Affinius Capital

European logistics at an inflection point

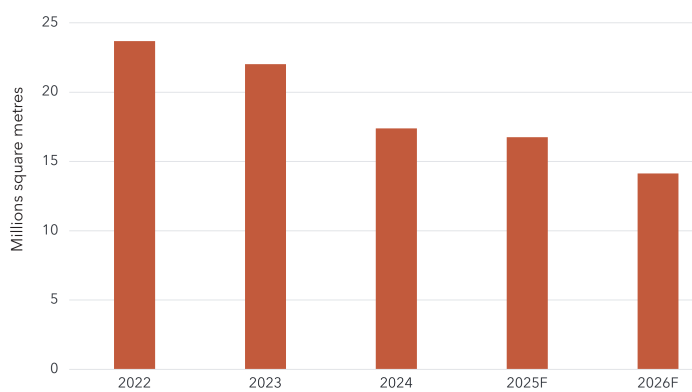
Logistics vacancies in Europe have climbed to their highest level in a decade. The second-quarter vacancy rate of 5.6 percent reported by CBRE was up from 4.5 percent a year earlier and continued to exceed the 5 percent threshold for the second quarter in a row (Exhibit 1). Following a decade of robust expansion, logistics real estate markets across Europe are experiencing a temporary deceleration in tenant demand, largely influenced by macroeconomic headwinds and policy uncertainty. Elevated financing costs and shifting trade dynamics have tempered leasing momentum, even as underlying tenant interest remains strong. This hesitancy in decision-making suggests the presence of latent demand, with the potential for a sharp rebound once market conditions stabilise. Vacancy rates have inched upwards – most notably in markets such as Poland and Spain that saw elevated speculative development in recent years. Nonetheless, the current softness appears cyclical rather than structural. Occupiers continue to prioritise modern, high-specification facilities, reinforcing the growing divergence between demand for modern logistics assets and older, functionally obsolete stock. Although the market has matured over the last decade, there is further to go with Europe, as Europe's warehouse space per capita is only one-third levels in North America.

Exhibit 1: European logistics vacancy rates (2011–2025)

Source: CBRE, Q2 2025

At the same time, the development pipeline across Europe is contracting significantly, as elevated borrowing costs and persistent construction inflation challenge the feasibility of new projects. The Savills Logistics Development Pipeline Index, which tracks the level of speculative development in the European logistics sector, has fallen from a peak of 222.0 in first quarter 2023 to 168.4 in first quarter 2025, representing a decline in the inflow of new stock of 24 percent. Higher borrowing costs and construction inflation have made new projects difficult to underwrite on a historical land–cost basis, resulting in the delivery of new space projected to decline by 40 percent in Europe, from 2022 to 2026 (Exhibit 2). The overall picture in Europe varies by market – while completions in France have dropped sharply by 48 percent, Italy has seen only a 17 percent decrease.[1]

Exhibit 2: European logistics completions

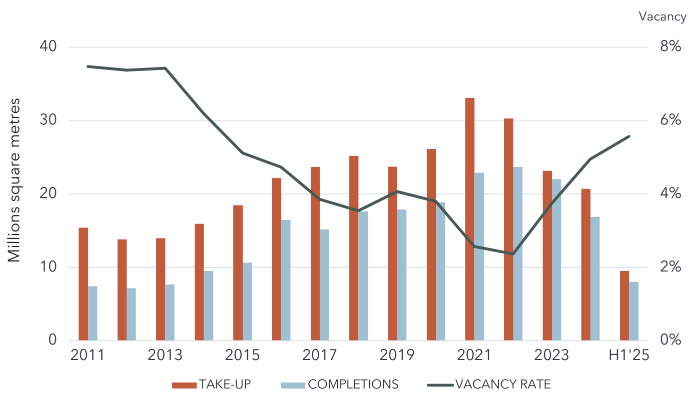


Source: CBRE, Q3 2025

This pullback sets the stage for a tighter market, as long-term demand drivers – ecommerce penetration, supply-chain digitisation, flight to quality and on/nearshoring – maintain positive momentum. Tenant preferences for modern quality space are evident when comparing the composition of Amazon's logistics portfolio with the broader industrial stock across Europe. The average building vintage in Amazon's network is 2017 – less than a decade old – highlighting the company's emphasis on modern, purpose-built facilities designed for high-throughput ecommerce operations. By contrast, the average vintage of European logistics stock stands at 1994.[2]

