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Demand Trends Favor Modern Logistics

The logistics real estate sector has undergone a transformation over the past decade, driven by ecommerce expansion, supply chain reconfiguration, and rising operational sophistication. As a result, occupiers are increasingly favouring modern, Grade A logistics assets over older, secondhand stock. This reflects deep shifts in labour dynamics, automation requirements, energy demands, and sustainability expectations. Although occupancy and rental growth performance remain healthy across much of the existing stock base, occupier preferences are increasingly skewing towards modern, high-specification facilities, creating a widening performance gap with implications for valuations, rental growth, and investment strategy.

Automation, robotics, and the need for modern buildings

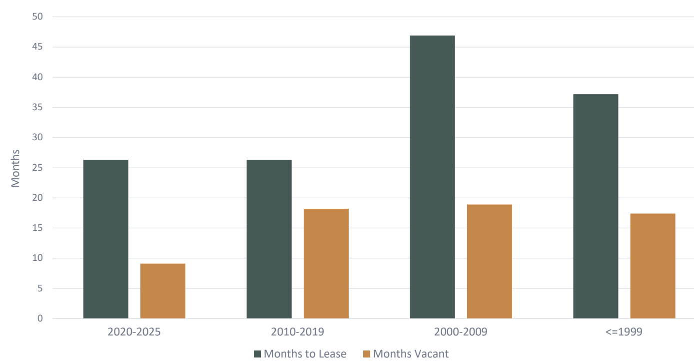
The continued rise of automation and robotics is fundamentally reshaping warehouse design. Technologies such as automated storage and retrieval systems (AS/RS), sortation systems and autonomous mobile robots (AMRs) require higher clear heights, stronger floor loadings, and more advanced power and data infrastructure. Older stock often lacks the capacity to support these specifications without significant capital investment.

This is driving a clear shift in occupier requirements. According to CBRE, 73 percent of occupiers want Level 2+ automated facilities (e.g. semi-automated - AS/RS, sortation systems, AMRs), yet only 21 percent of existing buildings meet this standard. This gap reflects a change in occupier demand towards modern logistics facilities and helps explain the preference for modern assets. Leasing trends reinforce this shift. Over 80 percent of occupier demand in Europe is now focused on Grade A space.

Widening quality divide

Occupiers are increasingly prioritising modern assets in strong locations with access to labour and power, leading to widening performance discrepancy between newer and older stock. Analysis of data from the UK points to a clear leasing advantage for newer logistics assets. Properties built since 2020 show shorter vacancy periods and faster lease-up relative to much of the older stock, reinforcing the market's flight to modern, high-quality space (Exhibit 1). The relatively short vacancy period for the newest cohort of buildings is particularly important. It suggests that, despite a more cautious leasing environment and slower decision-making among occupiers, well-appointed modern space continues to attract demand. In contrast, older buildings may still lease eventually, but the longer marketing periods imply higher income risk, greater holding costs and potentially more capital expenditure required to reposition assets for today's occupier needs. They also tend to secure shorter lease terms, typically around 11 years, compared with 15 years for assets built since 2020, resulting in greater cash flow volatility, and potentially weaker valuations. This reinforces the widening quality divide in the UK logistics market and strengthens the investment case for modern, high-quality logistics assets in supply-constrained locations.

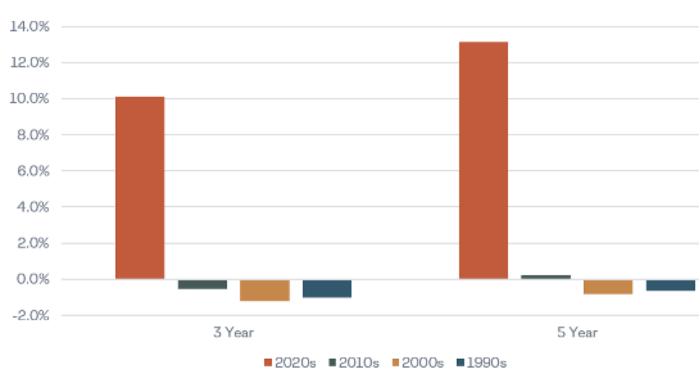
Figure 1. UK Logistics Lease-Up Duration and Vacancy Period by Year Built



Source: CoStar, June 2026. Note: shows time taken to lease and months vacant for logistics properties in the UK from January 2020 to June 2026.

Additionally, evidence from the UK shows that net absorption has been concentrated in recently delivered assets, while older buildings have underperformed (Exhibit 2). Assets developed in the 2020s show significantly higher absorption rates across both the last three– and five-year periods, indicating that the newest stock is being leased up materially faster than older cohorts. In contrast, older stock is seeing limited, and in some cases, negative net absorption. Buildings from the 1990s and 2000s show weak or declining occupancy over both timeframes, suggesting structural obsolescence and growing misalignment with current occupier requirements. While lower absorption in older stock may partly reflect stabilised occupancy, the negative absorption rates point to active occupier upgrading into newer, higher-specification buildings, reinforcing a shift in demand rather than a simple lease-up dynamic. Overall, the data underscores a widening quality divide within the logistics market. Demand is increasingly concentrated in best-in-class, modern-designed buildings, while older stock faces rising vacancy risk and potential repositioning requirements.

