

SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH

PART TWO: IMPACT OF DEFENCE SPENDING RAMP-UP ON EUROPEAN INDUSTRIAL AND LOGISTICS REAL ESTATE

By **Justin Curlow**, Global Head of Research & Strategy
& **Kerrie Shaw**, Senior Research Analyst

European countries plan to accelerate their defence spending and policymakers want to increase European production in defence sectors that can improve Europe's autonomy and independence, while also boosting its economic growth and strengthening structurally weaker locations. Thus, the European share of defence spending is expected to increase as European manufacturers expand domestic production capacity and integrate supply chains. This will significantly boost demand for industrial and logistics real estate over the medium term. Taking our main scenario of defence spending rising to 2.9% of GDP by 2030, we estimate an additional 233,000 manufacturing and logistics-related defence jobs, resulting in demand for an additional 16 million sq m of industrial and logistics floorspace. France, Germany and the UK are projected to see the largest additional demand for industrial and logistics floorspace, most notably around existing defence clusters that can offer access to specialised labour, help defence organisations share resources and knowledge, and drive innovation.

Due to their complex needs, bespoke, built-to-suit, owner-occupied facilities are often the preferred choice for the manufacturing facilities of defence "champions". However, these "primes" have an extensive ecosystem of specialist suppliers, and leasing standard, modern industrial and warehouse units is a more suitable option for many of these occupiers. Where requirements are bespoke,

investors might build-to-hold on long-term leases, which offers the opportunity to benefit from long-income let to solid tenants in a sector with low economic cyclical. However, there are significant challenges to delivering and holding highly bespoke buildings, particularly in non-traditional geographies. Hence, leasing standard, modern industrial and logistics units to defence-related suppliers may offer better risk-adjusted opportunities than renting to defence manufacturers directly. Securing land in strategic locations and developing flexible, secure units that can accommodate the evolving requirements of the defence supply chain provides a further opportunity.

"The short-term focus on rearmament as Europe accelerates its defence spending is expected to generate additional warehouse and manufacturing. This boost in industrial net absorption should provide meaningful investment opportunities to acquire both standing assets, and new development opportunities. Locations that cater to this burgeoning demand segment alongside the wider bulk warehouse and distribution segments should be best positioned to outperform."



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Defence dividend to boost demand for European industrial and logistics space

European countries are increasing their defence spending and will need to accelerate further if they are to reach the NATO benchmark of spending 3.5% of GDP on core military capabilities by 2035. However, decades of underinvestment in defence have created material gaps in Europe's defence systems, stocks and capacity. Moreover, Europe's defence industry is highly fragmented and faces structural bottlenecks to increase capacity. This fragmentation reduces scale efficiencies and increases costs, which has resulted in substantial imports of defence. Due to limited domestic capacity, long production cycles and low unemployment, imports are expected to continue to account for a high share of European defence spending in the near term. However, European policymakers want to reduce their reliance on international suppliers and boost intra-regional production, whilst also encouraging innovation and production in cutting-edge sectors, such as AI, drones, digital warfare and cyber, that will enable European armies to establish their own infrastructure and sustain technological advantages over other nations, improving the continent's autonomy and independence. They are also adamant that higher defence spending should boost national economic growth and strengthen structurally weaker locations. Thus, the intra-regional share of defence spending is expected to increase, which will involve significant investment in European defence manufacturers and their supply chains, and should meaningfully boost demand for industrial and logistics space over the coming years.

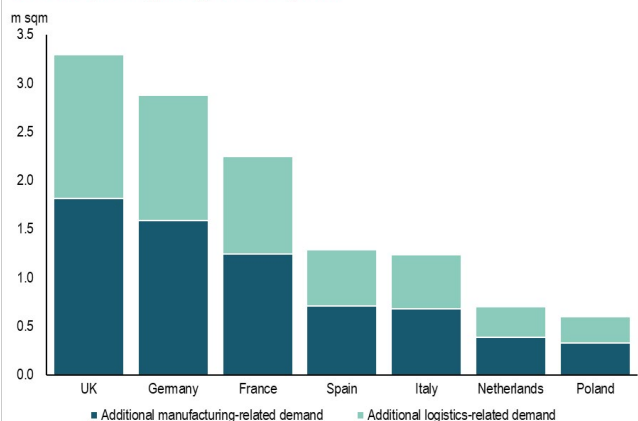
Estimating the scale of defence-related occupation of industrial and logistics space is complex, partly due to high levels of confidentiality, but also because many major manufacturers, such as BAE Systems, Leonardo, Safran and Thales, operate across multiple activities, many of which are only partly defence related. Therefore, we used our scenarios¹ of the additional manufacturing and logistics-related defence employment that might be engendered by additional defence spending in combination with standard floorspace per worker (FPW) numbers to estimate how much industrial and logistics space might be required. Taking our main scenario of defence spending rising to 2.9% of GDP by 2030, we could see an additional 233,000 manufacturing and logistics-related defence jobs, resulting in demand for an additional 16 million sq m of industrial and logistics floorspace². This would be equivalent to an additional 9% of annual average European logistics take-up over the past decade. It would also potentially reduce the supply of buildings and land available for other industrial and logistics occupiers, increasing competition and underpinning rental growth.

