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Defence Properties – A New Sector in the Logistics Real Estate Market?

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Executive Summary

Defence Properties – properties with security-, defence- or technology-related uses – are developing into an independent, increasingly institutionally investable market segment against the backdrop of geopolitical tensions, rising defence budgets and the expansion of industrial capacities. By around 2030, a window of opportunity will open in which the key prerequisites for Europe's defence capability are to be created. For investors, the countercyclical characteristics, the sovereign credit quality of the users and the long lease terms are particularly attractive. Demand is largely independent of office, residential and traditional logistics markets and shows only limited dependence on economic fluctuations.

Many characteristics are similar to infrastructure investments – however, with higher alternative-use potential and often more attractive risk/return profiles. Owners and developers also benefit from value appreciation potential through technical modernization, site expansions and the reactivation of idle land.

At the same time, the asset class places high demands on origination, risk analysis and management: security requirements, ESG criteria and complex approval procedures require specialized know-how, disciplined underwriting and robust governance and compliance structures.

Overall, a new, strategically relevant property category is emerging at the interface between public mandate and private capital – characterized by stable cash flows, sovereign credit quality and security-driven demand. Defence Properties thus mark the beginning of an independent European market segment that combines security, infrastructure and investment logic.

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List of Abbreviations

a.d.
außer Dienst (retired/out of service)

BAIUDBw
Bundesamt für Infrastruktur, Umweltschutz und Dienstleistungen der Bundeswehr (Federal Office for Infrastructure, Environmental Protection and Services of the Bundeswehr)

BImA
Bundesanstalt für Immobilienaufgaben (Federal Agency for Real Estate Tasks)

GDP
Gross Domestic Product

BMVg
Bundesministerium der Verteidigung (Federal Ministry of Defence)

CapEx

Capital Expenditures (Investitionsausgaben oder Anschaffungs-/Herstellungskosten)

DoD
United States Department of Defence

EDIS
European Defence Investment Strategy

EDIP
European Defence Industrial Programme

ESG
Environmental, Social and Governance

R&D
Research and Development

FFG
Flensburger Fahrzeugbau

GMP
Guaranteed Maximum Price (fixed-price contract model)

HBC
Hochschule Biberach – Biberach University of Applied Sciences

IC
Investment Committee

IRR
Internal Rate of Return

KMW
Krauss-Maffei Wegmann

KPI
Key Performance Indicator

MoD
Ministry of Defence (e.g., United Kingdom)

NIY
Net Initial Yield

PE

Private Equity

PPP
Public-Private-Partnership

RE
Real Estate

REIT

Real Estate Investment Trust

RSOI
Reception, Staging, Onward Movement and Integration

SFDR
Sustainable Finance Disclosure Regulation

SLA
Service Level Agreement

TKMS
ThyssenKrupp Marine Systems

WALT
Weighted Average Lease Term

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1 Market Overview & Drivers für Security-Related Infrastructure

Since 2022, Europe has seen a clear and sustained increase in demand for security-related real estate and infrastructure – the so-called category of Defence Properties or Defence Assets. This includes sites that directly or indirectly serve security-, defence- or technology-related purposes and are therefore increasingly recognized as investable assets.

In addition to traditional properties such as barracks, logistics hubs and training centers, new demand is emerging in technology-driven sub-segments – particularly in the areas of cyber defence, artificial intelligence, drone and sensor systems, as well as near-space communication.

The main drivers behind this development are the geopolitical tensions resulting from the war in Ukraine, which have led to a strategic realignment of defence and security policy in almost all European countries. At the same time, European onshoring strategies are promoting the expansion of resilience and supply-chain security. **The most effective way to create additional capacity is through the expansion of existing sites and the reactivation of decommissioned industrial areas.**

For the capital market, public-private partnerships (PPP) and sale-and-leaseback models are gaining importance, as they create a bridge between public infrastructure needs and private capital. At the same time, real estate as a physical carrier of security- and technology-related uses is moving increasingly to the center of analysis. The characteristics of these usage profiles vary depending on user structure, technical specialization and contractual parameters.

2 Spectrum of Defence Properties

The investable spectrum of Defence Properties can be divided into three market profiles, depending on user structure, lease profile and risk bandwidth:

1. **Core** – Long-term leased properties owned by public, sovereign or security-related users (producers), as well as critical infrastructure with security-relevant operating purposes. Typical characteristics are lease terms of 10 to 30 years, tenants with sovereign credit quality, low conversion risks and stable cash flows.

2. **Core Plus** – Assets with a dual-use character, such as research and development facilities, cyber or aerospace sites, as well as computing centers with confidentiality or security relevance. These uses lie at the intersection of defence, technology and Industry 4.0 – combining solid lease terms with moderate value-add potential.

3. **ValueAdd / Development** – Development and transformation projects with higher return potential but correspondingly complex approval, construction and acceptance

structures. These include extensions of existing sites, revitalization of idle land, and the development of campus or cluster solutions for security-related industries.

The growing demand from government organizations and private partner companies is leading to more newly constructed properties with long-term leases being placed on the market. These properties often meet current requirements for sustainability, energy efficiency and technological infrastructure. Modern defence properties are typically characterized by high-performance energy supply, advanced digital connectivity and robust site resilience.

In addition, existing properties with higher return profiles and differentiated alternative-use potential are emerging: from light-industrial supplier sites with broad reuse options, to historically developed specialized locations for special-purpose vehicles, up to highly specialized ammunition or explosives facilities.

Another development path concerns the transitional phase between existing and new military infrastructure: in certain cases, logistical support cannot be ensured exclusively by government entities. In such situations, a potential solution is for producers or industrial partners to temporarily assume logistical functions or parts of the supply chain of the Bundeswehr. This enables continuous operational readiness and supply security until new properties, depots or transshipment points are completed and transferred into state operation.

