

# EUROPE INSIGHTS

## Key Themes

- Has Logistics Space Demand Fallen Too Far for Further Real Rental Growth?
- Can Rent Regulation Hold Back Rental Growth in the Residential Sector?

### Has Logistics Space Demand Fallen Too Far for Further Real Rental Growth?

What is the outlook for logistics rental growth? That is a tough question. It's no secret that the demand for logistics space is down, and if leading indicators such as new industry orders are to be believed, the outlook for the rest of 2025 is not much better (**Exhibit 1**).

Factors such as heightened trade uncertainty, slower-than-expected consumer spending growth and low levels of industrial activity are unlikely to improve any time soon. So, are rents set to fall?

### Exhibit 1: Demand Has Moderated from Elevated Levels

European Logistics Net Absorption (% of Stock) and Industry New Orders (Index)



Sources: Eurostat, PMA, BNP Paribas, Oxford Economics, PMA, Cushman & Wakefield, PGIM Real Estate. As of September 2025.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

For Professional and Institutional investors only. All investments involve risk, including the possible loss of capital.

Well to us no, they're not. Three reasons help. The first is the supply side. Falling space demand and declining real capital values have curtailed development activity. We see this trend persisting, limiting new supply over the coming years (**Exhibit 2**).

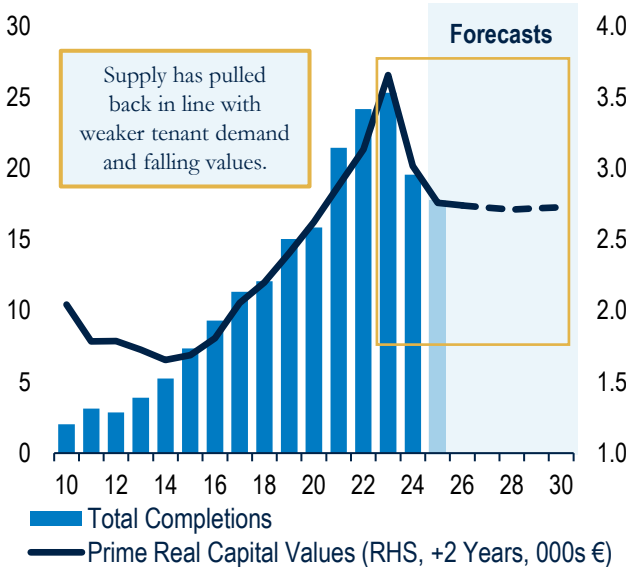
Second, and as outlined in some of our previous work, the medium-term outlook for logistics space demand remains positive. Ongoing adoption of e-commerce across European cities remains a strong tailwind.

And third, despite European logistics vacancy rates having risen over the last two years, any historical analysis still points to real rental growth. Provided the pan-European vacancy rate remains below 7.5%, real rental growth is still likely.

What's more, rents might grow even faster. Forecasts have vacancy rates set to fall back – in turn pushing rents up by even more. However, that outsized momentum could be lost again if supply responds.

**Exhibit 2: Supply Is Adjusting to Less Demand and Lower Real Capital Values**

Europe Total Logistics Completions (Million SQ M) and Prime Real Capital Values (2024 Prices)

