For professional investors only. Capital at risk.

The impact of AI on Industrial & Logistics Real Estate markets

Bill Page
Matt Soffair
Dr. James Tyrrell
Jonathan Leclercq

Executive summary

- In this paper, we challenge the prevailing hypothesis that artificial intelligence (AI) will improve logistics efficiency but reduce floor space demand.

- AI is, in our view, unlikely to determine aggregate logistics floorspace demand on its own. Its more investable effect will be to potentially funnel demand towards occupiers and buildings capable of converting information into higher throughput, service quality, and resilience.

- More specifically, AI will potentially create both space-reducing and space-supportive drivers, in our view. These do not all emanate from operations; investors may wish to consider the impacts AI may have to consumer behaviour, for instance.

- We believe AI is net positive for the Industrial sector, but there are risks. This means a focus on asset location, resilience, power, and automation compatibility is likely critical. We believe obsolescence risks will grow elsewhere. There is a potentially significant location effect should labour skill catchments change.

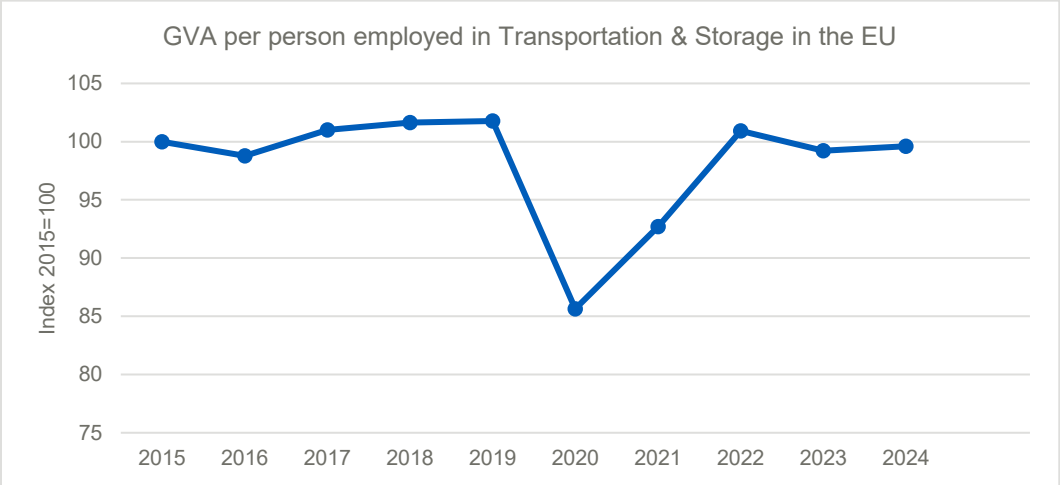
- Industrial segments aligned to specific businesses with unique drivers (e.g., trade parks, self-storage) should, in our view, remain resilient. Together with the diversified occupier base in multi-let estates, we believe diversification benefits may emerge.

Introduction, background, and purpose

The use of technology to improve logistics efficiency is not new. Optimisation algorithms have been used to support routing and scheduling for years, while machine learning has augmented demand forecasting, predictive capacity, and pricing. But AI's capabilities are growing faster than many operators' investment plans. In our view, agentic and generative AI are a genuine step forward where credible recommendations can be created and actions initiated[1].

In this report, AI refers to systems that improve prediction, content generation or autonomous decision-making. Robotics and conventional automation are treated separately, although our definition of AI may enhance their performance.

