Future Gazing

Industrial and logistics for Europe's future

2025	Household growth and implications for the future of Europe's industrial and logistics sector	knightframe.com/research

KEY QUESTIONS

1

How will demographic changes impact demand for industrial and logistics space in Europe?

The growth in the number of households across Europe will drive increased demand for industrial and logistics space. In the UK, each household requires 10.1 sq m of such space. Based on EU growth forecasts, an additional 30 million sq m will be needed over the next five years. However, demand will vary due to differences in lifestyles, levels of urbanisation, and economic profiles across Europe.

2

How are changing lifestyles influencing the industrial and logistics sector?

The relationship between households and industrial space is evolving. In the UK, floorspace per household has increased from 9.5 sq m to 10.1 sq m over the past decade, driven by urbanisation, rising incomes, and increased online retail activity. As lifestyles across Europe continue to evolve and populations become more urbanised, demand for industrial and logistics space per household is expected to rise.

3

How will the growth of urban populations impact locational preferences within the logistics sector?

As urban populations grow, demand for logistics space near major cities will continue to rise. For example, Paris's expanding population is expected to drive demand for approximately 3.2 million sq m of additional logistics space, with 789,000 sq m needed within or near the city. Typically, 20-25% of industrial space is allocated for last-mile delivery within a hub-and-spoke model.

4

How are trade routes and shifting supply chains shaping logistics networks in Europe?

Logistics networks are influenced by consumer locations, infrastructure, and major ports such as Rotterdam and Antwerp. Key trade corridors, including the Blue Banana and Golden Banana, facilitate international supply chains. Poland and Central Eastern Europe are emerging as logistics hubs due to lower costs and expanding infrastructure. Major projects such as the Fehmarn Belt Fixed Link (2030) and the Rail-2-Sea Corridor (2029) will further enhance freight movement and increase logistics demand.

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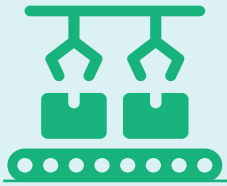

How does manufacturing contribute to the demand for industrial space?

Alongside household growth and trade, manufacturing is a major driver of demand. It will be a particularly important part of the market in economies more orientated toward manufacturing. In Germany, where manufacturing accounts for 23% of GDP, demand is significantly higher than in the UK, where manufacturing accounts for c.10% of GDP. The Czech Republic, where manufacturing represents 26% of GDP, sees 52% of industrial floorspace take-up driven by the sector.

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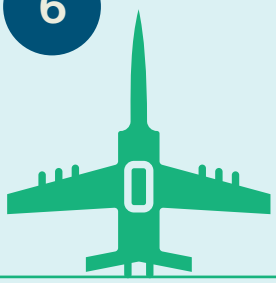

How will rising defence spending impact industrial and logistics demand?

Increased defence spending across Europe is set to boost demand for manufacturing space, particularly in aerospace, electronics, and high-tech sectors. Many European countries plan to increase defence budgets and military capabilities, which will require significant expansion of defence manufacturing capabilities. This shift will accelerate the growth of Europe's defence industry, strengthen key manufacturing clusters, and reshape industrial space demand.

Introduction

"Where we live, how much we earn, how we shop, what we spend our money on and how we spend our leisure time are all driving changes in our requirements of the industrial and logistics sector."

Europe's demographic landscape is shifting, with population growth, shrinking household sizes, and changing consumption habits influencing demand for industrial and logistics space. Although population growth in Europe has been modest compared to global trends, rising incomes and increasing consumption per capita have significantly impacted supply chains, driving demand for logistics facilities. Additionally, evolving lifestyle preferences, urbanisation, and the expansion of ecommerce have reshaped distribution models, necessitating the development of modern logistics infrastructure.

This report explores the implications of these demographic changes on logistics, retail, manufacturing, and trade, highlighting the evolving requirements for warehousing and supply chain networks across Europe.

Where we live, how much we earn, how we shop, what we spend our money on and how we spend our leisure time are all driving changes in our requirements of the industrial and logistics sector. Through exploring the changing nature of demand from the perspective of the household, this research aims to bring into focus the diverse nature of demand and better understand how requirements in terms of the uses, locations and facilities may change going forward.

Changing demographics of Europe

POPULATION GROWTH

The population of the Eurozone has grown by 6.9% over the past two decades. While these figure is modest compared to the 26% global increase, Europe has higher consumption per capita (than the global average), meaning that rising populations will have a larger impact on demand for goods and services, and the associated need for storage and distribution.

The rise in population and associated rise in higher consumption levels impacts the whole supply chain, with greater need for last mile delivery services, for fulfilment and distribution centres, and for manufacturing and assembly facilities.

Over the past ten years, the UK, Spain, France, Germany, Italy and the Netherlands have all seen robust population growth.

In the UK, where the population has risen by 8.7 million, or 5.9% over the past ten years, the rising demands of this population have meant that occupied industrial and logistics floorspace has increased by 17% over the past decade, as demand outpaced supply, leading to falling vacancy rates from 9.2% to 5.5% (2013-2023), and driving the development of new stock.

Looking ahead, the UK, Spain, and France are projected to continue leading population growth, with Ireland forecasted to have the highest percentage increase (10.8%).

> "In the past twenty years, the number of households in the Eurozone has risen 17.2%."

The growth of Europe's population will necessitate the delivery of new industrial and logistics space, particularly when one considers the near record-low vacancy rates and level of availability of existing stock in many markets. However, assessing the forecast rate of population growth alone fails to account for the impact of our shifting lifestyles, consumption habits and economic activity on demand for industrial and logistics floorspace across Europe.

SHRINKING HOUSEHOLD SIZES

Demographic shifts, including lower fertility rates and increased life expectancy, as well as changing lifestyle preferences are leading to changes to household structures and as a result, the average size of households is shrinking. The Eurozone's average household size fell from 2.43 persons (2003) to 2.22 (2023) and is expected to decline further to 2.09 by 2033.

Nordic countries, Germany, and the Netherlands have the smallest household sizes, with Finland having the lowest (1.96 persons), expected to decrease to 1.87 over the next decade.

In the past twenty years, the number of households in the Eurozone has risen 17.2%. Due to shrinking household sizes, these figures are considerably higher than those for population growth.

HOUSEHOLD GROWTH & LOGISTICS DEMAND

With shrinking household sizes and population increases, the number of households in Europe has grown significantly. This trend directly impacts logistics demand, as more households translate to more delivery points and a higher need for last-mile logistics facilities. Each new property is an additional delivery address; or an extra delivery point for logistics firms.

When considering demand for distribution, household numbers are therefore, in many ways, a much more valuable metric than population.

In terms of the outlook, the UK is expected to see the largest rise in household numbers over the next ten years, with an additional 2.35 million households forecast by 2033. This is followed by France, with 2.0 million additional households, Spain, with 1.3 million, Italy (734,000) and the Netherlands (500,000).

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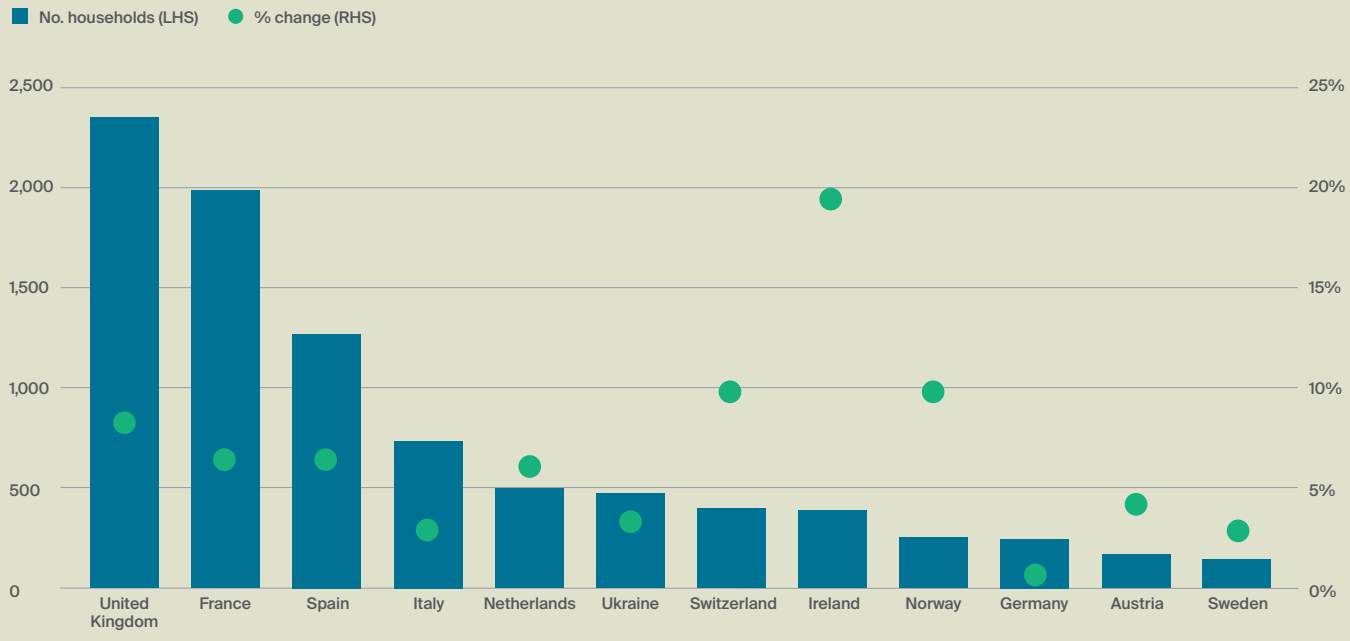
Demographic changes in Germany mean that despite a negative population growth forecast over the ten-year horizon, the number of households is expected to rise.