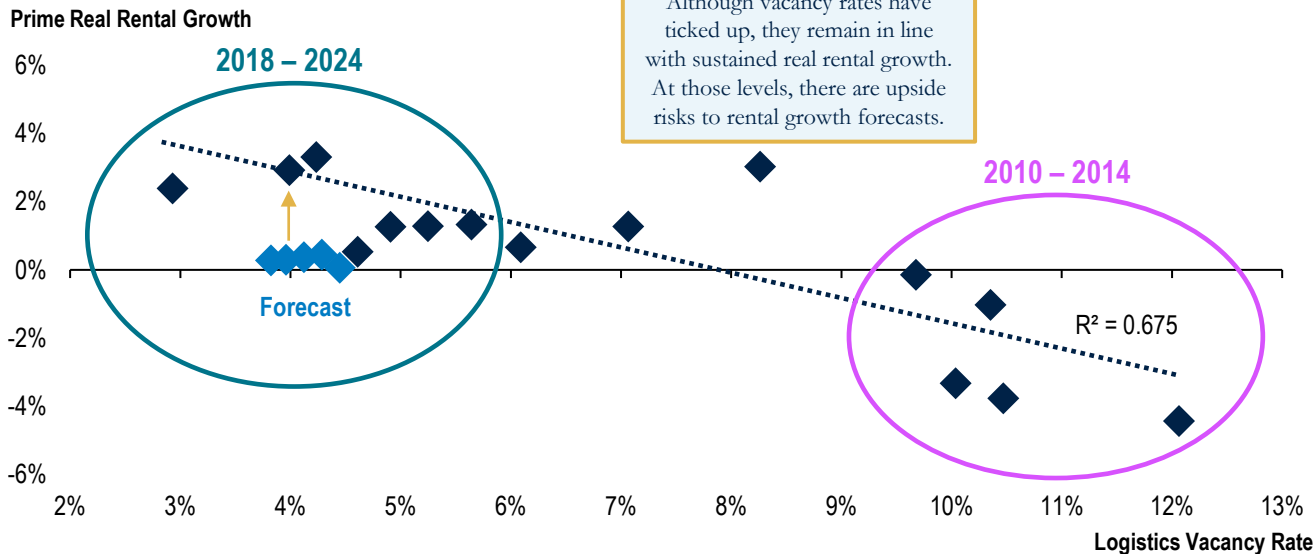


Sources: PMA, Cushman & Wakefield, PGIM Real Estate. As of September 2025.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

**Exhibit 3: Vacancy Has Risen but Remains Consistent with Real Rental Growth**

Logistics Vacancy Rate vs. Prime Real Rental Growth



Sources: PMA, PGIM Real Estate. As of September 2025.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

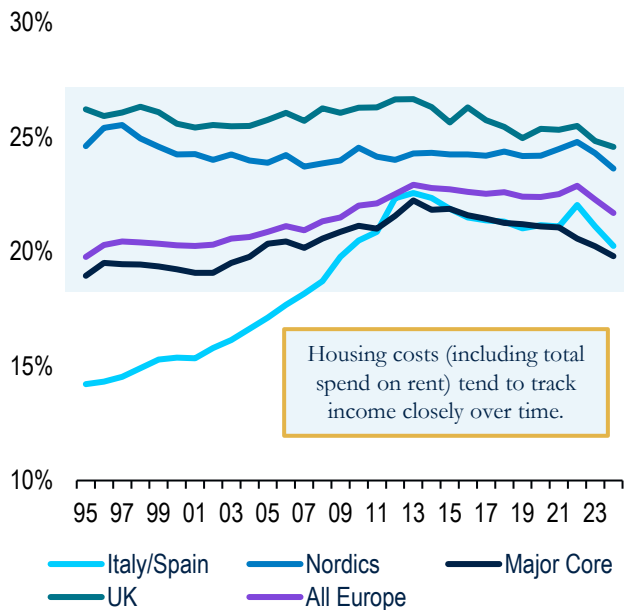
For Professional and Institutional investors only. All investments involve risk, including the possible loss of capital.

Can Rent Regulation Hold Back Rental Growth in the Residential Sector?