Tenant demand has moderated since 2024, driven by the stabilisation of ecommerce growth in some markets and rising economic and policy uncertainty. European logistics take-up averaged 9.5 million square metres in first half 2025, marking a 7 percent decline compared with the first half 2024 (Exhibit 3). A key consequence of this slowdown is a growing bifurcation in demand between higher- and lower-quality assets, as occupiers become increasingly selective. In most European markets, we see that grade A vacancy rates currently sit below overall rates driven by tenant demand, driven by tenant preferences favouring modern, ESG-compliant spaces. Elevated development activity – fuelled by the pandemic-driven surge in ecommerce — led to a substantial increase in new logistics completions. The United Kingdom, in particular, stands out. The grade A vacancy rates here are higher due to increased supply, rather than waning demand. More than 6.2 million square metres of logistics space were delivered across the United Kingdom in 2022 and 2023, marking a 46 percent rise compared with the preceding two-year period.[3]

Exhibit 3: European logistics fundamentals



Source: CBRE, Q2 2025

The building selection process has evolved from being primarily rent focused to encompassing a broader and more strategic set of criteria. While rent remains an important consideration, sustainability features have seen the most pronounced rise in importance during the past two years. For instance, a growing proportion of occupiers now expect rent discounts for buildings that lack green certification. Additionally, building design has emerged as a critical factor for a significantly larger share of occupiers, reflecting a clear shift in preference towards higher-quality, future-ready assets.[4] Modern logistics facilities are specifically designed to support high-volume, technology-driven fulfilment operations. For example, ecommerce tenants prioritise features such as clear heights ranging from 11 metres to 15 metres to enable multilevel racking systems, expansive building footprints and deeper truck courts to accommodate increased throughput. Additionally, a higher number of dock doors is essential to meet the demands of same-day or next-day delivery schedules.

Although tenant interest remains strong, persistent global uncertainty is lengthening decision-making timelines — pointing to latent demand and the potential for a sharp rebound in leasing activity once market conditions stabilise. The long-term outlook for logistics real estate remains compelling, underpinned by powerful secular drivers: the continued rise of ecommerce, supply chain digitalisation, and the strategic push for onshoring and nearshoring amid a fragmenting global economy. Additionally, increased defence spending across Europe and growing activity from Chinese ecommerce players are expected to further bolster demand. In our view, these tailwinds will continue to support the outperformance of institutional-grade industrial assets during the coming decade.

During the past few years, Europe has experienced record levels of logistics construction, driven by surging post-pandemic demand, supply chain disruptions and the acceleration of ecommerce. The share of grade A space within total supply, however, is now beginning to decline, reflecting a broader slowdown in construction activity. This pullback is paving the way for a more balanced market dynamic in the medium term.

As occupiers increasingly prioritise quality and ESG alignment, we expect a continued shift away from outdated grade B stock towards modern, sustainable grade A facilities. Yet with new supply tightening, the availability of such space is likely to fall short of evolving demand. Combined with enduring structural tailwinds — such as the expansion of omnichannel retail, reshoring initiatives and the reconfiguration of global supply chains — these conditions position modern logistics assets not only for recovery but for outperformance.

Notes:

[1] CBRE, Q2 2025

[2] CoStar, Q1 2025. Note: Only logistics properties greater than 100,000 square feet [30,480 square metres]. Average age is based on the most recent of year built or year renovated for each property.

[3] CBRE, Q1 2025

[4] CBRE, European Logistics Occupier Survey 2025

CONTRIBUTOR

Karen Martinus

Senior Vice President Research & Investments

Affinius Capital

Phone: +31 6 268 515 88

Email: karen.martinus@affiniuscapital.com

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