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Real estate: Europe's economic revival depends on industrial property

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Introduction – reindustrialisation one year on

A year ago, we put forward the thesis that Europe’s next structural real estate opportunities could emerge from reindustrialisation and enhanced economic resilience. Over the past year, there has been increasing consensus that the sustainability of Europe’s future economy is closely tied to revitalising its industrial sector.

During remarks at the European Banking Federation meeting in November, Christine Lagarde, President of the European Central Bank (ECB), emphasised that current fiscal initiatives for defence and infrastructure are essential for resilience and will significantly influence growth. Policymakers across Europe are prioritising the development of domestic capabilities as the global economy becomes increasingly fragmented.

Since early 2025, we have monitored industrial and logistics property trends through the reindustrialisation lens, using macroeconomic data, policy changes, and performance metrics. Evidence of industrial revival remains strong as the sector now benefits not only from cyclical economic activity but also from structural trends such as e-commerce, nearshoring, and reindustrialisation. Key drivers appear to be aligning and returns improving. What’s more, Europe lacks the required space, both in terms of volume and quality, to support the demands of an industrial revival.

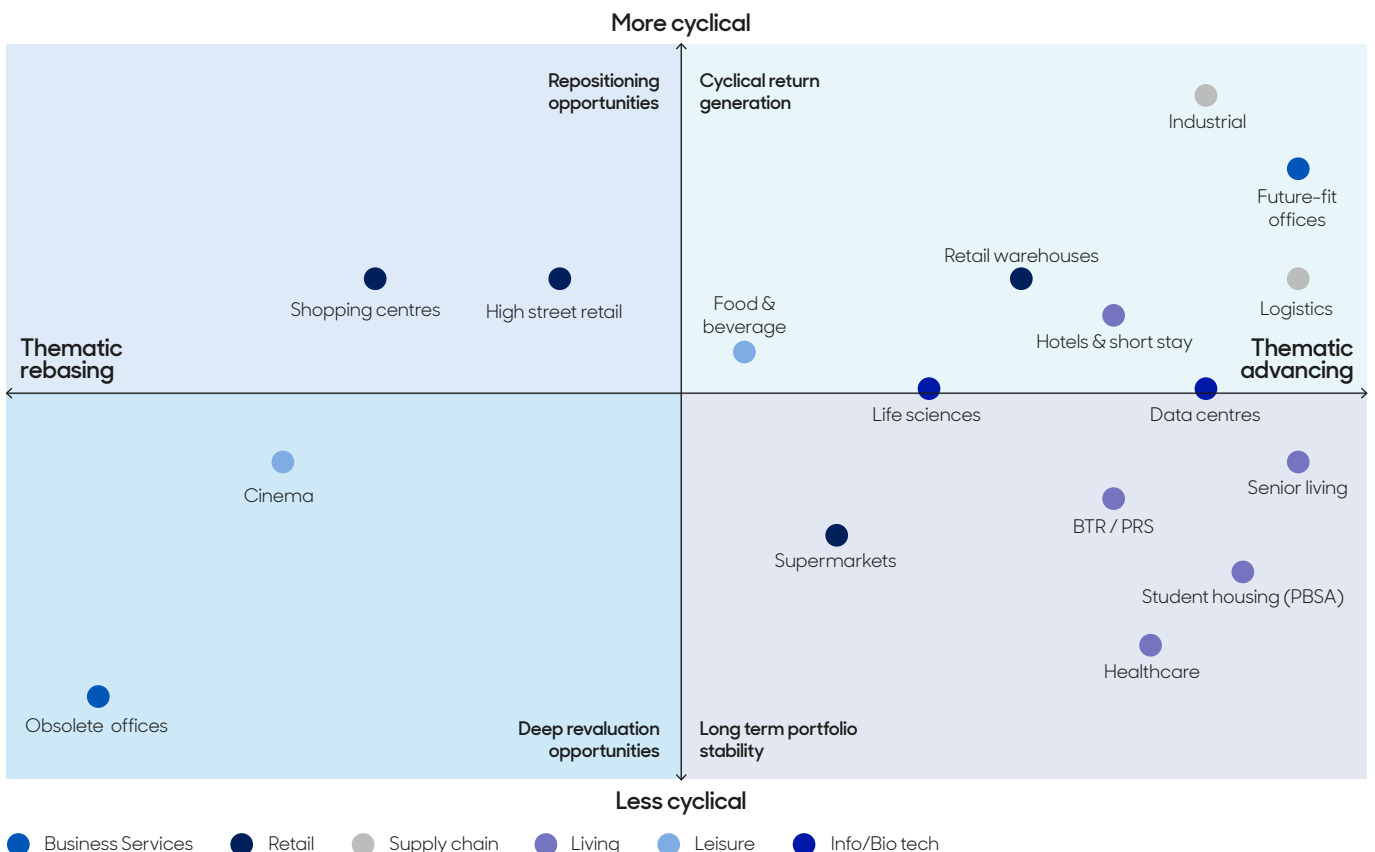
Looking ahead, European industrial and logistics properties are high in our houseview recommendations. We believe they will benefit from both structural demand pressures and also cyclical economic and investment market trends in the coming years. Their relative appeal is highlighted in Figure 1.