3 Industrial Defence Security Clusters in Germany

The industrial structures of the German defence and security industry reflect the historical specialization of individual regions. This specialization is evident in distinct industrial corridors that are locally concentrated in regional clusters and extend from Schleswig-Holstein through North Rhine-Westphalia to Bavaria – with a high degree of integration between major corporations, suppliers and research institutions.

Northern Germany forms the center for maritime and heavy-vehicle engineering. In Kiel, ThyssenKrupp Marine Systems (TKMS) focuses on the construction of submarines and frigates, while in Flensburg, FFG (Flensburger Fahrzeugbau) develops and modernizes military vehicle systems. Along the northern coast, numerous munitions and component manufacturers are also located, integrated into European supply chains. Among the leading industrial centers in this region are Rheinmetall sites in Unterlüß, Trittau and Bremen, as well as NVL Group (Naval Vessels Lürssen) headquartered in Bremen, which is a major player in European naval shipbuilding.

Western Germany focuses primarily on the industrial core segment of armored vehicles, ammunition, and large-scale systems. Rheinmetall, with sites in Düsseldorf and Kassel, defines this area – together with Krauss-Maffei Wegmann (KMW), which, in addition to its presence in the Munich region, is also heavily involved in the production of Leopard and Puma vehicles in Kassel. This region benefits from a strong supplier network, developed logistics infrastructure, and proximity to federal and EU authorities.

Southern Germany represents the technological high-performance cluster of the industry. Here, globally relevant system manufacturers are concentrated, including:

- Hensoldt in Ulm and Taufkirchen (sensors, radar, avionics)
- Airbus Defence & Space in Manching (Eurofighter, A400M)
- MBDA in Schrobenhausen and Ulm (missile technology)
- Diehl Defence in Überlingen and Röthenbach (munitions, missiles)
- Heckler & Koch in Oberndorf (handgun production)
- RMMV – Rheinmetall MAN Military Vehicles, headquartered in Munich with production sites in Austria (military trucks)

These southern German centers are characterized by high technological depth, dual-use potential, and intensive R&D activity – an environment that increasingly attracts investors in the field of private defence infrastructure projects.

The spatial density of these industrial clusters fosters the emergence of future Defence Property hotspots. They serve as anchor points for expansions, supplier settlements, and new cooperation formats between industry, government, and private capital.

The following map of Germany (Fig. 1) provides an example overview of industrial clusters and security-relevant production sites in Germany. It illustrates regional focal points within the defence and security sector and helps contextualize key industrial structures. However, the map does not claim to be exhaustive: production locations are in reality far more diverse and widely distributed across the country and are also subject to ongoing changes due to market dynamics, strategic realignments, and current M&A activities. In addition, several of the most important Bundeswehr sites – many of them logistics-related – are shown on the map, including Wilhelmshaven (Navy / Logistics), Munster (Army / Armored Troop School & Material Logistics) and Ulm (Logistics / Multinational Joint Headquarters & Medical Logistics).

Legend

- Industrial clusters with a high concentration of security-related companies
- Individual sites, specialized suppliers or R&D facilities

Regional focal areas:

- **Northern Germany:** Navy, heavy-vehicle engineering, munitions production
- **Western Germany:** Major systems, armored vehicles
- **Southern Germany:** Aerospace, sensor technology, missile systems, high-tech electronics