Defence manufacturing often requires specialised facilities and FPW will vary depending on what is being manufactured – drones are rather more efficient in their floorspace use than submarines, for example. Nonetheless, our estimates give an indication of the substantial expansion in industrial and logistics floorspace that will be required. In addition, non-European defence companies

are already expanding in Europe, partly to ensure they are not locked out of extra defence spending, but also to diversify their supply chains, boost industrial resilience and speed up delivery. For example, Lockheed Martin have partnered with an increasing number of companies to expand its manufacturing and supply chain within Europe³. This should further boost industrial and logistics employment and demand for space.

Although factories and shipyards directly building defence equipment are the most obvious avenues for the increase in spending, the industry has a vast supply chain of subcontractors, logistics, components, and raw material suppliers that also require space. While the time taken to lease space is typically longer than average for defence-related occupiers, partly due to complex building and site specifications and more robust security protocols, we have already experienced an increase in demand from defence-related occupiers for logistics assets within our portfolios. This includes: national armed forces, for the storage of non-combat equipment and the servicing of machinery and equipment; logistics space for manufacturers within the aerospace, defence systems and drone sectors; and logistics space for 3PLs with defence-related tenders.

Chart 1: Additional industrial & logistics-related demand from defence spending rising to 2.9% by 2030



Source: MOD, ASD, Savills, JLL, CBRE, AXA IM Alts, data as at 10 September 2025

UK, Germany and France expected to see the largest increases in industrial and logistics space

As we project that France, Germany and the UK will experience the largest increases in industrial and logistics employment⁴, we also expect them to see the largest additional demand for industrial and logistics floorspace. Moreover, our model assumes higher defence spending will impact the industrial and logistics space required in each country uniformly. However, many European countries do not have significant domestic defence employers and will need to spend a higher share of their additional defence-related expenditure on imports, which would support logistics demand domestically but manufacturing-related demand in the exporting country. With Europe striving for increased independence, we expect these imports to increasingly be sourced within Europe, and France, Germany, Italy and the UK to benefit disproportionately.

1 - BNPP AM Alts (March 2026): Spotlight of Defence Part One: Macro – Impact of defence spending ramp up on European real estate

2 - While more manufacturing jobs are expected to be created than logistics, logistics requires more floorspace per worker, with the result that similar amounts of additional manufacturing and logistics-related floorspace are required.

3 - PAC-3 MSE: Lockheed and Diehl sign MoU to expand production - Calibre Defence

Lockheed seeks European partners for missile production crunch - Breaking Defense

4 - BNPP AM Alts (March 2026): Spotlight of Defence Part One: Macro – Impact of defence spending ramp up on European real estate

Existing clusters stand to benefit most from increased defence spending

Identifying new locations is a complex challenge for defence-related companies, who have multiple factors to balance. Defence-related occupiers have some needs that are similar to many other industrial and logistics occupiers, such as: good connectivity to their customers and supply chain; good accessibility to road and rail networks and, potentially, international shipping terminals; and access to sufficient, suitably skilled labour markets. However, agglomeration economics are particularly important to companies in this sector as locating in existing defence and aerospace clusters can provide significant benefits, including helping them share resources and knowledge, and drive innovation as they work with nearby competitors, academia and research institutions. Indeed, defence companies often may make strategic investments in training programmes and apprenticeships, and partner with nearby educational institutions to build their talent pipelines. Firms may also prioritise sites near military infrastructure, such as airbases, defence research centres, and ports equipped for military cargo. In addition, defence-related companies need access to reliable utilities to ensure uninterrupted operations, reduce downtime, and support advanced manufacturing processes – this is particularly crucial when they need to rapidly increase production. Furthermore, defence-related companies must navigate stringent security protocols and geopolitical sensitivities. Locations would be rejected if they risk exposure to international trade barriers and/or security threats, or put defence-related companies at risk of sabotage, or being treated as a military target during a conflict.

