RESEARCH & STRATEGY, ALTS

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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH



PART FOUR: IMPACT OF DEFENCE SPENDING RAMP UP ON RESIDENTIAL REAL ESTATE

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Europe's shift towards sustained defence rearmament is creating a new and increasingly relevant demand driver for residential real estate. Following decades of underinvestment, NATO members are entering a multi-phase defence spending cycle that extends beyond military capability to influence employment patterns, demographic change and housing demand across a number of European markets. Initially, defence budgets are concentrated on procurement and the replenishment of equipment inventories, supporting industrial and logistics activity near established defence manufacturing clusters. However, as immediate capability gaps are addressed, spending is expected to diversify towards advanced technologies and research & development, including artificial intelligence, cyber defence, autonomous systems and advanced communications. This transition is driving growth in high-skill employment concentrated within a limited number of defence and innovation hubs across the UK, France and Germany, creating incremental residential demand in urban markets that are already characterised by housing undersupply and strong population growth.

Alongside this employment-led dynamic, a second and increasingly important transmission channel is emerging through military personnel expansion and the modernisation of Europe's defence estate. Rising defence budgets are expected to support investment beyond rearmament in military bases, barracks, accommodation and supporting infrastructure as governments transition towards more permanently based forces and greater operational readiness. Across Europe's major military hubs in Germany, the UK and France, as well as emerging centres in Italy, Spain and Eastern Europe, base expansion and accommodation upgrades are creating stable, localised housing demand that extends beyond military estates into surrounding private residential markets. Together, these trends suggest that defence rearmament is becoming an increasingly important structural influence on housing demand across a select group of European cities, defence clusters and military communities.

"Europe's rearmament cycle is no longer just an industrial and commercial story. As defence spending diversifies from hardware procurement to high-tech employment, permanent basing and military estate renewal, it is becoming a more visible structural driver of housing demand across selected cities, defence clusters and military communities, creating selective opportunities to modernise ageing stock and deliver new-build accommodation at scale."

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Unlocking Residential investment opportunities

Europe's shift towards sustained defence rearmament is fundamentally reshaping its economic and industrial landscape, with considerable implications for future employment, regional economies and residential real estate demand. Following decades of underinvestment, NATO countries are now committing to materially higher defence spending, marking the beginning of a multi-phase investment cycle, with the impact unfolding sequentially as the composition of spending evolves.

In the near term, national defence budgets are primarily focused on procurement as countries rebuild depleted equipment inventories and restore operational readiness. This phase disproportionately benefits capital intensive sectors such as manufacturing, supporting demand for industrial and logistics space located in proximity to defence manufacturing clusters. The direct impact on housing demand at this stage is expected to be limited, as employment growth is typically absorbed within existing production networks. The increase in output is being driven by capital deployment, automation and incremental hiring rather than large scale employment inflows.

Once immediate capability gaps are addressed, spending is expected to shift increasingly toward defence technology and research & development (R&D). Investment in areas such as artificial intelligence, cyber defence, autonomous systems and advanced communications is likely to strengthen innovation ecosystems and support high skill employment and technological spillovers. This phase expands the real estate opportunity to include science parks, research campuses and technology focused office environments concentrated across Europe's main defence hubs which is expected to translate more directly into additional residential demand, as skilled workers cluster in and around already supply constrained urban markets.