We believe AI could deliver the productivity gains which so far have been lacking at the regional level, as shown in the chart below:



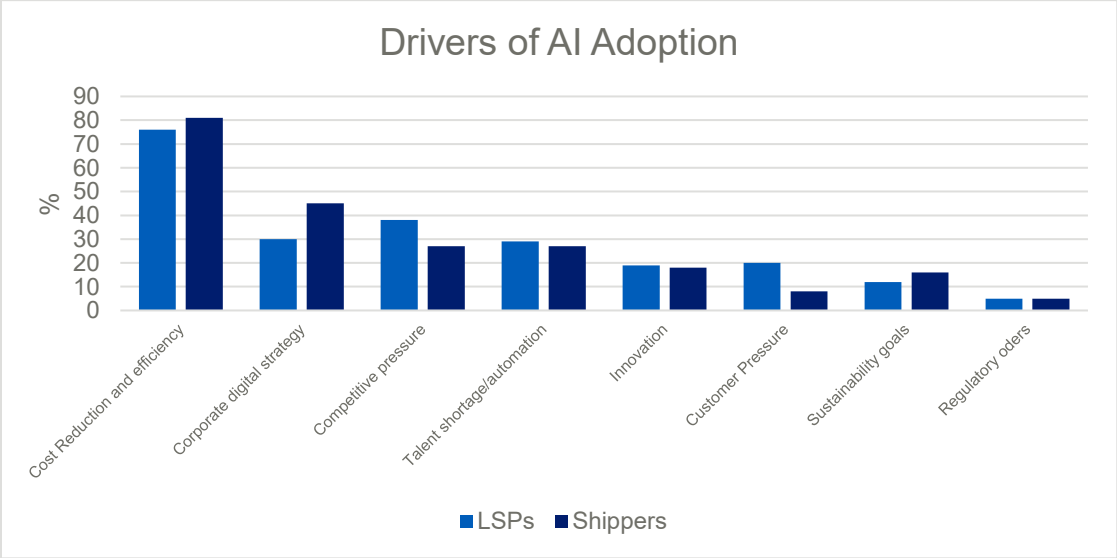
Source: Eurostat, 2026

[1]Capgemini Research Institute, report on new-generation supply chains, 2025; Gartner, Future of Supply Chain. August 2025.

Adoption and intent

Board-level interest in the potential of AI is significant but research shows that only a tenth of logistics service providers (LSPs) have reported measurable financial benefit[2]. The literature suggests that current implementation is dominated by automation, prediction and recommendation with autonomous decision-making and execution broadly confined to pilots and early-stage implementations[3]. There may be some geographical exceptions, however, with Asia Pacific leading Europe. This could relate to a more cautious regulatory environment[4].

Surveys suggest that customers (i.e., shippers) are increasingly choosing their LSPs on the basis of tech acumen. More than 40% considered AI capabilities when evaluating logistics providers; in other words, LSPs may invest in technology because customers expect them to, not because of perceived optimisation benefits[5].