As a result of these factors, we expect existing clusters of defence manufacturers and their contractors to see outsized benefits from the growth in defence-related spending and employment. These areas are likely to see expansion by existing defence companies and their suppliers and, over time, further growth in supporting industries such as advanced manufacturing and component supply, reinforcing their position as hubs for defence-related occupier demand. Some defence clusters are not in traditional industrial and logistics heartlands, but others are in strong locations that already have a limited amount of suitable land and buildings available, which increases competition for land and buildings and may limit new investment and development by defence companies. Moreover, a more distributed network of production facilities can bolster operational resilience. As such, there is scope for other areas to benefit if they have significant amounts of available land in addition to strong manufacturing bases with labour with the required skills. From a real estate perspective, this additional demand for industrial and logistics floorspace is a great opportunity, and the market is already seeing new requirements for buildings in core industrial and logistics locations. Furthermore, logistics space is required to store and move goods and spillovers should boost demand for space near strategic military bases, in ports and at major logistics hubs.

Rearm France: legacy clusters to benefit most but new clusters will emerge amid rising capacities and reorientated priorities

France is the world's second largest defence exporter and one of the 10 nations with the highest military spending in the world. Defence accounts for around 12% of industrial jobs with a turnover exceeding €40 billion per year, i.e. 4% of the entire French manufacturing industry. The dense Industrial and Technologic Defence Base (BITD) of 4,500 companies, of which 800 are deemed "critical" or "strategic" (220,000 jobs, very qualified and not relocatable), is spread throughout the country, but the bulk of the activity is dominated by national defence flagship companies such as Airbus, Arianespace, Arqus, Dassault Aviation, MBDA, Naval Group, Safran and Thales. These giants alone account for nearly 80% of total turnover⁵, and there are entire chains of SME suppliers orbiting in their respective local ecosystems.

Unprecedented financial effort in its "Loi de Programmation Militaire" has been reiterated by the French government, with an overall budget of €449 billion between 2024 and 2030⁶, aiming at modernising and improving French military equipment and boosting exports. However, those ambitions come up against the reality of trying to accelerate production within a context of critical capacity limitations in the French defence industry (91% of capacity in July 2025⁷). While the ramp-up in production will take time, opportunities are expected to emerge in French industrial and logistics markets in line with the key strategic investment priorities, including manufacturing and storage capacities to ensure national readiness in the event of protracted conflicts, while honouring export commitments with strategic partners.

French defence industrial capabilities were historically located away from the North-East border with Germany (deemed as a weaker point), to the West and Southern parts of the mainland, but have been gradually redeployed across the country. Therefore, not all territories start from the same place, and they offer different kind of specialisation. Historic clusters and ecosystems are expected to benefit first and foremost from the planned acceleration. Successful new deployment will have to combine industrial investment, training, staff availability, proximity to the Armed Forces and the availability of land.

Some historic defence clusters are already located along the key French logistics corridor, "the Dorsal", which extends from Lille to Paris, Lyon and Marseille, while other areas with strong potential are in the emerging "Atlantic Arch" logistics corridor, or at the intersection of both axes.

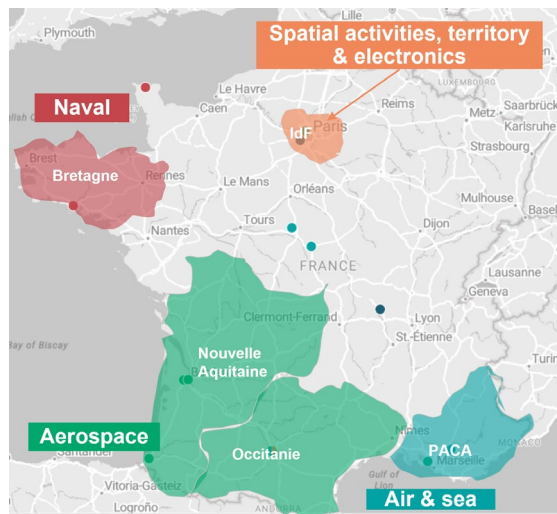
Ile-de-France is France's major defence cluster in terms of jobs, concentration of headquarters, number of SMEs and turnover. It is mainly specialised in high-technology activities for land intervention but also offers a large ecosystem for spatial and electronics and R&D research, with key occupiers including KNDS, Arqus, Ariane Groupe, Thales and Airbus. Manufacturing and storage activities are present, but scarce and relatively expensive land and labour may limit new industrial and logistics development.