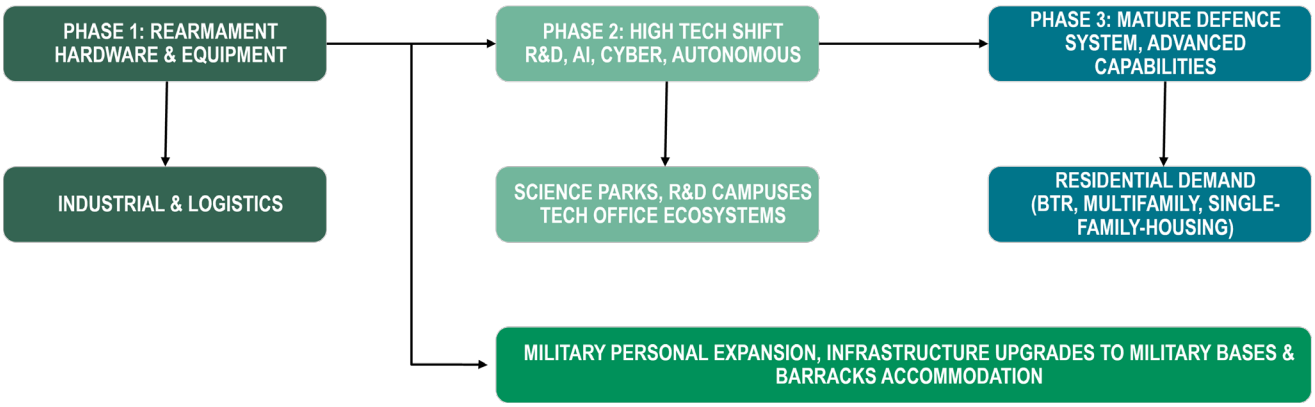
The second parallel transmission channel emerges as Europe's rearmament cycle translates into renewed investment in both military manpower and the physical defence estate. While aggregate military headcount has remained broadly stable, spending per soldier is rising, reflecting a shift toward more capital intensive, permanently based forces. As rearmament progresses, spending extends beyond equipment into base modernisation, accommodation upgrades, training facilities, logistics and personnel support infrastructure with policy signals across NATO pointing to a selective uplift in military personnel and a greater focus on readiness, retention and domestic basing. Moreover, the European Defence Agency highlight that defence investment exceeded €100 billion in 2024, with infrastructure and facilities forming a growing share of this spend as countries address under capacity at existing bases and adapt them for new operational requirements. Investment in barracks and military housing often involves higher density accommodation and improved living standards which allows for longer posting durations and strengthens retention. This dynamic is generating sustained demand for both on base military accommodation and surrounding private residential stock.

Urban Defence Clusters: Concentrated Growth in Supply Constrained Markets

The residential impact of Europe's defence rearmament is expected to unfold sequentially, broadly mirroring the transition from procurement led activity to R&D expansion and the resultant evolution in defence needs.

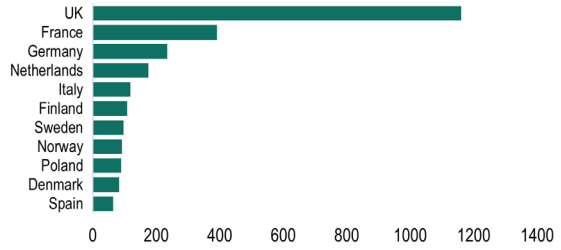
As the cycle progresses and investment shifts toward innovation and advanced technologies, the residential impact is expected to become more pronounced. High skill employment growth is concentrated within a number of key defence clusters located in and around several gateway and tier 2 cities that host headquarter offices, engineering centres and R&D focused space for Europe's largest defence firms and therefore represent key nodes for future employment and local housing demand. Leading defence companies within these sectors are heavily concentrated across the UK, boasting around 1,200 defence companies, France (c.400) and Germany (c.240).

Chart 1: European Defence Spending to Real Estate Sector Impact Timeline



Source: National Defence Associations, BNPP AM Alts, data as at 2023

Chart 2: Number of defence related companies



Source: BNPP AM Alts, data as at 2022

In the UK, defence employment is predominantly clustered across London and the South which host corporate headquarters, programme management and R&D functions for BAE Systems, Rolls Royce, MBDA and QinetiQ, benefiting from proximity to government, capital markets and deep technology and highly skilled labour pools. Stevenage and the wider Hertfordshire-Cambridge corridor anchor missile systems and advanced engineering activity (MBDA), while Portsmouth supports naval systems and defence services. Moreover, Bristol in the South West, serves as a major aerospace and defence engineering hub led by Rolls Royce.

In France, defence activity is similarly anchored across major cities, underpinned by high levels of domestic procurement and long-term state planning. Paris and the wider Île de France region function as the administrative, R&D and systems integration core, hosting major operations of Thales and Dassault Aviation, alongside defence electronics, cyber and satellite technology clusters. Toulouse forms the centre of France's aerospace and defence ecosystem through Airbus Defence and Space, while Bordeaux and south west France support naval systems and defence technology activities.

Germany's defence sector is concentrated in Southern Bavaria and North Rhine Westphalia (NRW), regions that already face strong housing demand from broader industrial and technology activity. Munich and southern Bavaria anchor aerospace and defence technology through Airbus Defence and Space, while Düsseldorf and the wider NRW region host Rheinmetall's headquarters and core engineering operations, spanning land systems and ammunition.