This paper revisits our thesis, outlines emerging factors, and reviews the sector’s recent and expected performance for investors.

“Our experience this year has shown that a resilient domestic economy can shield Europe against global turbulence.”

Christine Lagarde
21 November 2025, speaking at the European Banking Congress

Figure 1: Industrial and logistics resurgence: long-term thematic trends and cyclicity are supportive



Source: Aberdeen Investments, January 2026.

Reindustrialisation as an investible strategy

Twelve months ago, our thesis was that global economic concerns and geopolitical fractures had exposed Europe's need for greater resilience. Two decades of hyperglobalisation made Europe vulnerable in sectors like security, energy, chemicals, critical minerals, food, automotives, and technology – value chains that are now fracturing or have already fractured. As a result, the continent now faces the consequences of overreliance on Asia for economic inputs and the US for security.

A year later, we are further along on the same path, characterised by elevated geopolitical tensions between the US and China and other strategically significant global powers. Critically, EU-wide and domestic policy decisions are increasingly seeking to build resilience and to capture new growth potential in response to these tensions. A Europe seeking economic reform through tough new policies is an increasingly important foundation of our thesis.

This sea-change in economic policy, in our view, will drive a measurable increase in the demand for industrial and logistics real estate over the coming decade. This includes research and development facilities, workshops and light industrial spaces used for servicing and prototyping, and production and assembly plants. It also includes an array of buildings suited to logistics operations across the supply chain.

This will result in new attractive investment opportunities to capture enhanced performance characteristics from the sector. In particular, through retrofitting Europe's insufficient industrial stock to meet new sources of demand, and operational and energy efficiency requirements.



Economic policy shifts

In response to the growing challenges of the European economy (and as encouraged in the Draghi report last year), Europe is embarking on a range of economic policy shifts that are designed to reinvigorate the bloc and increase resilience. Some of the key policies are highlighted in Figure 4.

Security and defence policy

Europe faces a critical juncture in its defence posture. While Russia does not currently fear Europe, the decisive factor will be the capability of Europe's industrial base over the next 12 months. The additional 1.5% of GDP that will be spent on protecting critical infrastructure, defending networks, ensuring civil preparedness and resilience, innovation, and strengthening the defence industrial base that provides further stimulus across a broader range of economic activities. It also underpins expectations of sustained structural demand for industrial capacity. Initiatives such as SAFE, ReArm Europe, the European Defence Industry Programme and Readiness 2030, combined with fiscal easing to support defence expenditure, are set to drive notable demand for industrial and logistics facilities. Venture capital investment in defence start-ups in 2025 was five times higher than five years ago, while the UK has shortened its defence procurement cycle from six years to two years. Investment in defence is expected to exceed European GDP growth by four-to-five times over the next five years.

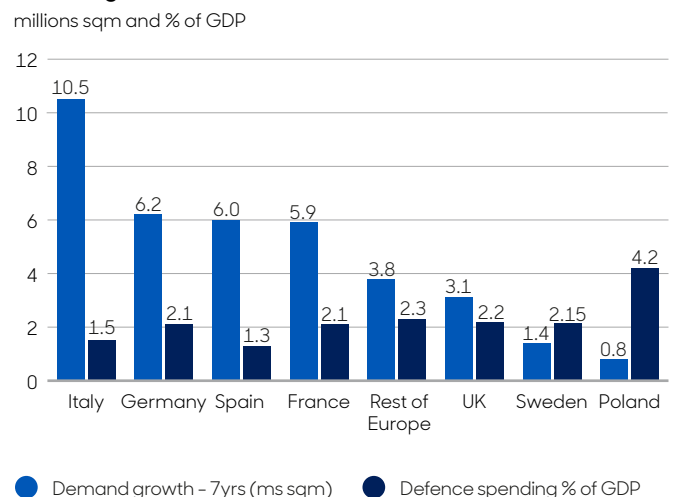
Figure 2: Ukraine war outcome probabilities

Scenario*
Ongoing conflict Fighting continues, along with Russia's hybrid war on European countries, but there are no decisive breakthroughs on the battlefield. Europe's support and US military sales are maintained, as Putin seeks to prolong the conflict.
Ceasefire or peace deal A ceasefire or peace deal is forced by US pressure, but is fragile and prone to collapse. Putin may also calculate a temporary ceasefire is favourable, amid domestic economic pressures or Ukrainian gains.
NATO commitment wanes US military deliveries are halted and European support weakens as war-weariness, fiscal pressure or a worsening of Ukraine's battlefield prospects lead to European countries focusing on their own defence capabilities.
Russia-NATO conflict Russian aerial incursions lead to direct European NATO conflict, but with uncertain US involvement. Russian nuclear posturing will increase, as does risk of spillover conflicts. Severe market shock.

