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Re-imagining value-add real estate: How energy is reshaping European logistics

Introduction

The energy transition is creating a growing convergence between infrastructure and real estate investing. While infrastructure investment focuses on expanding and decarbonising energy supply, improving the efficiency of existing buildings addresses the other side of the equation by reducing demand. As energy costs rise and power becomes increasingly constrained, reducing energy demand is creating a new source of value within real estate.

Energy price volatility and the need for reliable power are reshaping logistics occupier demand. Increasingly, occupiers are seeking buildings that can reduce energy costs, provide access to reliable power and support future operational requirements. As a result, energy performance is becoming an important driver of asset competitiveness and leasing outcomes. This creates the opportunity to move core-quality assets onto a value-add trajectory, with risk characteristics more commonly associated with core-plus investing. For us, the key to this is a metric called Primary Energy Demand (PED) which provides a measurable link between targeted energy upgrades and occupier cost savings, supporting rental growth.

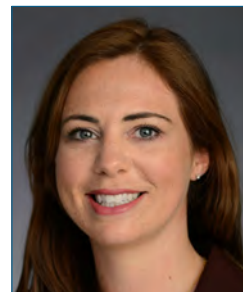
This approach is particularly relevant in today's market environment. With greater volatility and less scope to rely on market-driven capital growth or yield compression, the ability to create rental growth at the asset level is increasingly important. Energy efficiency led refurbishment provides an identifiable economic basis for that growth by reducing occupier costs, while the targeted nature of the investment can avoid many of the development, planning and vacancy risks traditionally associated with value-add investing.



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The cost of keeping the lights on

The economics of occupying a logistics building are changing. Energy has become a more significant and less predictable operating cost which, alongside broader cost pressures such as rents and labour, is prompting occupiers to focus more closely on how their buildings can help manage costs.

We estimate that energy costs for logistics occupiers have risen by around 90% since 2019. Wholesale electricity prices surged during Europe's 2022 energy crisis and have more recently spiked again as conflict in the Middle East continues to disrupt global energy markets. The loss of liquefied natural gas (LNG) supplies through the Strait of Hormuz has contributed to renewed volatility in European gas prices, with natural gas prices reaching levels not seen since the 2022–2023 energy crisis¹.

Today, energy is a material component of the occupier cost base. Based on blended logistics rents and energy prices across selected European markets, we estimate that energy now represents around 19% of total occupancy costs on average – a significant proportion and one that has increased materially as energy prices have risen.



19%

of total occupancy costs represented by energy²



c.90%

increase in logistics occupier energy costs since 2019²

Unlike many other occupancy costs, which are largely determined by external market conditions, energy consumption can be directly influenced by the building itself.

Improving energy performance creates an opportunity to lower occupier costs while enhancing a building's competitiveness. For investors, this provides a potential pathway to rental growth that is underpinned by measurable economic benefits to occupiers.

The power problem

Compounding the impact of higher energy costs, logistics operations are also becoming increasingly power intensive. Automation, robotics, electric vehicle charging and climate control are driving greater electricity demand within warehouses, making access to sufficient and reliable power increasingly important to occupiers. This forms part of a wider shift in electricity demand. Europe is entering what has been described as an "age of electricity". After remaining broadly stable for around 15 years, European electricity demand is forecast to grow by around 2% per year over the next five years, driven by data centres, electric vehicles, air conditioning and industry.

The grid cannot necessarily expand at the same pace. Modernising electricity infrastructure can take between five and 15 years, considerably longer than many projects requiring additional power. Grid capacity is already constrained in parts of Europe, resulting in longer connection queues and making it increasingly difficult for some users to secure additional power. Where capacity is limited, flexible or 'non-firm' connections, which allow network operators to restrict supply during periods of congestion, are one way of connecting new demand more quickly.

The issue is particularly acute in the Netherlands, where constraints on new grid connections have been in place for power generation and non-residential demand since 2022.

Against this backdrop, industrial and logistics sites with good existing power connections, and the potential to accommodate additional capacity, are becoming increasingly sought after, including by data centres.