5 - [L'industrie de défense française : un appareil de production sous tensions](#)

6 - Budget of €413 billion across 2024-2030 voted in 2023, with top-up of €36 billion in 2025 for 2026/2027, Financement de la Base Industrielle et Technologique de Défense 20 Mars 2025

7 - [L'industrie de défense française : un appareil de production sous tensions](#)

Map one: Key defence manufacturing locations in France



Source: Le maillage territorial : colonne vertébrale de la BITD française - Portail de l'IE, BNPP AM Alts as at April 2026,

Aeronautics and space are the dominant segments of French defence, accounting for around a third of total French defence turnover. These sectors are dominant in, but not limited to, Occitanie (Toulouse) and Nouvelle-Aquitaine (Bordeaux), owing to their strong historical background in military aviation. For example, Airbus Defence and Space produces military helicopters (Marignane/Marseille), Eurofighters and the A400M in the Toulouse Region. Dassault Aviation recently announced the production of four Rafales fighter jets a month by 2027 and five thereafter, with the objective to produce 60 jets a year versus 26 in 2025⁹. While the jet is assembled in Mérignac (close to Bordeaux), some parts are produced in Ile-de-France, Biarritz, Martignas (Bordeaux) and Poitiers (Nouvelle-Aquitaine). Nouvelle-Aquitaine offers significant opportunities for expansion by the defence industry due to its high industrial density, strong network of suppliers and land reserve, while the Occitanie is a more fragmented region with less available land. Furthermore, a new objective to ramp-up drone production could spur activity in the area, as some of the major French players are located between Bordeaux and Toulouse.

Strategic investment priorities from the government include replenishing very low ammunition and missiles stocks, storage capacity, and innovation in precision strike capabilities. The Centre-Vale-de-Loire region (including Bourges, Cher and Roannes) is emerging as one of fastest growing clusters for artillery (with key occupiers including Nexter, KNDS and MBDA), due to its strong industrial dynamics, significant volume of available land, and proximity to Ile-de-France. This region is also involved in the government's second strategic priority, the Maintenance in Operational Condition (MOC), which is focused on new armoured vehicles and the management of spare parts. This involves logistics modernisation, including new automated warehouses.

The last pillar of strategic priorities are Naval defence and the Deep Sea, which are particularly important for the Atlantic

and Mediterranean clusters. Naval Group, partly owned by the French State, is investing massively in its maritime infrastructure, as shown by the recent announcement of "the France Libre", a new nuclear-powered aircraft carrier to be completed in the 2030s for around €12 billion⁹.

Finally, strong potential has been identified in the Grand Est region, which holds a critical strategic position and has a dense industrial defence network (notably in ammunition activities) and large land reserves. It hosts several military bases close to international borders with Germany, Belgium, Luxembourg and Switzerland. An increase in Germany's defence spending could also boost manufacturing activity in this area. It is already a logistics and industrial hub for the rapid projection of troops and equipment to NATO's eastern front and is deemed increasingly strategic due to growing threats and current operations in eastern Europe.

Opportunities in French industrial and logistics real estate markets will emerge from the industrial defence ramp-up to support and expand production, supporting critical supply chains, expanding storage capabilities, and operational maintenance for strategic operations. While traditional clusters in or close to the current logistics "Dorsal" will undoubtedly benefit, new government investment priorities should also give momentum to clusters in the logistics "Atlantic Arch", although this will take time. Defence exports are also critical to France, so expedition logistics and specialised intermodal transport should also gain momentum, in particular in the eastern part of the country. For real estate investors, the focus is likely to remain on servicing the more traditional suppliers orbiting around the big players in less sensitive segments, managing standard mechanical parts or consumables that do not require the level of security of a classified site, and looking at strategic geographical areas used to convey arms and key logistics supplies for exports or external operations.

German rearmament will reinforce established defence clusters across southern high-tech, NRW land systems and northern navel hubs

Germany has one of Europe's largest defence manufacturing bases by output and industrial depth and is among the world's top five arms exporters. Over the 2021–2025 period, Germany accounted for around 5.7% of global arms exports¹⁰, ranking fourth worldwide, behind the US, France and Russia. Defence and security manufacturing is a significant pillar of Germany's industrial base. While the latest official data from the "Bundesministerium für Wirtschaft und Klimaschutz" (BMWK) places German defence industry manufacturing turnover at €31 billion in 2022, industry reporting and SIPRI company data indicate that revenues increased materially in 2024 as delivery volumes ramped up. Based on reported growth rates and backlog conversion, German defence industry turnover is estimated at €38–42 billion in 2024, rising to €42–48 billion in 2025 as ammunition, air defence and land systems production reaches scale¹¹. Industry estimates suggest that direct

9 - <https://aviationtoday.in/france/macron-unveils-france-libre-new-next-gen-nuclear-air-craft-carrier-plan-for-france/>

