RESEARCH & STRATEGY, ALTS

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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH

PART THREE: EUROPEAN DEFENCE RESEARCH & DEVELOPMENT ACCELERATION AND ITS IMPLICATIONS FOR REAL ESTATE DEMAND

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The European defence sector is undergoing a structural transformation. What was historically a procurement-led, platform-centric industry is increasingly becoming innovation-driven, technologically dynamic and research-intensive. Ministries of Defence (MoDs) across Europe now appear to have started prioritising defence innovation and research & development (R&D) more explicitly so than at any point in recent decades. This shift thereby is not merely rhetorical; it is substantiated by budgetary data filtering through into corporate disclosures, driving venture capital flows and eventually pushing defence-focused R&D employment growth.

Accelerating defence investment—both public and private— is expected to drive meaningfully demand for European R&D and innovation space. Laboratories, secure development facilities, prototyping space, high-performance computing environments and advanced testing infrastructure are thereby likely to see structurally rising demand from defence-native occupiers. While defence-related R&D and innovation space will remain a sub-segment relative to other more established property segments, its growth dynamics and geographic concentration should generate significant demand effects.

The acceleration in defence-related innovation is, hence emerging as a powerful source of additional occupier demand across Europe's broader R&D and innovation real estate ecosystems. As investment in artificial intelligence, advanced computing and quantum technologies grows rapidly, demand for R&D-focused space is visibly broadening, not only targeting traditional laboratory facilities but also modern office space supporting software and engineering teams, as well as flexible business park and incubator space catering to rapidly scaling technology ventures. While still at an early stage, this trend has already translated into tangible leasing activity, with several innovation-focused assets across our property portfolio experiencing increased occupier interest from both defence-focused and broader deep-tech players.

"Defence Research & Development is emerging as one of Europe's most powerful new sources of occupier demand, supporting a broad spectrum of innovation-focused real estate"

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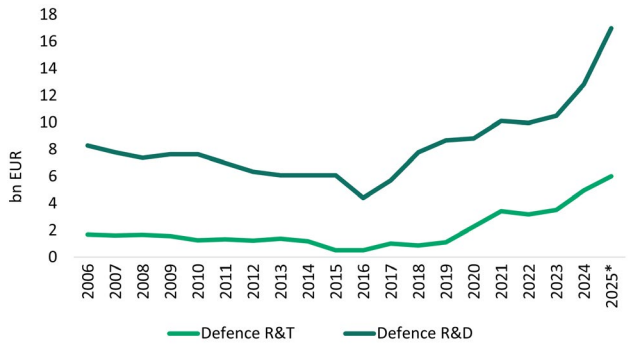
Public Defence R&D Budgets: A Clear Acceleration

European governments' defence R&D expenditure is visibly accelerating, evidenced in published fiscal data which clearly show an uptick in public defence R&D allocations. Across both the European Union (EU) and the United Kingdom (UK), governments' defence R&D expenditures have strengthened materially. In the European Union, such spending reached €13 billion in 2024, up 20% compared to 2023. Estimates for 2025, as outlined by the European Defence Agency (EDA), suggest that it did increase further to an impressive €17 billion, representing a 30% increase compared to 2024. OECD data confirms that European countries' defence R&D budgets grew by, on average, more than 100% in real terms since Russia's invasion of Ukraine.

A particularly notable development is the increase in public spending on so-called defence research and technology (R&T) programmes—funding streams focused on earlier-stage, potentially disruptive technologies. These programmes support more basic research activities and innovation cycles rather than incremental platform upgrades. Such spending is deemed critical in shaping long-term technological competitiveness and tend to require laboratory-intensive environments, advanced materials testing facilities, secure data infrastructure and proximity to existing research ecosystems. In 2024, EU R&T spending surpassed €5 billion, up from €4 billion in 2023, marking 27% year-on-year growth. Estimates for 2025 suggest that this upward trend continues, with public R&T expenditure reaching €6 billion, now accounting for 35% of total EU defence R&D spending (see Chart 1).