Recent events have brought the issue of grid reliability into even sharper focus. The widespread blackout across Spain and Portugal in April 2025 disrupted transport and business activity, including logistics operations. More recently, heatwaves and record low water levels across Europe have put electricity supply under further pressure, constraining nuclear generation in some areas and reducing hydroelectric output. While exceptional,

¹ Source: IEA, Gas Market Report Q2 2026, April 2026.

² Source: Fidelity, August 2026.



these events illustrate the operational consequences that disruption to power supply can have for increasingly electrified logistics networks.

Occupier priorities are now reflecting these pressures. More than 80% of logistics occupiers surveyed by CBRE in 2026 reported concerns about power availability and grid reliability. Energy and power considerations are also becoming more prominent in building selection, with respondents to Savills' 2025 European Real Estate Logistics Census ranking energy efficiency as the second most important warehouse feature after building height, while power resilience/energy availability and solar PV also featured prominently. This is significant because these are no longer peripheral sustainability considerations but are becoming part of the fundamental building specification occupiers require.

For occupiers, energy efficient buildings with established grid connections and onsite renewable energy generation can therefore offer lower operating costs and greater operational resilience. It is therefore unsurprising that 81% of logistics occupiers are willing to pay a rent premium to switch to green sources of energy.

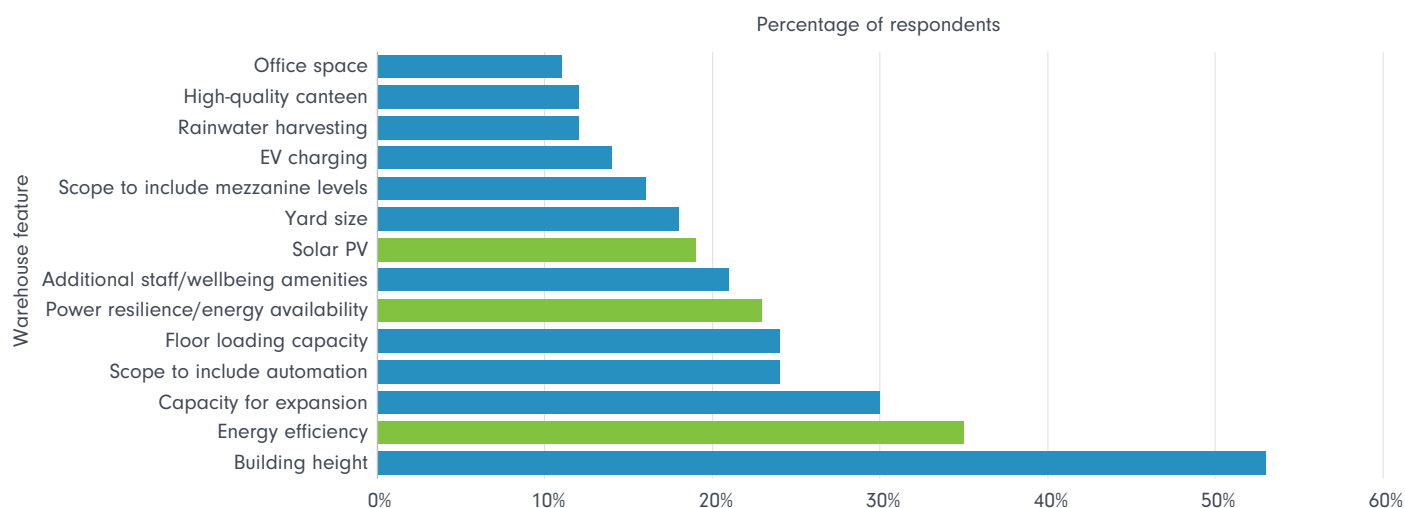
Power availability and grid reliability are a concern for more than 80% of logistics occupiers¹.

81% of logistics occupiers are willing to pay a rent premium to switch to green sources of energy¹.