10 - SIPRI report 2026, data as at 9 March 2026

11 - BMWK 2025, data as at February 2026

employment in the German defence industry accounts for around 150,000 jobs, rising to approximately 250,000 jobs when suppliers and induced employment are included. The industry is anchored by major global players such as Rheinmetall, Airbus Defence & Space, KNDS, Hensoldt and Thyssenkrupp Marine Systems, complemented by a broad ecosystem of specialised mid-sized suppliers. The defence and security industry is shaped by long standing regional specialisation and organised along a north-south industrial corridor from Schleswig Holstein through North Rhine Westphalia (NRW) to Bavaria, comprising dense regional clusters that link prime contractors, specialised suppliers and research institutions. The current build up is sequential, meaning not all segments and regions benefit at the same time, with clear implications for growth across individual defence clusters.

In the near term, investment is flowing first into mobility, ammunition and air and missile defence, primarily benefiting central and western Germany. Western Germany, and NRW in particular, is a core hub for armoured vehicles, ammunition and large-scale ground systems, driven by companies such as Rheinmetall and Krauss Maffei Wegmann, and supported by Germany's strongest inland logistics infrastructure. This aligns with the Bundeswehr's framework agreement with Rheinmetall to establish and operate Convoy Support Centres and assembly areas along key road-rail corridors under Operationsplan Deutschland, reinforcing Germany's role as NATO's RSOM hub and immediately lifting demand for secure, high-throughput logistics capacity across western and central transit networks.

At the same time, air and missile defence has emerged as a short-term priority, anchoring activity in central and eastern Germany in line with NATO planning that maximises protective reach and reaction speed against eastern axis threats. The phased rollout of Arrow 3, alongside the expansion of IRIS T and Patriot systems, requires secure storage, testing and high specification technical infrastructure. One illustration of the strengthening of this central missile defence hub is the ongoing discussion between Volkswagen and Rafael Advanced Defence Systems regarding the potential conversion of Volkswagen's Osnabrück plant into a facility manufacturing support components for the Iron Dome air defence system.

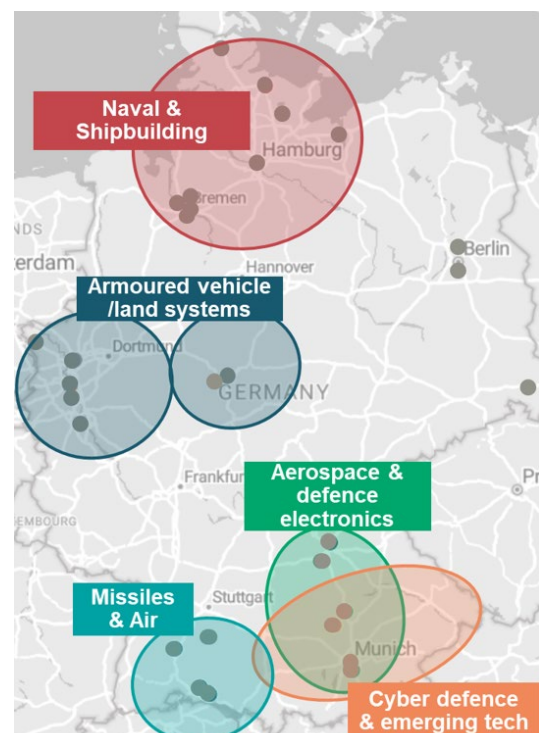
Late 2025 procurement approvals further reinforced western Germany's role, with increased spending on readiness critical systems including F 35A munitions, AI-enabled URANOS reconnaissance, infantry weapons, tactical mobility assets and drones. This wave of orders consolidates production, stockpiling and redeployment activity across NRW and neighbouring western states, leveraging Rhine corridor inland ports, motorway convergence points and dense rail freight hubs that allow heavy equipment and consumables to be produced and redeployed efficiently at scale.

In the medium term, investment momentum increasingly shifts northwards, reinforcing traditional maritime defence geographies. Northern Germany emerges as the centre for naval construction and maritime systems, with shipbuilding, submarines, surface vessels and maritime patrol capabilities anchored by Thyssenkrupp Marine Systems in Kiel and NVL Group in Bremen, alongside munitions and component manufacturers integrated into European supply chains. Direct

access to the North Sea and Baltic Sea, combined with close integration into commercial ports and intermodal terminals, supports scalable naval production and sustainment. Looking further out, southern Germany - particularly Bavaria and Baden Württemberg - forms the sector's long-term high technology growth engine. The region hosts globally relevant manufacturers across sensors, aerospace, missile systems (e.g. Hensoldt, Diehl Defence, Airbus Defence & Space), munitions and military vehicles (e.g. Heckler & Koch and Rheinmetall MAN Military Vehicles), accounting for almost 50% of total defence employment. These clusters are characterised by high R&D intensity, strong dual use potential and deep technological integration with civilian aerospace, automotive and electronics value chains. Long-dated programmes such as fighter aircraft integration, satellite reconnaissance, AI-enabled battlefield systems and next generation missile technologies anchor demand well into the 2030s, reinforced by Germany's enduring NATO commitments, including the permanent stationing of a German brigade in Lithuania.