Rising numbers of households will mean additional housing needs. But it's not just a rise in number of dwellings. The type, size and location of the new dwellings required, is also changing – with rising demand from smaller households and in urban areas. Changes in the distribution of the population must be considered for the logistics industry, particularly in respect to B2C (business to consumer) deliveries.

"The Eurozone's average household size fell from 2.43 persons (2003) to 2.22 (2023) and is expected to decline further to 2.09 by 2033."

Forecast growth in households by 2033
Households,000



Source: Knight Frank Research, Oxford Economics

Changing distribution requirements of the household

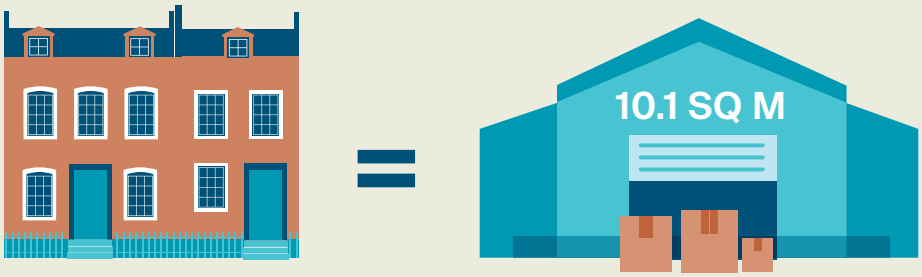
Knight Frank research found that, across the UK, there is 10.1 sq m of occupied industrial and logistics floorspace for each dwelling, up from 9.5 sq m a decade ago. Applying this ratio across the 199 million households in the EU, would mean a need for 2.01 billion sq m of logistics space, and that the additional 2.9 million households projected over the next five years, would mean an additional 30.0 million sq m of floorspace needed.

However, the UK market demonstrates strong variation across regions, with a much greater floorspace per dwelling in regions with major distribution hubs, and much lower figures in more peripheral markets. This pattern, with a greater concentration in distribution facilities in centralised locations, will be reflected in the distribution of space across Europe and thus the relationships between households and floorspace.

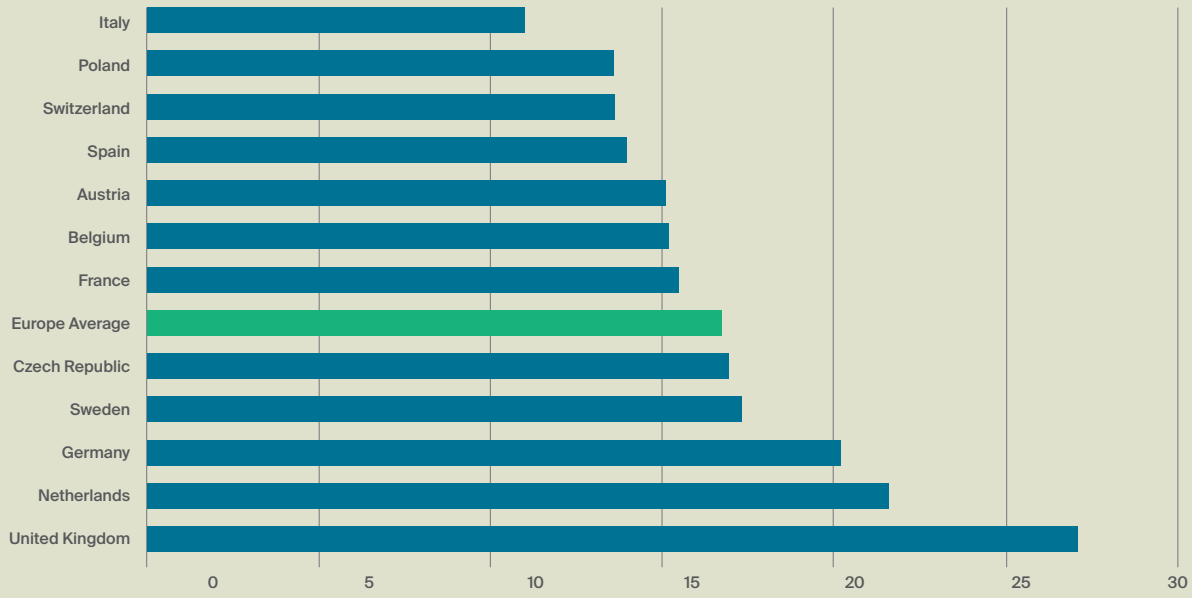
There are also economic differences between the UK and countries across the EU than may influence the amount of space utilised per household, with differing income and consumption levels, differing retail and manufacturing landscapes and different profiles in terms of trade.

GROWTH OF ECOMMERCE & CHANGING RETAIL MODELS

Ecommerce has significantly increased demand for warehouse space, with online retail requiring three times more warehouse space



Online penetration rates vary across Europe
% online retail sales



Source: Knight Frank Research
* Estimated online penetration rates for 2024

than traditional store replenishment. The UK leads Europe in online penetration (27.1% of retail sales in 2024), while Italy (11%), Poland (13.6%) and Spain (14%), are at early growth stages. However, urbanisation, climate, and infrastructure development across different European countries and regions, will drive variations in ecommerce growth.

Online penetration rates were much lower in the UK ten years ago. As lifestyles in the UK have changed over the past ten years, with households spending more of their disposable income online, rather than instore. The shift towards more transactions taking place online, has meant greater parcel volumes and more home deliveries, and the proportion of warehouse space needed per household has risen.

Online penetration rates vary across Europe, however. The UK leads with the highest rate, followed by the Netherlands, Germany and Sweden. Southern Europe has the lowest rates. However, these countries will not necessarily follow the UK's growth trajectory in the coming years, and lower online penetration rates don't necessarily mean that less industrial and logistics floorspace be needed per household in the EU compared with the UK. Retail is not the only driver of demand, manufacturing and increasingly, service sector activities also occupy industrial and logistics facilities, there are also activities related to trade which drive demand.

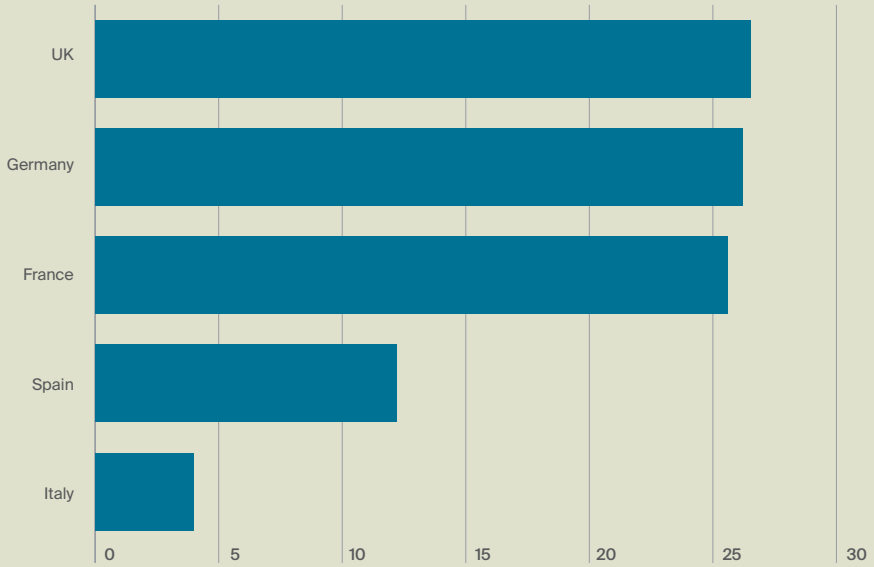
Across Europe, online retail penetration rates are increasing. Albeit at different rates. Lifestyles, demographic profiles, and income levels vary significantly across Europe and differences in shopping habits follow.

Urbanisation and greater population densities can enable greater expansion in online penetration rates. Service levels for internet provision, parcel deliveries and other home delivery services (such as grocery delivery services) are typically much better in urban areas. It therefore follows that, countries with a higher proportion of urban residents, are likely to see faster growth in online penetration rates. It will not be economical for many

"The additional 2.9 million households projected over the next five years, would mean an additional 30.0 million sq m of floorspace needed."