Source: Aberdeen, December 2025.

As shown in Figure 2, our central scenario assumes the war in Ukraine will continue through 2026, albeit with potential changes in its nature. While peace talks may gain momentum, significant barriers to a lasting settlement remain. Consequently, Europe requires a stronger, well-resourced military deterrent to secure long-term stability. Current capabilities have been exposed as outdated in the face of drone warfare and hypersonic missile threats. Without firm US security guarantees (which appear to be increasingly fragile), Europe must modernise to safeguard both security and economic resilience. The US administration's recent 2025 National Security Strategy, which criticises the North Atlantic Treaty Organisation (NATO) and pushes for "strategic stability" with Russia, exemplifies Europe's need to rebuild its own security infrastructure. A French government official described the paper as a "brutal clarification" of the new reality for Europe.

Figure 3: 2024 defence spending as a share of GDP and projected industrial demand increase as a result of 3.5% target



Source: Savills, NATO, Aberdeen December 2025.

"Russia does not currently fear Europe, the decisive factor will be the capability of Europe's industrial base over the next 12 months."

But how does this impact real estate? Savills estimates that achieving NATO's 3.5% GDP defence spending target could generate 37 million square metres of additional demand from defence and adjacent industries. This equates to an annual demand stimulus estimated up to 17% per annum over seven years. A growing share of this expenditure will be directed towards companies producing defence and dual-use equipment in Europe, and competing for new government contracts aimed at strengthening European security.

In terms of policy, the European Defence Industry Programme (EDIP) is investing €1.5 billion into defence-related production capabilities, with a mandated 35% allocation to EU-made defence hardware. More broadly, there is an obligation for EU countries to deploy 60% of spending on military hardware on European-made products by 2035. In line with this, projects such as the UK's Atlantic Bastion, which is focused on unmanned underwater surveillance to counter submarine threats, are attracting significant public and private investment. With rising demand combined with Europe's existing military hardware and supply chains operating near full capacity, we believe this signals an imminent restructuring phase where private sector participation will be essential to expand the supply of the relevant facilities to meet this increasing demand.

Policies focused on economic resilience

Yet, it is beyond defence that we see some of the deepest shifts in policy. The past year has seen a proliferation of EU policy measures aimed at either creating a level playing field for European businesses or fortifying other strategic value chains.

The Carbon Border Adjustment Mechanism (CBAM) is an EU policy that applies a carbon price to certain imports to match costs faced by EU producers under the Emissions Trading System. From 2026, importers of carbon-intensive goods, such as steel, aluminium, cement, fertilisers, electricity and hydrogen must report emissions and buy CBAM certificates. Its core aim is to prevent carbon leakage by ensuring a level playing field and supporting EU climate goals through global decarbonisation. However, it also ensures that European-made goods retain a certain level of relative attraction. Imported goods can't undercut pricing compared to those meeting more stringent emissions targets in the EU.

A similar policy is affecting advanced electronics, where the European Chips Act has entered its implementation phase, catalysing a wave of investment in semiconductor production plants across Germany, France, and the Netherlands. This initiative is designed to reduce dependence on East Asian suppliers. It positions Europe as a leader in new chip design and ensures Europe achieves strategic autonomy in technology.

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In the pharmaceutical sector, new regulations have been introduced to incentivise local production of essential medicines and active pharmaceutical ingredients. In the wake of the pandemic, the EU's Critical Medicines Act was launched and signed into effect in March 2025. This ensures that funding is tied to domestic capacity expansion and the development of critical medicine stockpiles – a lesson on resilience learned the hard way during the Covid-19 pandemic.

The automotive industry is navigating a complex transition, as governments deploy incentives for electric vehicle (EV) production and the localisation of battery supply chains. The UK's Battery Industrialisation Centre and the EU's Important Projects of Common European Interest (IPCEI) on batteries are notable examples. Chinese EV battery suppliers have added to the logistics demand base in Europe in recent years, particularly in Poland and Germany. But with Europe falling short in this area of the economy, trade policies designed to protect the competitiveness of the European car industry are likely to become more impactful.

Lastly, renewable energy and agri-food value chains have also been the focus of policy innovation. The European Green Deal Industrial Plan provides support for domestic solar, wind, and hydrogen projects, with local industrial input requirements now standard in project tenders. The new 'Hydrogen Corridor' in Germany, which will bring low-emission energy from the north-west coast through the industrial heartland, is a good example of this type of policy in action.

"With Europe falling behind China on EV production, we expect policies to protect the competitiveness of the European car industry to become more impactful."