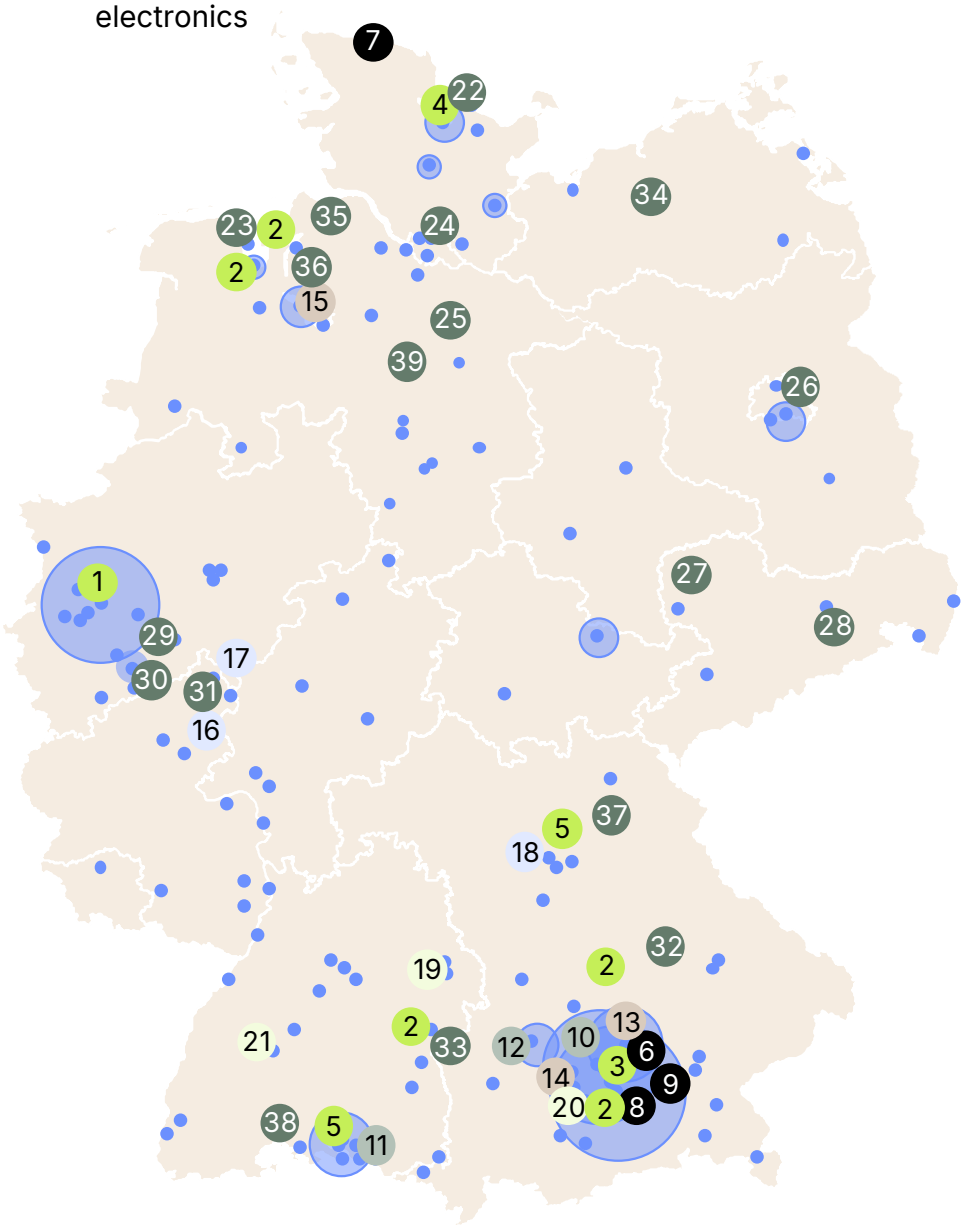

Figure 1: Overview of Industrial Defence and Security Clusters in Germany

Source: HBC Research – own data collection and analysis based on business and financial reports, as of March 2026 – subject to ongoing M&A negotiations

Large system integrators / full-service providers

1. Rheinmetall AG, *Düsseldorf*
2. Airbus Defence & Space (Airbus Group), *Manching, Ottobrunn, Ulm, Bremen, Friedrichshafen*
3. Hensoldt AG, *Taufkirchen (Munich)*
4. ThyssenKrupp Marine Systems (TKMS), *Kiel*
5. Diehl Defence, *Überlingen, Nuremberg*

Vehicles, tanks, land & ground

6. Krauss Maffei Wegmann (KMW, part of KNDS), Munich
7. FFG Flensburger Fahrzeugbau, *Flensburg*
8. IABG, *Ottobrunn*
9. RMMV (Rheinmetall MAN Military Vehicles), *Munich*

Aerospace suppliers

10. MTU Aero Engines, *Munich*
11. Liebherr Aerospace, *Lindenberg, Friedrichshafen*
12. Premium AEROTEC (Airbus-Tochter), *Augsburg, Varel, Nordenham*

Electronics, sensors, communication

13. Rohde & Schwarz, *Munich*
14. Hensoldt Gruppe, *Fürstenfeldbruck*
15. OHB System AG, *Bremen*

Weapons & ammunition manufacturers

16. MEN – Metalworks Elisenhütte, *Vockenhausen*
17. Dynamit Nobel Defence (DND), *Burbach*
18. RUAG Ammotec Deutschland, *Fürth*

Specialists (optics, protection, high tech)

19. Carl Zeiss Optronics (now part of HENSOLDT), *Oberkochen*
20. Hensoldt Gruppe, *Fürstenfeldbruck*
21. Heckler & Koch, *Oberndorf*

Important German Armed Forces locations in Germany

22. Kiel (Navy/Base)
23. Wilhelmshaven (Navy/Intelligence)
24. Hamburg (Navy/Port Logistics)
25. Munster (Army/Armored Corps)
26. Berlin (Federal Ministry of Defence/ Command)
27. Leipzig/Delitzsch (Logistics/Depot)
28. Dresden (Army/Operational Logistics)
29. Cologne-Wahn (Air Force)
30. Bonn (Federal Ministry of Defence/ Administration)
31. Koblenz (Logistics/BAAINBw)
32. Regensburg (Army/Supply)
33. Ulm (Logistics/Multinational Command/ Medical Logistics)
34. Rostock-Laage (Air Force/Air Operations)
35. Nordholz (Naval Air Wing/Reconnaissance)
36. Oldenburg (Army/Armored Division)
37. Grafenwöhr (NATO/Training Center)
38. Hohenfels (NATO/Training Center)
39. Wunstorf (Air Force/A400M-Hub)

4 Defence Properties by Usage Profile

The following Table 1 categorizes the defence asset classes according to usage profiles, technical requirements, and risk structure. It illustrates how broad the spectrum of these properties is – ranging from security-critical core infrastructure with sovereign tenants to specialized development and conversion assets with industrial or technological relevance.

Each category differs in terms of security level, technical complexity, regulatory environment, and tenant structure. Accordingly, the return/risk profile varies significantly: while core leaseback properties offer long-term stable cash flows, dual-use facilities and industrial sites are characterized by higher value-appreciation potential but also by more complex permitting and ESG requirements.

This overview therefore demonstrates that Defence Properties do not represent a homogeneous segment, but rather a multi-layered investment landscape that extends along the axis from “infrastructure” to “industry”. For institutional investors, this creates a structurable investment universe with varying entry points and risk options – depending on mandate, investment horizon, and ESG guidelines.