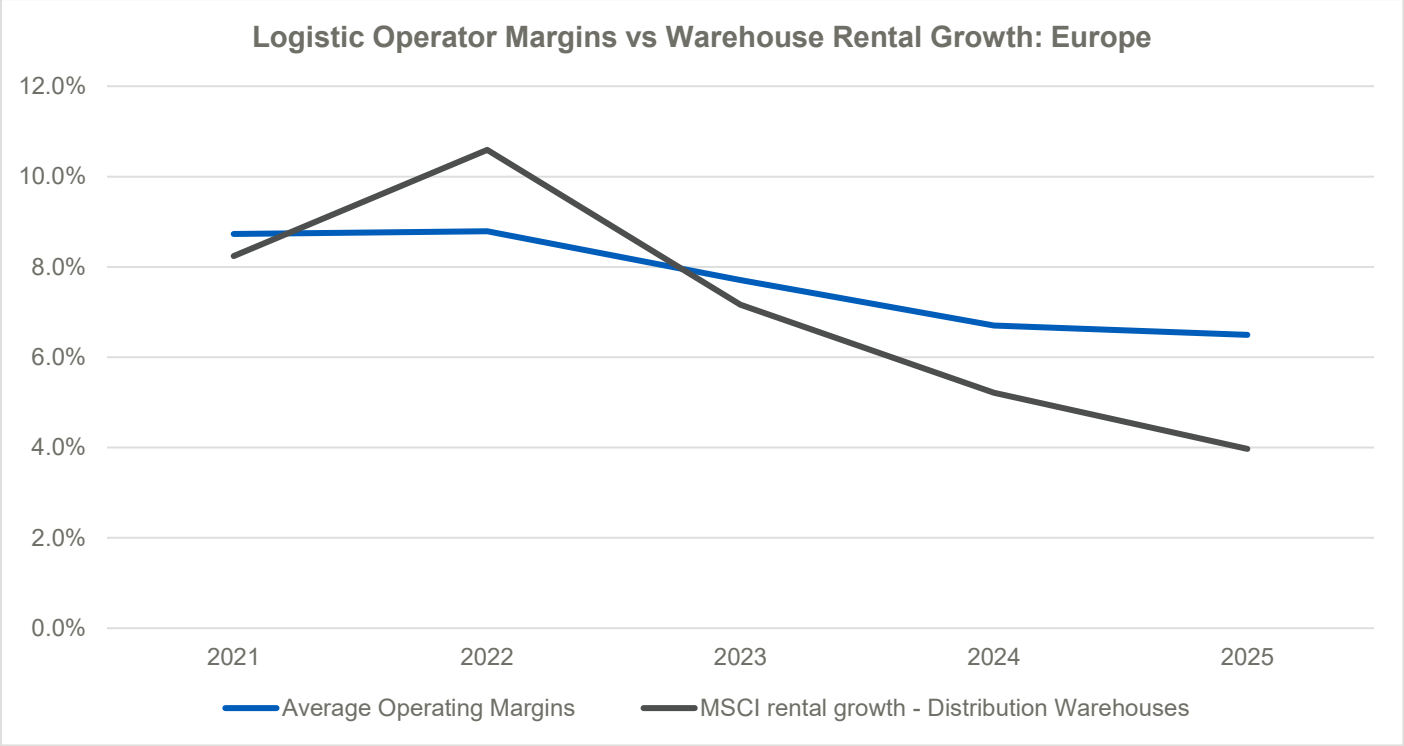
Source: Barclays BDO UK logistics confidence index 2025

[2]Boston Consulting Group (BCG) and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.
[3]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026; Capgemini Research Institute, report on new-generation supply chains, 2025.
[4]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026; European Commission, AI Continent Action Plan, 2025
[5]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.

Drivers for adoption, use cases and key processes

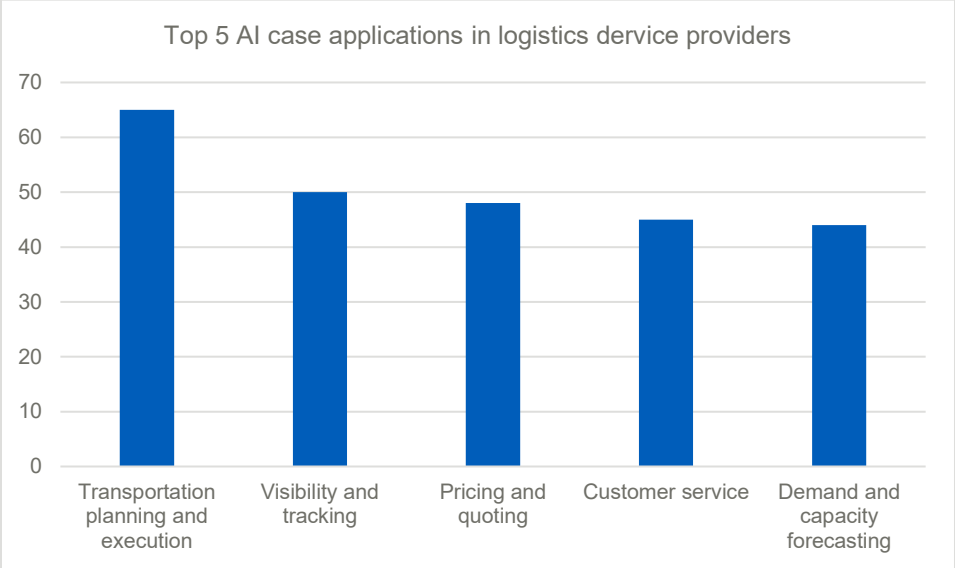
Logistics operators face the conundrum of managing cost pressures with an inability to pass these costs onto their customers. This is exemplified by falling margins (see graph below).

