

10 **REASONS TO BE POSITIVE ABOUT . . .** **EUROPE**

AUGUST 2025

Real Estate Investment Research

10 POSITIVES



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Downside Protection

Low Entry Values Suggest Bad News is in the Price

2

Historically Low Supply Growth

Scarcity of Available Space Set to Continue

3

Rental Growth Potential

Even if Economic Growth Stays Sluggish

4

Stable, Income-driven Returns

Performance About Fundamentals Not Yield Swings

5

Rapid Growth in Some Sectors

Strong Outlook for Living, Urban Logistics and Data Centers

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Higher Returning Operating Platforms

The Opportunity Set Continues to Expand

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Positive Leverage Effect

Lower Borrowing Rates Now Accretive to Returns

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Relative Value

Europe Had Big Value Declines Compared to Elsewhere

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An Ongoing Need for Capital

Capex, Modernization, Institutionalization Driving Needs

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Allocation Drives Outperformance

Sector and Market Selection Can Boost Returns

Key Factors That Underpin Our 10 Positives

RESILIENT FUNDAMENTALS

Near-term headwinds to real estate demand are already factored in to low values, while historically low supply supports our expectations of resilient rental growth that will drive returns in the next cycle.

EVOLVING MARKET CONDITIONS

Fast-growing sectors like urban logistics, data centres, and non-traditional living offer strong rental growth potential, while accretive debt costs point to an increasing role for leverage to boost returns.

STRATEGIC CAPITAL DEPLOYMENT

Europe offers value in a global context, while the need for modernization and ESG upgrades implies a need for capital. A targeted city and sector allocation strategy can drive superior returns.

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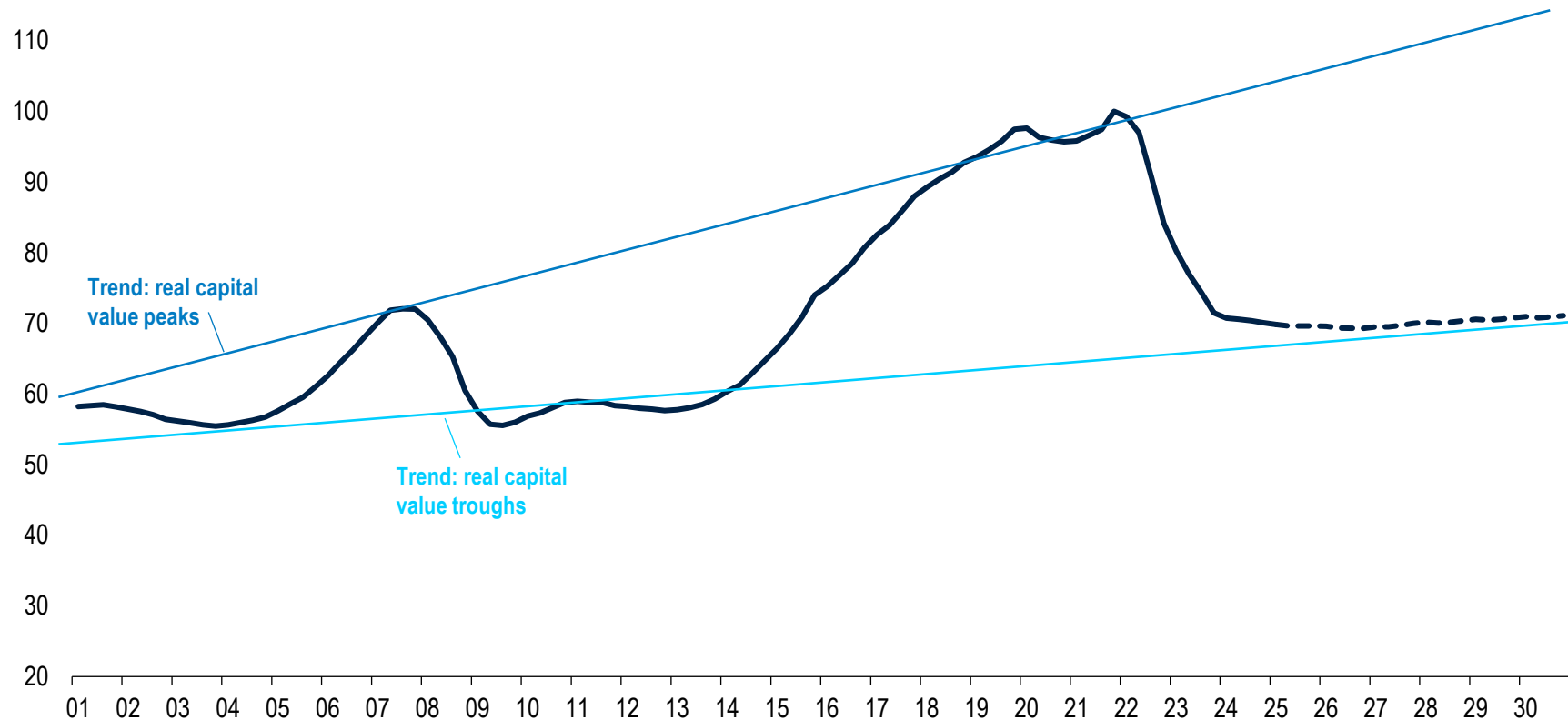
10 REASONS TO BE POSITIVE ABOUT . . . EUROPE

1

Downside Protection

Low Entry Values Suggest Bad News is in the Price

Prime European All Property Real Capital Values (Index, 2021=100)



After a big correction in real estate values, a lot of bad news is already priced into European real estate markets, implying a strong degree of resilience and downside protection against global uncertainty.