Figure 4: Policy support for a more resilient European economy across key value chains

Policy area	Core measures / objectives	Industrial impacts
European Chips Act (Chips Act)	Central funding, eased process, state-aid flexibility	Revitalises EU semiconductor autonomy
Solar Energy Strategy & Renewable Energy Plan (REPowerEU)	Rooftop mandates, manufacturing quotas, domestic production	Industrial-scale photovoltaic (PV) deployment, local sourcing
Critical Raw Materials Act (CRM Act)	Mining quotas, diversification, project pipelines	Secures supply for batteries, EVs, and technology
ReArm Europe / Readiness 2030 / SAFE / European Defence Industry Programme	Strengthen European Defence Technological & Industrial Base (EDTIB)	Capacity required to close gaps in defence-related systems and supply chains
Carbon Border Adjustment Mechanism (CBAM)	Carbon border levies from 2026	Increases costs for imports, drives decarbonisation
European Union Emissions Trading System (EU ETS) – "Fit for 55"	Cap reductions, shipping added, Emissions Trading System (ETS) II	Infrastructure modernisation, decarbonisation
Automotive Regulations – CO ₂ Standards for Cars & Vans	CO ₂ targets (100% Zero Emission Vehicles), incentives	Accelerates EV transition, but protects combustion engine producers
Chemical Industry Action Plan	Trade defence, energy relief, licensing of chemicals	Shields EU production; streamlines regulation
Steel and Metals Safeguards	Tight Tariff Rate Quotas (TRQs), origin rules	Protects domestic steel capacity; may raise input costs
Trade Retaliations	Tariffs on US and Asia	Affects material flows and value chains

Source: Europa EU, SolarPowerEU, EUChems, EmobilityEU, Aberdeen, November 2025. Savills, NATO, Aberdeen, December 2025.



Nearshoring industrial capacity to Europe

Nearshoring has resulted from pressures to diversify supply chains in response to growing risks and costs associated with long-distance shipping. Just-in-time still matters, but just-in-case is an increasingly important consideration in a fractured world.

When we first started tracking this trend in the early stages of the pandemic (the EU has been tracking it since 2012), the share of supply chain capacity procurement in nearshoring locations had increased by two-thirds from 6% in 2019 to 10% in 2024. The same survey, conducted by procurement experts Qima six months later, found the share had increased sharply to 15% in June 2025 (Figure 5). This trend is likely to have accelerated as companies adapted to President Trump's trade tariffs, shifting parts of their supply chains to more expensive but more resilient locations. Another driver earlier in the year was tensions in the Strait of Hormuz, which resulted in the insurance costs of vessels travelling through the canal increasing by three-to-four times, from 0.125% of the value of the cargo to 0.4% of the value in a matter of weeks.

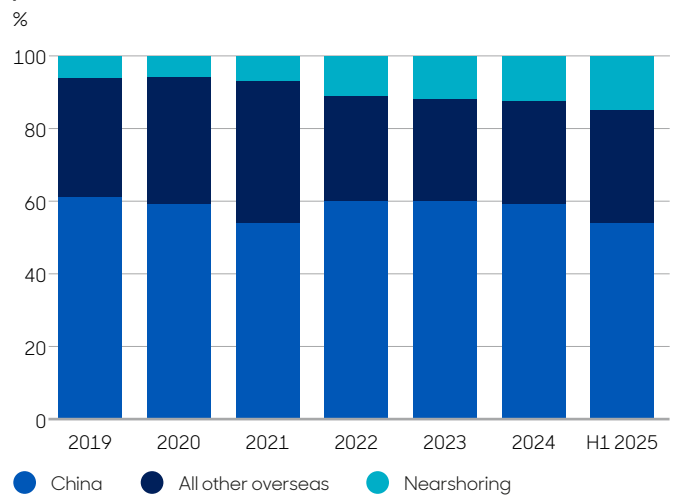
With cost control at the centre of most supply chain decision making, advancements in automation, including 3D printing, should also bring down overall production costs and increase the attractiveness of nearshoring.

"Locations offering increased proximity to consumers; resilience enhancements; higher environmental, social and governance (ESG) credentials; cost reductions; or those subject to significant EU policy support will benefit most."

"Just-in-time still matters, but just-in-case is an increasingly important consideration in a fractured world."

Not all markets in Europe will be winners from the demand shifts as a result of nearshoring. We believe that locations offering increased proximity to consumers; resilience enhancements; higher environmental, social and governance (ESG) credentials; cost reductions; or those subject to significant EU policy support will benefit most. Central and Eastern European markets (cost efficiency), higher-density consumer markets in Western Europe (proximity to customers), and Mediterranean sea ports (short-sea shipping from EMEA nearshoring locations) are expected to be the key winners. Markets with fewer measurable benefits, such as the more costly and peripheral Nordic markets, are less likely to benefit.

Figure 5: EMEA nearshoring as a share of supply chain procurement services



Source: Qima, Aberdeen, December 2025.