Table 1: Defence Asset Classes by Usage Profile, Technical Requirements and Risk Structure

ASSET CLASS / EXAMPLE	TYPE OF USE	ALTERNATIVE USE POTENTIAL	SECURITY LEVEL	TECHNICAL REQUIREMENTS	PERMITTING/ESG	TENANT/LEASE STRUCTURE	NIY RANGE (APPROX.)
Core-Leaseback (critical infrastructure)	Leaseback/ Core Infrastructure	high	high	Redundant energy/ IT, access zones	clearly defined, ESG path determinable	Government (BImA/ MoD/DoD) and security-related tenants, very long lease terms	approx. 4.0 – 6.0%
Dual-Use R&D/ Cyber/Aerospace	Research/Tech Cluster	medium-high	medium-high	Lab / IT redundancy, flex layouts	medium (policy fit, governance)	Prime contractors/ universities/ start-ups	approx. 5,0–7,0%
Defence-Logistics/ Light-Industrial	Production/Supply	high	medium	Floor loads, building heights, crane/ heavy-load capacity	medium (energy/ transport)	Industry/ multi-tenant, market-standard	approx. 4,5–6,0%
Headquarters/ Special-Purpose Vehicle Production	Single-tenant Production	medium	medium-high	Specialized layouts, expansion capacity	medium-high (security / environment)	Single-tenant, long-term lease	approx. 4.5 – 8.0%
Explosive Manufacturing	Specialized Production	low	high	Safety distances, special technology	high (hazardous materials / legacy contamination)	Two main tenants/ foundation etc.	approx. 6.0 – 8.5%
Former Military Sites	Former Barracks/ Training Grounds	low-medium	medium	Remediation/ deconstruction requirements	high (legacy contamination, location)	— (rarely marketable)	n.a./ project-dependent

Source: HBC Research

5 Target Groups and Investor Profiles for Defence Properties

Defence Properties address three key stakeholder groups within the institutional real estate and capital markets: real estate investors, capital market participants, and land or logistics hall owners. These groups differ in terms of investment horizon, risk profile, and operational involvement, yet together they constitute the main market participants of an emerging segment situated at the intersection of real estate, infrastructure, and security. The following sections systematically outline the respective investor profiles and their specific approaches to accessing Defence Properties.

5.1 Target Group: Real Estate Investors (Core / Core Plus & PE / Value-Add)

Defence Properties offer institutional real estate investors a new investment segment that enables portfolio stability and diversification. For core investors, the focus lies on long-term income security: leases with public or sovereign-affiliated tenants ensure reliable cash flows and a low default risk.

Core Plus strategies appeal to investors seeking an enhanced return profile. Additional value-creation potential arises particularly in technology locations with functional or industrial clusters that generate above-average demand dynamics and growth prospects.

In the value-add and development segment, opportunities lie in the development, repositioning, or modernization of security-relevant and technology-oriented properties. Here, project developments or the repurposing of existing structures allow for the realization of appreciation and development premiums.

Success depends on disciplined underwriting, the early involvement of relevant authorities and security institutions, and adherence to a clearly defined ESG framework. This should reflect a Responsible Defence Strategy, prioritizing topics such as protection, cybersecurity, and the preservation of critical infrastructure.

5.2 Target Group: Capital Market Participants (RE Funds, REIT / Bond Investors, Banks)

For capital market participants, Defence Properties provide access to investable structures with stable cash returns and clearly defined risk profiles. Investment opportunities arise particularly through public-private partnership (PPP) models, sale-and-leaseback transactions, and secured project or portfolio financings. Capital market suitability is strengthened by transparent reporting and a covenant framework. Key performance indicators include the weighted average lease term (WALT), achievement of programmatic milestones, security and compliance audits, and CapEx monitoring. These indicators support consistent assessment of performance, liquidity, and risk management. International experience shows that properties with

governmental or institutional users can be traded via capital-market-oriented instruments such as listed vehicles and bond-based structures. Comparable concepts are currently being developed for European markets – particularly in connection with security and infrastructure policy programs.

Major risk factors lie in regulatory changes, CapEx budget volatility, and extended project lead times. These risks can be effectively mitigated through phased implementation, adequate reserve strategies, and structured contractual frameworks (e.g. regarding execution standards, planning responsibilities, and termination rights).

5.3 Target Group: Land and Logistics Hall Owners

For owners of industrial and logistics properties, the Defence context creates new value-creation potential arising from onshoring, security, and resilience strategies. Expansions, reactivations, and technical upgrades – for example in the areas of energy and IT redundancy, load-bearing capacity, building height, crane systems, and access zones – enhance the functional suitability and market value of existing sites.

Location decisions follow secure supply corridors with military or infrastructural relevance, including bases, ports, and strategic rail routes. At the same time, shielded or hard-to-access locations are gaining importance, provided they offer reliable access routes and robust security certifications.

A central role in coordinating such projects is played by the Federal Office for Infrastructure, Environmental Protection and Services of the Bundeswehr (BAIUDBw), headquartered in Bonn. As a specialized agency within the portfolio of the Federal Ministry of Defence (BMVg), it is responsible for the planning, construction, operation, and administration of military sites. For owners and investors, this mandate is highly relevant, as permits, site approvals, and lease or usage agreements are regularly concluded in coordination with the BAIUDBw or its subordinate offices.

Early involvement of relevant security and infrastructure authorities, consistent project and stakeholder management, and modular, adaptable building concepts are key success factors. They shorten planning and approval phases, reduce regulatory risks, and increase the overall feasibility of projects.

6 Return / Risk & Portfolio Role

Defence Properties exhibit a distinct return and risk profile due to their specific tenant structure and long-term lease relationships. The indicative net initial yields (NIY) vary – depending on location, use, and lease structure – within the following ranges:

- Core: approx. 4.0 – 6.0 %
- Core Plus: approx. 5.0 – 7.0 %
- Value Add / Development: > 6.0 %

The yield ranges shown for typical Defence Properties reflect the characteristic risk/return profiles of the categories Core (approx. 4–6 %), Core Plus (approx. 5–7 %), and Value Add / Development (> 6 %). Higher yields may occur particularly when additional risk premiums are required – for example due to limited market transparency, use-specific uncertainties, regulatory conditions, or project-related development risks. In such cases, yield expectations extend beyond the usual ranges.

