

# THE REAL ESTATE RESET: EARLY CYCLE OPPORTUNITIES

# Q&A



**CAITLIN O'CONNOR**  
Managing Director, Portfolio Manager  
PGIM Real Estate



**BRANDON SHORT**  
Executive Director, Portfolio Manager  
PGIM Real Estate

A new cycle is taking shape in real estate, creating differentiated opportunities across sectors and strategies. PGIM's Caitlin O'Connor and Brandon Short assess private market dynamics, identify investment opportunities, and explain why the current backdrop may offer long-term investors an attractive entry point.

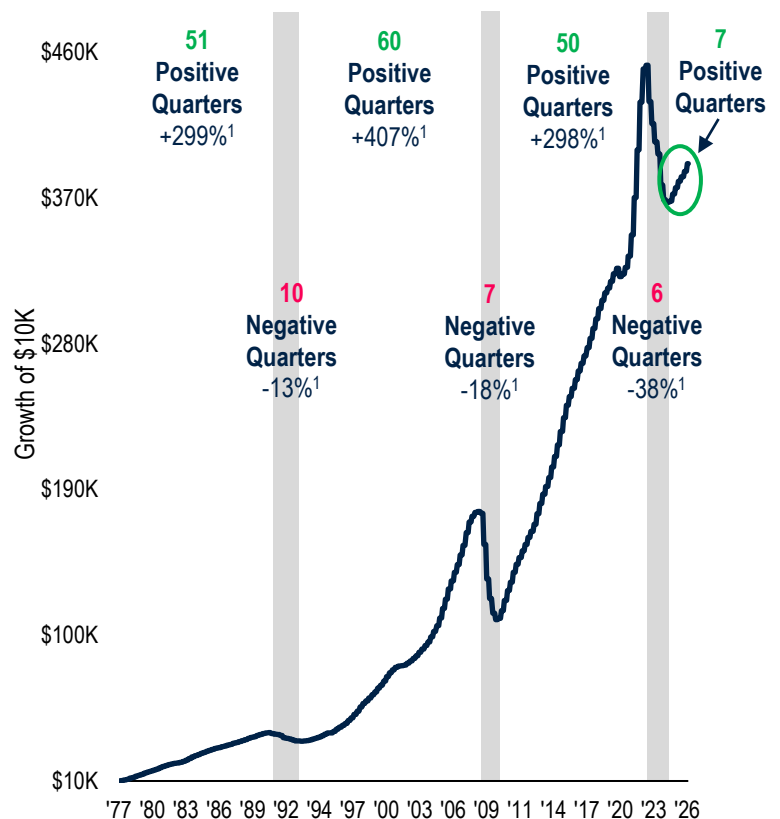
## A COMPELLING ENTRY POINT

**Q:** What's the state of the real estate market and what does it mean for investors?

**CO:** After a period of correction and stabilization, real estate is entering the early stages of a new cycle. Historically, prolonged downturns have been followed by extended periods of positive returns, creating meaningful upside potential for disciplined investors today. Key trends we are seeing include:

- **A gradual recovery:** While asset values are beginning to recover from recent lows, the rebound is uneven across different sectors and geographic markets. This variation reflects local supply-and-demand conditions, capital availability, and broader economic trends.
- **Improving market activity:** Transaction volumes are starting to pick up as pricing becomes clearer and the gap between buyer and seller expectations narrows. Owners are more willing to transact at reset valuations, and capital is slowly returning, improving market liquidity.
- **An opportunity for early movers:** The increase in deal flow signals a transition to the next phase of the cycle. Investors who act now are well-positioned to find opportunities before the market fully rebounds and pricing normalizes.

A new real estate cycle has begun



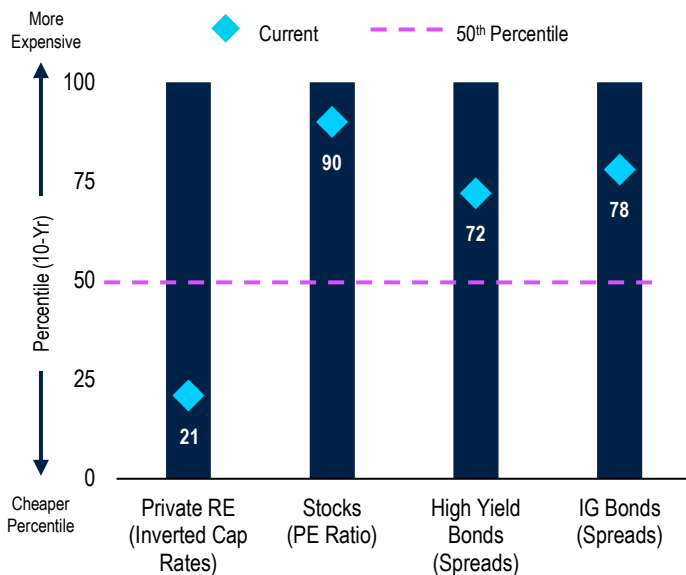
Sources: NCREIF, PGIM Real Estate as of March 2026. <sup>1</sup>Represents cumulative return during the period. Past performance does not guarantee future results. All indexes are unmanaged. An investment cannot be made directly in an index.