E-commerce growth rates return to trend

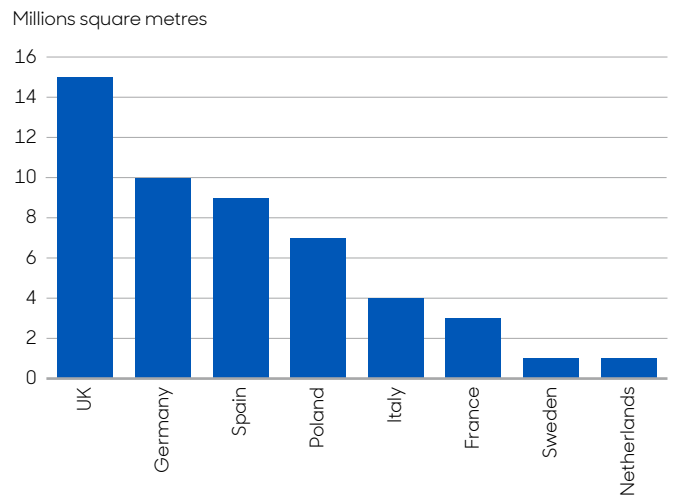
This will be seen as the year that e-commerce rebounded as a key driver of demand. Online retail spiked aggressively during the pandemic through necessity. However, as the pandemic restrictions were lifted, shoppers embarked on a period of 'retail revenge'. This saw the physical in-person shopping experience return as the preferred option, as households dipped into their elevated savings. However, the large swings in e-commerce growth rates are now a thing of the past.

Data shows that penetration rates for online sales are once again growing consistently at the 5-10% annual growth rate seen prior to the pandemic distortions. According to data from Fevad, France's online retail sales growth recorded 7.9% in the first half of 2025, compared with the previous six-month period. Forecasts suggest penetration rates for online retail sales should return to around 20% by the end of 2025 – a similar level to the peak of the pandemic.

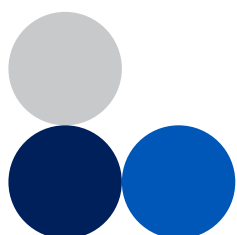
One of the key growth drivers from e-commerce sales is likely to come from the rise of Chinese online retail platforms, such as Shein and Temu. These retailers don't currently have their own distribution capabilities in Europe and rely on third-party logistics providers to distribute their goods. However, regulation could be a stick in the wheel for that model, with the new taxes pending on low-value, fast-moving imports of Chinese consumer goods. Actions taken by Romania and France mean these retailers might have no option but to go toe-to-toe with Amazon and to establish their own distribution networks. This would significantly boost European warehouse demand. So far, Temu has only recently begun to stock goods in bulk in a handful of warehouses in Germany, the Netherlands, France, Spain and the UK. As sales grow at current low price points, this structure is likely to become inefficient, requiring the likes of Temu to have their own European distribution capabilities.

Current forecasts for the impact of e-commerce on European logistics demand suggest a total of roughly 50 million square metres will result from the rise in online retail over the next five years. Combined with the 37 million square metres of additional leasing demand coming from defence spending, there are some strong tailwinds on the demand side investors can't ignore.

Figure 6: Total additional demand for warehousing capacity from e-commerce growth 2025-2029



Source: Green Street, Aberdeen, December 2025.



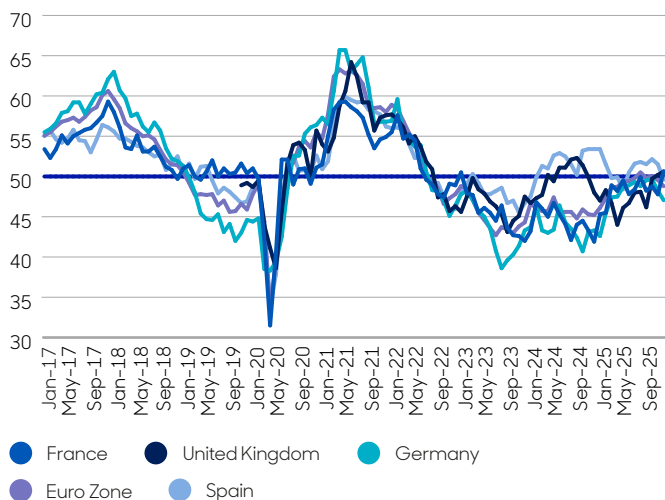
Cyclical trends turning the corner

As noted earlier, structural forces will be supported by cyclical trends in the industrial and logistics sector. We are seeing this factor increase, too. After three years of weak industrial output, led by struggles in the German car industry, there appears to be a cyclical recovery underway.

As shown in Figure 7, the Eurozone's manufacturing Purchasing Managers' Index (PMI) has gradually improved over the last six months and recently exceeded 50 for the first time in over three years. While the readings remain soft, they are materially better than the 45 index score a year earlier. Germany remains below 50 at 47.5 in December 2025, but this compares to a particularly weak score of 40.7 a little over a year earlier. A €50 billion tax break for German heavy industrial manufacturers and the €500 billion fiscal stimulus package announced by the German government are supportive policies. These should have a material impact on demand from Europe's most important manufacturing economy. Lagarde's comments mentioned at the start of the paper suggest more policy support could be on its way.

It's very uncommon for Europe's major economies to run weak PMIs for longer than a three-year period. Policy, inventory re-stocking and a cyclical economic pick-up should eventually kick in and drive a recovery in activity. We are seeing signs of this happening today.