International references[1,2,3,4] from markets such as the United States, the United Kingdom, and Israel show comparable ranges, supporting the establishment of Defence Properties as a distinct asset class.
From a strategic perspective, an allocation of around 5 to 10 percent of a real estate portfolio to Defence Properties can be appropriate – depending on the investor's mandate, risk appetite, and ESG policy. The focus is primarily on Core and Core Plus structures, particularly leaseback transactions with sovereign tenants and technology-oriented sites of security-related users. Selective Value Add or development investments can complement this allocation with growth-oriented components. Due to their low economic-cycle sensitivity and the political prioritization of security-related programs, Defence Properties serve a stabilizing function within portfolios. Integrating such assets can enhance the overall risk-return ratio of institutional real estate portfolios, as income streams tend to be highly predictable and exhibit low volatility.

A key factor is the low tenant turnover. Tenant changes typically entail significant additional costs – including brokerage fees, incentives, tenant improvements, or vacancy periods. Therefore, the long-term occupancy by sovereign or sovereign-affiliated tenants results in more stable cash flows. Moreover, properties leased to public tenants are generally more easily financeable, as banks and institutional lenders regard these lease structures as highly creditworthy and exceptionally low-risk.

[1] RAND Corporation (2021): Assessing Military Installation Needs and Investments; https://www.rand.org
[2] Deloitte (2022): Defense, Security, and Justice Outlook; https://www2.deloitte.com
[3] Ministery of Defence Israel (2018–2023): IDF Training Base Transfer Program – Southern Relocation; https://www.gov.il
[4] INREV (2020–2024): The Role of Niche Strategies in Institutional Portfolios; https://www.inrev.org

Table 2: Strategy Matrix – Defence Properties

STRA-TEGY LEVEL	TARGET YIELD (NIY, APPROX.)	TYPICAL TENANT STRUCTURE	RISK / RETURN PROFILE	INVESTMENT LOGIC	PORTFOLIO ROLE
Core	approx. 4.0 – 6.0 %	Government / institutional users with long-term leases	Low risk, stable cash flows	Long-term income security through sovereign lease structures and low tenant turnover	Stable income anchor, base investment
Core Plus	approx. 5.0 – 7.0 %	Semi-sove-reign and technology tenants in cluster locations	Moderate risk, slightly higher return potential	Expansion of the return profile through dynamic economic clusters and technological synergies	Yield-optimize d portfolio addition, ESG-aligned position
Value Add / Deve-lop-ment	> 6.0 %	Tenants with project, modernization or expansion needs	Higher risk, development premiums	Project development, repositioning and functional upgrading of security-releva nt assets	Return driver within the opportunistic portfolio share

Source: HBC Research 2026

7 Underwriting und Risik Analysis

Underwriting – the systematic pre-assessment, evaluation, and risk modeling of an investment prior to acquisition or financing decisions – for Defence Properties requires a structured analysis of both general and use-specific risk factors. The process differs in depth from conventional real-estate strategies, as security-related and infrastructural aspects play a central role.

The key areas of focus in the underwriting process include:

1. **Tenant creditworthiness, lease terms and options:**
   Assessment of the financial strength and institutional reliability of sovereign or sovereign-affiliated tenants. Critical factors include long-term lease commitments, extension rights, and exit clauses.

2. **Use and alternative use potential:**
   Evaluation of the functional and legal reusability of the property, particularly regarding technical specialization, security requirements, and market liquidity in an exit scenario.
3. **Security and approval status:**
   Analysis of required permits and certifications – for example, in the fields of classified information protection, explosives and hazardous-materials legislation, IT security, and spatial planning or zoning. Close coordination with the relevant authorities – including the Federal Office for Infrastructure, Environmental Protection and Services of the Bundeswehr (BAIUDBw) – is essential.
4. **Technical suitability:**
   Review of infrastructure parameters such as energy and system redundancy, load-bearing capacities (floor, roof, structural elements), building heights, and suitability for heavy-load logistics or specialized installations.
5. **Location logic:**
   Assessment of security- and supply-chain-related factors, particularly proximity to bases, ports, strategic corridors, or industrial clusters, as well as the availability of qualified labor.
6. **CapEx and budget security:**
   Analysis of cost and time risks throughout the entire project duration, taking into account supply-chain dependencies, interest-rate sensitivity, and politically defined program timelines.
7. **ESG and governance aspects:**
   Verification of compliance with the Responsible Defence Policy, adherence to regulatory exclusion criteria, and implementation of robust compliance and reporting systems.

To mitigate risks, key measures include early engagement with the relevant authorities, modular and adaptable building concepts, contractually defined Service Level Upgrades (SLA Upgrades), fixed-price or GMP (Guaranteed Maximum Price) models, as well as phased project implementation to manage cost and approval risks.

8 ESG in the Defence Properties Context

For a long time, the defence industry was considered incompatible with ESG investments. Military use was generally classified as ethically unacceptable, which resulted in the sector being excluded from most sustainable investment strategies. Since 2022, however, a clear paradigm shift has emerged: in light of geopolitical tensions and newly evolving security risks, both the European Union and a growing number of institutional investors have recognized that security itself constitutes a social prerequisite for sustainability. Without functioning defence and protection systems, neither stable democracies nor social participation nor a successful ecological transformation can be maintained.

Against this backdrop, ESG within the defence segment is being reinterpreted. It is not about militarization, but rather about strengthening resilience, infrastructure, and societal stability. Sustainability and security are increasingly understood as complementary objectives – the safeguarding of peace and democracy forms the foundation of long-term, viable ESG strategies.