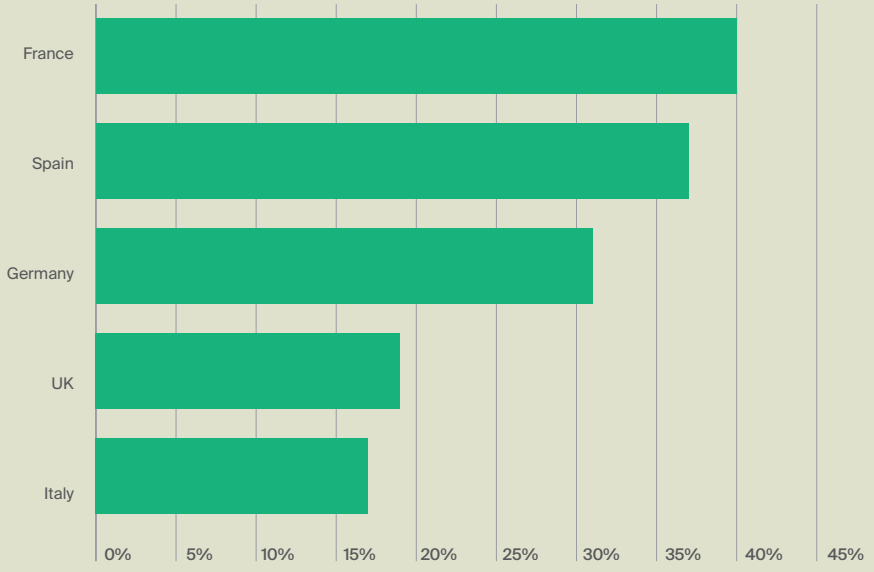
Absolute growth in online sales (2023-2027)

€ billion



Source: Knight Frank Research, Mintel

% Growth in online sales (2023-2027)



Source: Knight Frank Research, Mintel

parcel carriers and online delivery service providers to operate in regions with low population densities, and therefore online retail will not offer the same level of service and convenience that it does in more densely populated locations.

Climate also plays a role in shopping behaviour. Colder climates with higher rainfall (e.g., the UK, Germany, and Sweden) tend to have higher online shopping penetration rates compared to warmer climates like Italy and Spain. However, urbanisation levels appear to be the dominant factor influencing ecommerce expansion.

GROWTH IN ONLINE WILL DRIVE CONTINUED EXPANSION OF LOGISTICS NETWORKS

Mintel forecasts that online sales across the UK, France, Germany, Spain, and Italy will grow by 27% (€94.5 billion) from 2023 to 2027. France (40%) and Spain (37%) are projected to see the highest growth rates, while the UK will see a slower growth rate (19%), but with a higher absolute increase of €26.5 billion.

Given that every €1 billion of online sales requires approximately 108,000 sq m of warehouse space, this growth in online retail across Europe's top five markets alone, could result in a need for an additional 10.2 million sq m of fulfilment and delivery hubs by 2027.

In Germany, the strong growth in online sales, coupled with robust growth in household numbers across several cities, including Berlin, Munich, Hamburg and Stuttgart, will mean rising demand for both fulfilment centres and last mile facilities to service the anticipated rise in demand.

However, this figure assumes that the utilisation of space per quantity of throughput remains the same. Retailers are increasingly outsourcing both their ecommerce fulfilment and deliveries to their store networks to specialist third-party logistics firms, in order to access greater efficiencies. Specialist 3PLs are able to make better utilisation of floorspace, with taller buildings and more mezzanine usage, and greater automation. As efficiencies improve, we may see less floorspace needed to fulfil the same volume of online orders, thus changing the relationship between households and floorspace.

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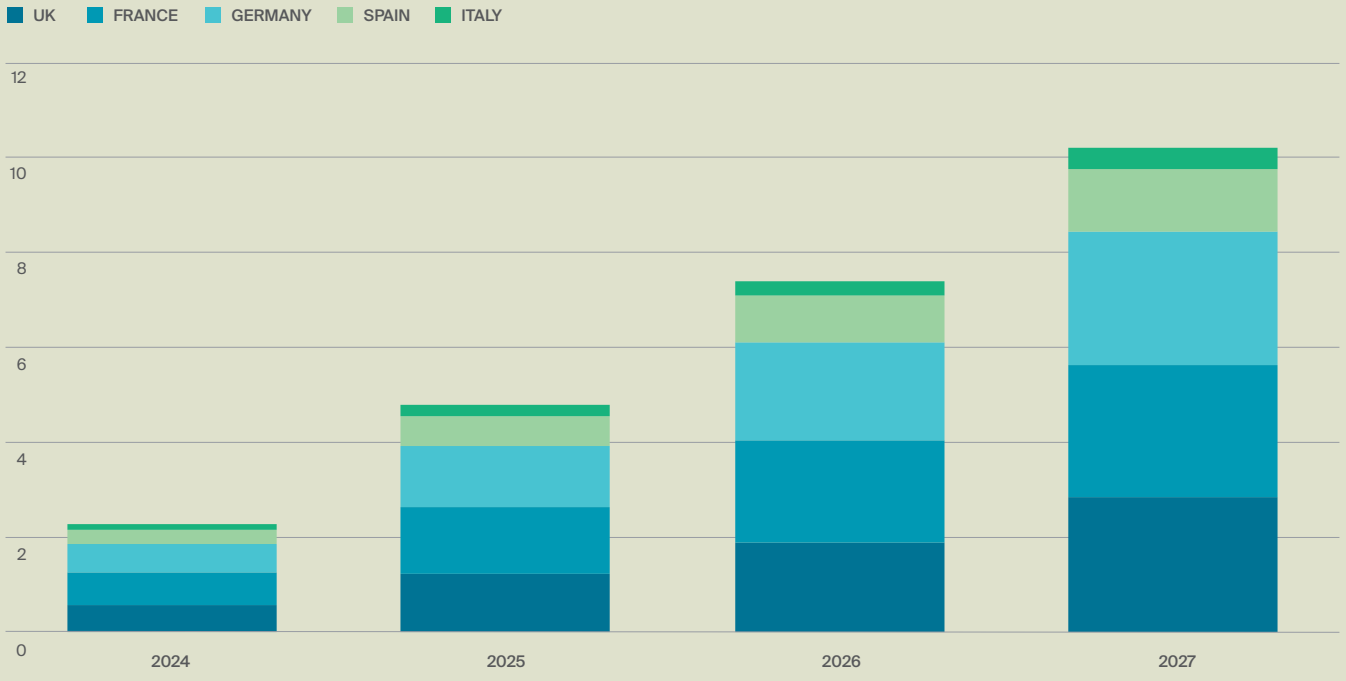
Additional floorspace requirements for online retail (cumulative)
million sq metres



Source: Knight Frank Research
* Estimated online penetration rates for 2024

Retail growth and evolving distribution models

How are evolving operational models and new fulfilment formats transforming logistics networks?

Knight Frank Research of online distribution networks found that while 75-80% of logistics space is typically needed for fulfilment centres, the remaining proportion is required for delivery hubs and last-mile depots. As urban populations expand across Europe, same-day delivery services are expected to grow, increasing demand for both last-mile facilities and fulfilment centres.

However, this analysis is based on the hub-and-spoke distribution model, the dominant structure for many logistics businesses. As online retail expands and evolves, new fulfilment and distribution formats are emerging to enhance efficiency, reduce delivery times, and meet consumer expectations.