Figure 2. UK Logistics Absorption Rates by Year Built

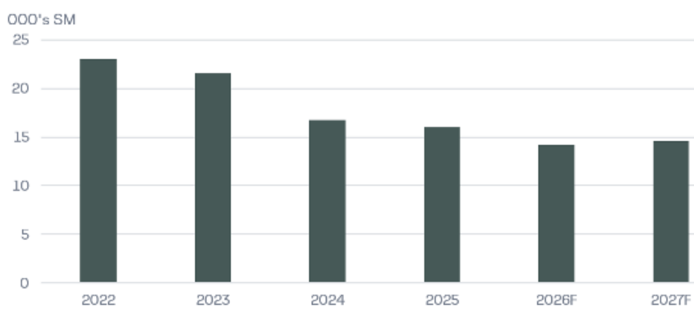


Source: CoStar, June 2026. Note: shows absorption rates over the 3 years from 2023 Q2 to 2026 Q2 and over the 5 years from 2021 Q2 to 2026 Q2.

Development slowdown, and rental growth

This shift in demand is occurring alongside a meaningful supply-side adjustment. Development pipelines across Europe have contracted sharply, with completions expected to fall well below recent Covid-era peaks. Structural barriers, including land scarcity, construction cost inflation, planning constraints and power availability, are further reinforcing this slowdown, particularly in core logistics locations. As a result, new supply is constrained, particularly for large, modern units. Both completions and space under construction are now roughly 40 percent below the 2022 peak, and pipelines are looking thin. Meanwhile, demand for high quality space remains robust (Exhibit 3).

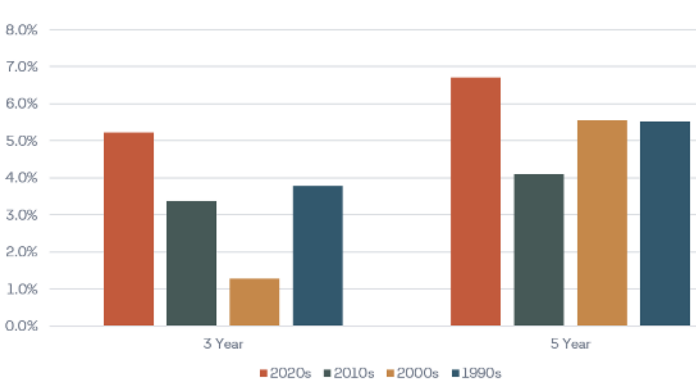
Figure 3. European Logistics Completions



Source: CBRE, June 2026.

This imbalance has also led to stronger rental growth for modern buildings. UK logistics assets have delivered positive rental growth across all age cohorts, but the strongest performance is concentrated in the newest stock (Exhibit 4). Buildings constructed in the 2020s have seen the strongest annualised rent growth over both the last three– and five-year periods, reflecting occupier demand for modern, energy-efficient, and operationally flexible space. The strong rental growth across all age cohorts partly reflects the exceptional supply-constrained environment during and immediately after the pandemic; however, as vacancy has increased, future rental growth is likely to become increasingly differentiated in favour of modern, high-quality assets. Overall, the data reinforces the case for well-equipped, newer logistics assets, which appear better positioned to capture rental growth in a market where occupiers are prioritising efficiency, quality, and resilience.

Figure 4. UK Logistics Rent Growth by Year Built



Source: CoStar, June 2026. Note: shows annualised rent growth over the 3 years from 2023 Q2 to 2026 Q2 and over the 5 years from 2021 Q2 to Q2 2026.

Sustainability requirements, well-being, and labour attraction

Modern logistics assets are increasingly outperforming older stock as occupier requirements shift towards sustainability, operational efficiency, and workforce needs. New buildings are designed to meet stringent sustainability standards at a time when about two thirds of occupiers have active carbon reduction commitments and are prioritising energy-efficient, low-carbon facilities. At the same time, the market faces a structural mismatch: 69 percent of Europe's warehouse stock is over 10 years old and often unable to meet these requirements without significant retrofit investment. This is translating into demand patterns, with occupiers becoming increasingly selective and actively trading up into more modern, resilient assets capable of adapting to growth and change, leaving older stock exposed to rising vacancy and obsolescence risk. Together with continued labour constraints driving demand for higher-quality working environments, these factors are reinforcing a clear and persistent performance gap in favour of newer, Grade A logistics assets.

Conclusion

The evidence points to a clear shift in the logistics market, with demand increasingly concentrated in modern, high specification assets. As occupiers prioritise automation readiness, sustainability, and operational efficiency, modern buildings are being prioritised, driving a widening and self-reinforcing performance gap. At the same time, constrained development pipelines and structural barriers to new supply are amplifying the scarcity of Grade A stock. For investors, this marks a compelling and increasingly differentiated opportunity to deliver modern logistics space aligned with evolving occupier needs.

COMPANY OVERVIEW

Affinius Capital® is an integrated institutional real estate investment firm focused on value creation and income generation. With a 40-year track record and $61 billion in assets under management, Affinius has a diversified portfolio across North America and Europe, providing both equity and credit to its trusted partners and on behalf of its institutional clients globally. For more information, visit **www.affiniuscapital.com.**

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