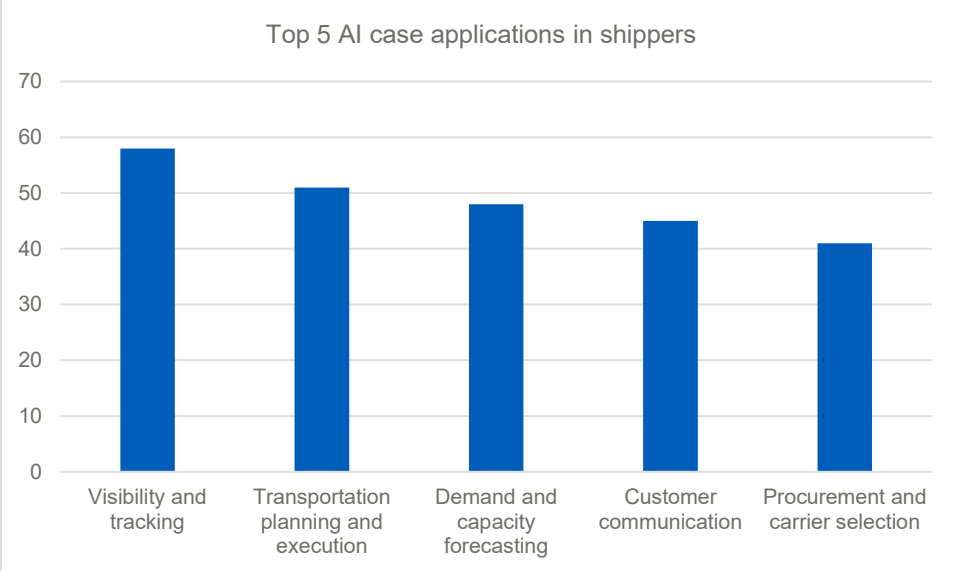
Labour is still one of their largest costs. AI's ability to automate repetition and improve time allocation has the potential to reduce inefficiencies and focus resource on value-add.



Source: MSCI, L&G, September 2026

Meanwhile, networks are being reshaped by regulatory change, resilience strategies and rising customer expectations. This creates significant data and network decisions which can be supported by dispassionate AI. AI can also potentially advise on global risks, alternative sourcing and delivery options. This likely helps firms be more responsive when faced with supply-chain shocks and trade-related disruptions such as changing tariff regimes.





Source: BCG, 2026

Efficiency is therefore critical, in our view, underpinning the following drivers:

Transport planning and route optimisation: AI is already used extensively but we believe generative AI could push efficiency further. Improvements may progress routing patterns, backhaul utilisation (how effectively vehicles are used on their return journey after making a delivery) and reduce unnecessary vehicle movements. Automating decisions may also lower fuel costs and reduce drive times while improving asset utilisation and reliability.[6] This can bolster productivity for the same amount of operational space – but may also influence network design and optimal location[7].

End-to-end visibility and predictive tracking: Organisations will likely be able to process and analyse far more historic internal and external data than previously, allowing changes in demand to be better anticipated with immediate recommendations derived and implemented. More value can be extracted from existing operational portfolios, all else equal, but it may also enable more product ranges to be offered at increasing volumes.

Forecasting, warehouse optimisation, digital twins, and operational decisions: Similarly, demand forecasting has the potential to improve inventory management and capacity planning, enabling better labour and transport allocation[8].

Documentation processing, customs paperwork, RFQ responses, order entry, shipment updates and customer enquiries: These can be better automated by AI reducing labour requirement and improving service[9]. AI is improving with unstructured information. This is particularly true of customs checks which can be very complex and involve multiple parties[10]. AI can also automate data extraction, validation and reconciliation across rate tables, quotations, invoices and payments, reducing administrative workload[11].