An investable ESG positioning within the defence segment requires conceptual clarity, verifiable governance structures, and transparent communication across the entire value chain. The focus lies on protection, cybersecurity, and infrastructure topics, complemented by clear exclusion criteria and a precisely defined decarbonization pathway that incorporates technological resilience – particularly regarding energy and IT redundancies. At the same time, ESG in this context is not merely a regulatory framework but a responsibility-based approach aimed at reinforcing societal stability and democratic security. Defence infrastructure is thus regarded as a prerequisite for sustainability – it provides the protective framework within which environmental and social development can take place in the first place.

8.1 Core Elements of the ESG and Governance Architecture

Key components of an ESG and governance architecture in the defence context (following Carlo Richardt, Head of ESG at Periskop Partners) include:

- defining policy and investment compatibility ("Policy Fit"), taking into account exclusion lists, compliance frameworks, and reporting obligations in accordance with the SFDR and the ongoing work on the EU taxonomy extension;
- ensuring transparency across the entire supply and service chain, including third-party risk management and ethical assessment of dual-use technologies;
- formally embedding responsibilities, control mechanisms, and reporting obligations within the governance system, complemented by ESG KPI sets that capture environmental, social, and security-related performance indicators.

A sector-specific approach is also required in ESG reporting. Defence investments differ from traditional real estate or infrastructure funds, as additional dimensions of security, governance, and societal impact must be evaluated. The goal is to anchor sustainability criteria in a measurable, traceable, and verifiable manner.

Typical ESG indicators in the defence context include:

- **Energy and resource efficiency** (kWh per m², share of renewable energy, decarbonization pathways for technical systems)
- **Social and security-related aspects** (e.g. cyber resilience, occupational safety, supply-chain audits, human-rights assessments)

- **Governance criteria and compliance** (dual-use management, IT security certifications, audit frequency, board diversity)

In addition, defence-specific indicators – such as redundancy levels of critical systems or contributions to the protection of civil infrastructure – can enhance differentiation and transparency.

Through a structured ESG monitoring framework, it can be ensured that each transaction complies with regulatory requirements, ethical standards, and societal responsibility.

8.2 Umsetzungs-Roadmap zur ESG-Integration im Defence-Segment

1. **Clarify Policy Fit and Governance**
   - Identify suitable acquisition approaches (e.g. core leasebacks, public-private partnerships, or dual-use technologies) while taking into account the targeted yields, ticket sizes, and ESG compatibility.

2. **Deal-Sourcing-Workshop durchführen**
   - Identifikation geeigneter Akquisitionsansätze (z. B. Core-Leasebacks, Public-Private-Partnerships oder Dual-Use-Technologien) unter Berücksichtigung angestrebter Zielrenditen, Ticketgrößen und ESG-Kompatibilität.

3. **Develop Investment Committee Template and Assessment Framework**
   - Create standardized evaluation tools for underwriting, ESG criteria, scenario analyses, KPI sets, and covenant structures.

4. **Execute Pilot Transaction**
   - Carry out an initial transaction in the core or core-plus segment as a proof of concept. Define and monitor clear milestones for due diligence, regulatory coordination, financing, and signing/closing processes.

This roadmap enables the gradual operationalization of the Defence segment within institutional portfolios while ensuring compliance with regulatory requirements and responsibility-based standards.

8.3 ESG Reporting & KPIs for Defence Investments

Effective ESG reporting must reflect the specific requirements of the defence sector. This includes measurable and comparable indicators that extend the environmental, social, and governance dimensions to include security and resilience factors.

Example ESG Indicators:

- Energy and resource efficiency (kWh/m², share of renewable energy, decarbonization pathways for technical systems)
- Social and security-related aspects (e.g. cyber resilience, occupational safety, supply-chain audits, human-rights assessments)
- Governance and compliance criteria (export control, dual-use management, IT security certifications, audit frequency, board diversity)

In addition, defence-specific indicators – such as redundancy levels of critical systems or contributions to the protection of civil infrastructure – enhance differentiation and transparency.

A structured ESG monitoring framework ensures that each transaction complies with regulatory requirements, ethical principles, and societal responsibility.

9 Defence Location Decisions Based on Political Premises

The selection of locations for defence investments in Germany increasingly follows political, security-strategic, and regional-economic considerations. If federal states are to benefit from the € 100 billion special fund of the federal budget, prioritization will likely be guided by three key premises:

1. **Utilization of existing military clusters:**
   Existing Bundeswehr sites – such as barracks, training grounds, or logistics depots – offer the best conditions for the rapid implementation of new Defence Properties due to their established infrastructure, security zoning, and institutional presence.

2. **Strengthening structurally weaker regions:**
   The federal and state governments are expected to view defence developments as a tool for regional economic promotion. Expansion in economically weaker or peripheral areas serves to create equal living conditions and contributes to regional value creation.

3. **Prioritization of logistical and transport hubs:**
   Locations near ports, freight centers, rail corridors, and industrial clusters will be prioritized, as they ensure logistical efficiency and supply security.

These guidelines align with three overarching political objectives:

- Promoting equal living conditions through targeted investment in structurally weaker regions,

- Leveraging existing military and industrial synergies,
- Avoiding social conflicts and acceptance issues, particularly in urban areas with housing shortages.

Operationally, decisions are expected to focus primarily on the expansion of existing sites, to favor rural and spatially extensive regions, and to create a functional mix of logistics, training, cyber, and technology locations.

Experience shows that state governments and minister-presidents play a decisive role in decisions regarding the establishment or closure of defence properties. The influence of the federal states extends to political coordination processes, strategic regional development programs, land-use designations, and the allocation of budgetary funds. As a result, the development of defence infrastructure becomes a coordinated negotiation process between the federal government, the states, and regional industry.

