

Persistent Supply Constraints Position Europe For Value Growth



Prologis Park Roosendaal DC3, Netherlands

Rising barriers to supply are redefining value in European logistics. The European logistics real estate market, valued at €500 billion,ⁱⁱ is both large in scale and increasingly constrained. Regulatory complexity, labor shortages and infrastructure limitations are slowing development and raising costs. In this environment of scarcity, well-located modern stock is emerging as a critical source of value. Consistently, performance metrics reflect this shift: assets near end consumers in supply-constrained markets are already delivering stronger rent growth than assets in peripheral locations. Developers with the ability to launch new projects in such areas hold a distinct competitive advantage.

- **Europe's available inventory isn't enough to serve the consumer base.** More than €150 billionⁱⁱ in new development is needed to close the gap. This represents one of the largest logistics real estate opportunities globally, but only where new supply can still be built.
- **Barriers to new supply are structural, rising and concentrated in locations close to consumers.** This dynamic is pushing new buildings farther from end consumers, adding costs to operations and value to existing well-located space.
- **Proximity to consumers sets logistics assets apart.** Facilities in dense, supply-constrained markets deliver consistently stronger rent growth over time.
- **Modern facilities meet the standards occupiers seek and deliver stronger performance.** In markets where it's available, occupiers pay a ~9% premiumⁱⁱ for modern high-quality stock.

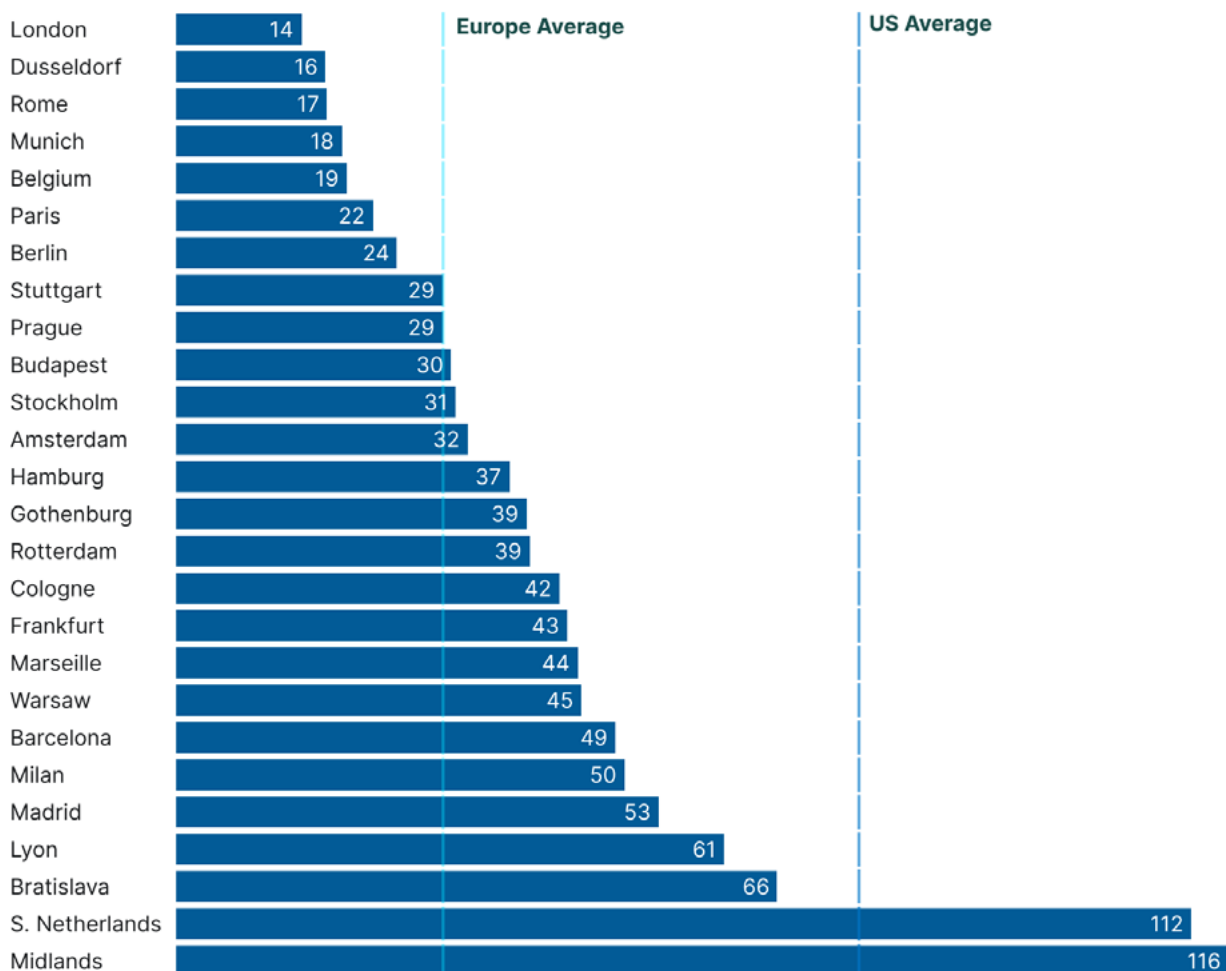
01 Current available modern stock in Europe is not enough to meet the demand of logistics customers, particularly in key consumer-driven locations.