Chart 1: European Union - Defence R&D and R&T



Source: EDA, BNPP AM Alts, data as at November 2025;
Note: Data for 2025 is an estimate

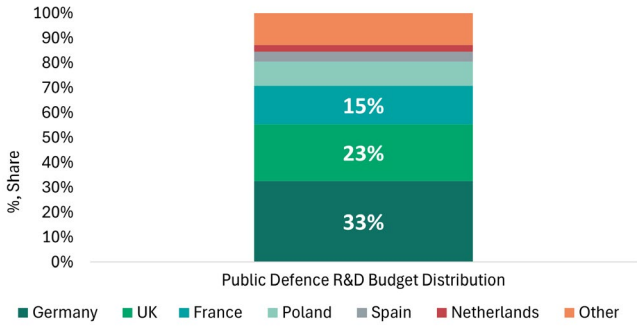
That said, European governments are not merely increasing budgets; they are also redesigning innovation frameworks to integrate start-ups more effectively into defence ecosystems. Collaborative and intergovernmental instruments have become central funding channels. Prominent initiatives include the EDF, EUDIS, HEDI, and NATO DIANA[1]. These programmes provide grants, equity-style funding, access to testing infrastructure and technical mentorship. Their growing budgets visibly reinforce cross-border collaboration and accelerate commercialisation pathways. Total EU collaborative R&T spending increased to more than €500 million in 2024, up from €160 million in 2019. The EDA estimates that if member states allocated 3.5% of their GDP to defence, with 2% of that specifically for defence R&T as agreed by the Ministerial Steering Board in 2007, and 20% earmarked for European collaborative defence R&T, the combined annual budget for such collaborative initiatives could grow to amount to approximately €2.5 billion[2]. Overall, recent survey evidence among EU and NATO officials, including work by leading consultancies (e.g., BCG), confirms that growing policy emphasis on defence innovation is here to stay. For example, a survey by BCG clearly shows a growing tendency among MoDs to prioritise innovation[3].

Geographic Concentration and the Multiplier Effect

Growth in defence R&D budgets has been relatively widespread across European countries. While only a small number of nations—Italy being a notable example due to its lack of fiscal headroom—have not seen meaningful expansion, most major European economies have been increasing their defence R&D allocations in real terms.

Despite this broad-based growth, European countries' defence R&D spending remains concentrated in absolute terms. Germany, the United Kingdom, and France dominate European defence R&D budgets. According to OECD data, these three countries account for more than 70% of European governments' budget allocations to defence R&D (see Chart 2). Smaller European countries—including Poland, Spain, and the Netherlands—do nevertheless display meaningful spending levels too. Looking forward, however, announced defence spending targets suggest that Germany, the UK, and France are likely to remain the primary locations of incremental Europe-based public defence R&D outlays[4].

Chart 2: Europe – Public Defence R&D Budget Distribution



Source: OECD, BNPP AM Alts, data as at August 2025;
Note: Uses most recent annual figure available

More recent research suggests that defence-related R&D has significant positive spillover effects to private R&D in industries where it occurs. According to empirical evidence cited by the OECD, a 10% increase in public defence R&D subsidies has generated an additional 4% to 5% increase in private-sector defence R&D spending. Academic research further suggests publicly funded R&D supports economy-wide innovation, with potentially large social returns in the long run. Government-supported defence R&D has also been found to generate significant long-term productivity gains[5].

1 - EDF = European Defence Fund, EUDIS = European Defence Innovation Scheme, HEDI = Hub for Defence Innovation, NATO DIANA = Defence Innovation Accelerator for the North Atlantic.

2 - European Defence Agency (November 2025): Defence Data 2024-25
3 - BCG (November 2024): Building European Defence Capabilities for a More Uncertain World
4 - BNPP AM Alts (March 2026): Spotlight on Defence Part One: Macro – Impact of defence spending ramp up on European real estate
5 - OECD (Q1 2026): OECD Economics Department Working Papers - Fiscal and macroeconomic impacts of defence spending

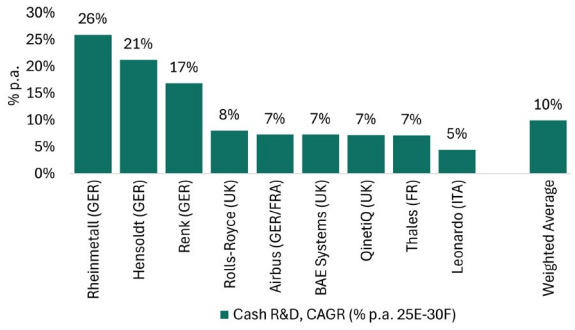
From a real estate perspective, the impact of these spillover effects is material. Government budget expansion does not simply translate into more activity within public R&D facilities; it cascades into corporate R&D departments, subcontractors, technology start-ups, and university partnerships. The spatial footprint of defence R&D therefore expands beyond ministries and research institutes far into the broader commercial innovation ecosystem.