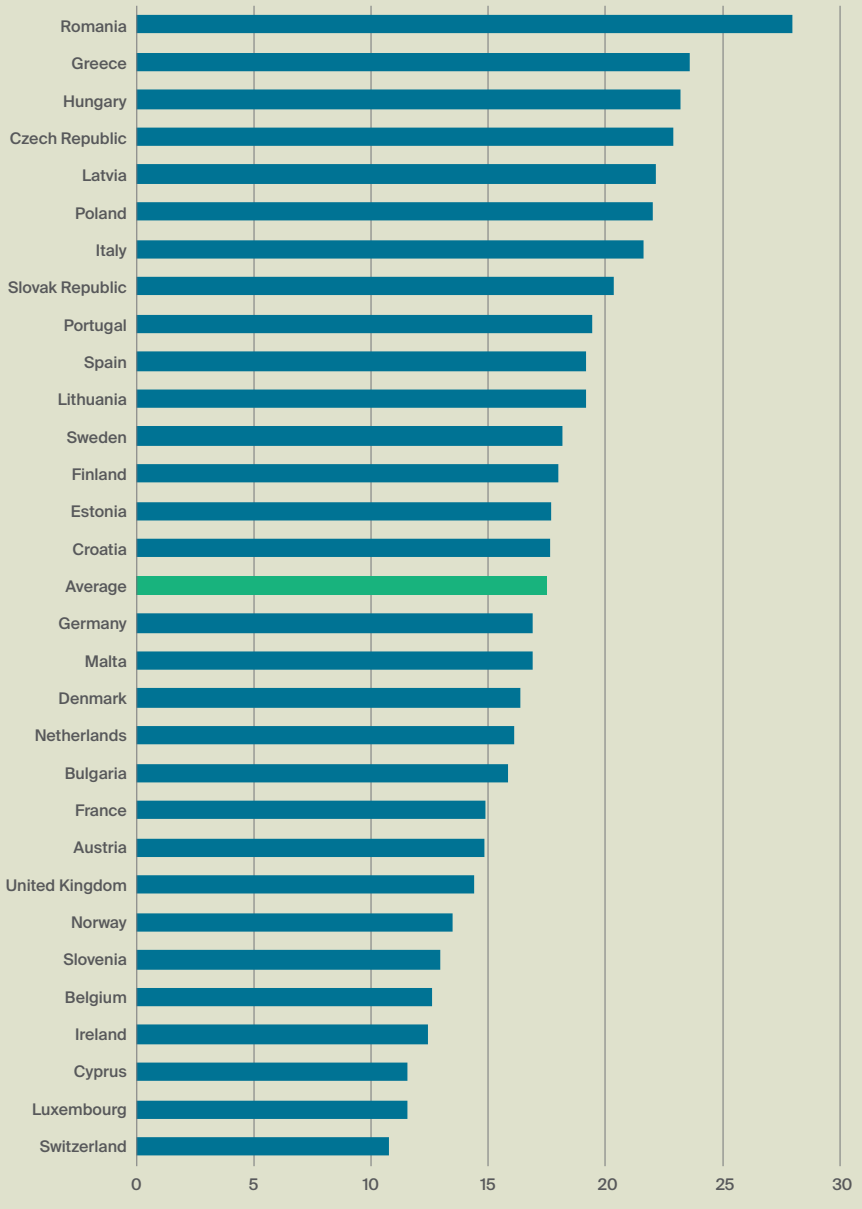
NOT JUST ONLINE: STORE-BASED RETAIL SET FOR GROWTH

While online retail continues to drive logistics demand, the majority of retail spending in Europe still occurs in physical stores, and this remains a key driver of industrial and logistics space requirements.

PROJECTED GROWTH & LOGISTICS IMPLICATIONS

Retail spending per household is rising, increasing pressure on distribution networks and warehousing space. On a per-spend basis, online retail requires approximately three times more floorspace than store-based retail. However, in-store retail accounts for most logistics demand, as less than 20% of retail sales in Europe occur online.

Retail spend per household
€,000



Source: Knight Frank Research

In countries where households spend more on retail, the demand for logistics space per household is higher. However, operational costs, land values, and rents vary across regions, influencing where fulfilment centres are located. With the EU's single market and free movement of goods, retailers can optimise logistics by placing fulfilment hubs in lower-cost locations. A lack of trade barriers and high levels of intermodal connectivity, means that fulfilment centres can locate outside of the destination country, in countries or locations with lower operating costs, and that travel times to consumers rather than country borders are key to location decisions.

By 2028, total retail spending in the EU (27) is forecast to increase by 10.3% (€331 billion) compared with 2023 figures, with per-household spend rising by 8.7% (Oxford Economics). This will mean a greater amount of warehousing space required per household.

Retail sales growth varies by country, with Croatia (42%), Luxembourg (+39%), the Czech Republic (+35%), and Hungary (+31%) expected to see the highest increases, while southern European markets such as Italy (+3.7%) and Spain (+11.4%) are expected to grow more slowly.

While a proportion of this additional spend will take place online, the growth of instore retail will also drive additional requirements in terms of industrial and logistics floorspace.

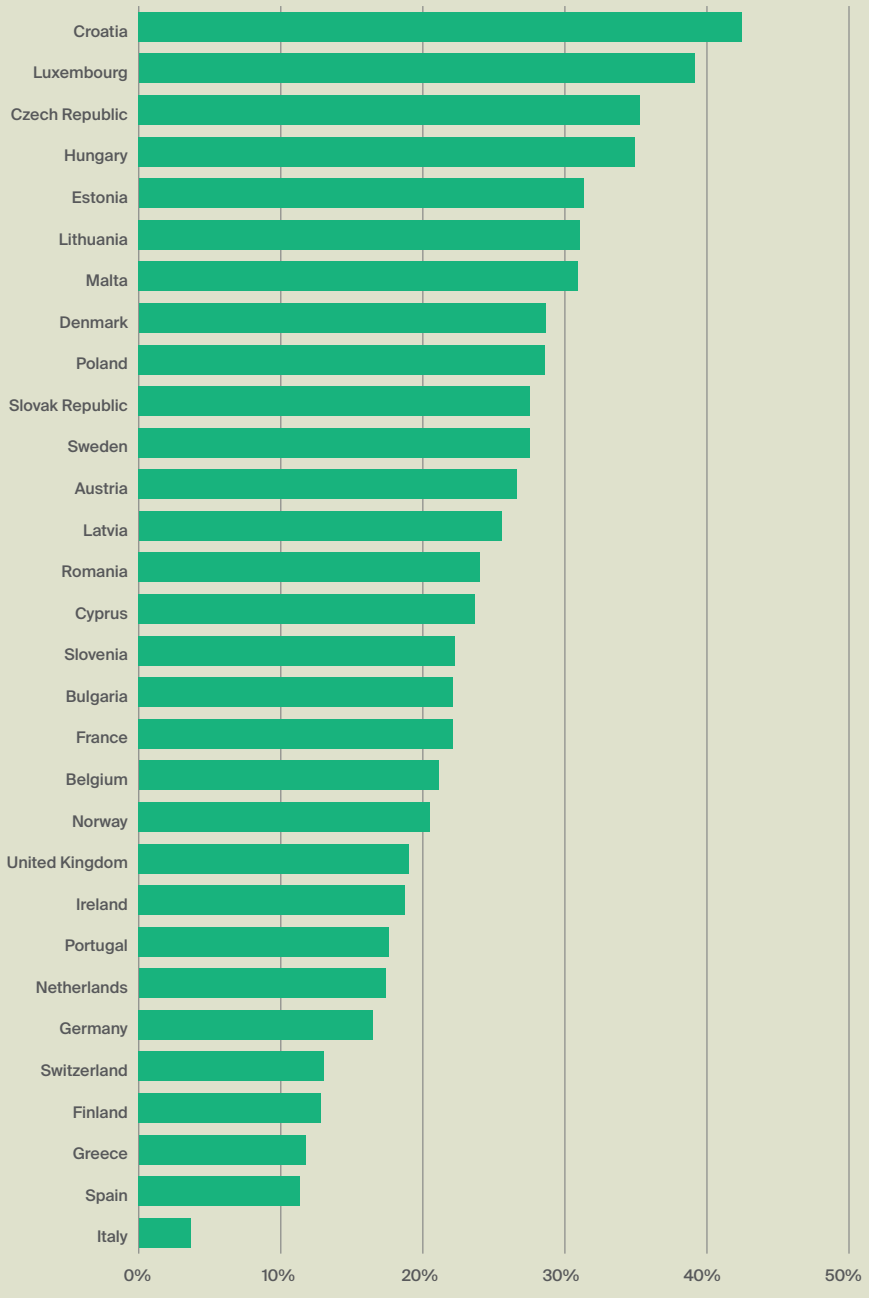
Part of this growth in retail sales will be driven by growth in online rather than instore, but never the less, the rise in overall retail spend, along with the growth in the number of households would mean both rising demand for warehousing to service the additional households, and with rising retail spending, the amount of space per household will also need to increase.

EVOLVING STORE-BASED LOGISTICS NEEDS

Retail distribution to a store network is more stable and predictable compared with online distribution, with regular fixed delivery locations and routes. However, rising retail sales volumes will mean greater volumes of throughput and this may mean that some facilities need to be upgraded, in terms of both size and functionality (automation) to allow for greater volumes of storage and faster churn of goods.

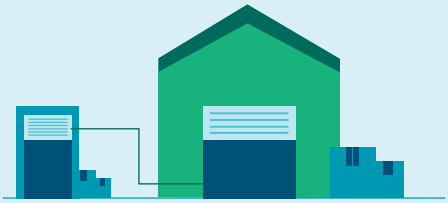
> "As reverse logistics and recommerce expand, demand for flexible, repurposed logistics space will rise across Europe."

Growth in retail sales (2023-2033)
%



Source: Knight Frank Research, Oxford Economics

ONLINE FULFILMENT AND DISTRIBUTION MODELS



Hub-and-spoke
The hub and spoke operating model relies on a large, centralised fulfilment centre (CFC) that acts as a hub, dispatching goods to smaller spoke locations before last-mile customer delivery. The hub and spoke system means that the CFC can maintain centralised stock control and systematic, scheduled delivery dispatches to the spoke locations. These "spokes" are often cross-docked facilities; they have high volumes of throughput, with customer orders being brought in on HGV lorries from the CFC and moved onto smaller vans for customer delivery.