Prologis Research's proprietary Modern Logistics Concentration (MLC) metric, developed in 2015, measures the amount of modern logistics stock relative to the number of consumer households in a market. It captures how well local logistics infrastructure meets consumption-driven demand. Europe's current MLC of 30, compared to U.S.'s 75,ⁱ reveals a structurally underserved market. However, given Europe's denser urban form and more efficient logistics networks, the equilibrium level is likely below that

of the U.S. A more appropriate benchmark is 50, which still implies a significant shortfall. At today's pace of normalized development, it would take approximately eight years to reach this level, requiring more than €150 billion in new construction.ⁱⁱ This underscores both the scale of unmet demand and the magnitude of the long-term opportunity for modern stock expansion in markets where development remains feasible. Importantly, given the growing constraints on new development, this supply gap is not only unlikely to close, it is actively supporting performance momentum for existing logistics real estate in key markets today.

Market Logistics Concentration by Market

Modern SM/consumer household



02 **New development is being built away from population centers on the only available development land.**

In 2014, roughly one-third of all logistics development in Europe took place in urban, consumer-proximate locations.ⁱ By 2024, that share had halved. This decline is not demand-driven: Urban logistics remains a top priority for occupiers seeking proximity to end consumers. Instead, the drop reflects intensifying barriers to supply at the

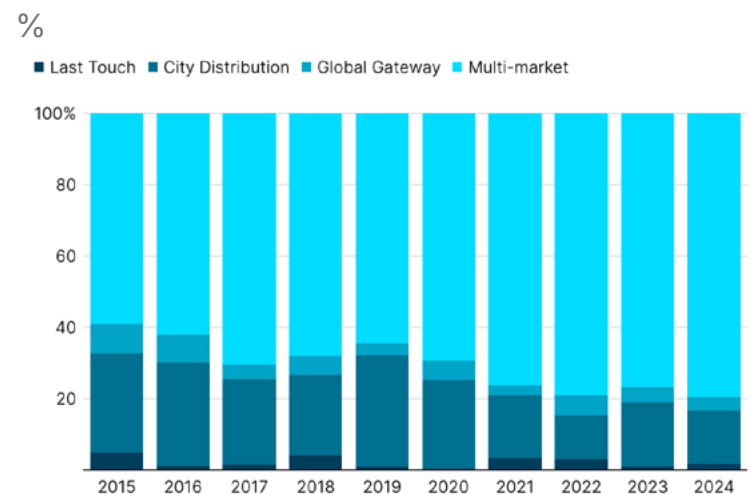
consumer end. The resulting scarcity is pushing rents higher in these core locations, reinforcing performance momentum relative to other markets with more elastic supply environments. At the margin, rising rents are also making brownfield redevelopment in consumer locations more viable. While costly and complex, these projects represent one of the few avenues to add modern stock close to end consumers.