A defining feature of the current build up is that Germany's defence clusters largely overlay existing industrial and logistics corridors rather than creating entirely new geographies. The initial phase favours logistics, ammunition and air defence in central and western transit regions; medium term growth strengthens naval and heavy land systems in the north and west; and long-term expansion concentrates in southern Germany's high technology defence ecosystem. The overall effect is a structural reinforcement of existing industrial and logistics hubs, rather than a remapping of Germany's defence industrial geography.

Map two: Key defence manufacturing locations in Germany



Source: PMA, Institut der deutschen Wirtschaft Koeln (IW Cologne), BNPP AM Alts, data as at March 2026

The UK's widely dispersed defence industry should see benefits nationwide, but especially around tech, aerospace and naval clusters

The UK has the largest number of companies and employees within the defence industry in Europe, with many global players, including BAE Systems, Rolls Royce and Babcock, in addition to hundreds of smaller suppliers. The defence industry is widely dispersed throughout the UK, although there are particularly large concentrations of jobs in the South East, South West, North West and Scotland. The UK government has announced spending on core defence requirements and defence and security-related spending will increase to 2.5% of GDP by 2027, 3% in the next parliament (which could last until 2029), and 5% by 2035, with a possibility that spending may increase faster should fiscal and economic conditions allow¹². This should translate into thousands of new manufacturing and logistics jobs nationwide, and higher demand for industrial and warehouse space.

While the government has accepted the Strategic Defence Review 2025 (SDR) recommendation that the UK increase munitions stockpiles and move to an 'always on' munitions capability¹³, many defence programmes are very long-term, so not all sectors and locations will see the same growth at the same time. A broad range of industrial facilities will be required, with some projects on a very large scale, but much demand expected for smaller units as hundreds of SMEs integrate into the defence supply chain.

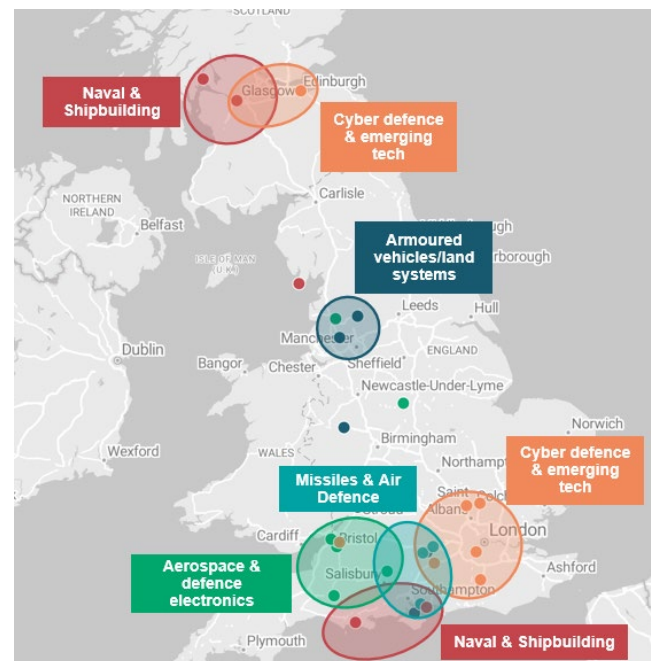
The SDR recommended that the UK increase munitions stockpiles and move to an 'always on' munitions capability so that production can be rapidly scaled up if needed. Existing munitions factories, such as BAE Systems' sites in Glascoed in Wales and Washington near Sunderland, are already boosting supply, and BAE are significantly extending their Glascoed site. In addition, the government recognises that a significant increase in throughput is required and has pledged to invest £6 billion in munitions this Parliament, including building at least six new energetics and munitions factories in the UK. The Ministry of Defence (MOD) has identified locations across the UK for the new factories, with construction anticipated to start in 2026. Higher stockpiling requirements will also result in expanded storage capacity.