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

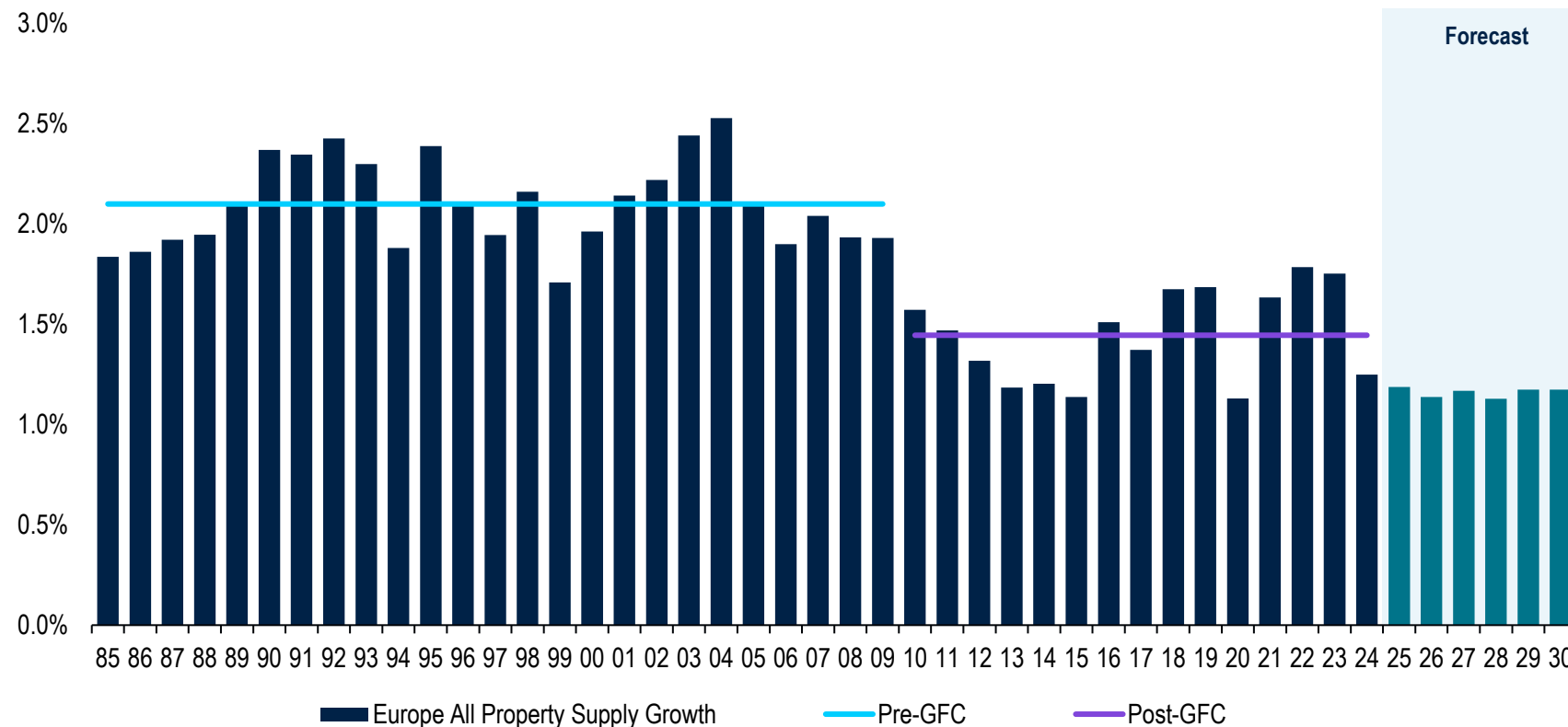
Sources: Cushman & Wakefield, PMA, PGIM Real Estate. As of August 2025.

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2

Historically Low Supply Growth Scarcity of Available Space Set to Continue

Net Additions to European All Property Supply (% p.a.)



A combination of higher build costs, elevated interest rates and uncertainty over the near-term occupier outlook has been weighing on development activity.

Europe's supply pipeline is historically low, so risks of rising vacancy – and falling rents – are contained, even if demand eases in the near term.

