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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH



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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH

PART ONE: MACRO - IMPACT OF DEFENCE SPENDING RAMP UP ON EUROPEAN REAL ESTATE

By **Justin Curlow**, Global Head of Research & Strategy
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Europe is experiencing a major fiscal and geopolitical shift after decades of reduced defence spending following the Cold War, resulting in an estimated USD 1.6 trillion in capability gaps. In response, defence spending across Europe is rising rapidly. NATO's European members increased spending from around 1.4% of GDP in 2022 to just over 2% in 2024, and the alliance now targets 3.5% by 2035. Major economies such as Germany, France and the United Kingdom are leading this adjustment, supported by policy changes that allow for sustained increases in military expenditure. The economic impact of this rearmament cycle will unfold sequentially as the composition of spending evolves. In the near term, defence budgets are focused on procurement as countries rebuild depleted equipment inventories. Spending on ammunition, artillery systems, air defence and military vehicles primarily benefits capital-intensive manufacturing sectors such as aerospace, naval shipbuilding and land systems, along with their supply chains in metals, electronics and specialised engineering. Over time, once immediate capability gaps are addressed, spending is expected to shift increasingly toward research and development. Investment in areas such as artificial intelligence, cyber defence, autonomous systems and advanced communications can

strengthen innovation ecosystems and support high-skill employment and technological spillovers. The broader macroeconomic impact depends partly on the defence spending multiplier, which estimates suggest ranges from roughly 0.3 to close to 1.0 depending on domestic production capacity and import leakage. As Europe expands domestic manufacturing and procurement, this multiplier could increase. For real estate, these dynamics create a significant investment opportunity. Early procurement spending supports demand for industrial and logistics assets near defence clusters, while the longer-term shift toward R&D is likely to benefit science parks, research campuses and technology-focused office environments in Europe's main defence hubs.

"Europe's transition from decades of underinvestment in defence toward greater strategic autonomy represents one of the most significant fiscal turning points in recent history, with far-reaching consequences for growth, industry and real assets"



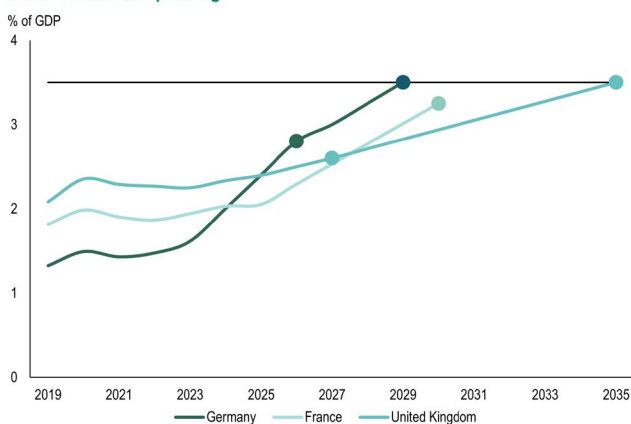
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Europe is shifting from defence underinvestment to sustained rearmament

For more than thirty years, Europe relied upon a US security guarantee and therefore benefitted from savings on defence. While the need for increased self-reliance has long been recognised, tangible steps have only gained momentum in recent years. This shift in mentality is fuelled by several geopolitical factors: the move from Western dominance toward a multipolar world order, the ongoing long-term commitment to the Ukraine conflict, and the energy security vulnerabilities of relying on Russia revealed by the war. The structural underinvestment in defence created material gaps in air defence systems, artillery stocks, munitions capacity and integrated command infrastructure. The war in Ukraine exposed these vulnerabilities. Since 2022, defence budgets have risen across nearly all European countries. The most pronounced increases have occurred in states geographically closest to Russia, including Poland and the Nordic countries. In 2024, NATO European countries were spending just over 2% of GDP on defence (\$476 billion), up from 1.4% in 2022¹. The new NATO benchmark for core defence expenditure has been lifted to 3.5% of GDP by 2035 — broadly in line with US spending levels — leaving a considerable gap to close and opening a raft of investment opportunities.

Chart 1: Defence spending



Source: NATO, French Senate, France Stratégie, UK Spending Review, German Finance Ministry, BNPP AM Alts, data as at January 2026

Germany, historically cautious in fiscal and military matters, has already undertaken a particularly significant shift. Following constitutional reform of its debt brake, defence spending above 1% of GDP is exempted from fiscal constraints, enabling it to reach NATO's 3.5% target by 2029². France has called for the annual military budget to rise between 3 and 3.5% of GDP by 2030³, while the United Kingdom has committed to raising spending to 2.5% from its current 2.3% (2024) by 2027⁴. The macroeconomic and real estate effects of this adjustment depend critically on how this spending is allocated, financed and absorbed by Europe's industrial base. But what is clear is that there will be a material impact and resultant investment opportunity.