The SDR also focused on the need to bring online new warfighting capabilities at a "wartime pace" to ensure the UK remains at the forefront of military technology, and emphasised areas such as AI, drones, cyber, and digital warfare, which should also boost UK export potential. Swindon, a key national industrial and logistics market, is seen as a favourable location for defence due to its industrial heritage, ready skills base, and easy connection along the M4 to London, major universities and key MOD sites and major defence companies. Outdoor drone flight testing facilities for the industry are being developed at nearby former RAF Wroughton, and a 525,000 sq ft indoor drone testing facility for the MOD is also expected to be built in the town.

12 - <https://www.gov.uk/government/news/prime-minister-sets-out-biggest-sustained-increase-in-defence-spending-since-the-cold-war-protecting-british-people-in-new-era-for-national-security>
13 - Ministry of Defence (2025): The Strategic Defence Review 2025 - Making Britain Safer: secure at home, strong abroad

The SDR recognised the need to re-commit to large-scale submarine and manned air combat programmes, along with mass production of unmanned platforms. In addition to supporting current jobs, these demand signals from the government are expected to provide the confidence for companies to invest in new and upgraded facilities and infrastructure. Spending on new and upgraded planes and autonomous fighters is expected to benefit several UK locations, including the South East around the Farnborough-Aldershot corridor, the South West around the Bristol-Yeovil corridor, the North West around Lancashire and Manchester, and Scotland along the Edinburgh-Glasgow corridor, in addition to component manufacturers across the supply chain. Recently announced investments include: £453 million for the manufacture of Typhoon radar systems by BAE Systems, which will particularly benefit their sites in Edinburgh, Lancashire and Luton; £205 million for the long-term provision of specialist Typhoon engineering support by QinetiQ; and £1 billion to Leonardo to build a fleet of 23 defence helicopters for the UK Armed forces, which will particularly benefit Yeovil.

Map three: Key defence manufacturing locations in the UK



Source: PMA, BNPP AM Alts, data as at March 2026

The government has committed to creating a 'New Hybrid Navy', including upgrading its fleet of submarines, warships and support ships, and introducing new autonomous vessels. To maintain the UK's continuous-at-sea nuclear deterrent, the government has already committed to four new ballistic missile submarines, with the first due on patrol in the early 2030s, and it also has ambitions to replace its current attack submarines with an increased fleet of up to 12 new conventionally armed, nuclear-powered submarines from the late-2030s. This investment should particularly benefit BAE Systems' site in Barrow-in-Furness and Rolls Royce's site in Derby, in addition to component suppliers from across the UK, including in Bristol, Glasgow and Liverpool.

With the government seeking to support the rapid development of uncrewed surface vessels, the MOD recently awarded Fareham-based maritime technology company Kraken Technology Group a £12.3 million contract to provide 20 uncrewed boats, whilst Europe’s largest defence technology company, Helsing, recently opening a factory in Plymouth to build autonomous underwater gliders. The government has also committed to investing in its nuclear warhead programme, which is developed and manufactured by AWE in Berkshire.

Standard modern warehouse space is suitable for many defence occupiers

Expanding defence companies will need to determine whether to optimise or enlarge existing facilities or build new ones. Whilst the quickest way to boost output can be to expand existing facilities, this can be disruptive to the use of the current facilities and may not be optimal over the long term. In contrast, building new facilities can bring about more significant capacity increases on a long-term basis, but entails more significant upfront costs, navigation of sometimes complex planning rules, and will take longer to bring into use.

Although some building and site specifications required by defence-related occupiers are similar to those of many other industrial and logistics occupiers, others are more complex, and more costly. Many defence occupiers require modern, sustainable units that enable resilient and efficient operations, with adaptable buildings that can be reconfigured as needs evolve, for example as automation increases. Depending on the occupier, key building features might include: floors that can accommodate heavy and oversized equipment; high ceilings; sterile and air filtered rooms; automated storage and retrieval systems; climate control; secure storage; and secure communication networks. Some units may need to be further tailored, for example, including secure manufacturing areas, research laboratories, and/or testing grounds. Security can be a paramount requirement for some defence sector occupiers, possibly including 24/7 manned security, CCTV, perimeter fencing etc, but potentially also extending to how the facility interacts with adjacent businesses and local law enforcement. Moreover, compliance with military confidentiality protocols and regulations to manage the risks associated with the storing and handling of hazardous materials and explosives may also be required. There may also be stricter oversight of construction and planning. This can significantly increase time for construction and construction and fit-out costs. For example, Savills¹⁴ have estimated that fit-out costs could be 20–40% higher for defence-occupied space than for standard industrial space.