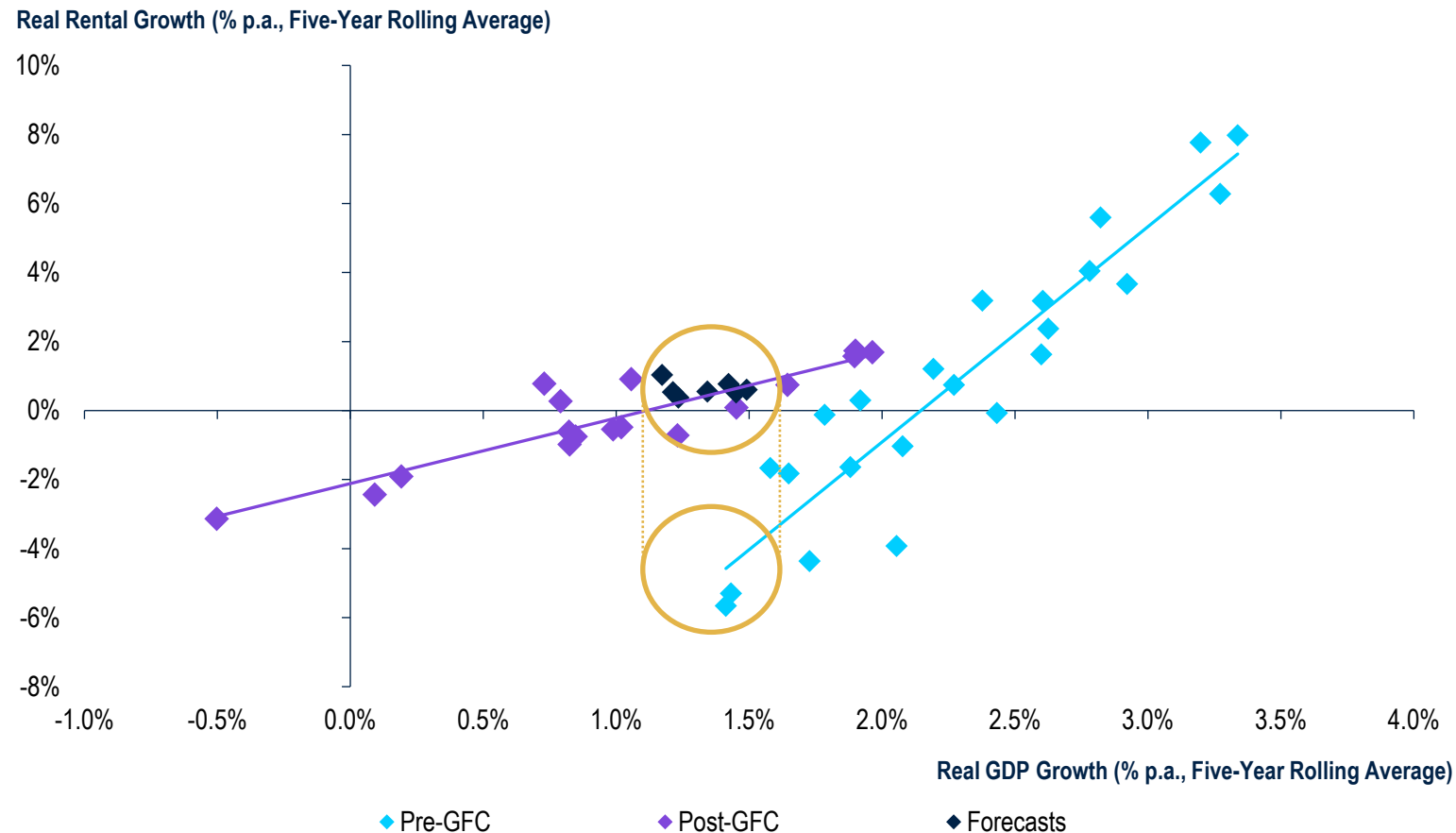
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Sources: PMA, PGIM Real Estate. As of August 2025.

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3 Rental Growth Potential Even if Economic Growth Stays Sluggish

European GDP Growth Versus All Commercial Property Real Rents (% p.a., Five-Year Rolling Average)



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

Persistently low supply has changed the relationship between GDP and real rental growth.

As low supply is set to continue, GDP growth forecasts are now consistent with much more resilient real rental growth than would have been the case in the past.

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4

Stable, Income-Driven Returns Performance About Fundamentals Not Yield Swings

Breakdown of MSCI Pan-European Property Index Returns (%)



Unlike much of the last cycle, when value movements were driven by large shifts in yields, in-place income and income growth is set to be a much more significant component of total returns from 2025 onwards.

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Sources: MSCI, PGIM Real Estate. As of August 2025.