Equipment-led spending and industrial bottlenecks will shape the impact on growth

Recent increases have been concentrated in equipment purchases, which have more than doubled since 2022, including artillery systems, ammunition and air and missile defence systems, drones and advanced communications technologies. Personnel costs represent another large share, while operations and maintenance form a substantial but less growth-intensive component. Infrastructure spending, including bases and transport adaptation, accounts for a smaller fraction of core budgets but carries potential spillovers into construction and real estate. However, Europe's defence industrial base faces structural bottlenecks. Production capacity for ground-to-ground ammunition, artillery systems and missiles is limited. Lead times have lengthened since the pandemic, and the European defence industry remains highly fragmented. Unlike the United States, where defence contractors consolidated significantly after the Cold War, Europe continues to support multiple parallel production lines across member states. This fragmentation reduces scale efficiencies and increases costs, limiting rapid expansion of output. As a result, a meaningful share of defence procurement since 2022 has been sourced outside Europe (78%)⁵. Given limited domestic capacity and long production cycles, a significant share of incremental European defence spending will continue to be sourced externally in the near term. However, more recent evidence suggests a rising domestic and European share of new orders in Germany, with estimates placing the import share closer to one-third. Domestic content is likely to increase further as European manufacturers expand capacity and integrate supply chains and policymakers aim to limit import shares to around 50% over time, implying a gradual strengthening of European domestic production capabilities and placing an emphasis on domestic sovereignty.

Fiscal considerations to influence investment pace and ultimate quantum

Beyond the question of Europe's ability to increase domestic defence production, a key concern is whether it has the financial capacity to sustain such an expansion. Although EU initiatives like ReArm Europe and SAFE aim to support coordination and financing of increased defence spending, most funding will still be sourced at the national level. As

the EU, being primarily a monetary union rather than a fiscal one, will continue to rely on sovereign issuance rather than joint borrowing to finance these efforts. While defence spending supports growth in certain economies, it also increases sovereign borrowing requirements. Germany's fiscal expansion is expected to raise its average annual growth rate above potential in coming years. However, the transmission of higher German yields to other Euro area countries may worsen debt dynamics in more indebted economies such as France and Italy. Higher German borrowing costs are likely to result in a net increase in projected debt-to-GDP ratios in countries with limited growth uplift. This divergence reinforces a core-periphery dynamic. Countries with fiscal room and domestic defence manufacturing capacity are likely to capture both the growth benefits and industrial transformation associated with rearmament. Countries with constrained budgets may face

1 - NATO, BNPP AM Alts, data as of June 2025

2 - BMVG, BNPP AM Alts, data as at November 2025

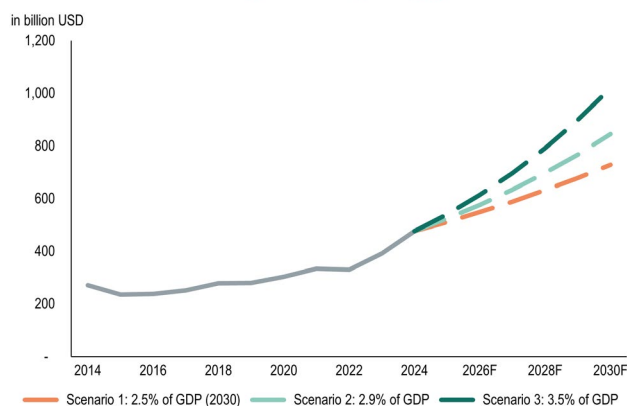
3 - French government, October 2025

4 - House of commons, BNPP AM Alts, data as at October 2025

5 - NATO, BNPP AM Alts, data as of June 2025

the trade-off between defence commitments and other public spending priorities. Spain, for example, has been less inclined to increase defence spending aggressively. Over time, if European-level coordination improves and cross-border procurement expands, fragmentation may decline, increasing efficiency and raising multipliers. However, such institutional reforms remain uncertain and face the traditional European bureaucracy.

Chart 2: Estimated NATO Europe defence spending by 2030



Source: NATO, JPM, AXA IM Alts, data as at Aug 2025, calculations based on 2024 GDP

Defence clusters in Germany, the UK and France expected to be the largest beneficiaries of global defence scale up

Based on announced national defence targets across NATO Europe, we have estimated the likely increase in defence spending over the next six years. While our starting point is individual country commitments, we have adjusted projections in certain cases to reflect fiscal constraints and political feasibility. For example, in Germany — given current budget plans and available fiscal headroom — we consider it realistic that defence expenditure could rise to 3.5% of GDP by 2030, in line with official announcements. In contrast, for countries such as Italy, we view a doubling of defence expenditure as fiscally challenging and instead expect spending to rise more moderately, reaching around 2% of GDP by 2030. In line with this, we consider a rise in NATO Europe's average defence spending to approximately 2.9% of GDP by 2030 to be a plausible baseline scenario. This would imply annual spending growth of roughly 10% and cumulative additional expenditure exceeding \$1 trillion over the period. We have also modelled both upside and downside scenarios to reflect uncertainty regarding fiscal capacity, political commitment and macroeconomic conditions.