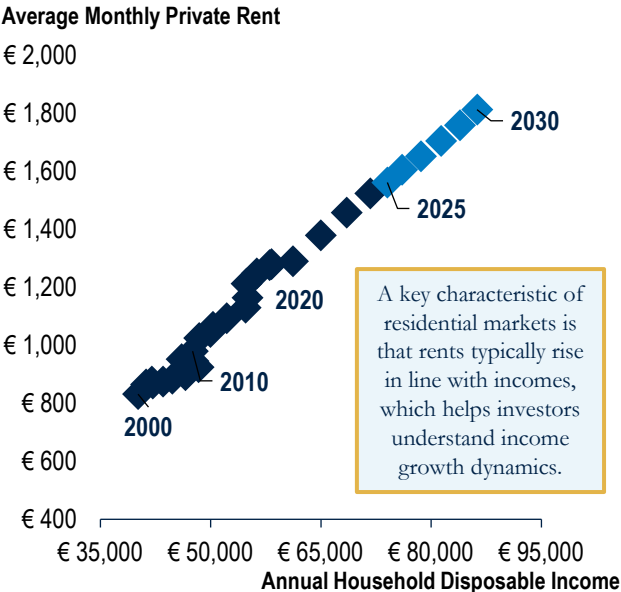
Over time housing costs tend to move with household incomes (Exhibit 4), as such it is no surprise that rental growth is similarly linked to growth in household incomes. This dynamic can contribute to relatively stable cash flows for investors – one of the key attractions of investing in residential assets.

Exhibit 4: Households Spend a Constant Share of Income on Housing

Housing Costs as a Share of Disposable Income (%)



Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000 – Major Cities (€)



Sources: Oxford Economics, PMA, PGIM Real Estate. As of September 2025.  
Forecasts are not guaranteed and may not be a reliable indicator of future results.

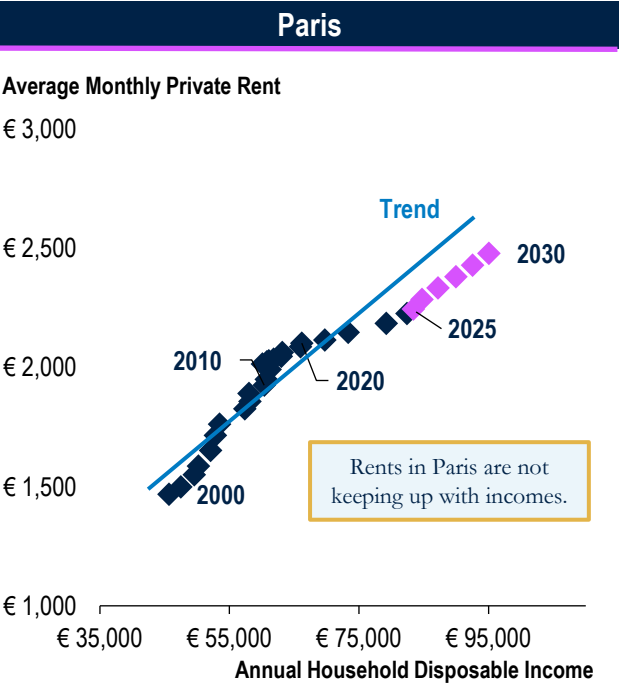
However, this pattern does not hold everywhere. At the city level for instance, variations in local factors, such as rent regulation, affect the income-rent dynamics.

Take Paris, for example. Rent regulation has clearly curbed headline rental growth. The ELAN law introduced a framework that caps both initial and renewed rents, as well as rent increases, based on a median reference rent. Since its implementation in 2018, rent levels have fallen below their long-term relationship with incomes (**Exhibit 5**).

A similar dynamic is playing out in Berlin and other German cities, where rent breaks, caps and even freezes are in effect. These measures are not only restraining current rental growth but are also weighing on future rental growth forecasts, which now point to weaker growth than would be expected in the absence of such regulation (**Exhibit 5**).

Exhibit 5: Regulation Holding Back Rent Growth in Selected Cities

Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000



Sources: PMA, Oxford Economics, PGIM Real Estate. As of September 2025.  
Forecasts are not guaranteed and may not be a reliable indicator of future results.