Defence Primes' R&D Expansion

Typically, more than 70% of European countries' defence procurement is directed toward top companies, so called primes[6]. These major defence contractors allocate a historically relatively stable share—approximately 6% to 7% of revenues—to mostly procurement-specific R&D. As revenues accelerate in response to both rising European procurement budgets and export demand, absolute cash primes' R&D expenditure is poised to grow significantly.

Leading firms such as Rheinmetall, Thales, Leonardo and BAE Systems are, expected to expand their R&D cash expenditure at a weighted average annual rate of 10% per annum over the next five years to 2030 (see Chart 3). German defence corporations thereby stand out. Given fiscal headroom and a pronounced political commitment to modernising defence capabilities, German contractors such as Rheinmetall, Renk or Hensoldt are expected to see growth in cash R&D exceed 15% per annum over the coming five years to 2030.

Chart 3: European Defence Primes Cash R&D Outlook



Source: J.P. Morgan, AXA IM Alts, data as at Q4 2025

Such growth clearly implies a tangible expansion of laboratory space, secure development areas and testing facilities. Large defence primes typically require highly specialised environments: secure campuses, classified project zones, materials laboratories, integration hangars and high-bay prototyping areas. While some expansion can occur within existing campuses, sustained double-digit R&D growth rates will necessitate additional floor space or new-build facilities, often around established production hubs. Evaluating radar satellite data covering 150 defence-specific production and R&D facilities across 37 companies, Southern Germany, Ile-de-France, Central Spain, Nordic Capitals and the UK's South stand out already seeing widespread radar-detected expansion activities of primes' production and adjacent R&D sites (e.g., sites of BAE in Wales or MBDA near Munich)[7].

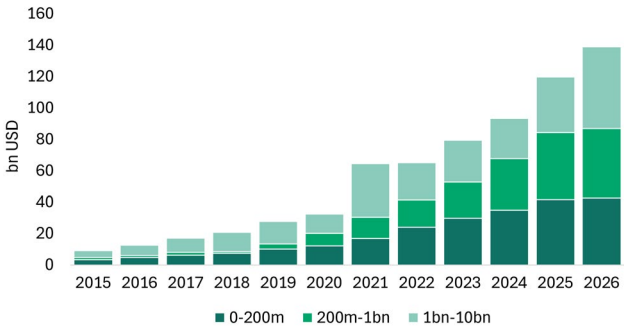
Defence Tech Evolution

Defence innovation is, however, no longer driven solely by Europe's incumbent primes. A rapidly evolving technological landscape—accelerated by lessons drawn from the war in Ukraine—has elevated the strategic importance of drones, AI-enabled surveillance systems, electronic warfare and quantum-enabled sensing. The trend toward scalable, software-centric, and low-cost modular systems has thereby created a sizeable opportunity for young and dynamic R&D-centric defence tech companies to play a vital role in Europe's rearmament.

These newly innovative companies are not displacing primes on large platforms, but they are injecting their disruptive innovation into the broader ecosystem—often in partnership with established contractors, as defence primes are increasingly investing in and establishing strategic development partnerships with defence start-ups[8]. As a result, younger defence, security, and resilience ventures have substantially scaled their revenues frequently winning public tenders. In 2025, German defence start-ups Quantum Systems, Helsing and Stark Defence, for example, received significant government orders for drone systems. Consequently, growth in the combined enterprise value of European defence technology firms has been staggering (see Chart 4). Europe now boasts several defence start-ups with a "unicorn" valuation of more than €1 billion each[9].

Unlike traditional major platforms, many next-generation defence technologies are iterative, data-driven and hardware-light. They frequently rely on rapid prototyping, high-performance computing, secure data processing and specialised electronics labs rather than large-scale heavy manufacturing. Hence, from a real estate standpoint, defence start-ups typically favour flexible, high-specification R&D environments: secure office-lab hybrids with proximity to research institutions, access to venture ecosystems and accelerators - scalable space that can also accommodate rapid headcount growth. These ventures' space-demand profiles therefore differ significantly from traditional government facilities or heavy industrial campuses, often closely resembling what would traditionally be life science R&D or lab space.