A key implication of this ramp-up is that the largest European economies — and particularly those that are already major defence exporters — are likely to be the primary beneficiaries. The E3 of the United Kingdom, France and Germany stand out given their scale, industrial depth and established defence ecosystems and are estimated to account for almost 60% of the additional overall defence spending.

Key European defence manufacturing hubs



Source: PMA, BNP Paribas AM Alts, data as at March 2025

Airspace and defence electronic

- France: Nouvelle-Aquitaine - Dassault Aviation, Airbus Defence & Space & Colombes - Safran
- Germany: Munich - Airbus DS, MTU Aero Engines & Stuttgart - Hensoldt
- UK: Bristol - Thales, Rolls Royce

Armoured vehicles & land systems

- France: Roanne - KNDS
- Germany: Kassel - KNDS
- UK: wider Manchester - MBDA & Telford - Rheinmetall

Cyber defence, space & emerging tech

- UK: South-East/London - MBDA, Serco, Leonardo, BAE
- Germany: Munich - Helsing, Hensoldt & Dusseldorf - Rheinmetall
- Spain: Navantia - Madrid
- Italy: Milan - Leonard

Missiles air defence systems

- France: Toulouse: Thales & Loire Valley - MBDA
- Switzerland: Zürich - Rheinmetall
- UK: Reading - Atomic Weapons Establishment, Thales
- Germany: Konstanz - Diehl

Naval & shipbuilding

- UK: Glasgow - BAE Systems, Thales, Babcock International & Barrow-In-Furness
- Italy: Lombardy - Fincantieri
- Spain: Cadiz & Cartagena - Navantia
- France: Cherbourg and Lorient - Naval Group
- Germany: Kiel - TKMS & Bremen - Lürrsen, Atlas Electronics

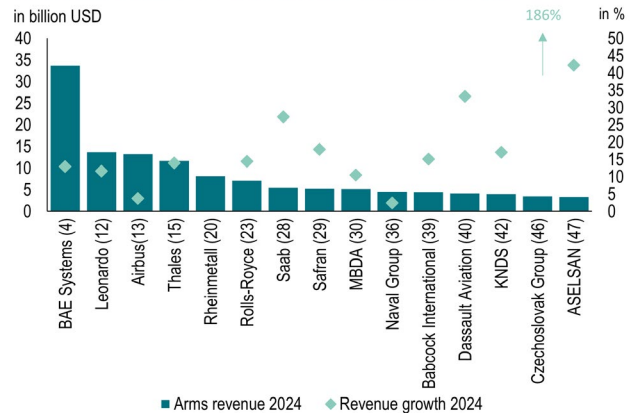
Small arms & ammunition

- Germany: Nott: Karlskoga h-Rhine Westfalia - ThyssenKrupp
- Sweden: Saab
- Czech Republic: Prague - Czechoslovak Group

By 2030, the defence industry is estimated to require 624,000 additional workers across Europe

Scaling up production presents significant challenges. The European defence sector is already operating at high capacity utilisation rates, and workforce availability is becoming a binding constraint. Between 2021-2024, leading defence companies have expanded hiring notably. Safran, Saab and BAE Systems have for example expanded their workforce by around 20%, while Rheinmetall has increased employment by roughly 40%⁶. Recent corporate guidance suggests that this hiring momentum will continue in the near term. Job postings in 2025 were 41% above 2021 levels while the broader job market, by comparison, has dipped slightly below its 2021 benchmark⁷. However, the sector faces particular shortages in highly technical and digital skill sets, including engineering, cybersecurity and advanced manufacturing. These shortages are structural and reflect broader European labour market trends. At the same time, there is meaningful overlap between defence manufacturing and other industrial sectors, notably automotive and metal industries. This creates opportunities for labour reallocation, particularly in countries where traditional manufacturing is under pressure. Germany illustrates this dynamic. Since 2020, the German manufacturing sector has lost approximately 260,000 jobs⁸, around half of which were in the automotive industry. Policymakers are actively seeking to redeploy parts of this industrial base — including closed production sites — toward defence manufacturing. One high-profile example under discussion is the potential conversion of Volkswagen's Osnabrück and Dresden plants by Rheinmetall for the production of combat vehicles such as the KF41 Lynx infantry fighting vehicle. While not yet finalised, such initiatives highlight the potential for industrial repurposing beyond traditional defence clusters. Currently, an estimated one million workers are employed across the European defence industry, including both direct employment and indirect jobs within supply chains. Given the strong historical correlation between equipment spending and employment, we have estimated the labour implications of our baseline scenario. If defence spending rises to an average of 2.9% of GDP by 2030, the industry could require approximately 624,000 additional workers across Europe. The largest employment increases would likely occur in the UK, France and Germany. In the short term, the bulk of additional defence spending is expected to focus on rebuilding equipment inventories and addressing years of underinvestment. This will primarily benefit capital-intensive industries such as aerospace, naval shipbuilding and land systems manufacturing.