Land has become more scarce in consumption hubs

Only 15%

of starts were in City Distribution or Last Touch™ markets in 2024

Development Starts by Market Classification, Europe



Source: Prologis Research.

03 **Scarcity near consumers is driving a location premium. In dense, supply-constrained markets, location remains**

the dominant source of value in logistics real estate. Assets with proximity to end consumers consistently outperform, with City Distribution and Last Touch® locations delivering annual rent growth 25 and 130 basis points above the European average over the past decade, respectively. In the past three years, that gap has widened to 150 and 240

basis points,ⁱⁱ demonstrating the enduring strength of the location effect. This trend is reinforced by demographic shifts. While Europe's overall population is projected to decline modestly by 0.5% over the next decade,ⁱⁱⁱ urbanization continues to accelerate. The 15 fastest-growing cities are expected to add 2.5 million residents over the same decade, concentrating demand and reinforcing the value of well-located logistics assets positioned close to urban consumers.

UK Availability

% quarters



Note: 2025 data through 2Q25

Source: Newmark.

04 Modern facilities command a distinct quality premium. Occupiers consistently choose new stock where it is available, and are willing to pay more for it. Vacancy data highlights the scarcity: In the UK, availability for modern logistics space stands at just 4%, compared with 8% market-wide. And portfolio-level analysis confirms the dynamic: In markets where modern stock is available, occupiers consistently reward quality, paying a 9% premium.ⁱⁱ

Supply Barriers: Four Buckets Shaping Logistics Development

The imbalance between demand and supply in European logistics real estate is being driven by four structural barriers. Each is persistent, quantifiable and compounding in its impact on development timelines and feasibility. These headwinds are reinforcing scarcity in key locations and amplifying the value of deliverable land and standing modern stock.

Regulatory and Legal Barriers

01 Entitlement has become one of the clearest structural bottlenecks to logistics supply. Timelines have doubled across much of Europe over the past five years, and in some markets the process can take as long as 15 years.ⁱⁱ Even within zoned areas, timelines are highly variable, determined not just by national policy, but by local officials. A change in political leadership or technical reviewers (e.g., fire safety authorities) can reset requirements mid-process. This uncertainty, combined with increasingly layered regulations, is reducing visibility and delaying starts.

Infrastructure and Capacity Constraints

02 Land, infrastructure and labor constraints are no longer cyclical, they're structural.

- Europe's logistics stock has expanded by more than 130% since 2007,ⁱⁱ naturally depleting land. Land near urban centers and along strategic corridors is increasingly scarce, particularly in mature markets.

- Labor availability has become a structural barrier, shaped by demographic headwinds, skills mismatches and persistent competition from other sectors. Unemployment across the EU27 is at a record-low 5.8%,^v but even in softer economic conditions, structural shortages in construction and logistics trades limit development capacity. This has fueled the need for warehouse automation.
- Grid capacity has emerged as a binding constraint. As the European market accelerated its transition to renewable energy, the infrastructure lagged. Existing electrical infrastructure was not designed to accommodate high and variable inputs from renewable energy, nor the rising energy needs of modern society (including EV, data centers and others). Developers in some markets now face grid delays, connection caps and even curtailment risks, forcing investments in microgrids, onsite storage and backup systems. These systems can raise development costs by 10%ⁱⁱ or more and require a high degree of technical integration, making execution expertise a growing differentiator in delivering resilient, future-ready assets.