Moreover, these “primes” have an extensive ecosystem of SMEs in their supply chain, and standard, modern industrial and warehouse units will be suitable for many of these, although some units may need adapting to provide facilities such as clean rooms, secure zones and testing space. Examples include: manufacture of communications and cyber systems; drone manufacture; modular assembly; storage of non-combat equipment; and maintenance and

servicing of vehicles, machinery and equipment. These SME suppliers are more likely to lease space, appreciating the advantages that leasing can bring, especially lower upfront costs and the flexibility to scale as required. In addition, their security requirements are typically less restrictive.

Chart 2: Feasibility of leasing space to defence-related occupiers

Category	Type of Real Estate	Feasibility of leasing space	
		End user	Supplier
Logistics & supply chain	Warehouses, distribution centres, logistics hubs	High	High
Equipment & vehicle production	Assembly plants & flexible industrial spaces	High	High
Tactical gear & small arms manufacturing	Smaller industrial spaces for manufacturing & storage	Medium	High
R&D & testing facilities	Secure lab space but not always highly specialised	Low	Medium
Naval shipbuilding & submarines	Coastal shipyards with specialised infrastructure	Low	Medium
Aerospace & military aircraft	Large-scale, high-tech manufacturing plants	Low	Low
Missile & defence systems	Secure, fortified production & testing facilities	Low	Low
Cybersecurity & intelligence operations	Classified, secure facilities (SCIFs)	Low	Low
Nuclear & strategic weapons	Highly restricted due to security & safety regulations	Low	Low

Legend: ■ Highest ■ ■ Lowest
 Source: Garbe Research, July 2025

Strategies for investment

Some defence companies seeking to expand production will extend existing facilities or repurpose redundant or under-utilised facilities, especially those used for automotive and machinery production where there may also be a source of suitably skilled labour. For example: Saab are adapting a former Volvo plant in Sweden for weapons production; KNDS are transforming one of Alstom’s train/tram manufacturing sites in Germany into a facility for manufacturing components for Leopard II tanks and Puma infantry vehicles; and BAE Systems have set up a new artillery factory on the site of a former steelworks in the UK.

However, new facilities will also need to be built when there is a shortage of well-located, suitable space, especially if high-quality space is required, as much of Europe’s vacant industrial and logistics stock is obsolete and/or poorly located and unsuitable for defence-related use. Whilst some requirements will be relatively straightforward, high-specification build-to-suit projects can take several years to bring forward, due to the time required to secure land, navigate the planning process, and deliver the building. Securing planning approval is likely to take time and involve significant collaboration with national and local authorities and local communities. Providers of industrial and logistics real estate have the specialist skills required to navigate planning to unlock optimal locations and build to specifications tailored for the defence sector. However, there are significant challenges to investors delivering and holding these highly bespoke

14 - Savills webinar (5 September 2025): What does increased defence spending mean for the industrial and logistics sector

buildings let to defence-related occupiers, particularly in non-traditional geographies, as they bring additional complexity in terms of fulfilment and significantly increase risk: investors may have substantial difficulty re-letting facilities should they become vacant. Some institutional landlords may decide their responsible investing and ESG policies are incompatible with defence-related occupiers, others may prefer build-to-sell strategies for particularly bespoke assets. Alternatively, investors may undertake build-to-hold strategies where assets are let on very long-term leases, which offers the opportunity to benefit from long-income let to solid tenants in a sector with low economic cyclicality. Leasing standard, modern industrial and logistics units to the large number of defence-related suppliers may offer investors better risk-adjusted opportunities than renting to defence manufacturers directly. A further opportunity lies in securing land in strategic locations and delivering flexible, secure units that can accommodate the evolving requirements of the defence supply chain.

The acceleration of European defence spending provides significant opportunities for economic growth and employment, and is expected to substantially boost demand for industrial and logistics real estate over the coming years. France, Germany and the UK are projected to see the largest additional demand, most notably around existing defence clusters. Providing for this additional demand offers a great opportunity, and the market is already seeing new requirements for buildings in core locations. However, it also introduces complex challenges. While bespoke, built-to-suit, owner-occupied facilities are often the preferred choice for manufacturing facilities for defence champions, standard, modern industrial and warehouse units are suitable for many defence operations, and the industry's wide ecosystem of suppliers are more likely to lease space. Leasing bespoke space to defence-sector manufacturers on long-term leases can offer the potential to benefit from long-income let to solid tenants in a sector with low economic cyclicality. However, leasing standard, modern industrial and logistics units to their suppliers may offer more and better risk-adjusted opportunities. Securing land in strategic locations and developing flexible, secure units is another suitable strategy.



By **Justin Curlow**, Global Head of Research & Strategy, Alts



By **Kerrie Shaw**, Senior Research Analyst



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