Chart 3: European arms companies (Top 50 global ranking)



Source: SIPRI, BNPP AM Alts, data as at Feb 2026, () = global rank

Spending focus to evolve over the years

The economic effects of rising defence expenditure tend to unfold gradually and reflect the composition of spending over time between procurement, manufacturing and research and development (R&D). In the initial phase of a defence expansion, fiscal resources are primarily directed toward procurement contracts for equipment, vehicles, munitions and infrastructure. This stage typically stimulates activity in capital-intensive manufacturing sectors because defence procurement relies on extensive supply chains spanning metals, electronics, advanced materials and specialised engineering. According to various research papers military expenditure historically transmits first through industrial production, particularly through firms directly involved in equipment manufacturing and component supply⁹. Early spending cycles disproportionately increase output in industrial sectors closely tied to national defence supply chains. These procurement-driven effects are usually concentrated geographically around existing manufacturing clusters and defence contractors where production capacity, supplier networks and technical expertise already exist, reinforcing established industrial ecosystems.

Over time, however, the composition of defence spending is likely to evolve. Once immediate equipment shortfalls are addressed, the strategic focus increasingly shifts toward innovation and technological modernisation. A growing share of defence budgets tends to be directed toward research, development, testing and evaluation, supporting next-generation capabilities such as autonomous systems, drone and counter-drone technologies, advanced cyber defence, artificial intelligence and digitally integrated weapons platforms. This transition changes the economic transmission channel from production-led growth toward innovation and knowledge creation. Studies of defence-related R&D show that public investment in military technology often generates broader technological spillovers into civilian industries¹⁰. Increases in government-funded defence R&D can stimulate additional

6 - SIPRI, company accounts, BNPP AM Alts, data as at August 2025

7 - Indeed job postings, data as at June 2025

8 - Destatis, BNPP AM Alts, data as at August 2025

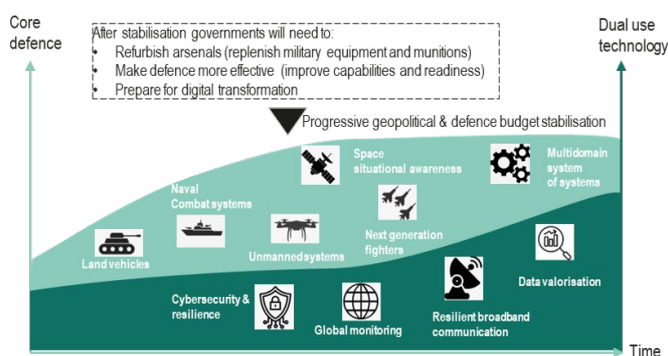
9 - Ramey, Valerie (2019): Ten years after the financial crisis: What have we learned from the renaissance in fiscal research; Olejnik, Anton (2023): The economic effects of defence procurement in Europe, BNPP AM Alts, data as at March 2026

10 - Moretti, Enrico; Steinwender, Claudia; Van Reenen, John (2021): The intellectual spoils of war? Defence R&D, productivity and international spillovers, BNPP AM Alts, data as at March 2026

private innovation within related industries, highlighting how defence research can act as a catalyst for wider technological progress. Analyses of defence innovation ecosystems similarly emphasise the role of military R&D in strengthening research networks, universities and specialised technology firms, thereby supporting the development of high-skill employment and knowledge-intensive industries¹¹. Consequently, while the early phase of the spending cycle tends to favour traditional heavy manufacturing and defence supply chains, the medium- to longer-term impact increasingly benefits high-technology, digital and cybersecurity segments within the broader defence ecosystem.

In addition, the rearmament cycle differs from conventional fiscal stimulus in both duration and strategic intent. The impact of defence spending persists over many years, driven by geopolitical imperatives rather than short-term demand management. This durability increases the likelihood that firms respond by expanding productive capacity, deepening supply chains and investing in technological innovation, thereby supporting longer-term productivity and industrial development. At the same time, the structural nature of defence investment implies that economic benefits will not be evenly distributed. Growth effects will accrue primarily in regions where domestic industrial ecosystems, technological capabilities and skilled labour markets allow defence production and innovation to scale effectively, while import leakages, fragmentation and fiscal constraints may limit spillovers elsewhere.

Chart 4: From defence to dual use global security



Source: Leonardo Industrial Plan 2025-2029; BNPP AM Alts, data as at Sep 2025

For real estate markets, these dynamics imply a staged and differentiated impact. In the early phase, procurement-led spending reinforces demand for industrial facilities, advanced manufacturing space and logistics infrastructure located near defence production clusters. As defence investment increasingly shifts toward R&D and technological capabilities, demand is more likely to expand in segments linked to innovation ecosystems, including science parks, research campuses, laboratory facilities and high-quality office environments associated with technology development and specialised engineering. For investors, this suggests that the long-term real estate implications of defence spending

are inherently selective: industrial and logistics clusters in countries such as Germany, the United Kingdom and France appear structurally advantaged in the early stages, while R&D-linked real estate and technology infrastructure may increasingly benefit as innovation spending becomes a larger component of defence budgets.