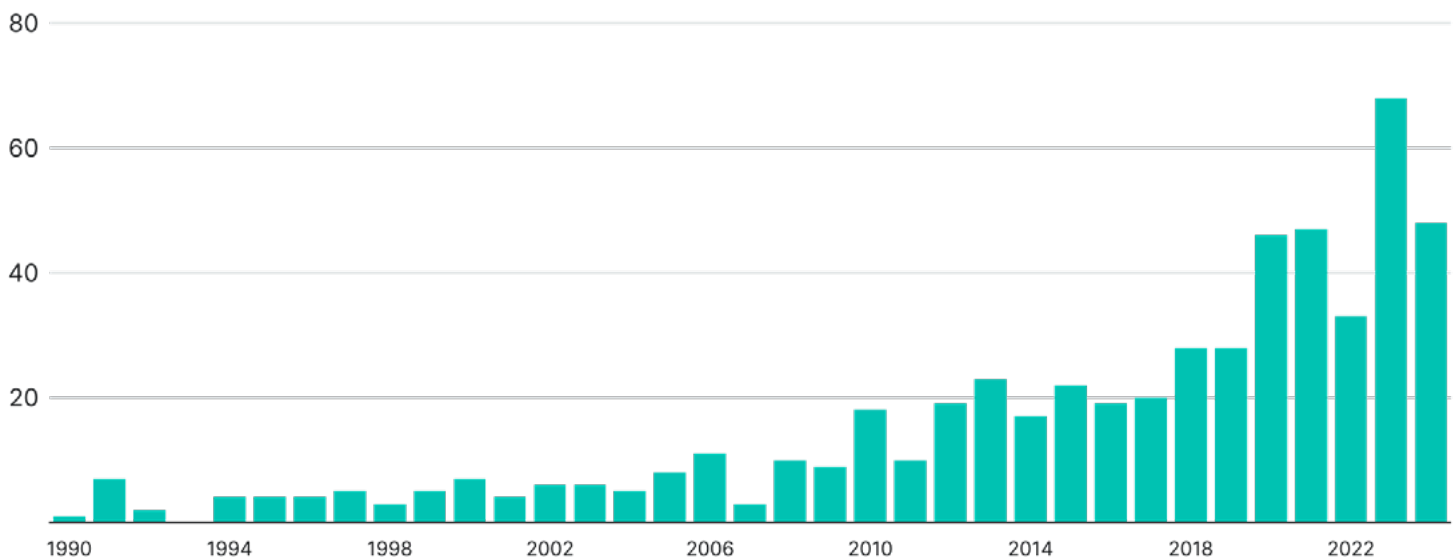
Sustainability and Environmental Constraints

03 The number of sustainability legislations introduced in 2024 is a multiple of what was seen a decade ago, and their impact is material.^{vi} Elevated environmental standards are raising construction costs by 5% to 15%ⁱⁱ depending on geography, developer profile and occupier requirements. Regulatory frameworks such as the EU's Energy Performance of Buildings Directive (EPBD) are mandating higher efficiency

thresholds, including solar installation on all new logistics buildings starting in 2027. A greater challenge is presented by the shifting regulations and definitions of what a sustainable building is. The result is a more expensive and uncertain entitlement process. At the same time, the scarcity of quality, compliant product is setting the stage for a potential scarcity premium. As demand for future-ready assets outpaces supply, particularly from occupiers with firm ESG mandates, upward pressure on rents could emerge.

Sustainability Legislation Introduction Timeline

% no. of legislations introduced



Source: JLL.

Political and Social Resistance

04 With logistics stock having more than doubled since 2007 (+130%),ⁱ the sector has become more visible, and more contested. Resistance varies by market but typically centers on four themes: visual impact near

residential zones, concerns over work conditions, environmental concerns tied to greenfield development and skepticism over logistics' long-term economic value compared to alternative land uses. These factors are adding a growing layer of complexity to the development process.