Slotting and picking: Within the warehouse, AI can aid with automating slotting decisions – where product is placed and packed. Within networks this can also determine each node's focus. This minimises congestion within warehouses with dynamic, rather than occasional, decisions made automatically. AI can also identify – human or robot – picking patterns that are fully coordinated within a facility or across networks.

Labour scheduling: AI can decide and direct working patterns and labour deployment, reducing overtime and minimising periods of over or under staffing. This may be of particular value to seasonal operations.

European and US networks arguably show the greatest potential efficiency improvements versus the UK where ecommerce practices and a smaller land area mean deliveries are already quick.

[6]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.
[7]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026
[8]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.
[9]Forto, Logistics Trends Compass* survey conducted December 2024 to February 2025; BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.
[10]OECD, Strengthening Supply Chains through Efficiency, Resilience, AI, and Environmental Performance; BCG, Agentic AI in Logistics
[11]McKinsey & Company, "Reimagining Logistics Pricing," July 2026.

Blockers against adoption

Literature tends to focus on potential, not obstacles. Meanwhile, CEOs (and, more pertinently, CFOs) still haven't seen convincing return on investment (ROI)[12]. There are good reasons for this. For instance, improvements in forecasting may only create value when combined with upgraded warehouse systems. We identify several considerations than might add friction to progress:

1. **Data quality and integration:** Recent OECD and European Commission commentary highlights interoperability as a critical requirement. AI cannot mitigate fragmented processes, inconsistent data, legacy data or disconnected or poor-quality tech platforms[13].

2. **Skills:** Many AI applications increase the demand for new skills. Around half of logistics providers anticipate expensive workforce reskilling requirements. There may be a risk to existing workers, but this is likely to be mitigated by tech-focused hiring. However, resistance could be expected. We note the proposed 2017 "robot tax" proposal in France, which suggested moving the tax burden towards the capital producing the output rather than the income of the worker.[14]

3. **Cybersecurity:** Cybercrime may intensify as AI systems get increasingly involved with active decisions. Risks to networks, not just individual facilities, and wider consumer channels are also susceptible.

4. **The regulatory environment**: The EU's AI framework aims to support innovation but also imposes compliance requirements. Obligations could extend beyond AI-specific rules to include data protection, cybersecurity, electronic transactions and cross-border data flows.

[12]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.
[13]OECD, Strengthening Supply Chains through Efficiency, Resilience, AI, and Environmental Performance; European Commission, AI Continent Action Plan
[14] Vice, "A French presidential candidate wants to tax robots to save human workers". February 2017.

The role of the consumer

We believe consumer behaviour may ultimately prove as important as logistics efficiency. AI is already influencing how consumers discover, compare and purchase products. This could affect absolute online purchase volumes. This may also reduce the proportion of return flows and inventory requirements should consumers make better purchasing decisions.

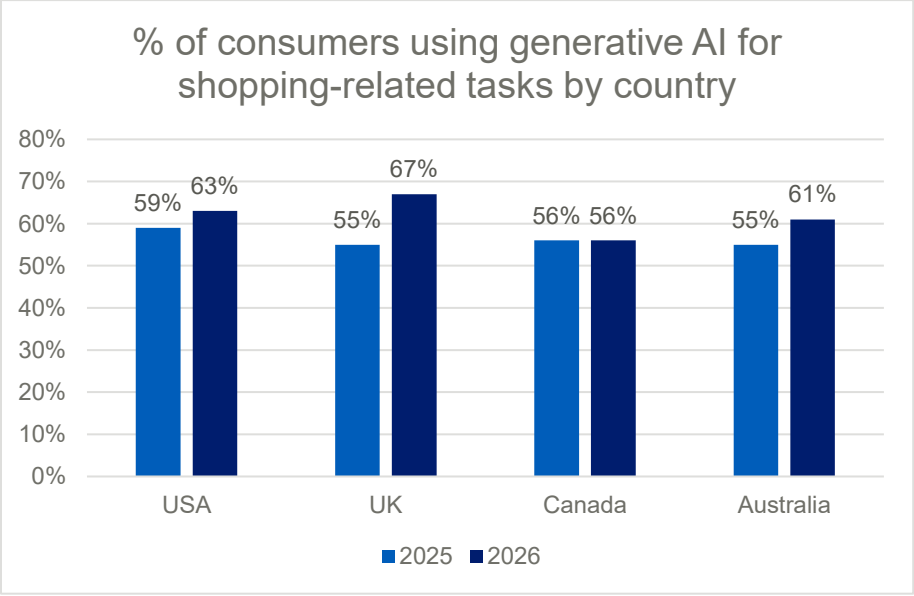
It can do this through:

