning.

In urban hubs like Milan and Rome, hospitality can complement residential and retail exposures, providing diversified income-generating opportunities that are less correlated with broader market cycles and can enhance overall portfolio resilience. Operational improvements, refurbishments, and targeted repositioning allow investors to capture upside while maintaining steady cash flows, making hospitality a flexible and accessible sector for capital deployment in Italy.

5. Selective Retail

Dominant locations deliver resilient performance

Retail opportunities in Italy remain selective but compelling where assets benefit from dominant positioning, strong catchments and formats aligned with evolving consumer preferences. In addition to prime high-street retail in core city locations, well-located shopping centres and retail parks are increasingly attractive, benefitting from controlled environments, curated tenant mixes and heightened consumer focus on safety, accessibility and convenience.

In the current market, the most attractive retail opportunities are prime high-street locations in Milan and Rome, as well as retail parks and outlet formats in selected regional cities. Prime assets offer income stability, while limited repositioning opportunities can enhance returns where assets are dominant and supply is constrained. Secondary and non-dominant formats remain less attractive.

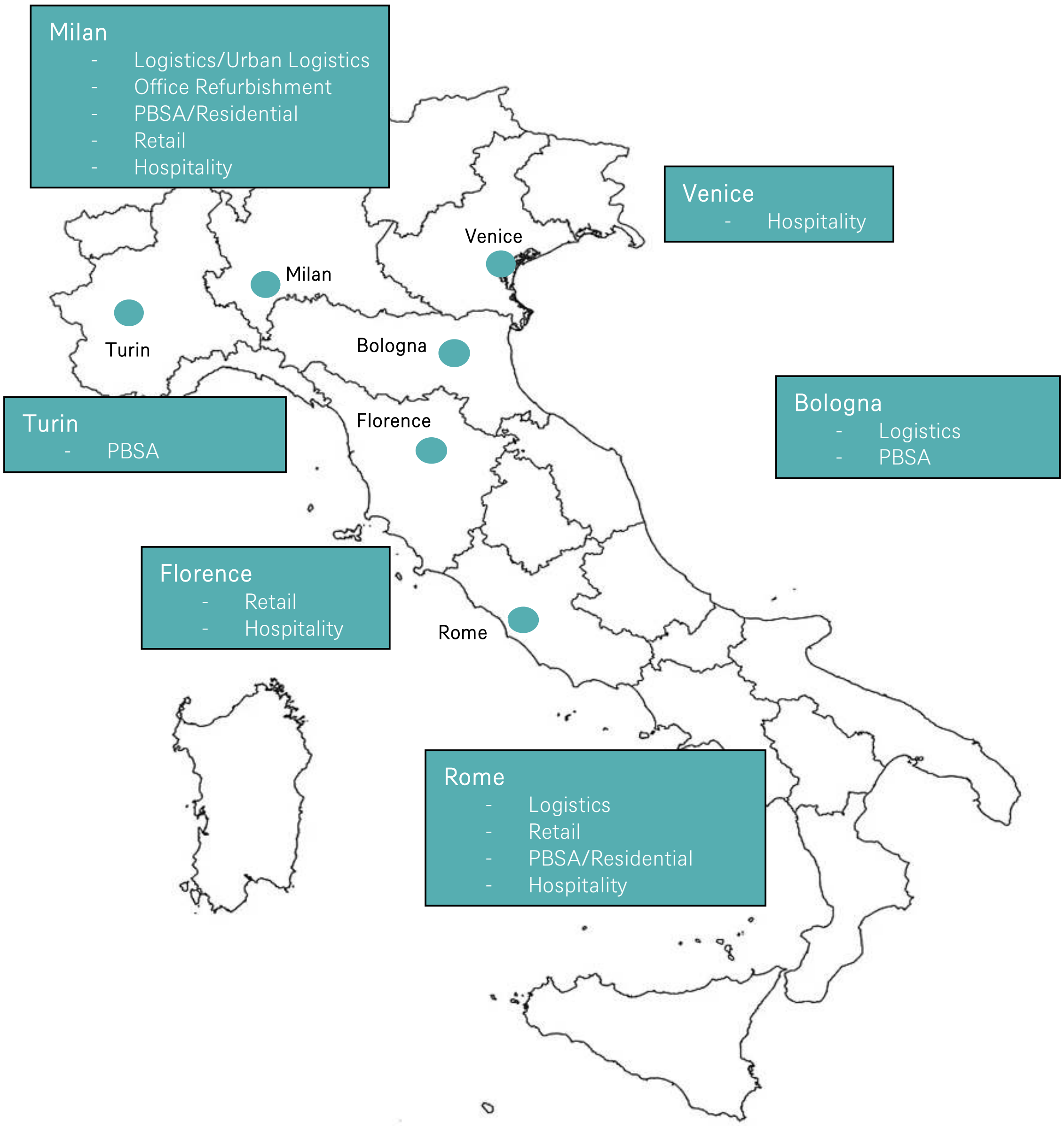
Table 1: Italy - Sector Outlook and Investment Rationale

Sector	Demand Drivers	Supply Dynamics	Return Characteristics	Investment View
Logistics	E-commerce growth, supply-chain diversification, nearshoring	Scarce land, low vacancy in core corridors	Stable income, rental growth, value-add upside	High conviction
Offices (Prime & Grade B Repositioning)	Flight to quality, ESG requirements, talent concentration	Limited new Grade A supply	Defensive core returns, selective repositioning	Selective
Residential/PBSA	Urbanisation, student inflows, supply deficit	Structural undersupply	Inflation-linked income, long-term growth	Selective
Hospitality	International tourism, city-break demand	High barriers to entry in core cities	Cyclical but strong cash flow upside	Selective
Retail	Tourism, footfall recovery, experiential formats	Constrained prime supply	Income stability in dominant assets	Selective

Source: DWS Research, As of January 2026.

Map I - Where We See Sector-Led Opportunities

The map highlights cities where we believe specific sectors offer the most compelling investment opportunities, reflecting sector dynamics rather than broad market exposure.



Source: DWS Research, As of January 2026.

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