10 Public or Private Sponsorship of Defence Property Investments?

The question of the appropriate sponsorship structure for defence-related real estate projects lies at the intersection of security, efficiency, and financing logic. Public investments – for instance through the federal government, the Federal Agency for Real Estate Tasks (BImA), or public-private partnership (PPP) models – are characterized by a high degree of planning certainty and long-term stability. With expected returns of around 4 – 6 % IRR and a very low risk profile, these engagements are particularly suitable for long-term institutional investors such as pension funds, insurance companies, or sovereign wealth funds. Close political oversight and clear ESG requirements ensure transparency and durability but often result in long capital commitment periods of 10 to 25 years.
The private sector, by contrast, tends to operate more dynamically and market-driven. Here, return potentials are typically around 8 – 15 % IRR, accompanied by higher risk – which, however, is offset by innovation, efficiency, and faster implementation cycles. Dual-use technologies, industrial partnerships, and comprehensive modernization programs within the European defence industry create additional growth opportunities. For institutional investors, this opens access to a range of investment formats – from real estate and private equity to thematic credit and infrastructure strategies.

Overall, the public and private sectors fulfil complementary roles. The state remains the guarantor of security-relevant infrastructure and regulator of strategic framework conditions, while private actors contribute significantly to implementation and modernization through technology, efficiency, and economies of scale. Future Defence Property investments will therefore emerge predominantly in hybrid models – combining a public framework with private or institutional capital participation.

At the European level, programs such as EDIS, EDIP, and the ReArm Europe Plan provide additional impetus for mobilizing private capital into defence-related infrastructure.

The choice of sponsorship also influences which locations are considered for Defence Property investments. Depending on security policy needs, usage intensity, and economic objectives, different regional typologies gain significance. Table 3 provides an overview of the main location categories.

Table 3: Typical Location Categories and Suitable Regions in Germany

CATEGORY	CRITERIA	TYPICAL REGIONS IN GERMANY (General)
Military Clusters	Existing barracks, training areas, logistics and supply facilities	Northern and Eastern Germany, Southern Germany, Rhineland
Structurally Weak Regions	High land availability, low usage conflicts, eligibility for regional funding programs	Eastern Germany, rural areas in Northern, Western and Southern Germany
Logistics & Mobility	Ports, transport hubs, highway and rail corridors	Coastal states, North Rhine-Westphalia, southern highway axes
Cyber / Technology	Proximity to universities, research institutions and innovative industries	Metropolitan regions and designated research locations
Industrial / Defence Proximity	Defence and security-related manufacturing, supplier networks	Aerospace and mechanical engineering centers (e.g. Northern Germany, Bavaria, Baden-Württemberg)

Source: HBC Research

Insight 1: Infrastructure Future Act – Legal Lever for Accelerated Development of Defence-Related Infrastructure

Against the backdrop of increasing geopolitical tensions and growing security policy requirements, the political debate on the modernization of defence-related infrastructure in Germany is gaining momentum. To legally enable the necessary investments and make administrative procedures more efficient, lawmakers are

currently drafting the "Infrastructure Future Act" [5,6], which is expected to be enacted by summer 2026.

The Act is intended to classify certain projects – including militarily usable transport routes, rail corridors, waterways, and logistics axes – as infrastructure of overriding public interest. This classification will grant security and defence objectives priority in approval and planning procedures. At the same time, review and coordination processes will be simplified: environmental and spatial compatibility assessments are to be shortened, approval deadlines accelerated through so-called "deemed approval" provisions, and planning procedures digitized with reduced requirements for public participation.

In addition, for militarily relevant projects, confidentiality and secrecy obligations will be strengthened to better protect sensitive data and facilitate coordination between the federal government, the states, and the Bundeswehr. The aim is to accelerate the implementation of defence infrastructure and ensure both national and European military mobility.

Insight 2: Macroeconomic Context – Germany's Defence Spending and Export Orientation

The long-term comparison of defence spending and export ratios illustrates a fundamental structural transformation of the German economy since the 1970s (see Figure 2). While the share of defence expenditure in gross domestic product exceeded three percent during the Cold War, it steadily declined to around 1.2 percent with the security policy détente of the 1990s. At the same time, the export ratio increased from roughly 15 to over 45 percent of GDP – a reflection of growing economic globalization and a deliberate prioritization of export-driven value creation over defence- and security-related investment.

With the security policy "Zeitenwende" since 2022, a structural realignment is now emerging. Defence spending is rising sharply, marking the beginning of what is expected to be a multi-year phase of catching up. This shift represents not merely a fiscal adjustment but a strategic repositioning of Germany and Europe toward greater self-reliance in security and supply policy.

For investors, this establishes a clear macroeconomic framework: increasing defence expenditure and geopolitically driven re-industrialization are creating new demand for security-relevant, technological, and logistically integrated infrastructure. Defence

[5] Bundesregierung (2025): Infrastruktur-Zukunftsgesetz beschleunigt Bau neuer Schienen, Straßen und Brücken; https://www.bundesregierung.de/breg-de/aktuelles/infrastruktur-zukunftsgesetz-2399998

[6] BDSV – Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie, Wochennewsletter „Wochenmitte" (2026), Autor: Hans Christoph Atzpodien

Properties thus form the physical foundation of a growing strategic industrial class, increasingly viewed as a stabilizing component within institutional portfolios.