AI product search: Competition may increasingly depend upon product availability, fulfilment performance and logistics capability rather than simply website traffic or brand recognition.

AI purchasing assistants: Consumers are becoming increasingly comfortable allowing AI systems to make recommendations (see chart below) and, potentially, complete purchases.

Improved matching: AI can identify products that more closely align with requirements, reducing friction and increasing purchase confidence.

Lead-in times: Some goods need long lead-in times. AI could better predict demand for such goods, thus aligning manufacturing processes with expected demand not proven orders.



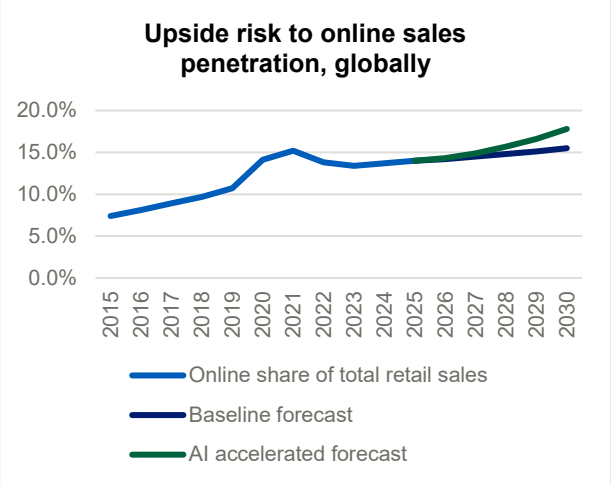
Source: Omnisend's 2025 and 2026 consumer surveys of 4,000 shoppers

Digital first ecommerce / omni-channel brands seem better placed to benefit from AI in our view, not least because they tend to have far better data on their customers. We think this may drive potential for ecommerce penetration:

Digital first ecommerce / omni-channel brands seem better placed to benefit from AI in our view, not least because they tend to have far better data on their customers. We think this may drive potential for ecommerce penetration.

Source: GlobalData, PwC, Savills. 2025; L&G analysis, 2026

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.



Implications to industrial occupier markets

In our view, evidence supports a framework based on competing forces rather than simple conviction:

Tension 1: Inventory efficiency vs resilience

Better processes may reduce precautionary inventory stockpiling and improve flows. In theory, this enables occupiers to support sales using less inventory and therefore less space. But reshoring, friend-shoring, regionalisation and resilience strategies are encouraging inventory buffers and diversification. Both can be influenced by AI forecasting. Meanwhile consumers may purchase more online.

Tension 2: Network consolidation vs network expansion

Improved routing, forecasting and visibility may extend the effective reach of regional facilities, reducing the need for multiple nodes. Conversely, rising customer expectations, same-day delivery requirements and service differentiation may increase demand for urban fulfilment.

Tension 3: Labour dependence vs technical intensity

Facilities may require fewer repetitive operational roles but greater numbers of engineers, technicians, data specialists and maintenance personnel. The impacts of AI to office-based employees may also encourage consolidation into logistics facilities in some cases. This may loosen the labour constraints of logistics and encourage cheaper sites – but balancing that would be the need for more technical-savvy workers to programme and work with the AI.

