

Real Estate Strategic Outlook: Italy

Italian Economic Outlook

Milan leads growth as uncertainty weighs on activity

Italy's economic outlook is subdued at present, with growth expected to slow to 0.3% in 2026¹ as higher energy prices push inflation to around 3%. Milan remains the growth engine of the economy, with GDP growth this year projected at three times the national rate and office employment growth outperforming the European city average.² Economic forecasts for Italy, and especially Milan, often underestimate the extent of immigration which is currently an important driver of demand for real estate, and support for the flat tax policy across political cycles should allow for its continuation going into the 2027 election year.

Milan Core Sectors: Logistics, PBSA, Hotel, Offices

Infrastructure supporting growth in new logistics hubs

The logistics market has been a bright spot in the Italian real estate market since the end of the covid-19 pandemic, with rental growth averaging over 5%.³ The outlook going forward is also positive: Northern Italy is consolidating its role as the hub for international 3PLs distributing to Southern European markets, manufacturing industries are benefitting from the increase in spending on defence in Europe, and infrastructure is quickly improving in the South of Italy thanks to the deployment of EU Regional Development Funds, boosting logistics take-up in this region.

The national pipeline of logistics development equates to around two years of take-up,⁴ assuming all space currently in planning is built, and in the context of the current geopolitical uncertainty, it is likely that many potential projects will not come into fruition. With vacancy in the Lombardy region still below 4%,⁵ supply is not a major concern at present, and upward pressure on rents is likely to remain in the short- to medium-term.

Potential in short-stay Residential

Rental growth in the residential sector in Milan has been cooling recently as affordability pressures start to intensify. Student housing, however, remains attractive, although investor competition is increasingly a feature of a sector which until recently represented only a small part of the investment universe in Italy. Consequently, the illiquidity yield premium to residential is no longer present, and returns for purpose-built student accommodation (PBSA) must be driven primarily by income growth. The acute imbalance in supply compared to student demand is supportive of ongoing strong rental growth in the short term, but asset location and operator selection are important factors to consider given conditions in

three to four years are likely to be less favourable after the market absorbs the wave of new development we see in current pipeline figures.

Rising flight costs are currently reshaping demand for leisure travel in Europe and are already providing a boost for hotel performance in Italy as tourists in Europe focus on regional over long-haul trips. Resort hotels may be a particular beneficiary. Management contract yields in Milan are around 6% at present, offering attractive risk-adjusted returns while the pipeline of development can absorb less than half the expected growth in visitor numbers over the next five years.⁶ The fragmented ownership structure of the hotels market in Italy offers an opportunity for international chains looking to expand into a strong-performing market.

Milan Forecast Hotel Visitor and Room Growth



Source: PMA, April 2026; CBRE, April 2026

Return to the office in Milan

Office employment growth coupled with high office utilisation rates and limited Grade A office space in central locations have supported strong rental growth in Milan in recent years. Supply at the prime end of the market is unlikely to grow significantly over the short term given the limited development pipeline and we expect the market to continue to outperform, albeit with rental growth decelerating over a five-year period. In the context of tight pricing (close to 4% for stabilised assets in the CBD) and limited supply of quality office assets, manage-to-core or value-add strategies are required to boost returns in this market.

¹ Oxford Economics, May 2026

² Oxford Economics, May 2026

³ DWS, May 2026. Milan and Rome 2022-2025 average.

⁴ Based off 10-year average. DWS, May 2026.

⁵ Colliers, Q1 2026

⁶ PMA, April 2026

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