Higher domestic procurement is lifting multipliers, though spillovers remain limited

Estimates of the defence spending multiplier in Europe vary considerably in the literature, reflecting differences in methodology, financing assumptions and import content. Broad macro models tend to show moderate effects, while some EU-wide studies suggest stronger short-term impacts, with a 1%-of-GDP increase in defence outlays potentially lifting output by more than 1% over the first two years, albeit with significant cross-country variation. By contrast, simulations by the European Commission indicate more modest gains, with a 1.5%-of-GDP increase associated with roughly a 0.5% cumulative GDP uplift over several years¹². Private-sector estimates lie between these ranges with some initially assuming a multiplier of around 0.3, reflecting high import leakage, but suggests it could rise toward 0.7–1.0 as domestic capacity and R&D spillovers expand¹³. Importantly, spillovers across the Euro area appear limited, implying that benefits will be concentrated in countries with large domestic defence industries. Monetary policy responses and the composition of spending are also key: R&D investment tends to generate stronger and more persistent effects, with evidence suggesting that a 10% increase in public defence R&D can crowd in 5–6% additional private R&D, supporting longer-term productivity gains. Overall, defence spending is likely to support growth in Europe, but the magnitude and durability of the effect depend on domestic sourcing, financing and the broader macroeconomic environment.

11 - Brunel, Claire; Levinson, Arik (2022): Military R&D and innovation spillovers; Kiel Institute (2024): guns and growth: the economic consequences of surging defense spending, BNPP AM Alts, data as at March 2026

12 - European commission: The economic impact of higher defence spending, BNPP AM Alts, as at May 2025

13 - J.P. Morgan: Euro area: Defence spending set for a higher multiplier, Goldman Sachs: European Daily: Germany – Why we remain optimistic on the fiscal rollout, BNPP AM Alts, data as at October 2025

Europe's transition from peace dividend to strategic autonomy represents a profound fiscal and industrial transformation. The scale of defence rearmament is significant, with targets implying sustained increases in expenditure over the coming decade. Empirical evidence suggests that multipliers may be higher than initially assumed, particularly where domestic capacity expands and R&D spillovers materialise. Yet spillovers across countries remain modest, and fiscal divergence is likely to persist.

For European real estate markets, the implications are real but selective. Industrial, logistics and innovation-oriented assets in fiscally robust countries stand to benefit most directly. Broader property markets will be influenced by the interaction between growth uplift and rising sovereign yields.

Ultimately, defence rearmament is not a uniform stimulus wave but a structural reconfiguration of Europe's economic landscape. Investors who understand the geographic concentration of multipliers, the composition of spending and the institutional constraints shaping fiscal execution will be best positioned to navigate this new environment.



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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 cyclicality. 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.

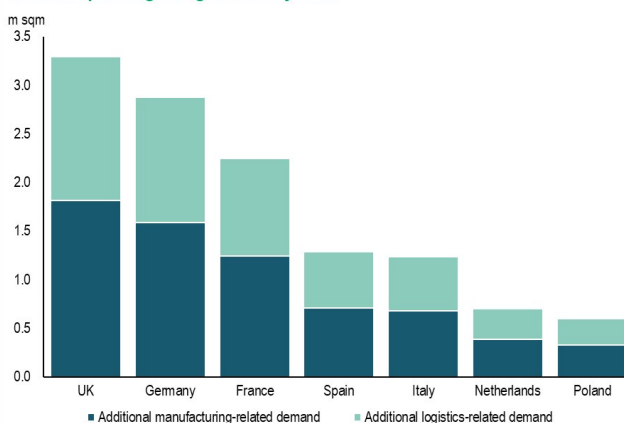
Estimating the scale of defence-related occupation of industrial and logistics space is complex, partly due to high levels of confidentiality, but also because many major manufacturers, such as BAE Systems, Leonardo, Safran and Thales, operate across multiple activities, many of which are only partly 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 Defence

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.

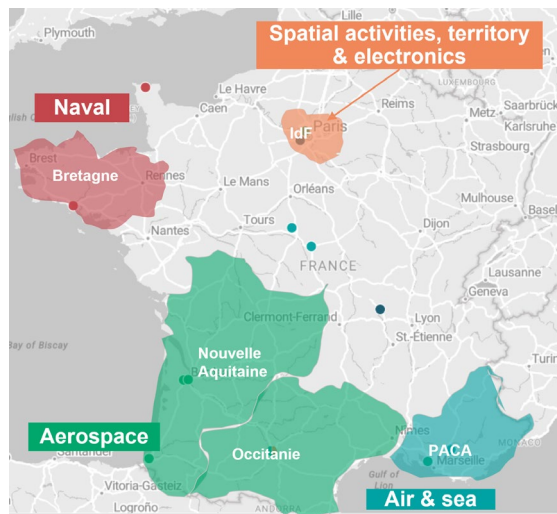
Ile-de-France is France's major defence cluster in terms of jobs, concentration of headquarters, number of SMEs and turnover. It is mainly specialised in high-technology activities for land intervention but also offers a large ecosystem for spatial and electronics and R&D research, with key occupiers 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 2025⁸. 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.