Tension 4: Jevon's Paradox

In *The Coal Question* (1865), William Stanley Jevons argued efficiency gains sufficiently reduce the effective cost of a service, causing demand to increase by more than the efficiency gain. Should logistics process become notably more efficient due to AI, demand for logistics services may grow, increasing the total volume of goods stored and processed in an economy.

Tension 5: The J-curve

Productivity could initially fall as organisations absorb technological change, with gains emerging only after complementary investment. AI's logistics productivity gains may therefore take time to materialise.

Implications to industrial investment markets and asset management

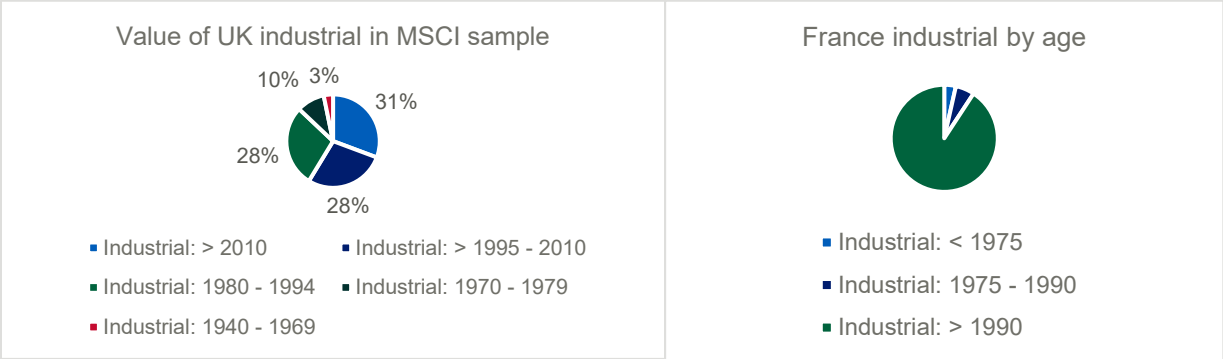
Lease length: Automation can create substantial sunk capital and potentially increase occupier attachment to a building. It may therefore lengthen practical occupancy.

Power and networking: Surveys show widespread concern about energy reliability, increasing electricity demand and the need for resilient infrastructure. As AI adoption grows, logistics facilities may increasingly require fibre connectivity, sensor deployment, automation compatibility and layouts capable of accommodating technology upgrades.

Specification: Automation infrastructure can make floor tolerances, slab loading, clear height, column grid, fire engineering, sprinklers, charging areas, yard configuration, maintenance access and data connectivity more important.

Company size: AI adoption may widen the performance gap between larger, technologically capable operators and smaller businesses facing higher implementation costs.

Divergence: AI may accelerate prime-secondary divergence. This will likely increase obsolescence risk in older distribution offerings. As the chart below shows while almost one-third of UK stock can be considered modern, a significant proportion was constructed in the last century. There is significant variation across Europe. It's possible that a smaller pool of logistics assets will outperform, but that the outperformance of that smaller pool will be more significant.



Source: MSCI, September 2026. **For illustrative purposes only.**

Covenants: Evidence does not yet support a hypothesis that AI strengthens covenant quality by improving margin. Only a minority of logistics providers report measurable financial benefits from AI adoption. Covenant implications should therefore be monitored rather than assumed[15].

Occupier selection: Technologically capable operators may become more important to portfolios. But they may also gain bargaining power.

Storage: We see it likely that larger national/regional distribution centres will hold substantial inventories while smaller "spoke" warehouses close to population centres will hold a more limited and targeted range of goods for shorter time periods.

Industrial segment: Industrial is more than just logistics. Previous research identifies multiple segments within industrial with distinct drivers. Looking at these through the lens of AI helps to identify diversification and resilience:

[15]BCG and Alpega, "AI Is Already Moving the Logistics Industry Forward," March 2026.