EVOLVING MARKET CONDITIONS

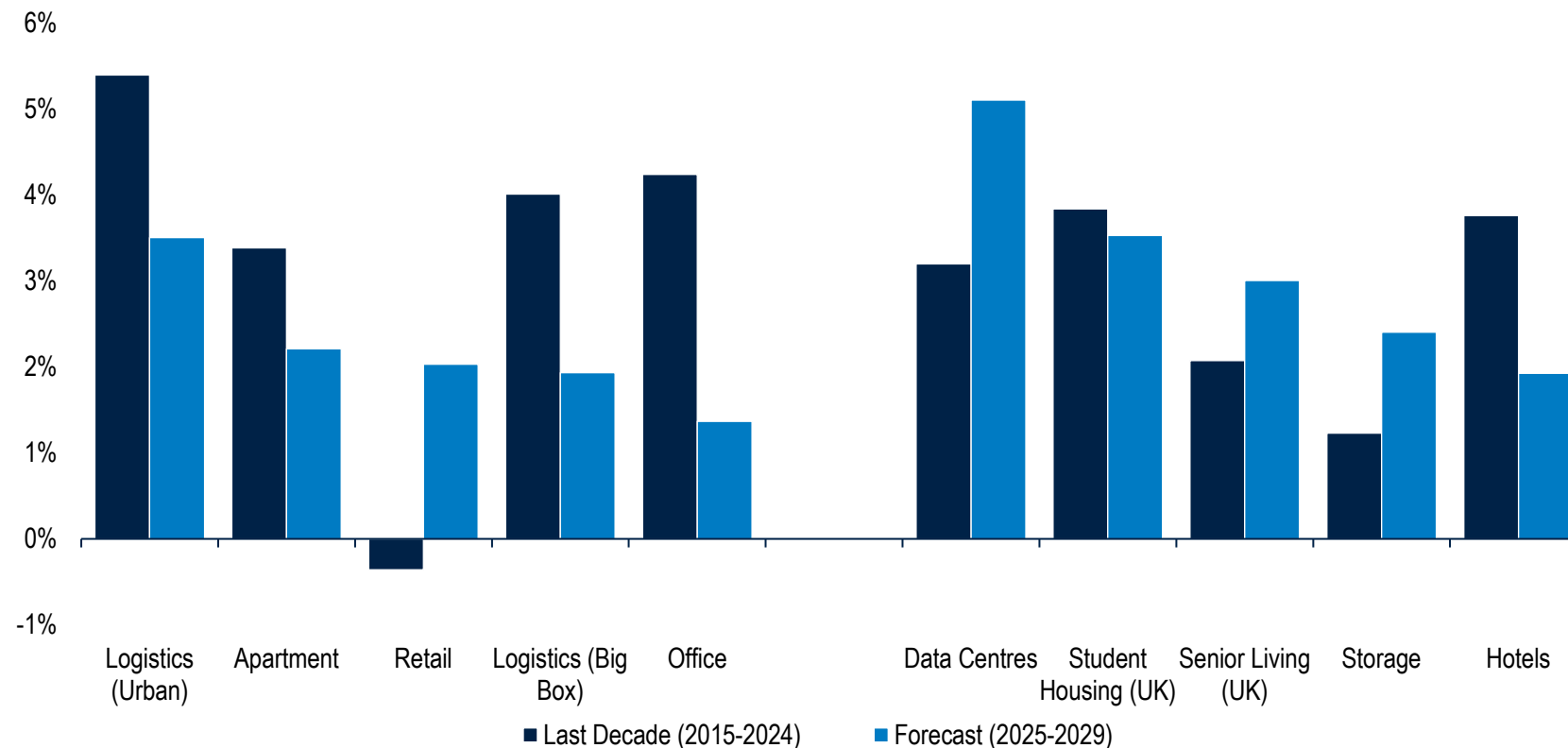
Fast-growing sectors like urban logistics, data centres, and non-traditional living offer strong rental growth potential, while accretive debt costs point to an increasing role for leverage to boost returns.

5

Rapid Growth in Some Sectors

Strong Outlook for Living, Urban Logistics and DCs

Prime Rental Growth by Sector – Major European Cities (% p.a.)



Some parts of Europe's real estate market are recording strong growth, linked to such factors as structural tailwinds and rising household incomes.

Examples include specialist sub-sectors, such as urban logistics, data centres on the back of rapid AI-driven demand growth and non-traditional living sectors.