Mini-fulfilment centres
While the giant CFC can allow for efficiencies of scale and high levels of automation, getting local is the key to faster delivery times. Rather than having a centralised hub and spoke model, where orders are fulfilled in one (CFC) facility before being sent on to a delivery station, these new facilities perform both the fulfilment and the dispatch to customers, with delivery drivers collecting orders from the facility. Amazon and Ocado are leading adopters of this model, operating 10,000-15,000 sq m facilities – much smaller than traditional CFCs but strategically located for speed and efficiency.

But the fulfilment centre ecosystem is growing and evolving. New hyper-local fulfilment models are emerging to meet customer demand for fast turnaround times. **Micro-fulfilment centres (MFCs)** are small urban warehouses that use automated systems to process orders efficiently. By locating close to consumers, MFCs enable one-hour deliveries, reducing both last-mile delivery costs and environmental impact.

Dark stores
Dark stores are laid out like a retail store but do not permit customer entry. Instead, they function as dedicated fulfilment locations for online orders, often relying on manual picking and packing rather than advanced automation. Found in densely populated urban areas, some operators offering deliveries within 10-15 minutes.

During the pandemic, major supermarkets converted retail stores into dark stores to meet online demand. However, many have now moved away from this model, with most online order fulfilment taking place in dedicated fulfilment centres or in stores.

In some cities, dark stores have faced opposition due to congestion and disruption. In 2023, the French government reclassified dark stores as warehouses, banning them from operating in residential areas.

In-store order fulfillment
Particularly prevalent in grocery retail, in-store fulfilment leverages existing retail and logistics infrastructure without significant capital investment. Large grocery retailers, benefiting from frequent restocking, wide aisles, and low customer footfall at certain times, increasingly allocate space for online order picking.

Some grocery chains partner with 15-minute supermarket operators, using their physical store network to fulfil online orders – essentially acting as dark stores. While in-store order fulfilment doesn't directly drive warehousing requirements, it does have the potential to increase the throughput of product through the retail store network, which will place additional demands upon the retailers existing store distribution network, which may need expanding or upgrading as a result.

Reverse logistics and returns processing:
Reverse logistics involves the movement of goods back through the supply chain, typically from customers to retailers. Ecommerce return rates are 2-3 times higher than in-store purchases, significantly impacting logistics networks.

As well as high returns rates, growth of the circular economy is also driving increased demand for reverse logistics, with the growth recommerce, or sites selling second-hand goods. Unlike brand-new products which follow a predictable route from manufacturer to distribution, resale items often undergo complex routes involving multiple intermediaries. As a result, most major retailers outsource reverse logistics to specialist facilities designed to handle returns, refurbishments, recycling, or disposal.

The European second-hand market is valued at €39 billion and is projected to reach €86 billion by 2028 (Tripartie). Growth in this sector will drive higher demand for dedicated reverse logistics facilities.

There are implications for specification of facilities. Unlike standardised formats like pallets or roll-cages used for traditional retail products, customer returns or used items utilise non-standardised packaging and labelling. This can make the implementation of automation and the use of racking more difficult and requiring bespoke supply chain management solutions for inventory management. With less automation and minimal racking requirements, this type of logistics will have lower height requirements compared with traditional fulfilment centres. Older warehouse buildings that don't meet the requirements of modern distribution firms could be utilised for this type of operation.

Urban populations and logistics

URBAN GROWTH, LIFESTYLES AND SERVICE PROVISION

Populations are growing and are becoming increasingly concentrated within urban centres. Europe's ongoing shift toward living in towns and cities will generate increased demand for urban industrial and logistics space in the coming years. Currently, 76% of the EU's population lives in urban areas, up from 71% two decades ago, and this figure is projected to reach 80% by 2050.

As a greater proportion of the population live in urban areas, they will have improved access to both physical and online retail services and home deliveries, and there will be a shift in lifestyles, in part associated with these improved service levels. Urban living enhances access to retail, home delivery services, and amenities, leading to shifts in consumer behaviour and logistics needs. City dwellers, with smaller homes, fewer cars, and higher disposable incomes, drive demand for convenience-based services, online shopping, and rapid deliveries.

As demand for fast, flexible delivery grows, last-mile logistics facilities near consumers become essential. Smaller logistics facilities within, or just outside of the metropolitan centres are becoming increasingly important as businesses compete to drive down the cost and time of accessing these markets.

URBANISATION AND PRESSURES ON LAND

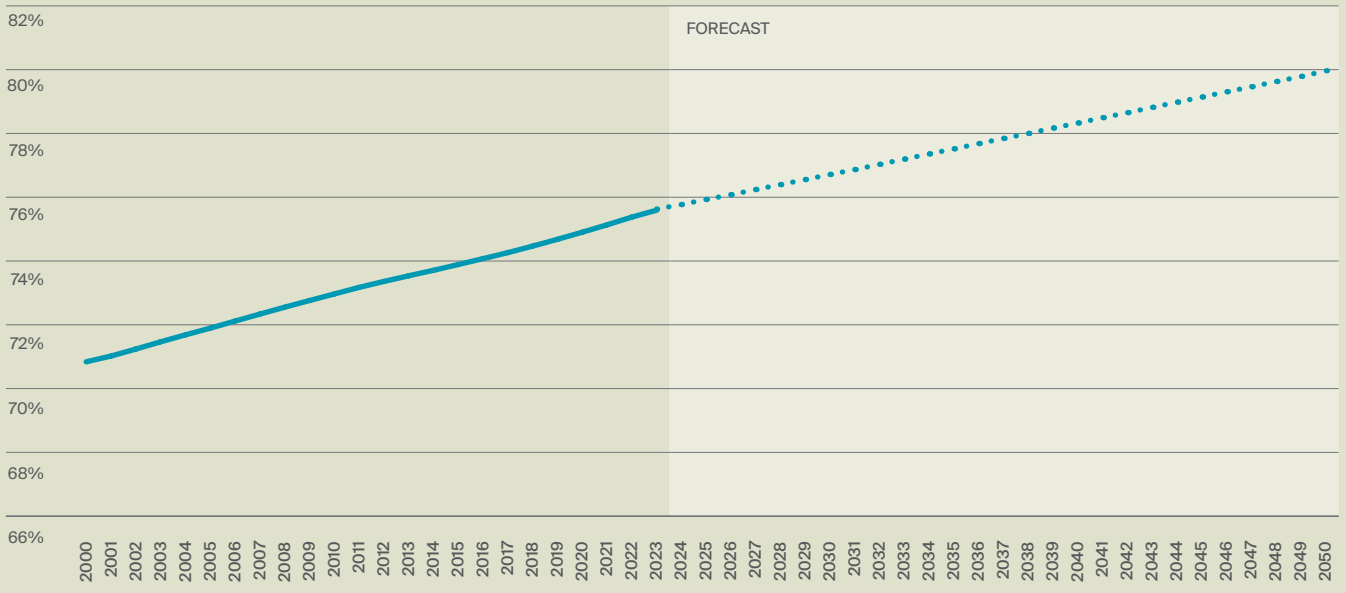
As urban populations grow, logistics demand rises alongside increasing household numbers and income levels. Countries where the population is more concentrated in urban areas tend to have more expansive logistics networks to service consumer demand.

Over the next ten years, Europe's urban population is expected to grow by 5.4 million. Growing urban populations will place greater pressure on industrial and logistics land in Europe's towns and cities. As populations grow, additional housing needs will lead to pressures on industrial land supply in some cities.

With commercial real estate at a premium in densely populated cities, businesses often optimise their use of city-centre office or retail space by relocating certain service sector activities or stock to offsite, industrial

> "Currently, 76% of the EU's population lives in urban areas, up from 71% two decades ago, and this figure is projected to reach 80% by 2050."

European Union - Urban population
% of total



Source: Knight Frank Research, World Bank Population Estimates, Oxford Economics

facilities that offer fast, convenient access to the urban core. This approach is particularly common in the largest cities, where space is scarce and occupational costs are high. As a result, demand for industrial and logistics space is rising, with occupiers using these facilities for offsite functions such as property and vehicle maintenance, laundry services, catering, security, and office supply storage.

DYNAMIC CITIES: TRACKING THE FASTEST URBAN GROWTH

Cities with the fastest-growing household numbers – including London, Paris, Dublin, Berlin, Stockholm, Rome, Amsterdam, Warsaw, and Barcelona – are also expected to see strong growth, with more than 100,000 additional households forecast within the next ten years. As a result, these markets will see heightened demand for industrial and logistics facilities, particularly last-mile hubs and service-sector spaces. Rising urban property values may also push some operators to relocate to lower-cost areas.