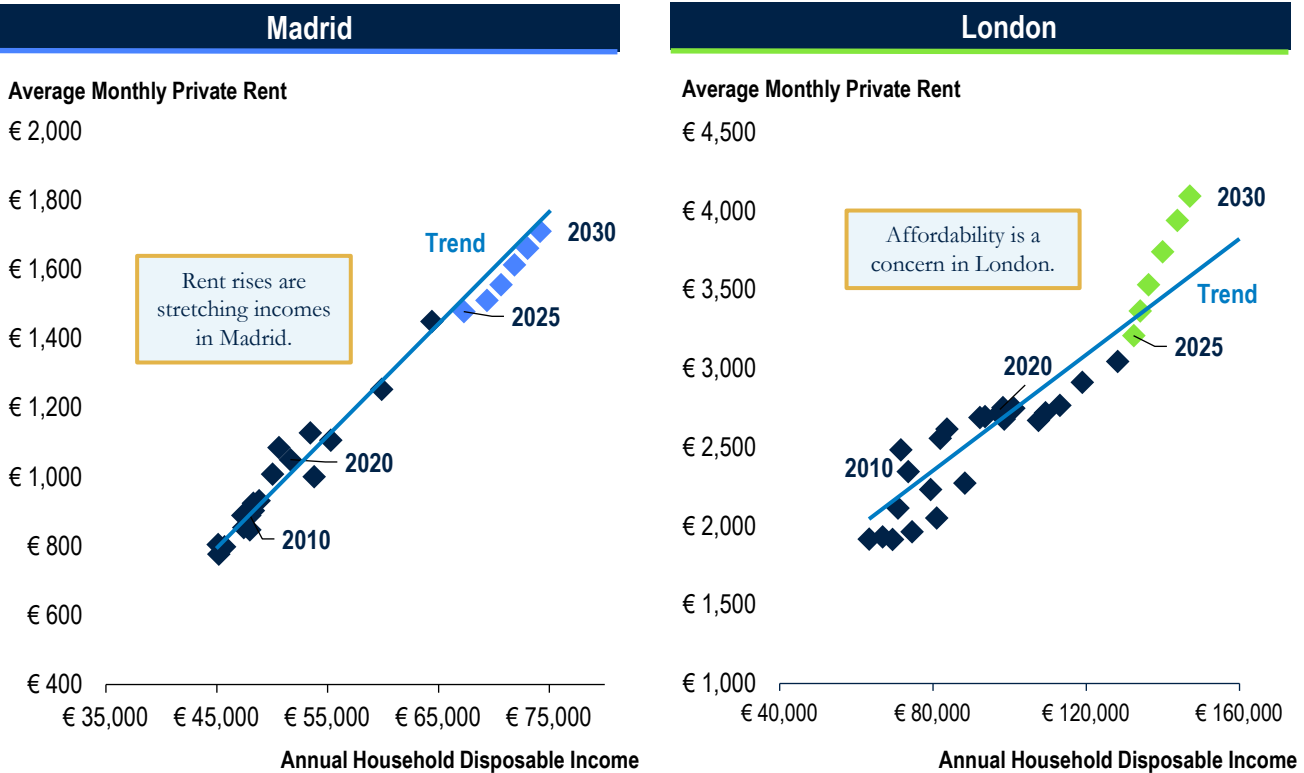
In contrast, cities without effective rent controls – such as Madrid and London – have experienced rent increases that closely track income growth (**Exhibit 6**).

Madrid illustrates how, in the absence of effective rent regulation, even quick rises in household income can lead to equally swift rent hikes. In London, where rent controls are non-existent, housing shortages are expected to drive rental growth beyond income growth, raising concerns about affordability – though that’s a separate issue.

So, what does this mean? The punchline is always know your market. But this is also a great exercise in how big picture dynamics – often those used by market players to promote the residential sector – give a misleading picture because they miss the local market details. All of this adds a level of uncertainty that is often missed when investors look at the residential market as providing a stable and predictable cash flow.

Exhibit 6: Rents Reflect Demand Supply Dynamics When Unregulated

Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000



Sources: PMA, Oxford Economics, PGIM Real Estate. As of September 2025.  
Forecasts are not guaranteed and may not be a reliable indicator of future results.