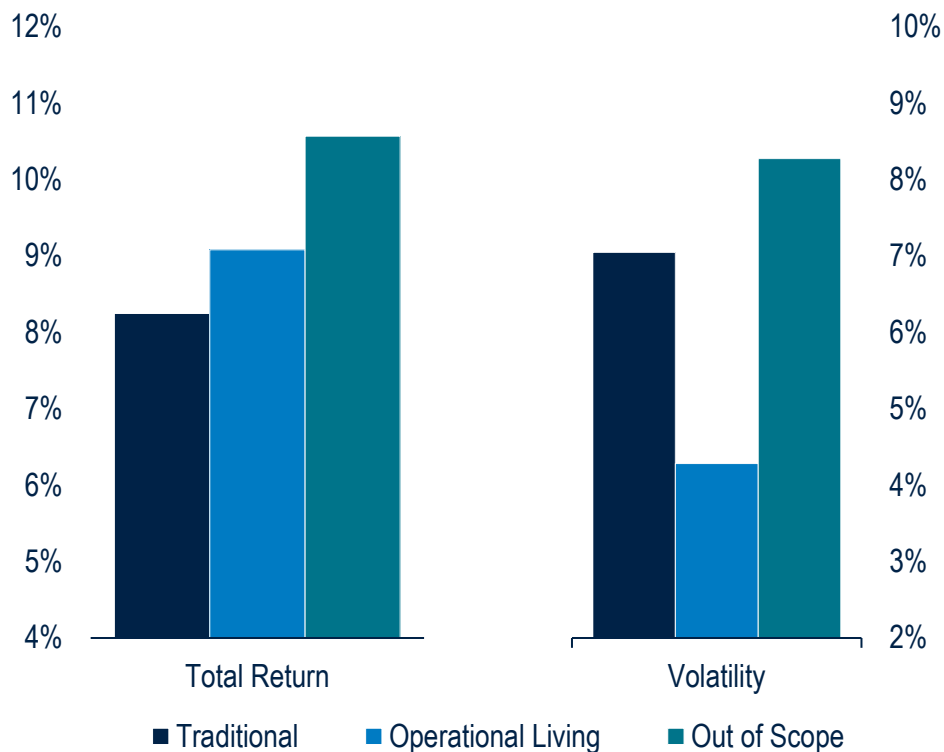
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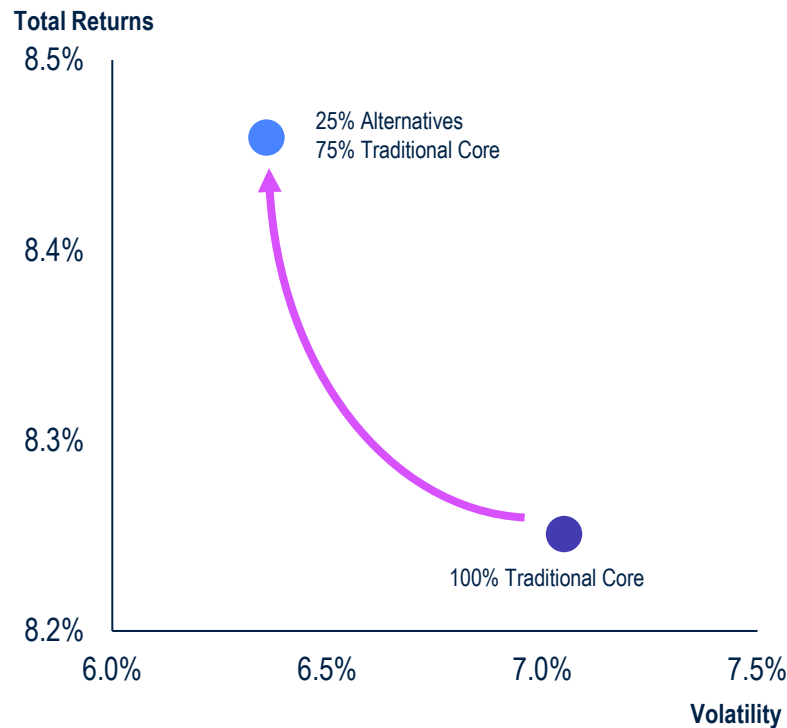
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6 Higher-Returning Operating Platforms The Opportunity Set Continues to Expand

Total Return and Volatility by Sector Group (% p.a., 2010-24)



Historical Risk and Return (2010-24)



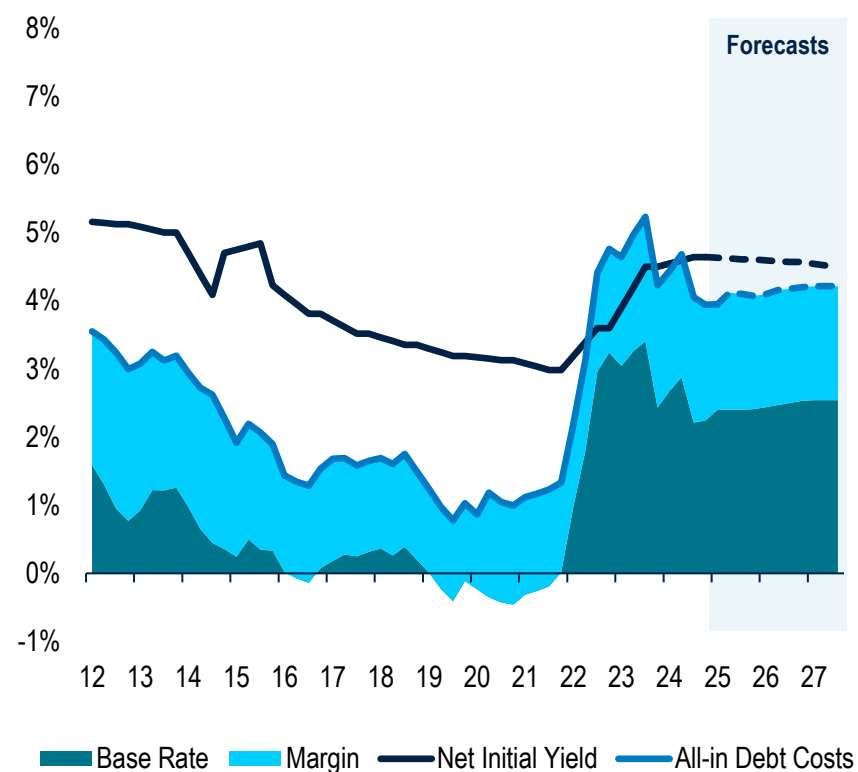
Operational living sectors, including student accommodation and senior housing, have a strong returns outlook at historically lower levels of volatility, which could provide a boost to risk-adjusted returns.