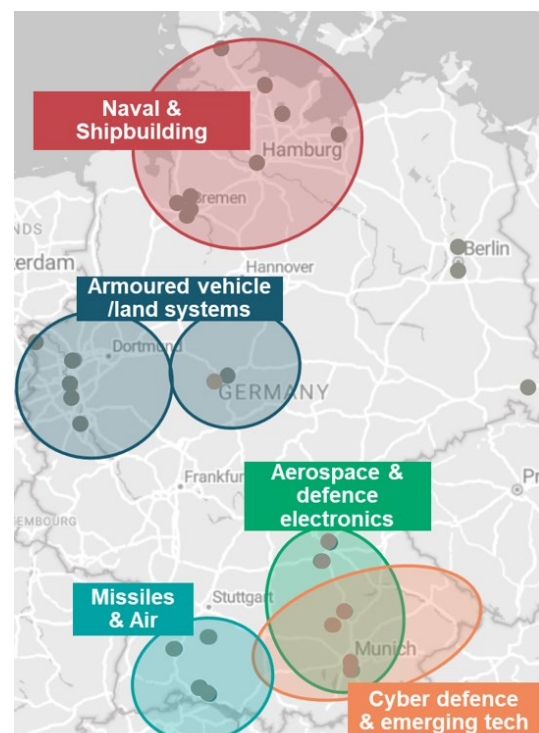
Late 2025 procurement approvals further reinforced western Germany's role, with increased spending on readiness critical systems including F 35A munitions, AI-enabled URANOS reconnaissance, infantry weapons, tactical mobility assets and drones. This wave of orders consolidates production, stockpiling 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.

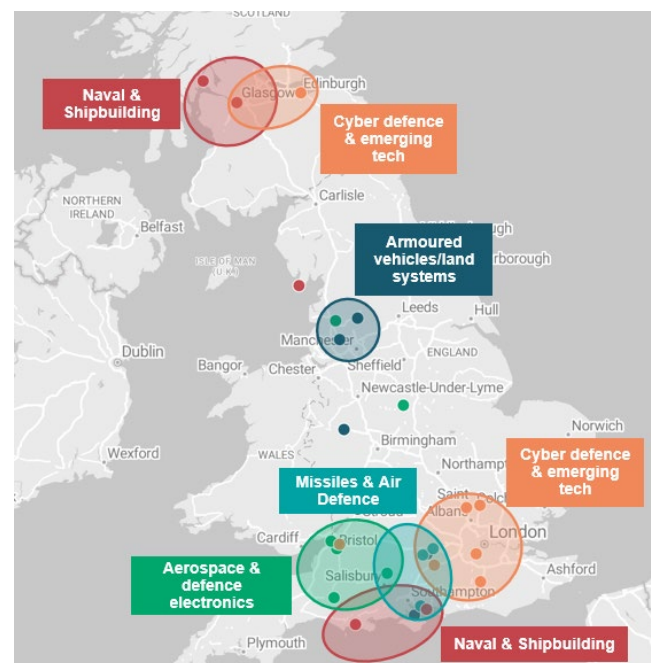
While the government has accepted the Strategic Defence Review 2025 (SDR) recommendation that the UK increase munitions stockpiles and move to an 'always on' munitions capability¹³, many defence programmes are very long-term, so not all sectors and locations will see the same growth at the same time. 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.

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.

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

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

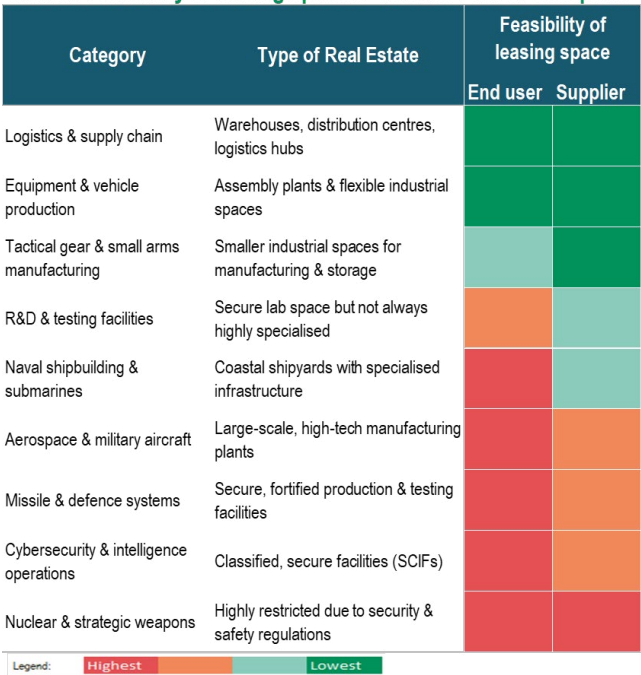
Expanding defence companies will need to determine whether to optimise or enlarge existing facilities or build new ones. Whilst the quickest way to boost output can be to expand existing facilities, this can be disruptive to the use of the current facilities and may not be optimal over the long term. 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