Figure 7: Manufacturing PMIs indicate a cyclical uptick in industrial demand is on the horizon



Source: LSEG, S&P, Aberdeen, December 2025.



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Geographic considerations

Locational factors have always been the primary consideration for industrial and logistics facilities. Today's opportunities present a slightly different set of locational criteria than we have become accustomed to.

For logistics properties, we still believe in mid-box fringe city locations, which have a combination of strong tenant and investor demand fundamentals. Data shows that over three-quarters of all logistics and industrial leasing activity and also investment transactions occur within touching distance of major urban centres. However, structural supply chain shifts (particularly nearshoring) will likely benefit northern European "range ports", existing multi-modal hotspots in major conurbations, southern European ports linking to north Africa and the Middle East, and lower operational cost locations such as Poland and the Czech Republic. We also favour last-mile locations in major conurbations, where residual value is higher and stronger rental growth comes through.

Modern industrial facilities will place a higher value on site security than before, but access to skilled labour and adjacency to complementary businesses and institutions will mean city fringe locations continue to be the key hotspots. Certain regions of the UK, Germany, France, the Netherlands, Spain and northern Italy will be beneficiaries of additional demand from defence spending; most should see broader fiscal easing boost demand. However, existing agglomerations will likely outperform new locations, as clustering remains a key driver of location decision-making for most businesses.

In essence, we are keeping an open mind to where new opportunities will emerge, but we believe that established locations in Germany, France, the Netherlands, Spain and the UK will offer the most compelling opportunities in the future. Our assessment of suitability across countries is highlighted in Figure 8.

"We believe that established locations in Germany, France, the Netherlands, Spain and the UK will offer the most compelling opportunities in the future."

Figure 8: European industrial market assessment

Market assessment rankings	Economic growth	Economic resilience	Global Risk Navigator	Market size & liquidity	Industrial index	Logistics index	Nearshoring potential	Defence & security	E-commerce penetration	Return forecasts	Average	Ranking
Germany	3	5	5	5	5	5	5	5	4	5	4.7	1
Netherlands	3	4	4	4	5	5	4	3	5	4	4.1	2
UK	3	2	5	5	4	4	3	5	5	3	3.9	3
France	2	3	4	5	4	5	4	5	3	3	3.8	4
Spain	5	2	3	4	2	3	4	4	5	3	3.5	5
Denmark	3	5	3	3	2	4	3	2	4	5	3.4	6
Sweden	4	4	5	3	3	4	1	3	3	4	3.4	7
Poland	5	1	1	4	4	3	5	4	2	2	3.1	8
Czech Rep	4	3	2	2	4	3	5	2	3	3	3.1	9
Italy	4	1	2	1	5	3	4	4	1	4	2.9	10
Belgium	3	3	2	2	3	4	2	3	4	3	2.9	11
Austria	2	4	3	3	3	4	2	1	2	1	2.5	12
Portugal	5	2	1	1	1	2	3	1	1	5	2.2	13
Finland	1	1	4	3	1	3	2	2	2	1	2	14

Source: Oxford Economics Economic Risk & growth forecasts, Aberdeen Global Risk Navigator 2025, RCA investment volumes, Unido industrial classification, World Bank Logistics Performance Index 2023, QIMA nearshoring tracker, NATO world defence spending, all data ranked and countries scored from 5 (best) to 1 (weakest), Aberdeen December 2025. Projections are offered as opinion and are not reflective of potential performance. Projections are not guaranteed and actual events or results may differ materially. Data is provided for illustrative purposes only. Return forecasts not representative of any Aberdeen product, or any individual security.

Industrial performance indicators

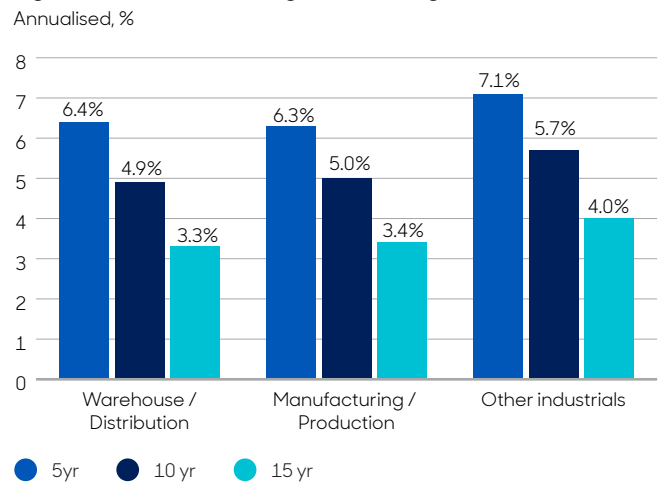
Recent data from Savills shows that the industrial and logistics market is starting to come back to life. In the third quarter of 2025, vacancy rates for logistics in Europe dropped for the first time in over a year, falling from 7% to 6.8% in September 2025. This came as take-up increased by 24% in the third quarter, as the market shook off some of the post-‘Liberation Day’ caution.