Chart 4: Europe - Defence Venture EV by Valuation*



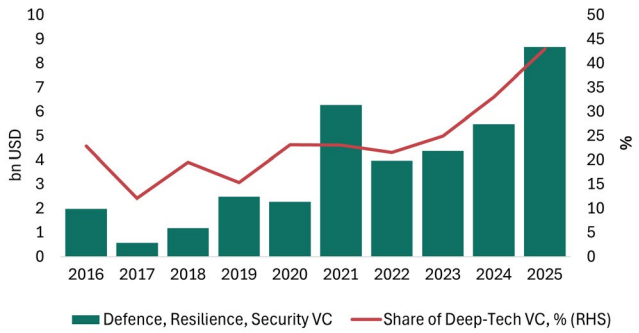
Source: Dealroom.co, BNPP AM Alts, data as at April 2026;
Note: Includes ventures valued at up to $10bn; Includes Defence, Security and

6 - Bruegel (March 2026): Reforming European defence procurement to boost military innovation and startups
7 - FT.com (August 2025): Europe builds for war as arms factories expand at triple speed
8 - Dealroom.com and Nato Investment Fund (February 2026): Defence, Security and Resilience in Europe
9 - FT.com and Pitchbook (September 2025): Europe's defence tech start-ups attract investment surge

Defence Ventures' Attraction to Private Capital

Private capital's response to the European defence market's evolution and growth potential has been outstanding. Defence-focused venture capital (VC) funding has reached record levels, both globally and within Europe. European start-ups focused on defence and related technologies saw investment soar by 58% year-on-year to a record $8.7 billion in 2025. Defence-focused enterprises thereby absorb a substantial share of overall European deep-tech VC flows. In 2025, approximately 43% of all European deep-tech venture funding and 13% of all European VC funding was directed toward defence-, security- and resilience-related technologies[10]. (see Chart 5).

Chart 5: Europe - Defence VC Funding*



Source: Dealroom.co, NIF, BNPP AM Alts, data as at February 2026;
Note: Includes Defence, Security and Resilience

Moreover, the number of unique VC firms active in European defence technology has expanded materially, amounting to 941 in 2025, up from 362 in 2019, suggesting that the asset class is becoming increasingly accepted by a growing number of less specialized mainstream VC investors[10]. Nevertheless, many European financial institutions continue to face restrictions requiring respective technologies to be considered dual use rather than solely for military purposes. An increasing share of VC funding has hence also come from outside Europe, mostly North America, as the sector matures and attracts larger funding rounds.

AI and advanced (quantum) computing applications continue to dominate defence-focused VC funding allocations, followed by Biotech and Human Enhancement. AI in particular has rapidly gained strategic importance, including at the government level. In the UK, for example, AI is the single most important area of government R&D, likely continuing to crowd in significant amounts of VC targeting this deep-tech sector.

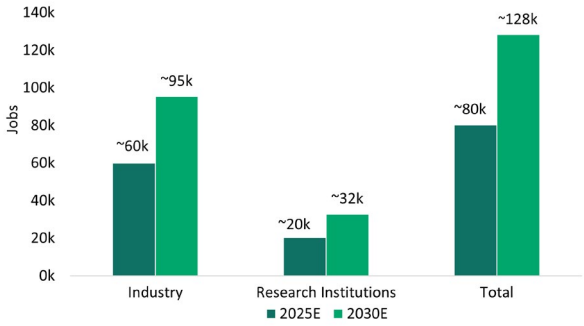
10 - Dealroom.com and Nato Investment Fund (February 2026): Defence, Security and Resilience in Europe

Quantifying European Defence R&D Space Requirements

At the industry-wide level, Europe's defence and aerospace sector employs roughly one million people. Historically, approximately 6% of these employees occupy R&D-specific technical roles[11]. This would imply a current base of approximately 60,000 defence-focused corporate R&D positions. According to publicly available data, research institutions—including Germany's Fraunhofer-Gesellschaft and the UK's Defence Science and Technology Laboratory—account for an additional estimated 20,000 defence-R&D-specific roles.