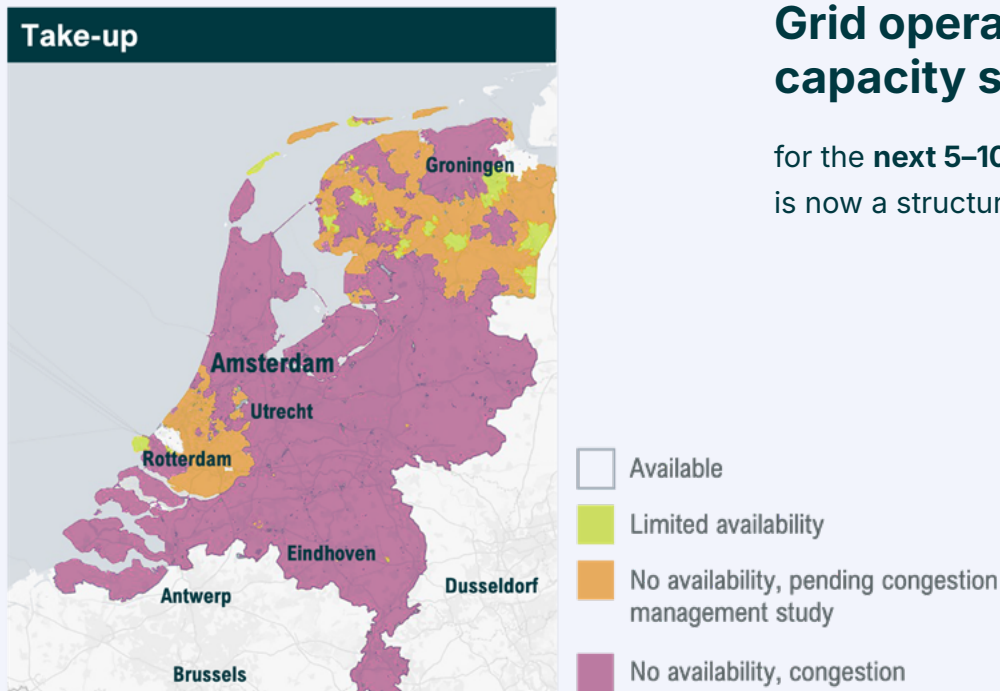
Europe's logistics real estate market is defined by structural undersupply, with mounting barriers to new development reshaping both value and access to growth. Although vacancy has risen in recent years, supply barriers have kept levels close to frictional rather than elevated, even in a weaker demand environment. Modern stock has proven more resilient, highlighting occupiers' ongoing preference for quality space. This dynamic underscores the long-term imbalance between demand and available product. In this context, existing facilities in prime locations are positioned for durable outperformance. Persistent supply constraints will continue to limit new product in these areas, reinforcing the pricing power of well-located assets. Developers with the ability to break ground in constrained, demand-rich markets will maintain a structural competitive advantage, as only those with the technical expertise, strong networks and executional skill to manage elongated entitlement timelines, infrastructure shortfalls, rising construction costs and social opposition can capture a growing share of unmet demand.

Why the Netherlands is Europe's hardest place to build

The Netherlands has some of the strictest energy and environmental regulations in the world for logistics real estate and can be used to anticipate how narrower natural resources will come to impact future development. On the infrastructure side, grid capacity is the most constrained in Europe, reflecting both surging electricity demand and a rapid green transition. Renewable energy's share of electricity generation doubled between 2020 and 2024, reaching 50%,^{vii} while electric vehicles grew from 3.3% of the car stock to 11% over the same period.^{viii} A national nitrogen crisis, driven by EU environmental policy and high agricultural emissions, has severely limited permitting activity. At the same time, public pushback against the visual impact of distribution centers, known locally as "verdozing," is prompting tighter zoning restrictions. A further and increasingly significant complication stems from the permitting process, in which the almost unlimited right to file objections, now more frequently exercised in coordinated efforts by protest groups, can delay or obstruct development plans. Labor constraints further complicate the outlook: With 7.5% of construction jobs unfilled, the country has the highest job vacancy rate in Europe (EU: 2.8%).^v Development activity is responding accordingly to these rising constraints: The number of new construction permits (for warehouses, sheds and greenhouses) issued is down 40% since 2012,^{vii} not only because approvals have become harder to obtain, but also because fewer projects are being submitted in the first place, reflecting developer caution amid growing structural barriers.