New supply also looks set to be limited, with Savills expecting a 20% drop in new stock delivered next year. This trend is also supported by data from Green Street, which expects total new supply to drop to just 4% of existing stock in 2026 and 2027. Rents are increasing at a modest pace of 1.9% per annum (pa), as of September 2025. So, operationally, the sector is improving from a cyclical trough.

We have also done a deep dive into performance data from MSCI to see how the investor experience is evolving in relation to our thesis. In this exercise, we have split the sector into three categories to align more closely with the various industrial property types highlighted in our thesis. These are warehouses and distribution, manufacturing and production, and other industrials. The latter we believe to be akin to light industrial multi-let parks.

Starting with annual rental growth, the pace of growth has also slowed to 3.3% for logistics, 5.3% for manufacturing, and 5.5% for other industrials, as at June 2025. It’s interesting that over five-year, 10-year and 15-year annualised periods, other industrial rental growth outperforms logistics by 70 to 80 basis points (bps) pa. While there is a higher residual value, competition from alternative uses and sites, as well as higher operational intensity, can drive higher rental growth in more urban light industrial assets. Indeed, in some UK industrial parks, rents have increased by as much as two-to-three times over the last five years. As the tenant base modernises, runs higher-value operations and becomes increasingly linked to technological advancements, the capacity for higher rents to be paid is also increasing.

Figure 9: Industrial and logistics rental growth



Source: MSCI, Aberdeen, December 2025.

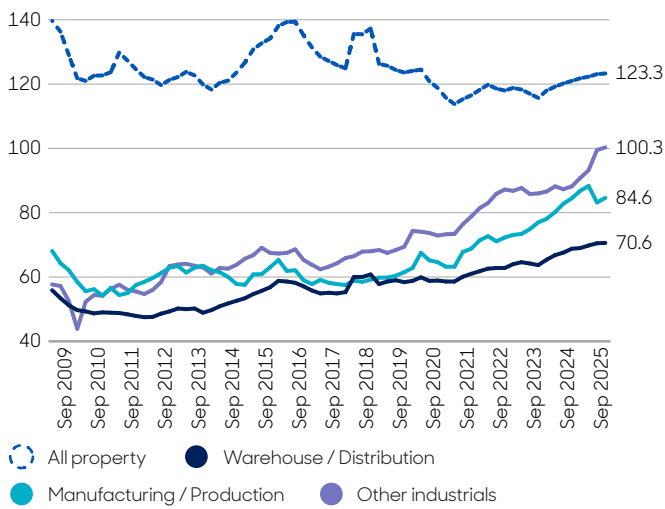
However, perhaps a better indicator of the transmission of rental growth into investment performance is the operational income characteristics. Net-operating income (NOI) is a measure of how good each segment is at converting positive demand and rental trends into cash flows for landlords. Data from MSCI shows an attractive story for industrial and logistics assets, with NOI per square metre increasing steadily for the last fifteen years. "Other industrial" has outperformed logistics over all time periods, with the former seeing the strongest increase in NOI growth on record in the third quarter of 2025, rising to €100 per square metre. This is an 8% increase in just one quarter and a 15% increase year on year. We put this sharp acceleration down to a shortage of quality stock in light industrial parks, at a time when demand is increasing in response to a structural shift in the economy. Furthermore, the light industrials segment is characterised by shorter leases. Therefore, it can capture growth more rapidly than the logistics segment, where leases are typically longer and subject to indexation uplifts.

"Competition from alternative uses and sites, as well as higher operational intensity, can drive higher rental growth in more urban light industrial assets."



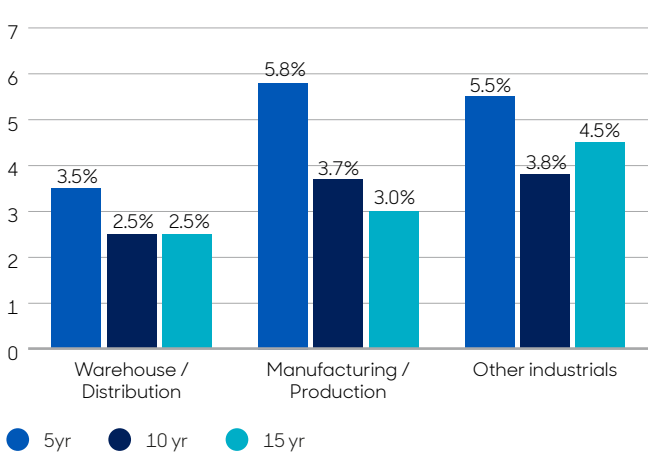
"Other industrial" has outperformed logistics over all time periods, with the former seeing the strongest increase in NOI growth on record in the third quarter of 2025, rising to €100 per square metre."

Figure 10: Net operating income growth
 £ per square metre



Source: MSCI, Aberdeen, December 2025.