A number of these leading defence firms have begun to expand their workforces aggressively, with some increasing headcount by 20-40%. Moreover, recent corporate guidance suggests this momentum is expected to continue, with estimates indicating that if defence spending across Europe rises to an average of 2.9% of GDP around 624,000 additional jobs could be required, predominantly concentrated in the UK, France and Germany. The metropolitan hubs within these markets already exhibit structural housing undersupply and strong population growth, while incremental demand from defence related employment, particularly high skilled engineers and technicians may therefore reinforce existing long-term growth and support institutional residential investment themes such as multifamily, build-to-rent and single-family-housing accommodation.

Beyond gateway cities, the spatial footprint of Europe's defence manufacturing and logistics networks suggest that some secondary regional clusters may experience some of the most visible housing impact, as defence manufacturing is typically distributed across specialised towns where large production sites and testing facilities operate. Moreover, industrial transformation is also fostering labour reallocation opportunities, particularly in regions where traditional manufacturing sectors such as automotive and heavy industry are experiencing declines. For instance, Germany's automotive sector has shed around 260,000 jobs since 2020, creating a potential pool for redeployment into defence manufacturing. Projects such as Rheinmetall's plan to convert Volkswagen's former plants into facilities for combat vehicles exemplify these opportunities, blending industrial revitalisation with defence capacity expansion. However, from an institutional perspective, defence employment led housing demand outside of tier 1 and 2 cities is highly fragmented, often with limited depth or durability, thereby carrying higher underwriting complexity, making these types of investments more opportunistic rather than strategic within a long-term core portfolio allocation.

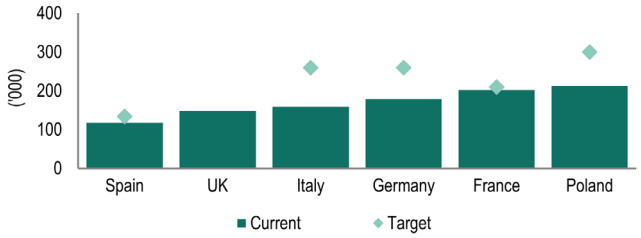
Military Estate Modernisation: A Structural Place Based Housing Driver

The second structural dimension of defence related housing demand relates to the physical expansion and modernisation of Europe's military estate, including bases, barracks and personnel accommodation. Much of Europe's existing military infrastructure was constructed during the Cold War and is widely regarded by governments and defence agencies as no longer fit for purpose, particularly in terms of density, quality of accommodation and readiness to support larger, more permanently stationed forces. As European governments increase armed force numbers, training capacity and equipment deployment, upgrading living accommodation has emerged as a parallel priority alongside procurement, driven by concerns around recruitment, retention and operational effectiveness. These pressures are intensifying as several countries re-expand military manpower. Latvia, Lithuania and Croatia have all reintroduced conscription for men while Demark expanded its existing conscription model to include women, explicitly increasing demand for barracks and training accommodation. Additionally, Germany, the Netherlands, Belgium, Italy, France and the UK have announced new or expanded voluntary military service schemes to bolster recruitment to meet NATO force targets.

Moreover, a number of large-scale base expansion projects across Europe illustrate how defence modernisation is now translating into place-based infrastructure and housing demand. In Romania, the Mihail Kogălniceanu Air Base near the Black Sea is undergoing a €2.5 billion multi stage expansion that will transform the site into one of NATO's largest hubs. The base is being developed as a "military city", with capacity to host around 10,000 permanent personnel, alongside logistics, storage and support functions. Similarly, in Lithuania, the European Investment Bank approved a €540 million loan to finance the construction of a new military base at Rūdninkai, south of Vilnius, designed to host a permanently stationed German brigade. The project will span 170 hectares and include approximately 150 buildings, comprising residential units, medical centres, training facilities, warehouses, hangars and internal road networks. Across Europe, these projects point to a structural shift away from smaller, rotational bases toward larger, more permanent installations with integrated accommodation components, reinforcing the relevance of defence infrastructure investment as a long term driver of local housing demand. Critically, the impact and

investable opportunity associated with this shift are unlikely to be distributed evenly across the continent. Instead, they will be most pronounced within Europe's largest and most mature military hubs, Germany, France and the UK, which already host the majority of Europe's military personnel, civilian defence employment and legacy defence estates, and which sit at the centre of announced force expansion and modernisation plans.