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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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH



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

By **Justin Curlow**, Global Head of Research & Strategy
& **Michael Obrist**, Senior Research Analyst

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"



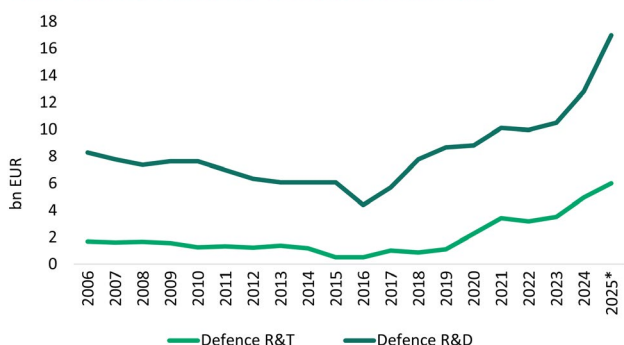
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Public Defence R&D Budgets: A Clear Acceleration

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 DIANA¹. 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

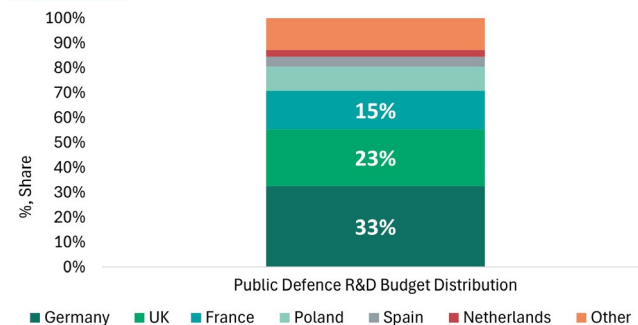
R&T as agreed by the Ministerial Steering Board in 2007, and 20% earmarked for European collaborative defence R&T, the combined annual budget for such collaborative initiatives could grow to amount to approximately €2.5 billion². Overall, recent survey evidence among EU and NATO officials, including 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 innovation³.

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 outlays⁴.

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 gains⁵.

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 macroecono-

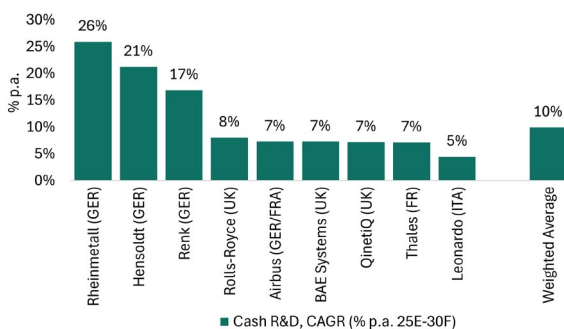
From a real estate perspective, the impact of these spillover effects is material. Government budget expansion does not simply translate into more activity within public R&D facilities; it cascades into corporate R&D departments, subcontractors, technology start-ups, and university partnerships. The 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 primes⁶. 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.

mic impacts of defence spending

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

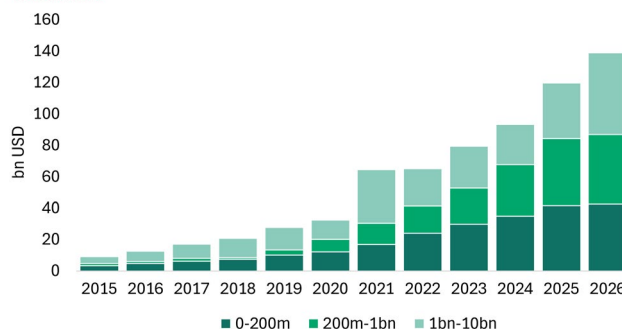
Defence Tech Evolution

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-ups⁸. 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 each⁹.

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

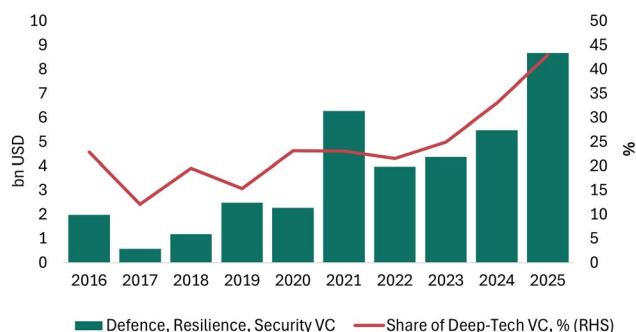
8 - Dealroom.com and Nato Investment Fund (February 2026): Defence, Security and Resilience in Europe

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 technologies¹⁰. (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 investors¹⁰. 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.