Figure 11: Net operating income growth
 Annualised, %



Source: MSCI, Aberdeen, December 2025.

Total return trends have demonstrated similar patterns across the sector and segments, with all the industrial segments performing well over five-year, 10-year and 15-year periods, relative to all property. Other industrials outperform logistics significantly over five- (+1.8% pa) and 10-year (+1.3% pa) periods, with the outperformance narrowing to 0.1% pa over 15 years. The downturn after the Global Financial Crisis was more painful for light industrials, as the financial market collapse spilt into household spending and consumption. This weighed more heavily on industrial parks that were servicing urban areas and the community. Higher yields and longer leases for the likes of supermarkets and more stable occupiers meant logistics was a relatively resilient sector at the time.

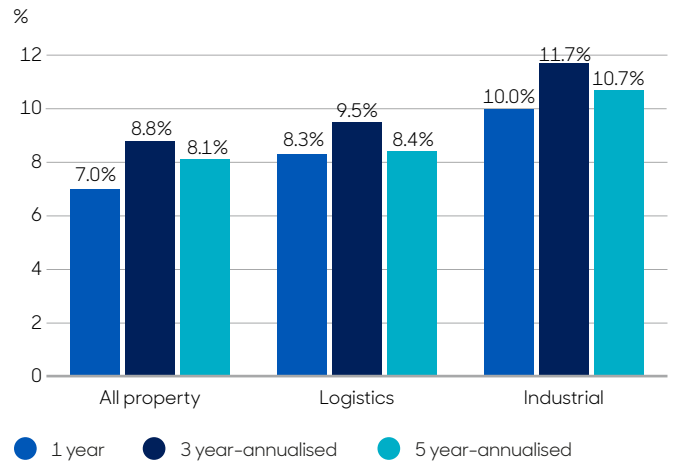
Recent total return performance has been positive, too. The industrial and logistics sectors outperformed all the major real estate sectors to June 2025, with a return of 7.9%. However, digging into our segmentations in more detail, it appears that other industrials (9.6% pa) and manufacturing (9.5% pa) assets have outperformed logistics (7.7% pa), further supporting a broader strategy within the sector.

Source: Aberdeen/MSCI.

The big question is, can these segments deliver strong performance for investors in the future too? We believe that improving cyclical momentum in demand offers investors a compelling entry point into a sector that has also demonstrated attractive historical performance characteristics. This is coupled with strong thematic tailwinds, which could support a 15-20% increase in long-term demand for industrial property across industrial property types.

Figure 12 shows our latest European total return forecasts for the industrial and logistics segments, relative to our All Property forecasts. We believe that the cyclical outlook is compelling and that the structural thematic described in this paper will lead to strong performance from the sector. Furthermore, we believe that industrial assets will have the edge over logistics assets, with the segment delivering stronger rental growth. This will feed more rapidly into NOI growth, as a result of shorter leases and the ability to deliver asset management to enhance property characteristics. Furthermore, industrial yields in the UK are below logistics yields, as higher potential rental growth has pushed them lower. On the continent, the reverse is true, with industrial yields typically over 150 bps higher than logistics yields. We expect higher income returns and a partial convergence in industrial and logistics yields to drive industrial assets to outperform.

Figure 12: European industrial and logistics total return forecasts



Source: Aberdeen, December 2025; forecasts are unleveraged, excluding taxes and fees. Forecasts are offered as a guide only and actual results may differ significantly. For illustrative purposes only. Forecast are not representative of any Aberdeen Fund or strategy.



Conclusion – Europe's need for resilience is creating new investment opportunities

Europe's industrial base has been shaped into an export-driven economic model over the last 75 years, which has left it unfit for purpose in a fracturing world. Increased geopolitical tensions, a shift to a multi-polar global system and the threat of other shocks like Covid-19 will drive more localised production and supply chain infrastructure.

Europe is now waking up to the new reality. As sign-posted by senior European policy makers, new measures and fiscal easing are encouraging the reindustrialisation of the continent. Paradoxically, Europe's heavy bureaucracy could become the catalyst for its next growth phase.

Some of these new policies are already breathing life into the manufacturing and production economy, but there is more to come. As a result, supply chains will benefit from renewed demand for modern and efficient property, which underpins the drive for renewed resilience. Increasing defence spending is a considerable driving factor for demand, yet we believe the need for broader strategic autonomy across key economic value chains will have a generational impact on the industrial outlook.

The opportunity for investors is clear: we do not have the type, location, quality and scale of industrial property required to meet Europe's changing economic needs. Demand and supply fundamentals should be highly supportive, and when a thematic of this type emerges, investors typically benefit from allocating to it. Yet, the compelling total return potential is just part of the story as industrials also offers some interesting hedging qualities against a more fractured geopolitical and multi-polar economic outlook than already expected.

Consequently, we think there are compelling opportunities to invest in, or to create, efficient and highly functional industrial and logistics facilities. These are crucial for Europe's resilience today and underpin the region's strategic autonomy tomorrow.



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