¹ Source: ICBRE, European Logistics Occupier Survey 2026.

Occupier behaviour is already changing...

Energy efficiency and building power supply increasingly top factors driving building selection



Source: Savills, Brookfield Properties and Analytiqa, European Real Estate Logistics Census, September 2025.

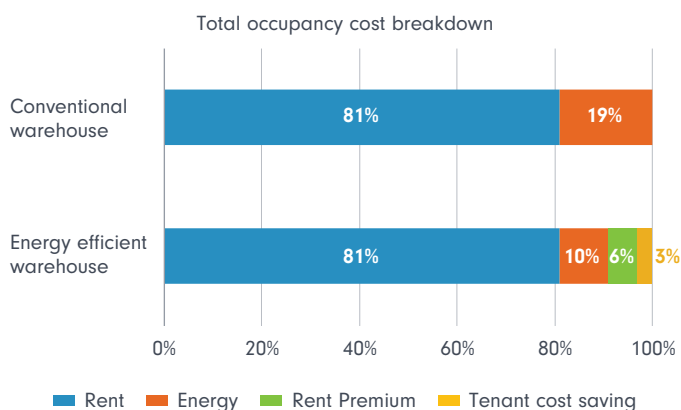
Using energy efficiency as a value creation lever

For investors, improving energy efficiency can provide a lever to support rental growth. Targeted improvements can lower occupier energy costs, creating capacity for higher rents while still leaving the occupier with a lower overall cost of occupation. This provides a more compelling investment rationale than assuming occupiers will simply pay more for a building because it is greener. The key is being able to quantify the economic benefit to the occupier.

Primary Energy Demand (PED) provides that link. It measures how much energy a building typically requires to operate in kWh per meter², taking into account the energy needed to produce and supply it. By comparing PED before and after targeted improvements, investors can estimate the resulting reduction in occupier energy requirements and quantify the potential cost saving that can underpin the rental growth thesis. Through targeted measures such as replacing fossil fuel heating with heat pumps, upgrading insulation, lighting and installing solar PV panels, on average we are able to reduce the PED of a building by 60%.

Lower tenant costs support rental premiums for energy efficient logistics assets

Energy savings can be partially capitalised into higher rents while maintaining lower total occupancy costs