Chart 3: Current & Target Active Military Personnel (Army, Navy, Airforce)



Source: International Centre for Defence & Security, International Institute for Strategic Studies, Defence 24, Reuters, France 24, BNPP AM Alts, data as at 2025-2026

Germany: Strategic NATO and US Force Nodes

Germany's military landscape is entering a phase of structural expansion and physical modernisation, underpinned by long term Bundeswehr force growth plans and unprecedented fiscal reforms enacted under the Zeitenwende in February 2022. Unlike previous defence cycles, current policy explicitly links personnel expansion, base readiness and accommodation quality, materially increasing the residential relevance of defence clusters. This shift reflects a move away from episodic deployment towards permanently anchored, high readiness forces with sustained infrastructure and housing requirements.

Western Germany forms Europe's most significant NATO basing corridor, anchored by US and allied infrastructure. Ramstein Air Base in Rhineland Palatinate remains Europe's largest US military community and a critical hub for NATO air operations, logistics, command and medical evacuation, with its strategic role intensifying since 2022 amid NATO's reinforced posture. While housing expansion budgets are not publicly itemised, the scale and permanence of personnel presence point to ongoing upgrades to accommodation, logistics and community infrastructure, reinforcing off base housing demand. North Rhine Westphalia (NRW) complements this with a dense concentration of defence industrial and logistics activity, anchored by Rheinmetall's headquarters and engineering operations, and is expected to play a growing command-support and mobilisation role as Germany expands mechanised brigades and munitions production within already supply constrained Rhine Ruhr housing markets.

In Northern and Central Germany, defence investment is focused on training and operational readiness. The German Army Combat Training Centre (GÜZ) in Saxony Anhalt is undergoing a €61 million modernisation programme awarded to Rheinmetall to integrate digital command systems, advanced communications and 5G enabled infrastructure, positioning the area as a permanent multinational NATO training zone rather than a rotational facility. This evolution shifts demand from episodic troop inflows to continuous personnel presence, raising long term requirements for flexible rental housing facilities both on base and in peripheral and secondary markets located around these facilities.

Southern Germany, particularly Bavaria, plays a dual industrial and operational role, hosting major Bundeswehr bases alongside Airbus Defence and Space facilities that support air, space and missile defence capabilities. This regional importance is magnified by Germany's personnel growth plan, which targets an expansion from c.180,000 active soldiers to around 260,000 by 2035, alongside a substantial reserve build up. Given Bavaria's acute housing undersupply, this expansion is likely to translate directly into private rental and suburban family housing demand, rather than being absorbed by on base accommodation alone. Across all regions, the €100 billion Bundeswehr special fund and the parallel €500 billion infrastructure programme, coupled with wider use of PPPs for base upgrades, provide the fiscal and delivery framework to drive this modernisation over the medium term.

The UK: Extensive Network with Modernisation Drive

The UK's defence estate is increasingly configured around permanent basing, retention and lived experience, materially strengthening its transmission into local housing markets. This shift is anchored by the Defence Housing Strategy 2025, backed by £9 billion of investment over the next decade, following the buy back of approximately 36,000 service family homes into public ownership. Together, these measures mark the most significant reset of UK military housing policy in over 50 years and signal a move away from episodic deployment towards long duration household formation tied to major bases.

Salisbury Plain (Wiltshire) remains the core land forces hub in southern England, encompassing Tidworth, Bulford, Larkhill and Perham Down. The Army Basing Programme has already consolidated personnel returning from Germany into this "super garrison", supported by extensive investment in barracks, single living accommodation, family housing, training and community infrastructure. While the main rebasing phase concluded in 2020, Salisbury Plain continues to feature prominently in the Ministry of Defence's estate renewal pipeline, with ongoing upgrades to accommodation quality, sustainability and services. Its proximity to Hampshire, Oxfordshire and London commuting corridors increases the likelihood that personnel growth and retention policies translate into off base rental and family housing demand.