A real estate portfolio that held alternative property types would have delivered excess returns and reduced volatility in the past.

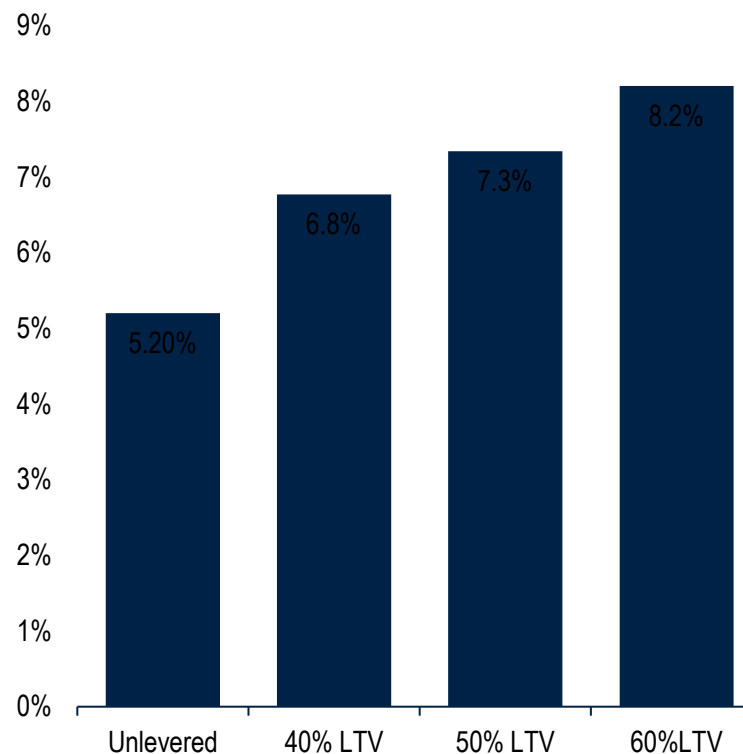
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7 Positive Leverage Effect Lower Borrowing Rates Now Accretive to Returns

Continental Europe Prime Office: Senior Loan All-In Debt Costs Vs Prime Property Yields (%)



MSCI Index Forecast Total Return at Various Leverage Levels (2025-29, % p.a.)



Debt is becoming accretive again, especially in continental Europe, which is set to help boost returns across the region, unlock transactions and create more financing opportunities for lenders.

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

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

STRATEGIC CAPITAL DEPLOYMENT

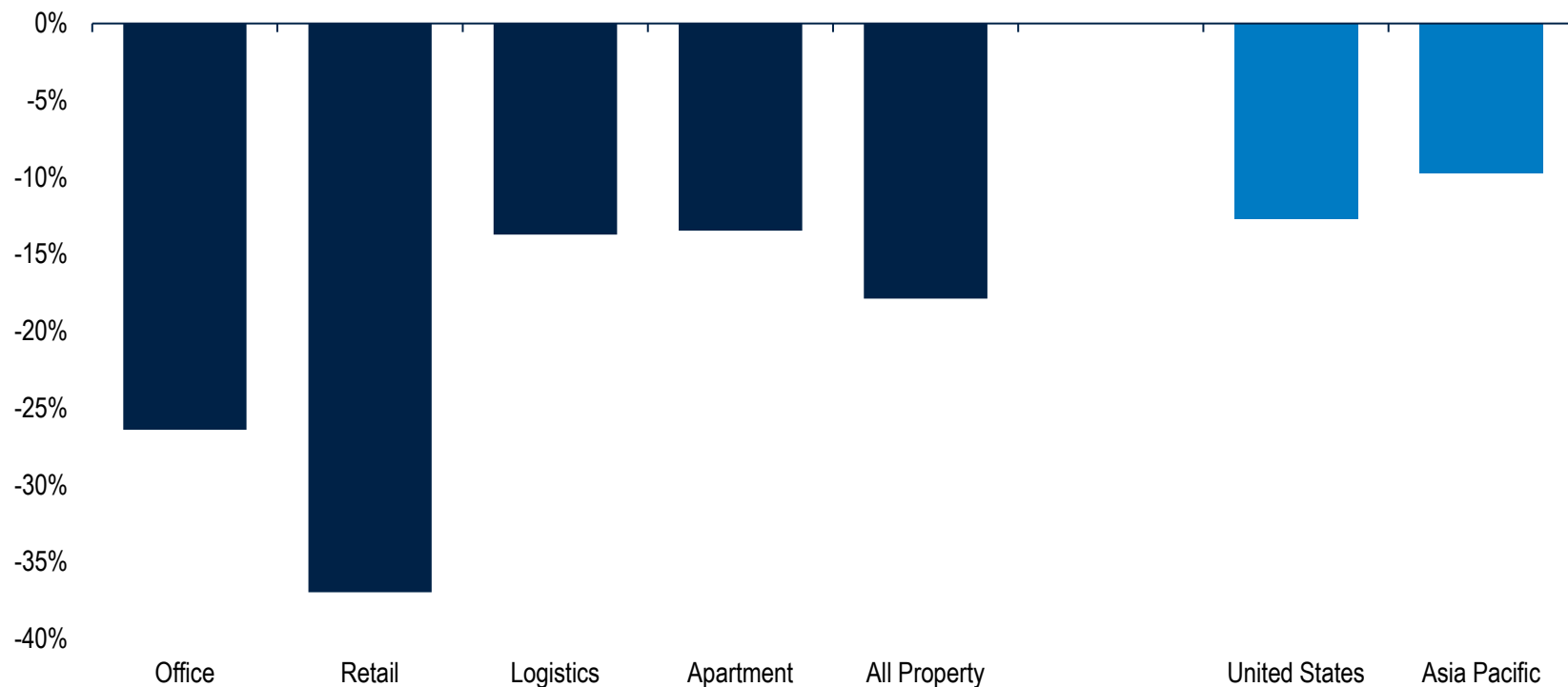
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8

