

# Sustainable Investment

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## Logistics real estate: resilient income and sustainable appeal

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### Ambitious decarbonisation targets and robust demand growth

The buildings sector is one of the largest contributors to greenhouse gas emissions in the EU, accounting for 34% of energy-related emissions. These stem from both direct fossil fuel use (e.g. heating systems) and electricity consumption (e.g. lighting, cooling, appliances). Tackling emissions from buildings is therefore critical to mitigating climate change and reducing the frequency of extreme weather events.

At the same time, the logistics sector is evolving rapidly, driven by a 100%+ increase in global e-commerce sales over the past five years. This shift has prompted occupiers to seek modern, strategically located facilities that can meet rising consumer expectations.

As in other real estate segments, we've seen a growing bifurcation between high-quality, modern logistics assets and older stock. Our sector investments have targeted bonds from real estate operators aligned with ambitious decarbonisation goals and high sustainability standards, reinforcing their long-term viability and relevance in a low-carbon future.

### Operational strength: a sector built on stability

Logistics real estate assets are displaying strong fundamentals against an uncertain macroeconomic backdrop – highlighting levels of resilience which appeal to us as credit investors. This real estate sector benefits from several tailwinds:

- **High occupancy rates:** Logistics assets across our holdings maintain healthy occupancy levels of around 95%, in line with the sector average. While occupancy rates have moderated slightly post-pandemic, they remain robust, reflecting sustained tenant demand.
- **Supportive market dynamics:** Demand has stabilised following a period of elevated interest rates, while – importantly – supply remains constrained. Construction volumes are down to 4% of total stock, compared to 7% in 2022. Development pipelines in key European markets lag well behind demand growth, reinforcing occupancy and rental growth. This reflects the lasting impact of cost inflation and limited land availability, which continues to support prime headline rents, currently growing at a healthy ~4%. This imbalance is expected to persist, underpinning the sector's long-term fundamentals.

- **Rental growth and inflation protection:** A significant proportion of leases are linked to inflation, providing natural protection against rising costs. Additionally, re-leasing spreads – the uplift achieved when leases are renewed – range between 15–20%, offering strong rental growth potential.
- **Valuation recovery:** Property values have begun to stabilise and show positive growth in the first half of 2025, further validating the sector's resilience and attractiveness.
- **Geopolitical tailwinds:** The recent US-EU tariff agreement is expected to reduce uncertainty for European logistics occupiers and leasing activity is anticipated to pick up in the second half of the year.
- **E-commerce growth:** The European internet retail market grew 6% in 2024, with penetration rates reaching all-time highs. The UK remains a leader, with rates 2.1x higher than continental Europe, suggesting further upside potential for the region.
- **Strategic asset selection:** Location and quality are increasingly critical. Occupiers are prioritising buildings that enhance transportation efficiency, labour access, and supply chain resilience. Higher rents are justified when assets contribute to overall business performance, making sustainable, well-located portfolios a key focus.

## Our investments support a sustainable transition while investing in high-quality assets.

We own bonds issued by logistics real estate operators such as **Blackstone**, **Prologis**, **Logicor** and **Segro**. These companies are committed to supporting a sustainable transition to a low-carbon economy:

- **Blackstone Property Partners:** Targets a 15% carbon reduction within three years of acquisition. 77% of its logistics portfolio has an EPC (Energy Performance Certificate) rating of C or higher, with 24% rated A+.
- **Prologis European Logistics:** Aims for carbon-neutral construction by 2025, full fleet electrification by 2030, and net zero by 2040 (including Scope 1, 2, and 3 emissions). Solar capacity has grown significantly, now nearing 150MW.
- **Logicor:** All new developments are expected to be BREEAM (Building Research Establishment Environmental Assessment Method) Excellent or Very Good. Currently, 50% of assets are rated EPC A–C, with a 34% reduction in carbon emissions, close to its 36% target by 2030.
- **Segro:** A market leader aiming to reduce carbon emissions by 42% by 2030, with 76% of its portfolio currently certified to green building standards, versus an industry average of 35.7%.

At the same time, these real estate investors are targeting high-quality assets in prime locations. We expect this dual focus on operational excellence and environmental responsibility to drive resilient performance and capture long-term demand growth.

## Good credit quality and attractive valuations provide solid foundations for our logistics names.

We own bonds in logistics real estate groups with a diverse tenant mix, consistently high occupancy levels, and strong retention rates of approximately 80%. Despite the challenges posed by a higher interest rate environment, they have effectively managed their leverage, keeping loan-to-value ratios within target ranges, and have maintained a low average cost of debt. Although interest coverage ratios have somewhat softened due to rising financing costs, they remain within healthy levels, underscoring the resilience of these businesses.

These logistics names are also attractive from a valuation standpoint. While credit spreads on the broader European index and real estate sector have tightened significantly, logistics issuers continue to offer compelling spreads. Notably, some of our holdings, such as Blackstone and Logicor, offer among the highest spreads across European real estate fixed income securities. This relative value, combined with good fundamentals and sustainability credentials, reinforces our conviction to remain overweight logistics in our portfolios.

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## Key Risks

**Past performance does not predict future returns. You may get back less than you originally invested.** We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Funds managed by the Sustainable Future Team:

Are expected to conform to our social and environmental criteria.

May hold overseas investments that may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of a Fund.

May hold Bonds. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result; The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

May encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

May invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

May invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

May, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.

The use of derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Outside of normal conditions, may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

Do not guarantee a level of income.

The risks detailed above are reflective of the full range of Funds managed by the Sustainable Future Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

A collective redress mechanism by consumers in respect of infringements of applicable Irish or EU laws is available under the Representative Actions for the Protection of the Collective Interests of Consumers Act 2023 which transposes Directive (EU) 2020/1828 into Irish law. Further information on this collective redress mechanism is available from Representative Actions Act - DETE (enterprise.gov.ie)

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