If we assume defence corporates' R&D hiring activity was in line with cash R&D spending growth projections of approximately 10% per annum to 2030 and European governments' public institution hiring activity was in line with overall defence spending growth, according to our main scenario, accounting for 2.9% of GDP by 2030 across European NATO members. In such a case, Europe could plausibly experience a 50% to 60% cumulative expansion in defence-related technical R&D roles over the next five years to 2030, which would equate to approximately 50,000 additional defence-focused R&D and engineering roles across Europe by 2030 (see Chart 6). Small, but rapidly growing defence-focused start-ups growing their employee bases at a pace faster than 20% per annum since 2021 could mean that Europe's defence-focused R&D employment growth may be meaningfully stronger than that.

Chart 6: Europe - Technical Defence R&D Job Growth



Source: BNPP AM Alts, as at February 2026

Spatially, R&D personnel are more space-intensive than typical office workers. Estimates based on data by the UK's Defence Science and Technology Laboratory suggest average space requirements of approximately 40 square metres per R&D technician for laboratory space, testing areas, secure rooms, and collaborative environments[12]. On this basis, estimated incremental European defence R&D hiring could cumulatively generate demand for more than two million square metres of additional R&D and lab space across Europe and across public and private entities by 2030.

Relative to aggregate European office take-up, those potential additional R&D space demands equate to roughly 2% to 5% of expected cumulative office space absorption over the same period. Hence, while modest at a continental scale, the impact at city level—particularly within concentrated hubs—could be material.

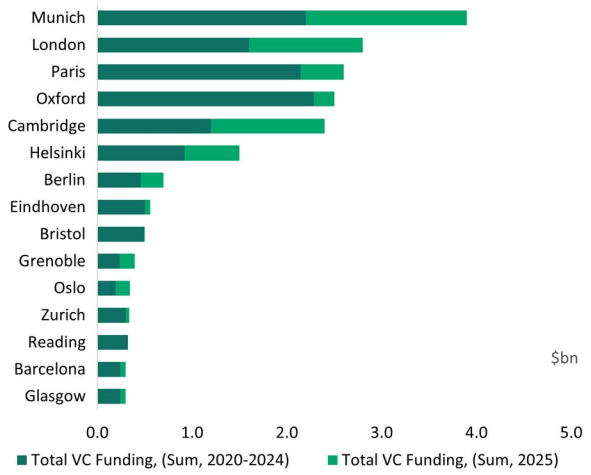
11 - Goldman Sachs (May 2025): Germany—A Manufacturing Boost from Higher Defence Spending?
12 - Defence Science and Technology Laboratory (2025): Annual Report and Accounts 2024-2025

R&D Property Market Expansion Potential

VC investment remains an important leading indicator of future laboratory and R&D space requirements. UK data specific to life sciences VC suggests that £1 billion of VC investment tends to generate approximately 230,000 square feet of lab space demand over the following 12 to 18 months. That said, looking at defence VC flows into Europe, the geographic allocation of defence VC funding appears to reinforce established European innovation clusters.

From 2020 to 2025, the UK attracted the highest cumulative defence VC funding, with Germany coming second and France ranking third. Germany, the UK and France also represented 68% of total defence-focused VC funding raised in 2025. Within the UK, Oxford, London, Cambridge and Bristol rank among Europe's leading hubs for defence VC investment. On the continent, Paris, Grenoble, Munich and Berlin feature prominently among Europe's major defence venture capital destinations. Secondary innovation centres—including Helsinki, Eindhoven and Grenoble—are emerging as specialized hubs for quantum technologies, advanced computing and other deep-tech disciplines (see Chart 7).

Chart 7: Europe - Defence Tech VC Funding by Market



Source: Dealroom.co, BNPP AM Alts, data as at February 2026

Combining defence-focused and broader deep-tech VC flows with national defence R&D funding trajectories and the number of operating defence innovation hubs (e.g., NATO accelerator sites, dedicated research institutions, defence primes' R&D sites) present in each market, one can gain a more complete picture of which markets might disproportionately benefit from growth in defence-specific R&D and innovation related employment.

By ranking major European gateways, as outlined in Table 1, Munich, Paris, London and Berlin appear particularly well positioned to capture incremental defence R&D and innovation space demand. These cities combine strong government funding linkages, established defence corporates, deep venture ecosystems and defence-research-intensive public institutions. Some secondary markets—including Bristol, Eindhoven, Stockholm and Helsinki—also exhibit favourable characteristics. In these locations, defence R&D demand may represent a more visible share of total space absorption given smaller overall market sizes. However, the extent to which sound fundamentals convert into specific R&D ecosystem expansion will also depend on factors such as improvements in the complexity and duration of public tender processes, the efficiency of government decision-making and the effectiveness of public–private cooperation. Delays in public procurement or subsidy disbursement could slow hiring and space take-up, while streamlined processes could accelerate cluster formation[13].