Relative Value

Europe Had Big Value Declines Compared to Elsewhere

Prime Capital Value Change – Europe, Peak to 2Q25 (%)

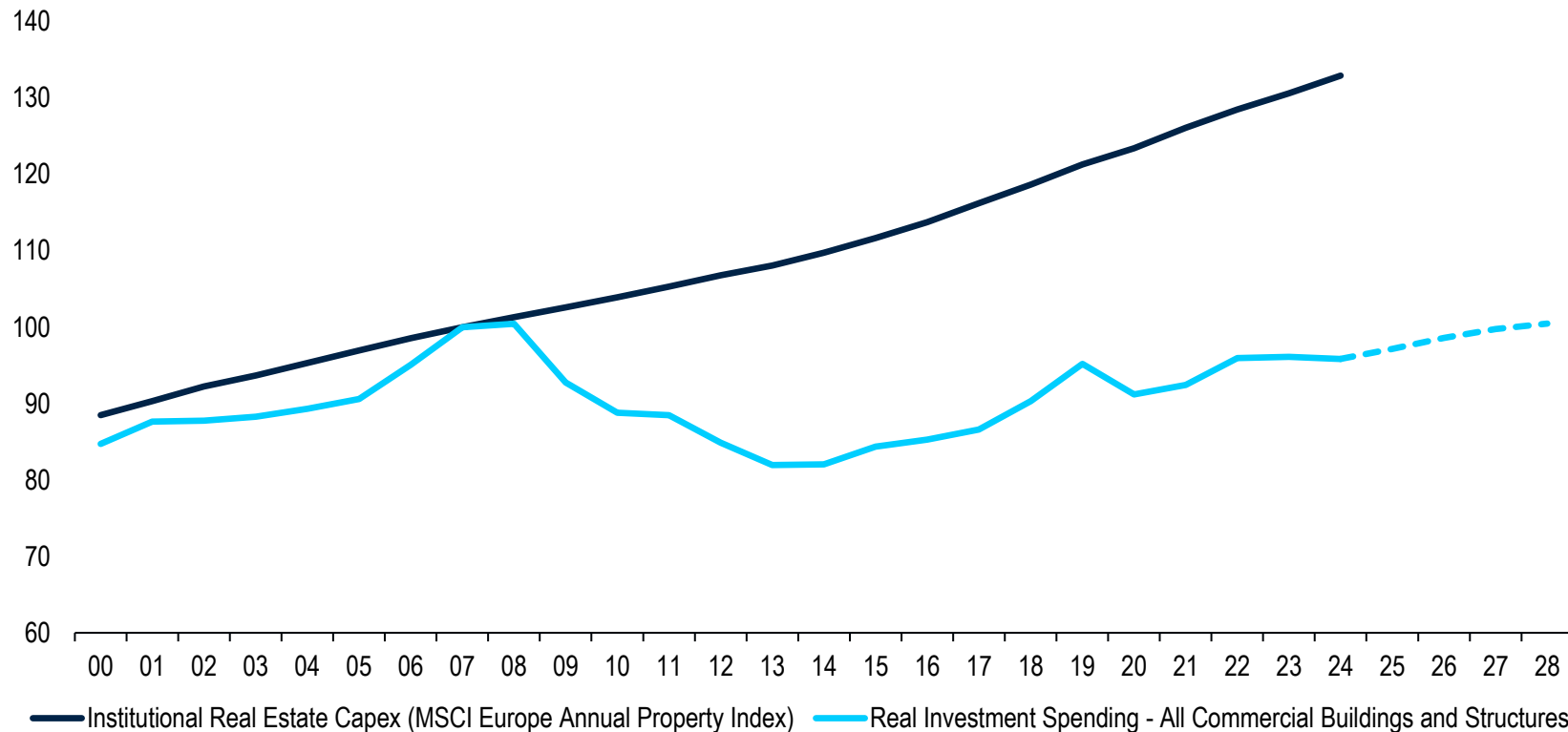


Europe went through a deep correction and had big value declines in a global context and offers attractive relative value in an international portfolio context.