The changing distribution of Europe's dwellings and household incomes will also impact the distribution of both online and in-store retail spend. As growing urban populations lead to expanding requirements for distribution, the growth of these cities will drive growth in demand for industrial and logistics facilities in and around these city regions. The main impact will be felt in terms of demand for last-mile logistics facilities, as well as service sector activities, where proximity to the customer is key, and location choices are therefore limited. The growth in household numbers in these cities is unlikely to have a significant bearing on locations choices for major fulfilment centres or distribution hubs. Though the centre of gravity in terms of consumer demand may shift slightly, rising demand for residential property may lead rising land values and rising rent costs for locations close to these markets, which may, in turn, lead some operators to look further afield.

The cities with the strongest growth in households will see greatest demand for urban logistics operations to expand within these centres.

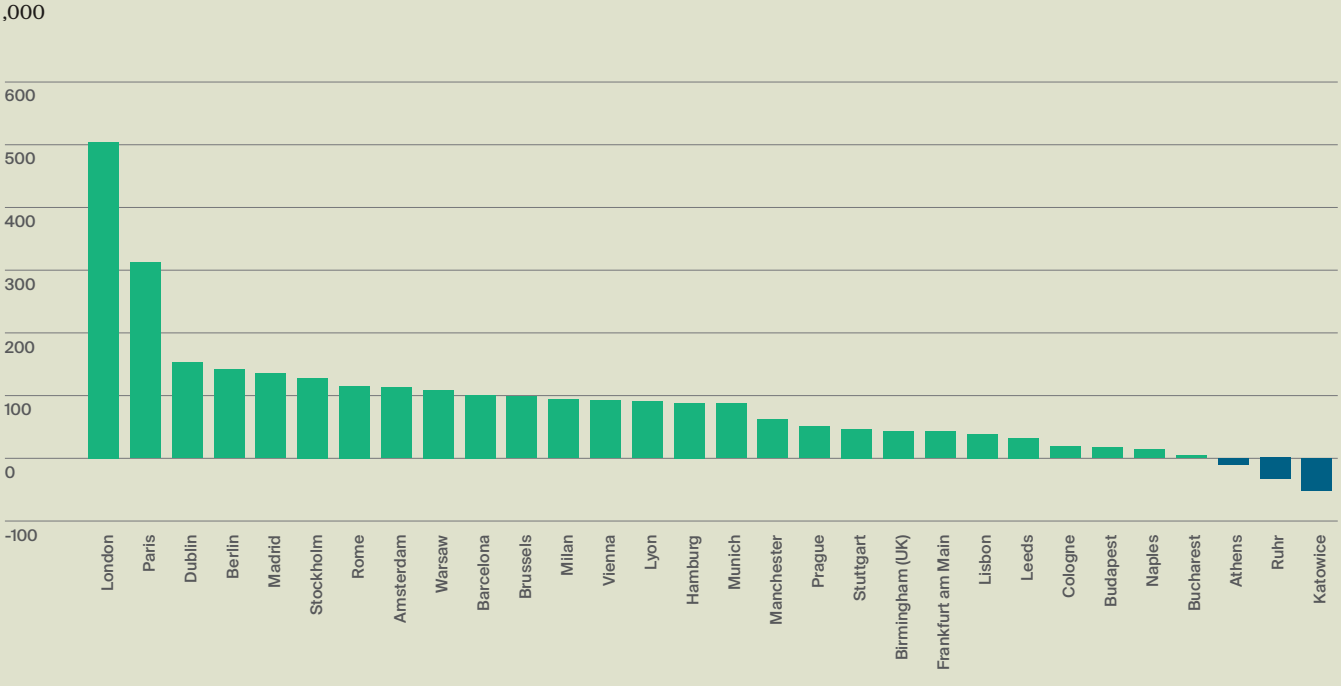
> "The changing distribution of Europe's dwellings and household incomes will also impact the distribution of both online and in-store retail spend."

POPULATION DENSITY AND DELIVERY SERVICES

The most densely populated areas have a clear advantage from a distribution perspective. Delivery drivers able to make more delivery stops with less time and fuel than they would in a sparsely populated region.

As cities expand, competition among delivery providers intensifies, improving service levels and increasing options for consumers. For example, there will be greater choice of grocery delivery services with more delivery slots available than in more rural areas, and any rapid delivery services, or q-commerce are likely to be unavailable outside of larger cities.

Additional households forecast by 2023



Source: Knight Frank Research, Oxford Economics

WORKFORCE AND TECHNOLOGICAL SHIFTS

Aside from consumer-driven shifts, migration and demographic changes will also impact the workforce, and this, in turn, will impact locations for industrial and logistics operations. Increasing use of technology, data and automation in warehouses is impacting location choices and warehouse design, in part due to the need to attract a more highly educated, skilled workforce.

SUSTAINABILITY AND CLEAN AIR POLICIES

Governments across Europe are enforcing low-emission zones (LEZ) to reduce urban pollution.

> "As cities grow, in addition to greater demand for logistics, we will see growing pressures on land, transport and resources within urban centres.

In France, there are currently 15 cities and towns that have sought to restrict access for vehicles that don't meet certain emissions standards. In Paris, a limited traffic area has been introduced, coving a large perimeter in the capital's centre, including the 1st, 2nd, 3rd and 4th districts. Meanwhile, Belgium has three Low Emission Zones (LEZ) in Brussels, Ghent and Antwerp, and across the Netherlands, a number of cities and towns have chosen to introduce environmental zones in their centres, banning access to HGVs and diesel vehicles, and Spain has introduced new low-emission zones (LEZ) in 149 towns and cities.

These clean air acts, coupled with heavy traffic congestion, have implications for urban distribution and how parcel carriers and other distribution firms deliver to the large, and growing populations that live with Europe's major cities. Across Europe, smaller, electric vehicles and cargo bikes are increasingly used to access ultra urban areas. In both Paris and London, there have been successful initiatives using river freight to bring goods into the cities for construction sites and for last-mile delivery (with onward delivery to the consumer typically done by cargo bike).

However, these alternative transport modes require new logistics infrastructure, such as charging stations, additional urban warehouses, and riverside distribution hubs. Cargo bikes cannot take the same loads as other road vehicles and electric vehicles need frequent charging, which takes longer than traditional refuelling. This will mean smaller, more frequent trips, resulting in a need for more facilities (and more vehicles) across urban areas in order to cover the same catchment as a van.

As cities grow, in addition to greater demand for logistics, we will see growing pressures on land, transport and resources within urban centres. These converging pressures will lead to new urban fulfilment and delivery formats, and new sources of demand for urban logistics facilities.

Manufacturing and trade as drivers of demand

This report focuses on households and consumption and their influence on demand. However, in considering where along the supply chain this demand materialises, manufacturing and trade also play key roles. While some European countries are expected to see a decline in household numbers, this does not necessarily equate to lower demand for industrial and logistics space, particularly in markets driven by production or international distribution.

The relationship between households and industrial and logistics floorspace was established based on research of the UK market. The UK, primarily a consumer-driven economy, has a distribution network shaped by its island geography, with national distribution hubs concentrated in central locations such as the Midlands. However, not all European countries follow this consumption-focused, centralised distribution model. With the EU functioning as a single market with free movement across borders, some countries and regions have economies centred more on manufacturing or trade. These economic specialisations, along with differences in income, urbanisation, and spending habits, shape the relationship between households and industrial and logistics space.

TRADE HUBS, TRANSPORT CORRIDORS AND STRATEGIC DISTRIBUTION LOCATIONS

A country's strategic position, transport infrastructure, and port capacity significantly impact demand for industrial and logistics floorspace. In key European logistics hubs, demand is driven not only by domestic consumption but also by trade flows and international consumption.

Belgium and the Netherlands, for example, are highly urbanised, densely populated, and have relatively high household income levels. Additionally, their strategic geographical positions, combined with the presence of Europe's two largest ports – Rotterdam and Antwerp – make them major transit hubs with high import and export volumes. Consequently, these countries are prime locations for distribution and fulfilment centres, both for their domestic markets and for onward distribution across Europe.

Cross-border connectivity and freight networks play a crucial role in Europe's international supply chain. The "Blue Banana" concept, established in the 1980s, describes a major trade corridor stretching from northern England to northern Italy. This corridor runs from North Wales, across Greater London, through the Benelux states, the German Rhineland, and into Switzerland (Basel and Zürich), before reaching Milan in northern Italy.

However, the concept has evolved as new corridors of urbanisation and trade rise in prominence. The "Golden Banana" extends from northern Italy along the Mediterranean coast through southern France and into Spain, incorporating key urban centres such as Zurich, Milan, Lyon, Nice, Barcelona, and Valencia.

Another significant trade corridor runs from northern Germany – including the Ruhr region, Hamburg, Berlin, and Leipzig – eastward into Poland and Central and Eastern European (CEE) markets. Logistics markets in Poland and the Czech Republic have experienced rapid growth over the past decade, with firms attracted by lower occupancy costs, cheaper land, and reduced labour costs.

"With the EU functioning as a single market with free movement across borders, some countries and regions have economies centred more on manufacturing or trade."