Along the South Coast, naval infrastructure modernisation is reinforcing defence led urban demand. HM Naval Base Portsmouth is undergoing targeted regeneration focused on upgrading accommodation, expanding jetties and modernising the wider estate to support high tempo fleet operations and improved resilience. While longer term investment decisions remain subject to future defence reviews, Portsmouth's role as the home of the Royal Navy makes it a priority for sustained infrastructure funding. Furthermore, Plymouth (Devonport), while less defined by a single headline programme, is increasingly embedded within defence led regional growth initiatives, linking naval capability, skills development and local regeneration.

In the North and Midlands, investment is similarly reinforcing permanent basing. Catterick Garrison, the largest British Army garrison in Europe, is undergoing a c.£90 million expansion of Marne Barracks to accommodate the relocation of the 21 Engineer Regiment, alongside new accommodation, workshops, sports and community facilities. In parallel, RAF Coningsby, one of only two UK Quick Reaction Alert stations is delivering a £28 million

airfield upgrade to support Typhoon fast jet operations, reinforcing its role as a continuously staffed operational base. While some programmes are operational rather than housing led, the UK estate strategy increasingly combines base modernisation with long term personnel presence, creating durable, place based residential demand, particularly in already supply constrained regional markets.

Chart 4: Key Military Bases in Europe



Source: PMA, BNPP AM Alts, data as at 2024

France: Strategic Bases and Public-Private Partnership Frameworks

France's military infrastructure is highly concentrated in a limited number of permanent, large scale hubs, making defence investment particularly relevant for local housing markets. Unlike the UK or Germany, France has already operationalised a nationwide, housing led PPP model through the "Plan Ambition Logement", providing a clear and derisked transmission channel from base modernisation into residential demand. The programme, delivered via a 35-year NOVÉ concession joint venture between Eiffage and Arcade VYV, involves c.€2.3 billion of capex to renovate around 8,000 homes and construct roughly 3,000 new units across 55 sites, expanding the serviced military housing stock to c.15,000 units by 2029, with professional management and high environmental standards.

In Ile de France (IDF) region, the defence footprint is anchored by the Balard Armed Forces Complex, which houses the joint headquarters of the Army, Navy, Air & Space Force and the Ministry of the Armed Forces. This concentration of senior military, civilian and contractor employment reinforces housing demand in a region where supply is structurally constrained. IDF is a core beneficiary of the NOVÉ pipeline, directly linking defence command functions with the delivery of modernised and infill military housing, while also supporting spillover demand into adjacent civilian rental and ownership markets.

In Provence Alpes Côte d'Azur, Toulon Naval Base, the largest military port in Europe and home to around 20,000 military and civilian personnel is undergoing multi billion euro, multi decade modernisation. Investment includes new basins, quay extensions, nuclear qualified infrastructure and industrial port zones to support next generation aircraft carriers, submarines and surface combatants. The scale and permanence of this programme, explicitly relying on public-private partnerships and concession style delivery, reinforces sustained demand across military accommodation, civilian family housing and defence linked logistics sub markets in an already land constrained coastal region.

Elsewhere, France's air and space posture is driving targeted but high impact base expansion. Luxeuil Air Base in the Grand Est has been formally designated a pillar of France's airborne nuclear deterrent, with a confirmed €1.5 billion investment to host two Rafale F5 squadrons and next generation nuclear capability by the mid 2030s, nearly doubling on base personnel. In Occitanie, Toulouse has reactivated Air Base 101 as France's first Base Aérienne à Vocation Spatiale, co located with CNES (French National Centre for Space Studies) and acting as the operational hub for military space activities, with staffing expected to rise to around 500 by 2030. Together, these developments underscore France's combination of force expansion, base permanence and mature housing delivery mechanisms, making it one of the most structurally residentially exposed defence markets in Europe.

Military Hubs Outside the Core Markets: Emerging but Localised Housing Dynamics

Beyond the UK, France and Germany, a number of secondary European military hubs are emerging as more localised sources of residential demand, driven primarily by the expansion of military personnel presence and defence estate modernisation. A defining feature of these markets – particularly in Southern Europe – is the role they play as hosts of NATO operations and US military presence, reinforcing long term demand linked to strategic infrastructure.