The Next Phase of Europe's R&D Real Estate

The boundaries between life sciences, defence innovation and the broader deep-technology sector are becoming increasingly porous. Many defence technology start-ups operate at the intersection of multiple disciplines - including artificial intelligence, advanced materials, quantum computing and biotechnology - requiring laboratory-style facilities alongside secure digital infrastructure. Consequently, traditionally understood R&D and laboratory property may increasingly benefit from spillover demand originating in adjacent defence and deep-tech sectors. Research facilities designed for life science and biotechnology applications can often accommodate activities such as synthetic biology, advanced materials testing, or quantum sensing development, particularly when configured as flexible laboratory environments.

At the same time, venture capital-backed defence, AI, quantum, cyber security and advanced technology companies typically progress through multiple stages of growth, creating demand for a broad range of property types. Early-stage firms often favour incubators, innovation campuses and flexible business parks that provide access to shared infrastructure, talent pools, and collaborative ecosystems. As these companies scale, demand increasingly extends to high-quality office space capable of accommodating software engineers, data scientists and research teams, alongside specialised dry-lab, prototyping, and testing facilities. Consequently, rising investment into defence and deep-tech sectors has the potential to push occupier demand across a wide spectrum of innovation-oriented real estate, benefiting not only laboratory assets but also modern offices, flexible business parks and mixed-use R&D environments located within established technology clusters.

The European R&D real estate market might hence be entering a new phase as the expansion of defence and deep-tech ecosystems both supports and diversifies traditional R&D property demand. For instance, defence-focused AI natives have started to compete for best-in-class lab and office space, facing a rapidly growing number of life science-focused AI natives, as the growing integration of artificial intelligence into biomedical research has also started to affect laboratory space demand. This trend is set to intensify as funding for AI-focused life sciences companies reached record levels in 2025, with global investment exceeding USD 10 billion—approximately 76% higher than in 2024[14].

13 - Lake Star, Walden Catalyst and Dealroom.co (March 2025): The 2026 European Deep Tech Report
14 - Cushman & Wakefield (February 2026): Life Sciences Update

Table 1: Europe - Defence Tech R&D Ecosystem Growth Potential

Rank		Current Government Defence R&D Spend (m USD)	Government Defence R&D Spend Growth to 2030F (% p.a.)	Defence VC Investment '20-'25 (m USD)	Deep-Tech VC Investment '20-'25 (m USD)	Dedicated Defence R&D Hubs (#)
		National		Market		
1	Munich	4,650	13%	3900	5,493	6
2	London	3,237	8%	2800	16,300	3
3	Paris	2,196	9%	2600	8,634	9
4	Berlin	4,650	13%	700	2,718	3
5	Oxford	3,237	8%	2500	3,164	0
6	Cambridge	3237	8%	2400	5,000	0
7	Bristol	3,237	8%	498	676	5
8	Stockholm	269	13%	197	10,637	2
9	Eindhoven	404	13%	558	1407	1
10	Reading	3,237	8%	323	339.3	2
11	Helsinki	62	8%	1500	2322.2	2
12	Oslo	151	9%	344	802.3	2
13	Amsterdam	404	13%	238	671.6	1
14	Rotterdam	404	13%	95	798	0
15	Madrid	548	12%	13	581	5
16	Copenhagen	16	9%	296	1,119	2

Source: OECD, Dealroom.co, J.P. Morgan, NATO, NIF, Lake Star, Walden Catalyst, hello tomorrow, BNPP AM Alts, data and forecasts as at March 2026

Note: Public Defence R&D Spending Level for 2023/24 by OECD, Public Defence R&D Funding Growth Forecast by J.P. Morgan (Defence spending average), Market/Wider Region Defence Venture Capital by Dealroom.co , Deep Tech Venture Capital Overall by Dealroom.co, Lake Star, Walden Catalyst and hello tomorrow, # R&D Hubs for each market include the count of Defence Corporation R&D Hubs, NATO accelerator site, public defence R&D research centre