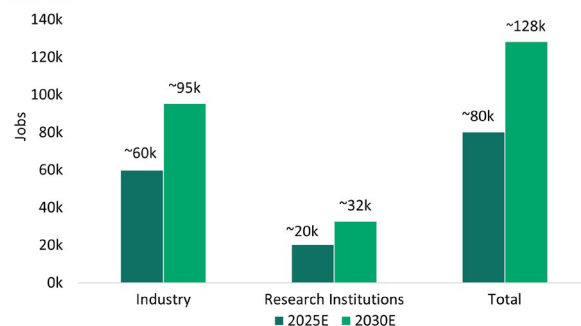
AI and advanced (quantum) computing applications continue to dominate defence-focused VC funding allocations, followed by Biotech and Human Enhancement. AI in particular has rapidly gained strategic importance, including at the government level. In the UK, for example, AI is the single most important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

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 roles¹¹. 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 environments¹². 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.

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

11 - Goldman Sachs (May 2025): Germany—A Manufacturing Boost from Higher Defence Spending?

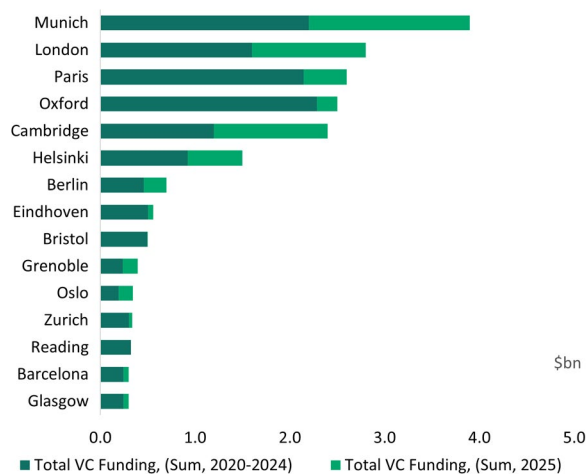
12 - Defence Science and Technology Laboratory (2025): Annual Report and Accounts 2024-2025

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 formation¹³.

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 2024¹⁴.

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

		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 (#)
Rank		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 positive¹⁵.

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 uncertainty¹⁶.

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.



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



By **Michael Obrist**, Senior Research Analyst



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SPOTLIGHT ON DEFENCE: ARMING FOR GROWTH

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

By **Justin Curlow**, Global Head of Research & Strategy
& **Max Wright**, Research Analyst

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

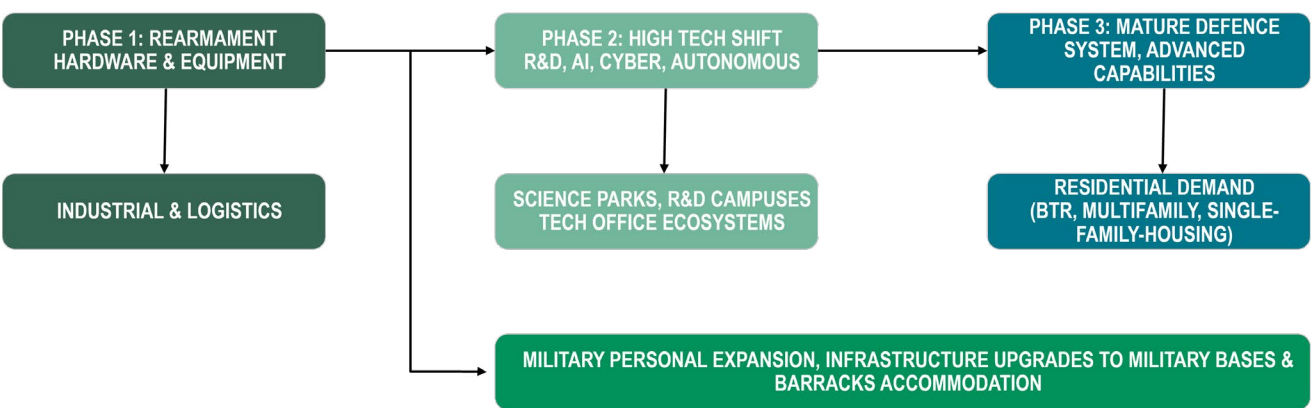
capital intensive, permanently based forces. As rearmament progresses, spending extends beyond equipment into base modernisation, accommodation upgrades, training facilities, logistics and personnel support infrastructure with policy signals across NATO pointing to a selective uplift in military personnel 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

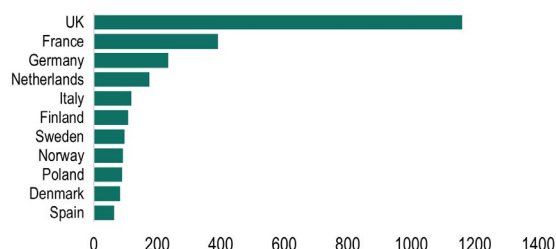
The residential impact of Europe's defence rearmament is expected to unfold sequentially, broadly mirroring the transition from procurement led activity to R&D expansion and the resultant evolution in defence needs.

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 Denmark 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.

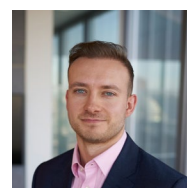
European defence rearmament represents a long-term structural shift that is extending well beyond its traditional industrial footprint, increasingly influencing patterns of employment, population distribution and housing demand. While early-stage investment is concentrated in procurement and industrial 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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