In Italy, the armed forces comprise c.160,000 active personnel but its strategic importance is amplified by hosting the second largest US troop presence in Europe. This is anchored across a network of joint and NATO integrated bases, including Naval Air Station Sigonella (Sicily), Aviano Air Base (Friuli-Venezia Giulia), and Camp Darby (Tuscany). Alongside these, La Spezia (Liguria) and Taranto (Apulia) act as key naval hubs supporting Mediterranean operations, with La Spezia alone hosting over 10 military installations, including submarine command and testing functions. These assets reflect Italy's central role in NATO's southern flank and Mediterranean security architecture. Air power is further concentrated at Amendola Air Base, supporting next generation aircraft deployment, while army bases are distributed across the north east (Veneto, Friuli) and central regions (Lazio, Emilia-Romagna). While overall headline troop growth remains modest, the consolidation of joint NATO/US operations is reinforcing a stable, high density military footprint, supporting persistent housing demand around these nodes, particularly as accommodation and infrastructure are upgraded.

In Spain, defence infrastructure is similarly shaped by NATO integration and strategic geography with c.120,000 active personnel supported by a significant allied presence. The country plays a pivotal role along NATO's "southern gateway", controlling access between the Atlantic and Mediterranean.

The Cádiz region, centred on Naval Station Rota, is one of the most significant shared US-Spanish bases in Europe, hosting c.9,500 personnel, alongside a broader multinational and support population. The base is undergoing phased expansion linked to the deployment of additional US naval assets. Nearby, Morón Air Base (Seville) functions as a key transatlantic logistics and rapid response hub capable of hosting a number of US personnel alongside Spanish air force operations. Additional clusters in Cartagena (naval), Zaragoza (air force logistics and training), and Madrid (command and administrative functions) create a distributed but strategically interconnected network of bases across the country.

Across both Italy and Spain, military infrastructure is concentrated in coastal, semi-regional and secondary urban locations rather than primary metropolitan centres. This spatial distribution is particularly relevant for housing markets, which tend to be smaller, less liquid and more supply constrained than those in Northern Europe. As defence spending increasingly targets base expansion, barracks modernisation, accommodation upgrades and infrastructure investment, housing demand is likely to materialise in adjacent municipalities and local catchments rather than major gateway cities.

Housing options suitable for both military and defence related workers

Housing demand linked to military and defence activity is increasingly diverse, reflecting a workforce that spans civilian engineers, software developers, analysts, researchers, long-stay contractors, military personnel and accompanied families. R&D innovation ecosystems are likely to attract highly skilled and mobile workers who place a premium on proximity to employment hubs, transport infrastructure and research institutions. In these locations, multifamily, build-to-rent (BtR) and flex-living accommodation is particularly well suited to younger professionals, project-based workers and households relocating between defence employers, while larger suburban rental properties and single-family housing (SFH) become increasingly relevant as workers transition into long-term residency and family formation. Alongside this employment-led demand, on base solutions remain operationally critical, particularly Single-Living Accommodation (SLA) for unaccompanied personnel and Service Family Accommodation (SFA) for military households, but these are increasingly complemented by off base housing. Around major military installations, suburban SFH remains the preferred housing option for longer-term family postings, while many defence authorities now explicitly rely on private rental provision where on base supply is insufficient, formalising off base housing as part of the core accommodation strategy.

A major constraint across Europe is the poor condition of legacy military housing stock, much of which suffers from damp, mould, outdated services and in older post war buildings; asbestos. Refurbishment programmes are therefore unavoidable from a health, safety and morale perspective but they are often cost inefficient and value defensive. Deep refurbishment frequently requires heavy strip out, asbestos remediation, envelope replacement and compliance upgrades that can trigger thresholds equivalent to major reconstruction, eroding the apparent cost advantage versus a new build. Even after extensive investment, refurbished stock typically underperforms new accommodation on energy efficiency, digital readiness and long-term operating costs, limiting its strategic appeal beyond short term risk mitigation.

By contrast, new build accommodation, whether on base or off base allows defence authorities to address multiple objectives simultaneously. High quality new construction supports modern space standards, professional onsite management, stronger community design, and superior amenities, while embedding digital connectivity, resilience and low carbon performance from the outset. This is especially important as military postings become longer and defence work increasingly overlaps with civilian and hybrid roles. From a lifecycle perspective, new build offers greater predictability of costs and performance, even if upfront capex is higher.