## Contacts

### Florian Richter

Vice President

European Investment Research

[florian.richter@pgim.com](mailto:florian.richter@pgim.com)

## Important information

**For Professional and Institutional Investors only. All investments involve risk, including the possible loss of capital. Past performance and target returns are not a guarantee and may not be a reliable indicator of future results.**

PGIM Real Estate is the real estate investment management business of PGIM, the principal asset management business of Prudential Financial, Inc. ("PFI"), a company incorporated and with its principal place of business in the United States. PGIM is a trading name of PGIM, Inc. and its global affiliates. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (the "SEC"). Registration with the SEC does not imply a certain level of skill or training. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. Prudential, PGIM, their respective logos and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide. For more information, please visit [pgimrealestate.com](http://pgimrealestate.com).

## GENERAL/CONFLICTS OF INTEREST

These materials represent the views, opinions and recommendations of the author(s) regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of the contents hereof, without prior consent of PGIM Real Estate is prohibited. Certain information contained herein has been obtained from sources that PGIM Real Estate believes to be reliable as of the date presented; however, PGIM Real Estate cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. PGIM Real Estate has no obligation to update any or all of such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors.

**These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. Past performance is no guarantee or reliable indicator of future results. No liability whatsoever is accepted for any loss (whether direct, indirect, or consequential) that may arise from any use of the information contained in or derived from this report. PGIM Real Estate and its affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM Real Estate or its affiliates.**

The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, the recipient(s) of this report must make its own independent decisions.

**For Professional and Institutional Investors only. All investments involve risk, including the possible loss of capital.**

**Important information** *(continued)*

**Conflicts of Interest:** Key research team staff may be participating voting members of certain PGIM Real Estate fund and/or product investment committees with respect to decisions made on underlying investments or transactions. In addition, research personnel may receive incentive compensation based upon the overall performance of the organization itself and certain investment funds or products. At the date of issue, PGIM Real Estate and/or affiliates may be buying, selling, or holding significant positions in real estate, including publicly traded real estate securities. PGIM Real Estate affiliates may develop and publish research that is independent of, and different than, the recommendations contained herein. PGIM Real Estate personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM Real Estate's clients or prospects or proprietary investment ideas that differ from the views expressed herein. Additional information regarding actual and potential conflicts of interest is available in Part 2 of PGIM's Form ADV.

**INFORMATIONAL PURPOSES**

These materials are for informational or educational purposes. In providing these materials, PGIM (i) is not acting as your fiduciary and is not giving advice in a fiduciary capacity and (ii) is not undertaking to provide impartial investment advice as PGIM will receive compensation for its investment management services.

These materials do not take into account the investment objectives or financial situation of any client or prospective clients. Clients seeking information regarding their particular investment needs should contact their financial professional.

The information contained herein is provided on the basis and subject to the explanations, caveats and warnings set out in this notice and elsewhere herein. Any discussion of risk management is intended to describe PGIM Real Estate's efforts to monitor and manage risk but does not imply low risk.

These materials do not purport to provide any legal, tax or accounting advice. These materials are not intended for distribution to or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation.

**RISK FACTORS**

Investments in commercial real estate and real estate-related entities are subject to various risks, including adverse changes in domestic or international economic conditions, local market conditions and the financial conditions of tenants; changes in the number of buyers and sellers of properties; increases in the availability of supply of property relative to demand; changes in availability of debt financing; increases in interest rates, exchange rate fluctuations, the incidence of taxation on real estate, energy prices and other operating expenses; changes in environmental laws and regulations, planning laws and other governmental rules and fiscal policies; changes in the relative popularity of properties risks due to the dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; and acts of God, uninsurable losses and other factors. As compared with other asset classes, real estate is a relatively illiquid investment. Therefore, investors' withdrawal requests may not be satisfied for significant periods of time. In addition, as recent experience has demonstrated, real estate is subject to long-term cyclical trends that give rise to significant volatility in real estate values. An investor could lose some or all of its investment. Real estate investment trusts (REITs) may invest in equity securities of issuers that are principally engaged in the real estate industry. Therefore, an investment in REITs is subject to certain risks associated with the real estate industry and, more generally, the public markets.

**For Professional and Institutional Investors only. All investments involve risk, including the possible loss of capital.**