9

An Ongoing Need For Capital Capex, Modernization, Institutionalization Driving Needs

Index of European Capex Spending (Index 2007=100)



The last cycle was characterized by a relatively low pace of investment going into the built environment.

Many non-institutional buildings will need fresh capital injections, especially as ESG requirements are growing too.

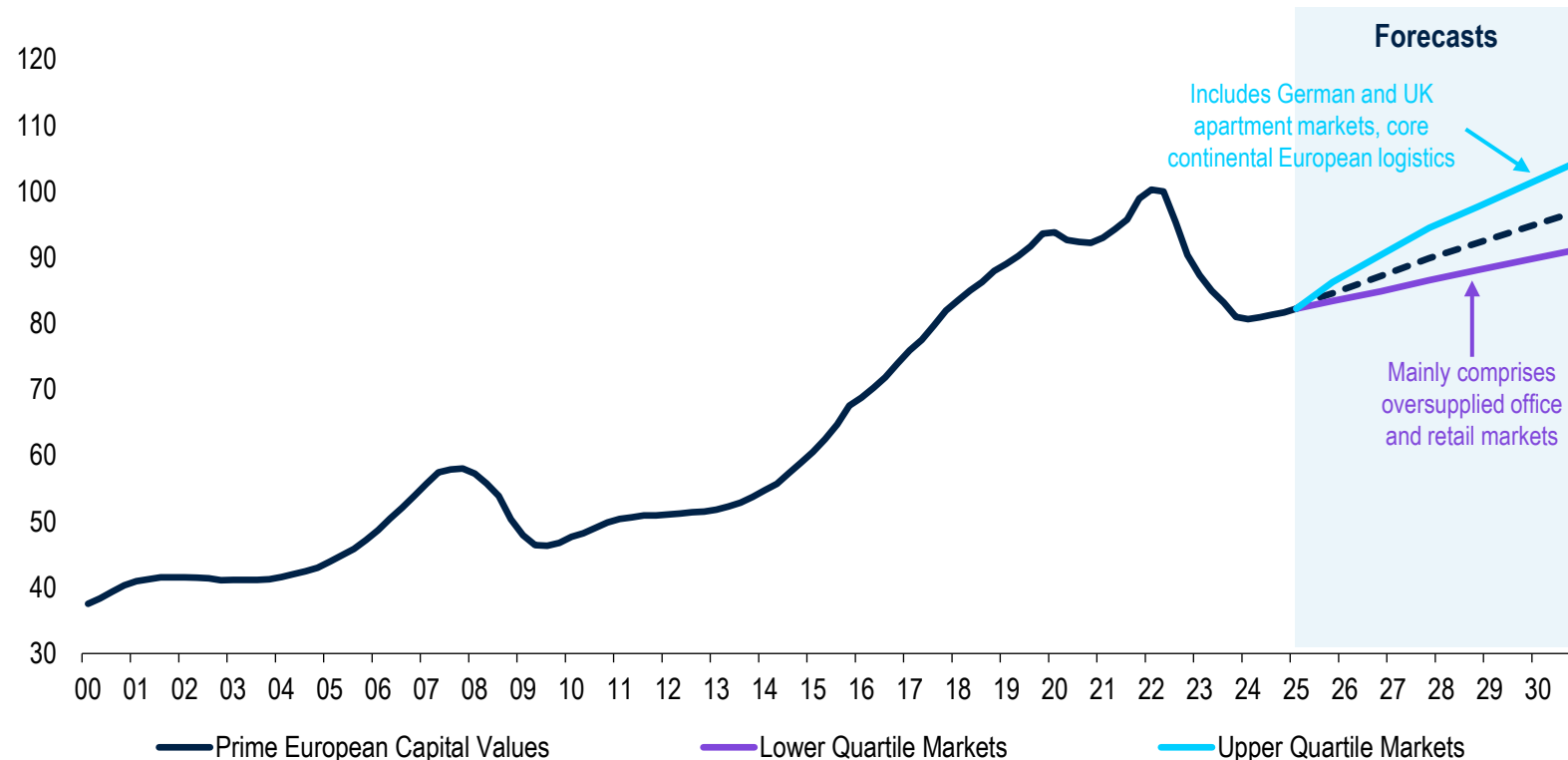
Capital is also needed as non-traditional sectors such as storage and open-air hospitality become more institutional.

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

Sources: MSCI, OECD, Oxford Economics, PGIM Real Estate. As of August 2025.

10 Allocation Drives Outperformance Sector and Market Selection Can Boost Returns

Prime European All Property Nominal Capital Values (Index, 2Q22 = 100)



Some cities and sectors are expected to record significant capital value growth above the market average in the coming years.

Examples include apartment markets in Germany and the UK as well as selected European logistics markets – in particular, urban markets that serve for international distribution as well as last-mile.

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

Sources: PMA, CoStar, JLL, PGIM Real Estate. As of August 2025.



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設立年月日	2006 年 4 月 19 日
主要株主	Prudential International Investments Company, LLC (100%)
資本金	2 億 1,900 万円
主要業務	① 投資運用業 ② 投資助言・代理業 ③ 第二種金融商品取引業
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