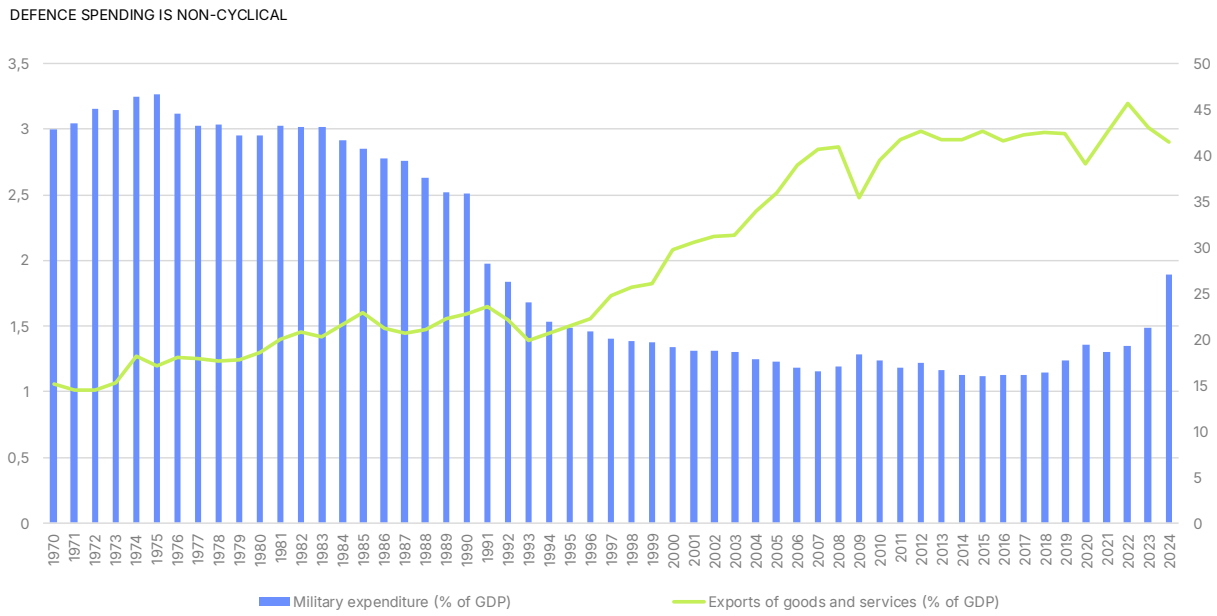

Figure 2: Development of Military Expenditure and Export Ratio in Germany (1970–2024)

Source: World Bank, *World Development Indicators, January 28, 2026* (SIPRI, IMF, own illustration)

11 Conclusion

Geopolitical developments and a changing security architecture in Europe have brought Defence Properties into focus within both economic and political strategies. What for decades was considered a niche segment has now become a central component of modern infrastructure and resilience policy. Security, operational capability, and technological sovereignty are gaining importance for governments, municipalities, and companies alike, creating new investment fields at the intersection of public mandate and private capital.

Former Bundeswehr properties have largely disappeared from the open market. At the same time, the demand for investable alternative sites suitable for security-, logistics-, or technology-related uses is increasing. This opens new perspectives for land portfolio holders, existing property owners, and logistics companies with convertible sites or expansion potential.

The concept of "Defence Properties" must be redefined: it extends far beyond barracks or training grounds and today encompasses a broad range of industrial, logistics, and technological infrastructures. These include production, training, maintenance, and storage facilities of the defence and security industries, as well as civil and disaster-protection installations, cyber-defence centers, and data-security

infrastructures.

From an investor's perspective, this brings a diversified, increasingly infrastructure-oriented asset set into focus, whose attractiveness is primarily derived from long-term lease conditions, sovereign credit quality, and stable, security-driven demand.

Modern defence strategies are fundamentally transforming the requirements placed on real estate and infrastructure. Both military and civil protection, energy, and communication facilities exhibit a significant need for modernization. The German government's € 100 billion special programme is accelerating this transformation – accompanied by rising defence budgets among many European partner countries and a new industrial policy orientation toward resilience and supply-chain security.

The necessary expansion of production and storage capacities cannot be achieved with public funds alone. Private capital is becoming a decisive success factor – through public-private partnerships, sale-and-leaseback structures, and specialized fund vehicles. This is giving rise to a new logic of cooperation between the state, business, and institutional investors.

At the same time, the immaterial dimension of defence infrastructure is growing: cybersecurity and digital resilience are becoming the invisible yet essential components of Defence Assets. As a result, the physical investment space is expanding to include technological and data-driven value-creation layers.

Taken together, Defence Properties are emerging as an independent European growth market – shaped by security-policy necessity, technological transformation, and high societal relevance. For institutional investors, this creates an investment field with stable cash flows, low economic cyclicality, and sustained political backing.

Entering the Defence Properties segment requires a precise understanding of the legal framework. In Germany, spatial planning, building regulation, and classified-information law in particular shape the implementation of such projects and necessitate close coordination with the relevant authorities. Regulatory due diligence is therefore not a secondary step but a central component of acquisition and development analysis. At the European level, corresponding programmes provide additional incentives for the mobilization of private capital. Those who engage in early dialogue with authorities and proactively qualify sites gain a structural advantage – in a market that is only just beginning to define its own rules.

Prof. Dr. Thomas Beyerle, Biberach University of Applied Sciences:
"Defence real estate will develop into an independent, stable asset class: driven by rising security expenditures, sovereign tenant credit quality, and low economic cyclicality, it offers long-term, predictable cash flows – within a highly regulated and specialized market environment."

Dr. Kilian Mahler, Managing Partner Periskop Logistics:
"Investments in defence real estate combine stability and profitability: as a sector largely independent of economic cycles, with creditworthy tenants and long-term leases, it provides reliable returns. The additional demand of around six million square meters expected over the next five years represents a unique opportunity for investments in energy-efficient new developments – before demand peaks around 2030 and new-build activity declines significantly."

Dirk Niebel, Bundesminister a.D.
"Security is the foundation of all sustainability."

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