Grid availability

Indication of ability to connect to power



Source: Net beheer nederland

May 2025

Grid operators expect capacity shortages to persist

for the **next 5–10 years**, meaning congestion is now a structural supply constraint.

ⁱ Prologis Research, CBRE, DILS, Fraunhofer, Newmark. Estimates are based on the 12 countries in Europe where Prologis has exposure.

ⁱⁱ Prologis Research

ⁱⁱⁱ Oxford Economics.

^{iv} Newmark.

^v Eurostat

^{vi} JLL

^{vii} CBS

^{viii} IEA

Country Level

Stock growth since 2007

%

Poland	907%	Europe's fastest-growing logistics market (+900%) has benefited from strong public-sector support and a clear policy mandate. While development has scaled quickly, future constraints could emerge as the market matures.
Slovakia	598%	Supported by national industrial policy, logistics development has scaled rapidly. But rising infrastructure costs and lengthening approval timelines are beginning to reshape project feasibility.
Czech Republic	322%	A high-growth, low-vacancy market now showing early signs of resistance. Development near Prague and Brno is becoming more contested as communities respond to visibility and traffic impact.
Hungary	240%	After a period of rapid expansion, vacancy has spiked. Oversupply in secondary locations is weighing on market performance and elevating risk. As absorption slows, barriers are less regulatory and more market-driven.
Sweden	161%	Excess supply is weighing on the market following a period of rapid development. While barriers to new construction remain relatively low, rising vacancy is delaying new starts and moderating rental growth, particularly around Stockholm.
France	156%	Administrative and political hurdles are the key bottlenecks for development. Projects—whether warehouses or data centers—face delays due to shifting national political priorities and strong local influence. Multiple rounds of meetings with Public Administrations are often required before filing building permits and ICPE applications, in order to “pre-simplify” the review process. Political uncertainty at the national level further slows progress and makes timing unpredictable.

Country Level

Stock growth since 2007

%

Netherlands	 135%	A strategically important but increasingly inaccessible market. Environmental limits, grid congestion, and social opposition to landscape boxification have converged to create one of Europe's most constrained development environments.
Belgium	 124%	Persistent land scarcity and limited zoning flexibility constrain new development near population centers. With a tight urban footprint and increasing scrutiny of land use, supply is expected to remain structurally limited.
United Kingdom	 119%	A dense, highly regulated market where development must navigate biodiversity net gain rules, future EPC thresholds (C by 2027, B by 2030), and long-standing land scarcity. Local political dynamics and complex planning procedures further delay new supply.
Italy	 110%	Electric power availability and delays in securing public utility connections are becoming the main obstacles in development planning. These new challenges add to structural barriers such as bureaucratic inertia, fragmented permitting processes, and limited land availability. Together, they slow delivery and reduce flexibility to meet rising demand.
Spain	 93%	Electric power scarcity is emerging as a short-term barrier, particularly in the Madrid region where viable solutions are limited. This compounds long-standing challenges such as fragmented planning frameworks, rezoning processes that can take up to 10 years, and delays in infrastructure delivery. Public and political debate over land use remains intense, adding another layer of uncertainty.
Germany	 68%	One of the most difficult logistics markets in Europe to develop. Land scarcity near demand centers is acute, and supply is further constrained by strict forest protection laws and mandatory reforestation. Local resistance often reflects skepticism about the long-term economic contribution of logistics.

Forward-Looking Statements

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Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of December 31, 2024, the company owned or had investments in, on a wholly-owned basis or through co-investment ventures, properties and development projects expected to total approximately 1.3 billion square feet (120 million square meters) in 20 countries. Prologis leases modern logistics facilities to a diverse base of approximately 6,500 customers principally across two major categories: business-to-business and retail/online fulfillment.

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