MAJOR INFRASTRUCTURE AND TRANSPORT PROJECTS SHAPING TRADE NETWORKS

Large-scale improvements in transportation infrastructure are enhancing international supply-chains and distribution networks across Europe. Several major projects are expected to reshape freight transport and trade:

Fehmarn Belt Fixed Link (Denmark-Germany): This 18 km tunnel will connect Lolland (Denmark) with Fehmarn (Germany), providing a direct rail and road link between Scandinavia and Central Europe. Upon completion in 2030, it will significantly reduce travel times and enhance the movement of goods between Scandinavia and Central Europe.

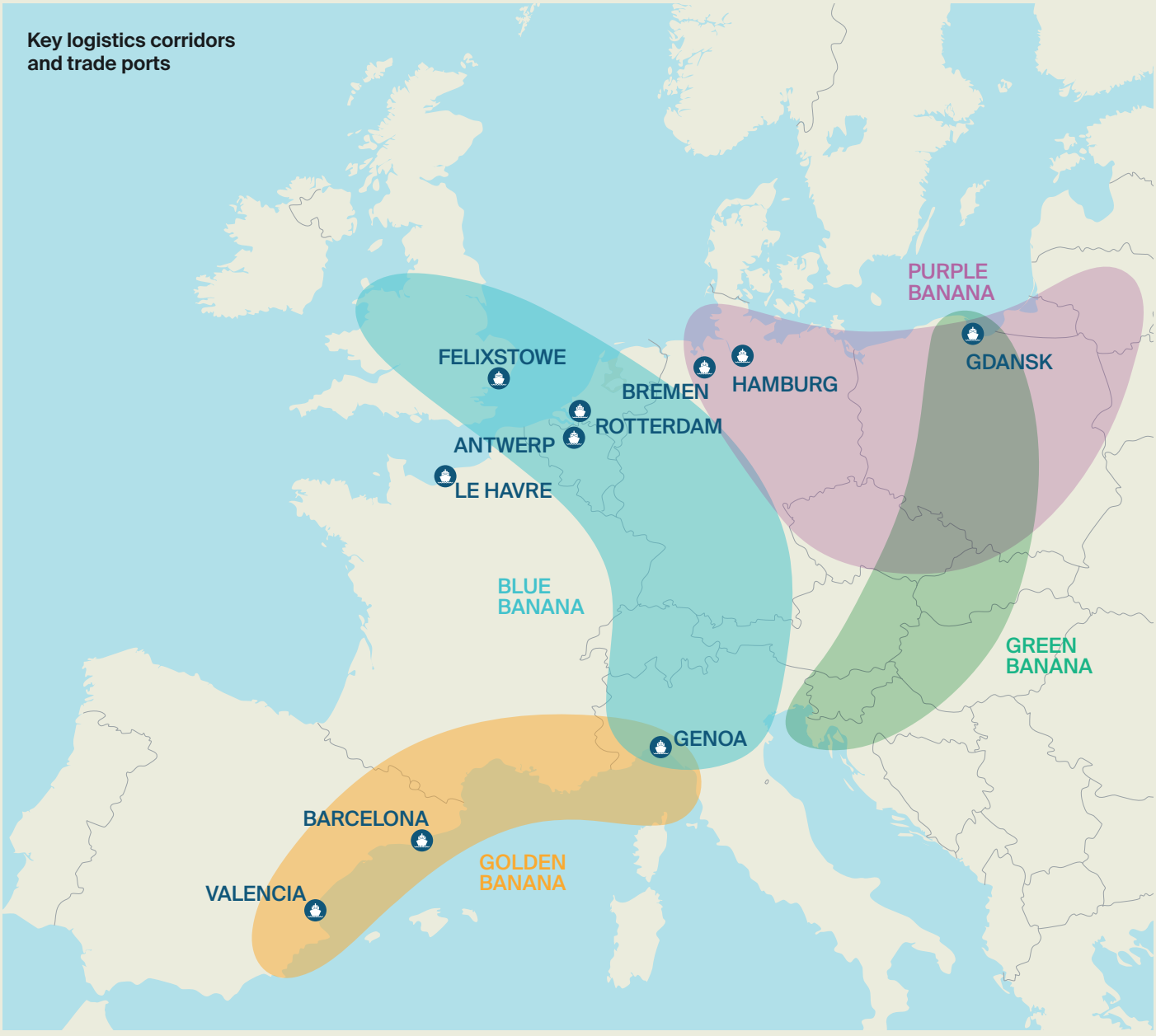
Baltic–Adriatic Corridor: A major north-south transport route connecting Gdańsk (Poland) to

Bologna (Italy) via the Czech Republic, Slovakia, and Austria. As part of the Trans-European Transport Network (TEN-T), it will enhance trade and freight movement between Northern and Southern Europe.

Rail-2-Sea Corridor: A 3,663 km railway linking Gdańsk (Poland) to Constanța (Romania), set to be completed by 2029. This project will improve connectivity between Northern and Southeastern Europe while shifting freight transport from roads to rail, reducing emissions and congestion.

European route E39 (Denmark-Norway): This project aim to eliminate the need for ferry crossings along the route, by constructing a series of massive tunnels and bridge. The upgrades will play a crucial role in improving regional connectivity, freight logistics, and economic integration between Scandinavian countries. The project includes the Rogfast Tunnel (world's longest and deepest subsea tunnel) and the Hordfast Bridge. Completion is expected by 2040.

These projects will open new trade routes, increase logistics demand, and influence population growth patterns, further driving demand for both business-to-business (B2B) and business-to-consumer (B2C) logistics.



MANUFACTURING AND DEMAND FOR FLOORSPACE

The presence and composition of manufacturing activities will also influence the relationship between households and industrial and logistics space. Many European countries have a higher manufacturing output than the UK, which directly affects the amount of required floorspace per household.

In the UK, manufacturing accounts for less than 10% of GDP, yet the sector accounted for 29% of industrial and logistics space take-up in 2024. By contrast, manufacturing represents 26% of GDP in the Czech Republic, with the sector accounting for 52% of industrial floorspace take-up (2023, based on disclosed tenants).

In Germany, the manufacturing sector accounts for 23% of GDP. This is particularly sizeable given the size of the German economy. In 2024, Germany's gross domestic product (GDP) was approximately €4.305 trillion, positioning it as the third-largest economy globally, after the United States and China.

In production-driven economies, manufacturing output, sector composition, and space utilisation efficiency are often more important than household consumption patterns in determining floorspace requirements. Additionally, different manufacturing sectors have varying space needs. For instance, high-value industries such as electronics, pharmaceuticals, and medical equipment require significantly less floorspace relative to output compared to industries like automotive, aerospace, and steel fabrication.

The size and structure of a country's manufacturing sector strongly influence industrial and logistics space demand. However, the availability and cost of labour, workforce skills, and education levels also shape a country's manufacturing landscape. Generally, manufacturing represents a smaller share of GDP in highly urbanised regions, where service industries dominate economic output. In urbanised areas where manufacturing persists, it tends to focus on high-value production, requiring greater efficiency in space utilisation due to elevated operating costs.