On average we are able to reduce the PED of a building by

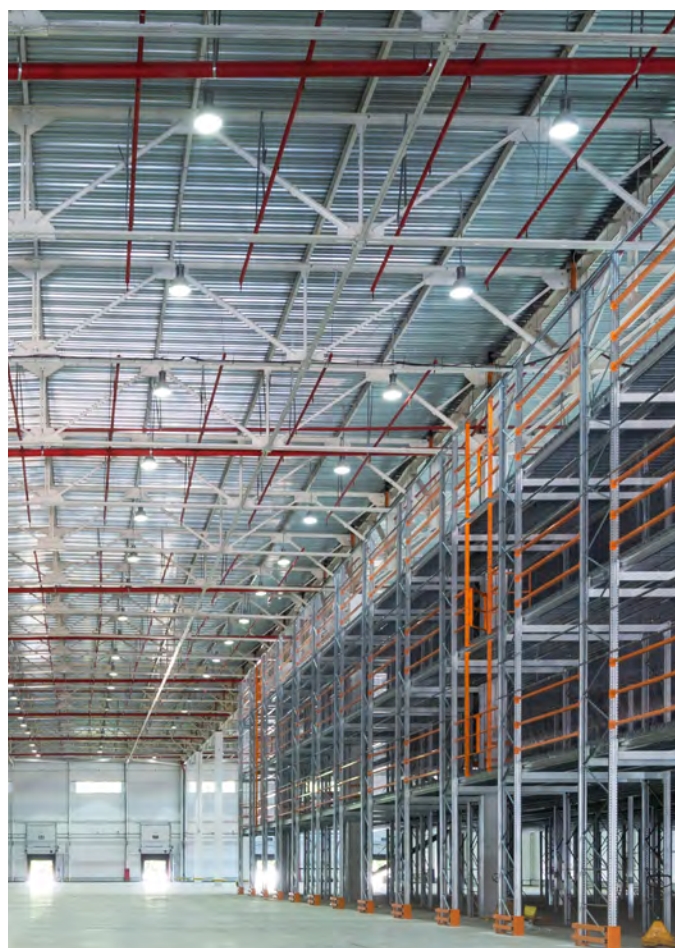
60%

Source: Fidelity International, August 2026. For illustrative purposes only. Assumes a 25,000 sqm warehouse. Rents and energy prices are weighted averages across selected European logistics markets (France, Germany, Spain, the Netherlands, UK and Italy). Conventional warehouse energy use is based on EPRA average warehouse energy intensity, with a 10% weighting to higher-intensity cold storage. The energy efficient warehouse assumes a 61% reduction in Primary Energy Demand and full electrification. Energy prices are based on forecast non-household electricity prices excluding VAT at end-2026.

Primary energy demand: Linking energy saving to rental growth in practice

The graphic below illustrates how this can work in practice. In this illustrative example, a decline of around 60% in PED reduces the energy component from 19% to 10%. Even after allowing for a 6% rental premium, the occupier retains a lower overall cost of occupation, while the landlord captures part of the energy saving through higher rent.

Fidelity's own experience supports this thesis with leases for energy efficient logistics assets being agreed on average 8% ahead of market rental levels and buildings letting faster than anticipated.



Improving energy efficiency can provide a lever to support rental growth. The key is being able to quantify the economic benefit to the occupier. PED provides that link.

Structural undersupply of energy efficient warehouses supports pricing power

Lower occupier energy costs can create the economic capacity to pay a higher rent, while the ability for landlords to capture that rent benefit is supported by the scarcity of modern, energy efficient logistics space in Europe.

Much of Europe's existing logistics stock predates today's requirements around energy efficiency, automation and power. At the same time, new development is increasingly constrained by planning restrictions, limited land and grid capacity, and elevated construction costs, with competition from power-intensive uses such as data centres adding further pressure in some markets.

Refurbishment is also failing to keep pace. The European Commission estimates that just 0.3% of non-residential buildings undergo deep energy renovation annually⁴. Together with constraints on new development, this is creating a structural mismatch, with demand for modern, energy efficient logistics space growing faster than suitable supply can be delivered.