Where accommodation is delivered on base or in close proximity to sensitive assets, specialised military design features can materially affect cost. These can include counter terrorism and force protection measures such as hardened facades and glazing, progressive collapse resistance, enhanced roof specifications

Chart 5: Housing Options for Military and Defence-Related Workers

Demand group	Single-Living Accommodation	Single-Family Housing	BTR / multifamily	Flex-living	Mid-market / affordable
Single military personnel Operational accommodation; mobility and readiness	●	○	●	●	●
Accompanied military families Longer postings; schools and community needs	○	●	●	○	●
High tech defence worker Urban clusters, R&D campuses and commuting corridors	○	●	●	●	●
Contractors Flexible, professionally managed rental accommodation	○	●	●	●	●

● Core fit ● Complementary ○ Limited / not primary

Key message

Defence-related residential demand spans operational accommodation, family housing and professionally managed private rental formats.

Source: BNPP AM Alts analysis July 2026

and secure power and data infrastructure. These requirements typically increase build and fit out costs relative to civilian BTR or SFH, but they are far more efficiently achieved in purpose built schemes than retrofitted into legacy stock. The emerging best practice is therefore a mixed delivery model, involving retaining and selectively refurbish existing homes where unavoidable, but prioritise new build military accommodation and defence oriented BtR to support retention, readiness, and long-term value.

Strategies for investment and development

For real estate investors and developers, the evolving defence spending landscape necessitates a more targeted and adaptive investment strategy, reflecting the uneven and increasingly concentrated nature of defence led growth. As investment accelerates across a selective number of "winning" cities with strong defence clusters, capital is shifting away from broad diversification toward focused exposure in high growth urban markets. This approach allows investors to capture outsized residential demand driven by high skill employment growth, particularly as spending transitions toward R&D and advanced technologies. In these locations, strategies centred on BtR, multifamily, flex-living and mixed-use developments – aligned with innovation ecosystems such as science parks and research campuses – are well positioned to benefit from sustained population inflows and workforce mobility. However, success in these markets requires careful integration with local infrastructure and planning frameworks, as rapid growth can exacerbate affordability pressures and strain urban services.

Alongside these urban opportunities, a complementary investment pathway is emerging within base adjacent and defence estate markets where demand is underpinned by military personnel expansion and accommodation upgrades. Unlike R&D driven demand, which is more cyclical and linked to innovation cycles, military housing demand is inherently stable, place based and policy supported, often tied to long term basing decisions and government backed income streams. This supports a range of strategies, including single-living accommodation, single-family housing, multifamily and affordable housing. Increasingly, governments are also exploring public-private partnership models and the redevelopment of surplus defence land and military homes to unlock new and refurbished housing supply at scale, creating opportunities for institutional capital to participate in long dated, quasi-infrastructure residential investments.

A balanced portfolio approach combining growth oriented urban residential exposure with defensive, income stable military adjacent housing offers the most effective way to capture the full spectrum of defence driven demand. This dual track strategy provides diversification across the defence cycle, linking medium term employment growth with longer term structural demand tied to permanent military presence. At the same time, ESG considerations are becoming central to delivery, with increasing emphasis on energy efficient design, community integration and affordability, ensuring that residential development supports both economic growth and broader social outcomes in rapidly evolving defence driven markets.

European defence rearmament represents a long-term structural shift that is extending well beyond its traditional industrial footprint, increasingly influencing patterns of employment, population distribution and housing demand. While early-stage investment is concentrated in procurement and industrial production, the subsequent transition toward high-tech R&D and defence innovation is driving more pronounced impacts through the creation of high skill employment concentrated in a limited number of urban clusters.

At the same time, a parallel and more structurally anchored driver is emerging through the expansion and modernisation of military personnel, bases and accommodation. As countries move toward more permanent basing models and invest in the quality and capacity of defence estates, housing demand becomes increasingly tied to specific geographic locations. This results in a dual transmission mechanism, where urban markets are shaped by employment driven demand linked to innovation ecosystems, while base adjacent locations experience stable, long duration demand associated with military presence and infrastructure investment.

Across both channels, a common theme is the interaction between incremental demand and existing supply constraints. In many of the cities and regions most exposed to defence driven growth, housing systems are already under pressure, with limited capacity to respond quickly to rising demand. As a result, defence spending is likely to reinforce existing structural imbalances in residential markets, highlighting its growing relevance as a factor shaping housing dynamics across Europe.



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