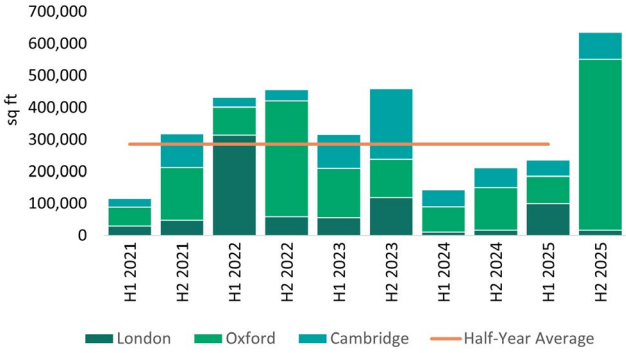
Visible R&D Space Demand growth

The surge in defence-focused R&D space demand comes at a time when often overlapping life science laboratory space demand is just about to re-accelerate. For instance, life science sector-specific survey evidence among industry leaders points to a strengthening outlook. Deloitte research indicates that approximately 90% of biopharmaceutical executives in Europe and Asia expect business conditions in 2026 to be either positive or cautiously positive[15].

More recently, policy developments have contributed to stabilising life science industry expectations. Entering 2026, uncertainty surrounding potential US pharmaceutical policy changes has somewhat eased following agreements between several major pharmaceutical companies and the US government. Meanwhile, national policy initiatives are also reinforcing Europe's life sciences ecosystem. The UK, in particular, has introduced measures designed to strengthen its position as a global hub for pharmaceutical innovation. These include a roughly 25% increase in the price that the National Health Service (NHS) is willing to pay for innovative branded medicines, alongside a reduction in the minimum clawback tax rate applied to pharmaceutical companies from 23.5% to approximately 14.5%. In addition, the UK's exemption from pharmaceutical tariffs under recent trade arrangements is set to further reduce regulatory uncertainty[16].

That said, the UK's key hubs, London, Cambridge and Oxford appear exceptionally well positioned not only to capture imminent upside in life science demand but also to benefit from a wave of defence- and deep-tech-led occupier demand for R&D space more broadly. In the fourth quarter of 2025, for instance, laboratory take-up within the Golden Triangle exceeded 500,000 square feet - the strongest quarterly performance recorded in more than a decade (see Chart 8). While this figure was driven by a relatively limited set of transactions, market data continues to suggest that laboratory space occupier demand is recovering as momentum carries into 2026. Automated laboratories and growing requirements for dry laboratory space from AI, robotics and advanced manufacturing groups are becoming increasingly significant sources of leasing activity.

Chart 8: UK Lab Space Take-up



Source: CBRE, C&W, BNPP AM Alts, data as at March 2026

15 - Deloitte (February 2026): 2026 Life Sciences Outlook
16 - FT.com (December 2025): NHS to increase medicines spending to avoid threatened Trump tariffs

European defence R&D has entered a structurally expansionary phase, underpinned by rising public budgets, revenue-driven corporate R&D growth, venture capital mainstreaming, and a dynamic start-up ecosystem. The multiplier effect between public subsidies and private R&D spending amplifies this trajectory. Defence technology is emerging as one of Europe's fastest-growing sectors, driving a major re-architecture from hardware-heavy arsenals to software-defined capabilities.

In aggregate, the resulting additional R&D and innovation space requirement—potentially amounting to two million square metres by 2030—could become a meaningful incremental real estate demand driver across European innovation hubs. Defence R&D property is operationally specialised and geographically concentrated. But for investors prepared to navigate regulatory complexity, security requirements and ecosystem dynamics, defence-related R&D space may evolve into an increasingly relevant sub-segment of Europe's innovation-driven real estate universe.

More broadly, however, the accelerating expansion of Europe's defence, security and resilience ecosystems has the potential to become an increasingly important source of occupier demand across the wider innovation real estate universe. While specialised laboratory and R&D facilities are likely to be among the most direct beneficiaries, the implications extend far beyond traditional science property. Growing demand for engineers, software developers, data scientists, researchers and highly skilled technical personnel is expected to push absorption of modern, best-in-class office space, flexible, scalable business parks, innovation campuses and mixed-use research environments. Beneficiaries of Europe's technological modernisation are, therefore, not limited to a narrow set of assets but will increasingly include a much broader range of high-quality innovation-oriented real estate positioned to support the next generation of European research, engineering and technology-led growth.

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