Why supply is struggling to keep pace

61%

of European warehouse stock is more than 10 years old²

c.40%

new logistics supply below previous peak levels³

0.3%

annual deep renovation rate for EU non-residential buildings⁴

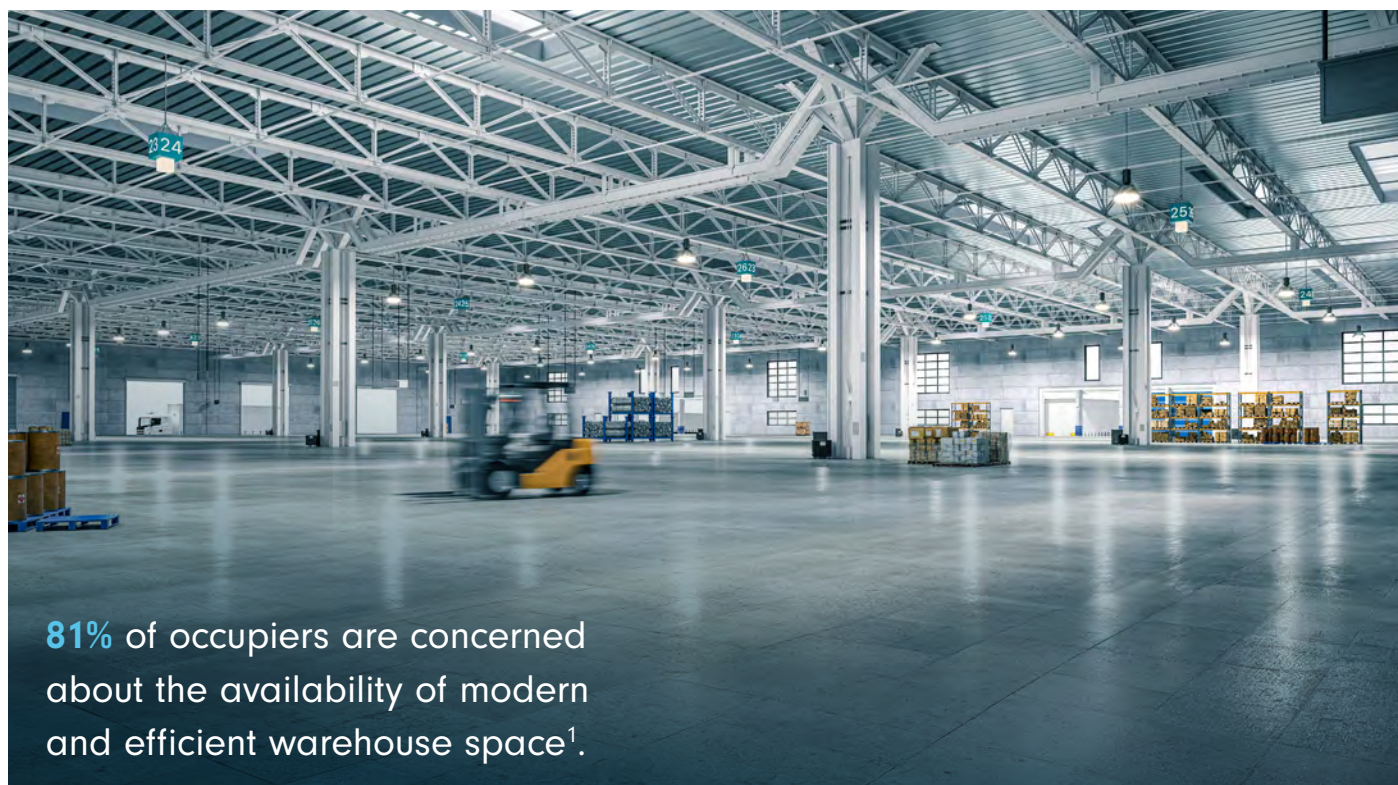
This imbalance can strengthen landlords' pricing power, with occupiers competing for a limited pool of buildings that meet their requirements. Premiums for higher quality, more sustainable logistics assets are already evident in the market. Cushman & Wakefield's analysis of European logistics transactions found rental premiums of 10–30%, alongside an average 19% investment price premium over lower rated assets.

19%

average investment price premium for higher-rated logistics assets⁵

10–30%

rental premium observed for higher-rated logistics buildings⁵



81% of occupiers are concerned about the availability of modern and efficient warehouse space¹.

¹ Source: CBRE, European Logistics Occupier Survey 2026

² Source: JLL, Warehousing Retrofitting, May 2024. JLL estimates that 61% of European warehouse stock is more than 10 years old.

³ Source: CBRE Research, June 2026. Based on 2025 logistics completions compared with 2021 across CBRE's European logistics market coverage.

⁴ Source: European Commission, Comprehensive study of building energy renovation activities and the uptake of nearly zero-energy buildings in the EU, 2019. Deep renovation of non-residential buildings, defined as energy savings of 60% or more, estimated at 0.3% annually.

⁵ Source: Cushman & Wakefield, Sustainable Logistics: Navigating Change in European Logistics Real Estate, September 2024.

Value-add, but with more control and less risk

The combination of occupier cost savings and scarcity of modern, energy efficient logistics space creates the potential to drive the rental growth needed to support value-add returns. Importantly, this can be achieved through a different type of approach to that traditionally associated with value-add investing.

Traditional value-add strategies typically seek higher returns by taking greater execution risk. Value creation may depend on major redevelopment, securing planning consent, change of use, or assuming significant vacancy and leasing risk.