Industrial segment	AI impact	Detail	Strategic implications
Regional Logistics	High, Direct	Very susceptible to AI processes affecting both building quality, occupier activity, and, ultimately, location decisions	Occupier selection more important alongside building selection. With proper underwriting opportunities for investment outperformance will grow.
Urban Logistics	High, Direct	Although AI might negate some last-mile requirements, it will likely increase the value of strategic locations. Implications to product.	As above
Multi-let Estates	Low, Indirect	Diversity of occupiers means effects will likely be mainly indirect via occupier revenues. We see minimal impact on product and location.	No change
Trade Parks	Medium, Indirect	Indirect effects on shopping and purchasing may be notable (e.g., supply-chain fragmentation and efficient ordering of materials) but minimal impact on location. Potential impact to specification if 'stockroom' throughput changes.	No change expected – but monitor occupier activity.
Self-Storage	Medium, Indirect	Indirect effects from customer interface, minimal impact on product and location.	No change
Cold Storage	High, Direct	Distribution patterns, and therefore location, exposed by AI efficiencies. Potential for AI-driven process and building operation improvement.	Retain caution based on covenant and dilapidation risk. But could monitor for potential upsides
Open Storage	Low	Low potential impact.	No change

Conclusion

We can challenge the prevailing hypothesis that AI will improve logistics efficiency to the extent it reduces floor space demand. AI should, however, be positive for the operational productivity of logistics networks and for demand for suitably located, automation-ready assets.

Its effect, however, on aggregate floorspace demand and sector-wide investment returns is less certain. Its more investable impact will be to redistribute demand towards occupiers and buildings capable of higher throughput, service quality and network resilience.

This should create opportunities for a specific demand boost for good quality space. While it is possible that AI will reduce the need for multiple nodes for some operators where there has been historical inefficiency, urban logistics strategies focussed on the biggest and fastest growing cities could potentially be beneficiaries. We would argue secondary locations and secondary product were already exposed to greater obsolescence risk given pre-existing polarisation trends, so we don't believe AI will radically change strategy.

AI may increase the covenant strength and network growth potential of some operators while constraining others who can't compete. This is unproven, but choosing occupiers becomes more important as output per worker and margin growth become more valuable indictors before credit scores start to change.

The breadth of industrial formats is important to consider, in our view. We believe AI will mostly affect logistics processes (regional, urban, and cold storage) with direct occupier and building implications. For those worried about their ability to back winners in these segments, areas of the market such as trade, storage or multi-let offer very different exposures.

As a supportive structural driver for logistics property performance, AI, in our view, likely enhances the long-term income growth potential of the sector, and helps underpin our belief that industrial real estate will continue to be a well-positioned beneficiary of structural societal change.

L&G

L&G Non-product disclaimer and important legal notice

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

Important Information

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates ('L&G', 'we' or 'us') as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. The information above discusses general economic, market or political issues and/or industry or sector trends. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy. Past performance should not be taken as an indication or guarantee of future performance and no representation, express or implied, is made regarding future performance.

Certain of the information contained herein represents or is based on forward-looking statements or information, including descriptions of anticipated market changes and expectations of future activity. Forward-looking statements and information are inherently uncertain and actual events or results may differ from those projected. Therefore, undue reliance should not be placed on such forward-looking statements and information. There is no guarantee that L&G's investment or risk management processes will be successful.

No party shall have any right of action against L&G in relation to the accuracy or completeness of the information contained in this document. The information is believed to be correct as at the date of publication, but no assurance can be given that this document is complete or accurate in the light of information that may become available after its publication. We are under no obligation to update or amend the information in this document. Where this document contains third-party information, the accuracy and completeness of such information cannot be guaranteed and we accept no responsibility or liability in respect of such information.

This document may not be reproduced in whole or in part or distributed to third parties without our prior written permission. Not for distribution to any person resident in any jurisdiction where such distribution would be contrary to local law or regulation.

© 2026 Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.