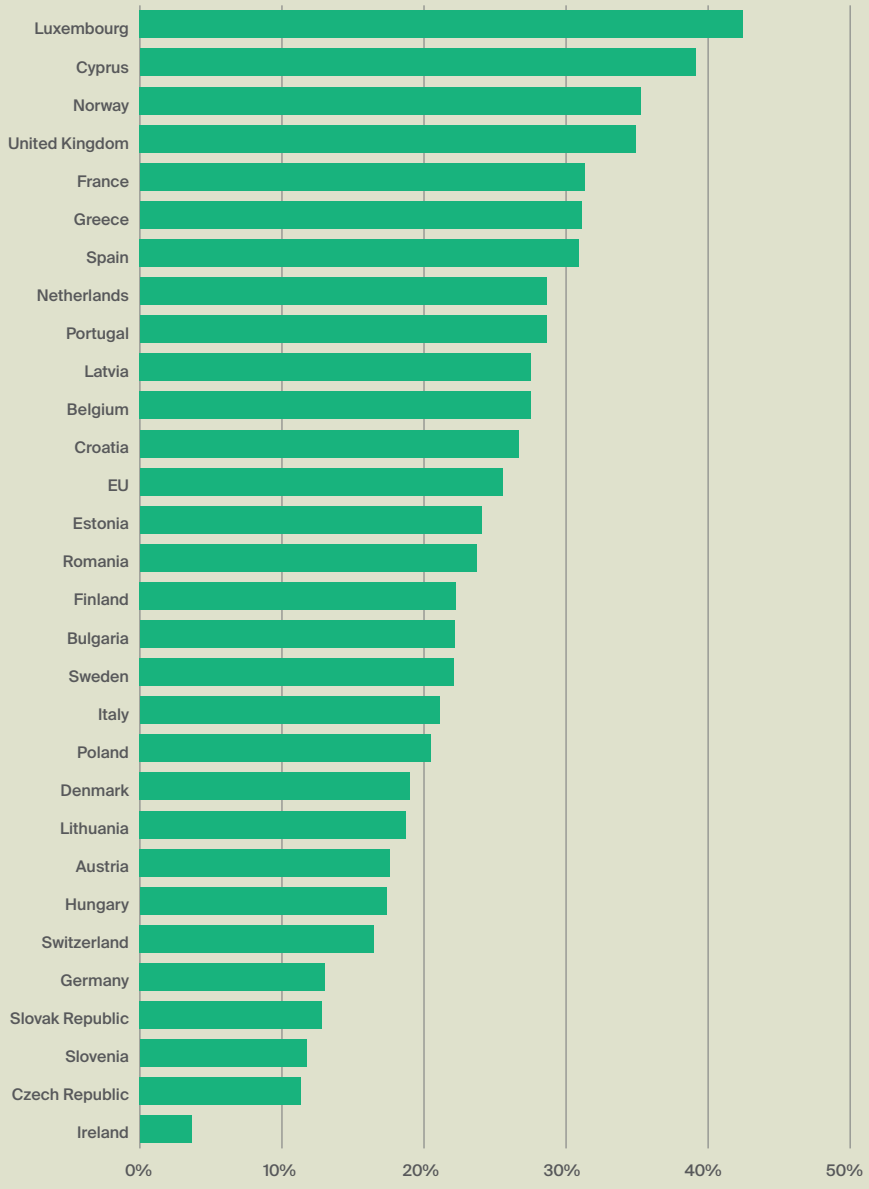
Certain manufacturing activities are directly tied to trade and port infrastructure. In the case of offshore wind turbines for instance, the size means that quayside manufacturing is preferable. There are also some activities associated with the import/export of perishable goods. This is a particular driver of demand in the Netherlands and Belgium, where food and drink products, along with flowers, pharmaceuticals and other perishable items are produced or transit through their ports.

RESHORING MANUFACTURING

European consumers are increasingly prioritising ethical production, environmental responsibility, and reduced carbon footprints, and this is influencing the location choices for manufacturing operations. Reshoring, or nearshoring – the process of bringing manufacturing back to

Manufacturing proportion of GDP (2023)

%



Source: Knight Frank Research, Oxford Economics

businesses can reduce transport-related emissions, especially in industries reliant on energy-intensive logistics, such as fast fashion, electronics, and food production. Many companies are embracing nearshoring, which is having a positive impact on demand for industrial and logistics space in Europe.

As consumers continue to demand eco-friendly, ethically produced goods, reshoring is expected to grow, and this will impact demand for manufacturing space in Europe.

"Northern Ireland and Wales were the two regions to record a contraction in manufacturing output over the past ten years. However, both these regions are expected to see strong growth in the next ten years."

DEFENCE MANUFACTURING

European governments are set to further expand their defence spending in the coming years, which will drive additional demand for manufacturing space. Many European countries currently fall short of NATO's guideline that defence spending should account for at least 2% of GDP – a threshold that is likely to be raised. While Poland is estimated to have spent more than 4% of GDP on defence last year and Greece around 3%, Germany and France spent approximately 2%, with Portugal, Italy, Belgium, and Spain allocating even less. Discussions are ongoing about increasing the target to 3% of GDP. Although this remains below the 5% proposed by former US President Trump, overall, Europe is on track to significantly increase defence expenditure. This will provide a substantial boost to several manufacturing sectors, particularly aerospace, electronics, and advanced high-tech manufacturing. Existing clusters within these industries are likely to benefit the most.

2%

Many European countries currently fall short of NATO's guideline that defence spending should account for at least 2% of GDP – a threshold that is likely to be raised.

France and Germany are among Europe's leading defence manufacturers and have been actively strengthening their defence capabilities by increasing spending and expanding their manufacturing sectors. In 2024, both countries met NATO's 2% GDP spending target, marking an increase from previous years. This upward trend is expected to continue, with France planning to allocate a total of €400 billion to defence between 2024 and 2030, providing a significant boost to defence programs and manufacturing initiatives.

In the UK, rising defence spending is already making an impact on the occupier market, with several key transactions contributing to increased take-up of industrial space. Notable examples include the Ministry of Defence acquiring a semiconductor plant and BAE Systems securing a new facility.

In Germany, major manufacturers are shifting their strategies to align with the growing defence sector. Rheinmetall, a leading armoured vehicle producer, is repurposing its Berlin and Neuss plants into hybrid facilities – retaining some automotive production while increasing defence-related output. Meanwhile, companies like Hensoldt are addressing production capacity constraints by partnering with automotive suppliers to employ workers from the struggling automotive sector, simultaneously bolstering defence manufacturing and mitigating job losses.

FOOD MANUFACTURING AND COLD STORAGE

Europe's cold chain market is expanding rapidly, driven by shifting consumer preferences, increased outsourcing of supply chain management, and rising demand for temperature-controlled logistics. Consumers are increasingly seeking convenience foods with longer shelf lives, which has fuelled demand for food manufacturing and, in turn, cold storage solutions. According to Mordor Intelligence, Europe's cold storage market is projected to grow at 8.97% per annum (2024–2029), while Custom Market Insights forecasts a 14.1% annual growth rate over the next decade (2024–2033).

Demand for fresh fruits and vegetables has also risen steadily, increasing both production and trade volumes and further driving the need for efficient cold chain logistics. Additionally, stringent EU food safety and quality regulations have reinforced the necessity for temperature-controlled supply chains. In 2022, European imports of processed vegetables, fruits, and nuts were valued at USD 7.0 billion, up from USD 6.1 billion in 2019 and USD 3.0 billion two decades ago, according to the United Nations COMTRADE database.

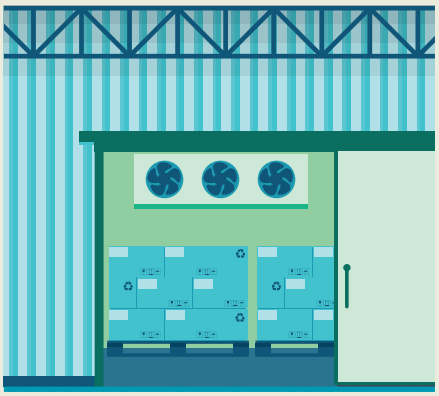
Beyond food, the growing demand for temperature-sensitive pharmaceuticals – including biologics, gene therapies, and vaccines – is significantly impacting the cold storage sector. The rapid expansion of the biopharmaceutical (biopharma) industry has led to a surge in demand for highly specialised cold storage facilities.

The rise of ecommerce in Europe is another major driver, with an increasing volume of business-to-consumer (B2C) cold chain distribution. This has created new requirements for temperature-controlled last-mile delivery facilities, as online grocery shopping and direct-to-consumer food deliveries continue to grow.

> "Europe's cold chain market is expanding rapidly, driven by shifting consumer preferences, increased outsourcing of supply chain management, and rising demand for temperature-controlled logistics."

LEGACY INFRASTRUCTURE AND THE NEED FOR MODERNISATION

Much of Europe's cold storage infrastructure was developed during the supermarket expansion boom of the 1980s and 1990s. Major retail chains invested heavily in cold chain logistics, while the rise of global food trade led to the development of port-based cold storage hubs.



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In recent years, stricter EU regulations – such as the EU Good Distribution Practices (GDP) for pharmaceuticals and Hazard Analysis and Critical Control Points (HACCP) standards for food safety – have compelled companies to upgrade their cold storage facilities. However, much of Europe's cold storage network continues to rely on outdated, inefficient facilities. While the general supply of warehouse space has increased, new cold storage development has remained limited, with very few facilities constructed in the past decade.

As demand grows and industry requirements evolve, cold chain logistics must adapt. Operators are increasingly focused on improving sustainability and efficiency, driving the need for modern, energy-efficient facilities equipped with advanced refrigeration and automation technologies.

Conclusion

Europe's demographic evolution is reshaping logistics demand. Population growth, shrinking household sizes, and urbanisation are key drivers of increasing demand for warehouse and distribution space and changing requirements, in terms of the locations and specifications.

The continued rise of ecommerce and evolving fulfilment models will further transform logistics infrastructure, necessitating the development of modern, high-tech, and sustainable logistics facilities. Additionally, shifts in trade routes, advancements in manufacturing, and the expansion of cold storage will create new challenges and opportunities.

While there is a connection between households and industrial and logistics space, the link is by no means straight forward, or static. Changes in lifestyles, trade flows, manufacturing operations and rising operational efficiencies (across logistics and manufacturing operations) will continue to shape the relationship. Logistics networks must strive to understand how these future demographic and economic shifts will impact supply chains, and work to accommodate and adapt to these changes.

"The continued rise of ecommerce and evolving fulfilment models will further transform logistics infrastructure, necessitating the development of modern, high-tech, and sustainable logistics facilities."

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