Energy efficiency led refurbishment offers a different starting point. The focus is on fundamentally strong, well-located assets, often with existing occupiers, where energy performance represents an identifiable opportunity for improvement. Capital can be directed towards measures such as electrification, onsite renewable generation and energy efficiency upgrades, typically requiring more moderate capital expenditure and limited planning exposure. In many cases, works can be undertaken while occupiers remain in place and income is preserved.

The nature of the execution risk is therefore different. The physical improvements are largely within the landlord's control, while PED brings greater measurability to the value creation process by helping to quantify the occupier economic benefit underpinning the rental growth thesis. More moderate capital requirements (typically 10-20% of acquisition value) and shorter refurbishment programmes can also reduce the time and capital exposed to execution risk.

Typical characteristics

	Traditional value-add	Energy efficiency led value-add
 Starting point	Asset requiring repositioning or operational improvement	Fundamentally strong asset requiring energy efficiency upgrades
 Value creation lever	Reposition to drive rental growth	Lower occupier energy costs to drive rental growth
 Capital expenditure required	Higher capital intensity	Moderate capital investment
 Income profile	May involve vacancy and letting risk	Works can often be undertaken while occupied preserving income
 Planning / development risk	Greater planning and development exposure	Limited planning and development exposure
 Execution timeline	Longer delivery and stabilisation period	Shorter delivery and stabilisation period

Source: Fidelity International, 2026. For illustrative purposes only.



Putting thesis into practice: A Dutch logistics asset

A high-quality logistics asset in a prime Dutch logistics location, demonstrating how targeted energy investment can improve a fundamentally sound building, delivering value-add returns, while preserving income during refurbishment.

Asset overview



<1%

local market vacancy with strong occupier demand



Fully let

at acquisition, with short-term leases providing scope for rental reversion



13%

CapEx budget as a proportion of acquisition price



80%

of CapEx focused on energy efficiency measures

Key energy efficiency upgrades



Solar PV



Heat pumps



LED lighting



Smart building controls



Removal of gas-based systems

Outcomes



122%

Forecast PED reduction¹



Long lease extensions

Agreed with existing occupiers before or during refurbishment



c.11% rental premium

above market value



Fully occupied

throughout refurbishment



15 to 17%

Forecast asset level IRR²



¹ Primary Energy Demand reduction calculated and forecast by an external third party sustainability consultant. The reduction exceeds 100% as a result of onsite solar PV generation and battery storage.

² IRR refers to Internal Rate of Return. Forward-looking statements, including target returns, are based on assumptions and may not reflect actual results.

The metrics shown are simulations which are not reliable indicators of future results. The strategy does not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.

Source: Fidelity International, August 2026. For illustrative purposes.

Key features of energy efficiency led value-add



Measurability

PED allows the impact of targeted energy investment to be quantified.



Control

Physical improvements are largely within the landlord's control, with limited planning and development exposure.



Occupier economics

Improved occupier economics and asset competitiveness supports tenant retention, rental growth and long-term investment value.

Creating value by reducing Primary Energy Demand

As energy costs and power requirements reshape European logistics, improving energy performance provides an identifiable route to enhance occupier economics, strengthen asset competitiveness and support rental growth. Crucially, PED provides a measurable way of quantifying the occupier cost savings that underpin this growth. The opportunity is not about turning poor buildings into good ones, but about making good buildings better. Energy efficiency led refurbishment can move an already strong, core-quality asset onto a value-add trajectory, creating the potential for value-add returns with risk characteristics more commonly associated with core-plus investing.

In today's market environment, where broad market-driven capital growth is harder to rely on, a strategy that can actively create income growth at the asset level through a more measurable and controllable value creation process is particularly compelling.

At the same time, energy price volatility and growing concerns around energy security are reinforcing the strategic importance of the energy transition. By reducing a building's PED, investors can lower operating costs, support occupier resilience and reduce operational emissions, creating a compelling alignment between financial and sustainability outcomes.



Today, targeted energy upgrades provide a more measurable and controllable way to drive rental growth when market-driven capital growth is harder to rely on.

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