## MANAGER PERSPECTIVES

### Q: Why is now an attractive time to invest in real estate?

**BS:** The current market offers a highly compelling entry point, especially following recent rising rates. Real estate has undergone significant repricing, leaving asset values well below prior peaks in many regions. By contrast, elevated equity price-to-earnings ratios suggest stocks may be overvalued. In the bond market, both high yield and investment grade credit spreads versus Treasuries are near all-time tights. Real estate stands out. Lower entry values create a powerful tailwind for long-term upside, while predictable cash flows deliver essential resilience, stability, and enduring performance amid persistent geopolitical uncertainty.

### Attractive relative valuations support real estate



Sources: Bloomberg, NPI, PGIM. Percentile ranks based on 10 years ending 03/31/2026. Private Real Estate represented by NCREIF Property Index; Stocks represented by the S&P 500 Index; High Yield Bonds represented by the Bloomberg U.S. Corporate High Yield Index; Investment Grade Bonds represented by the Bloomberg U.S. Corporate Index.

### Q: How are rates and inflation impacting the outlook?

**BS:** Interest rates have come down moderately since 2024, creating a more stabilized environment for real estate. With pricing having largely reset, forward returns are expected to be driven less by multiple expansion and more by underlying fundamentals, with durable cash flows and the ability to generate rental growth offering particular appeal. Importantly, real estate continues to offer a degree of inflation protection through income growth. Over the long-term, gradual easing in rates would be an incremental tailwind, supporting valuations,

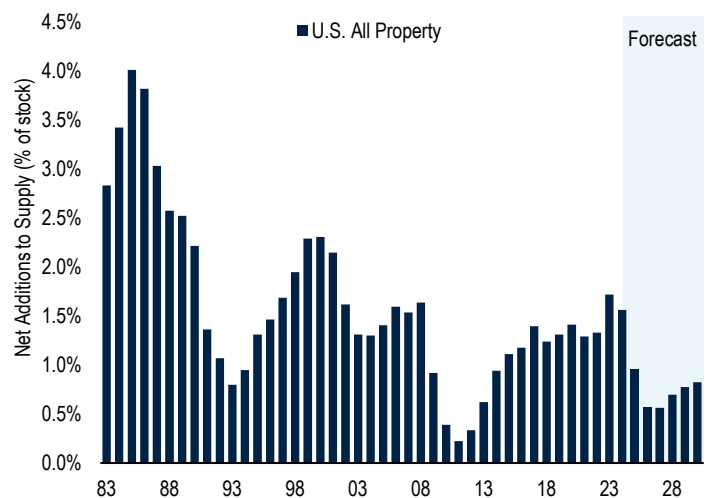
improving financing conditions, and reinforcing investor demand.

## FAVORABLE SUPPLY AND DEMAND DYNAMICS

### Q: How do supply dynamics shape the current outlook?

**CO:** Supply conditions are a central pillar of the positive outlook for real estate. Construction activity slowed significantly in recent years due to higher costs, tighter financing conditions, and broader market uncertainty, resulting in a historically constrained development pipeline. While some of these pressures have moderated, there has not yet been a meaningful rebound in new supply, meaning that many markets are facing, or are likely to face, shortages of high-quality space. Renewed geopolitical turmoil and upward pressure on interest rates in the first quarter will only reinforce the trend. A constrained supply backdrop provides structural support for occupancy levels and rental growth, particularly for well-located, modern assets.

### New supply at 10-year lows



Sources: Costar, PGIM. As of November 2025. Forecasts are not guaranteed and may not be a reliable indicator of future results.

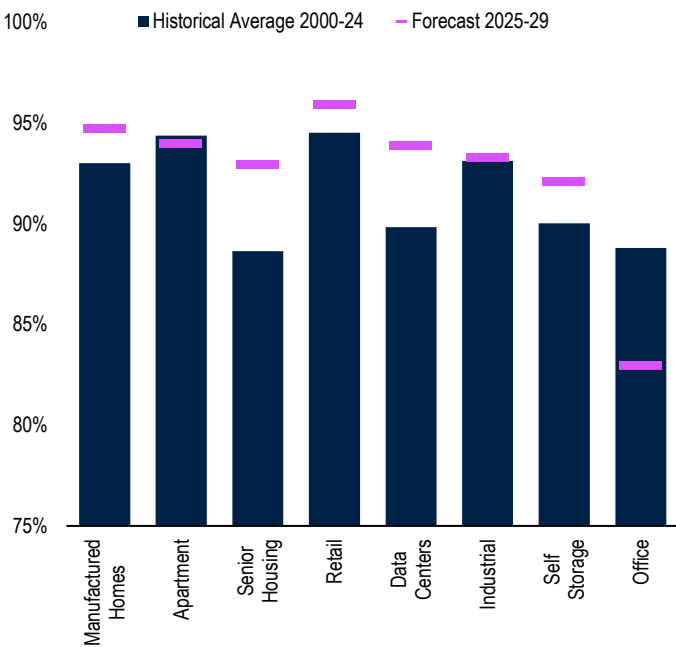
### Q: What is the outlook for rental growth?

**BS:** We expect rental growth to remain resilient, supported by both supply constraints and stable underlying demand in key sectors. Occupancy rates remain elevated across much of the market, reflecting limited availability of high-quality space and reinforcing landlords' pricing power. In residential markets,

## MANAGER PERSPECTIVES

structural housing shortages and demographic trends continue to lift rents, while persistently high occupancy underscores the depth of demand. In logistics and infrastructure-related sectors, demand is being driven by ongoing shifts in consumption patterns and supply chain requirements, with tight vacancy levels further supporting rental growth. Even in more challenged sectors, such as office, high-quality assets in desirable locations are experiencing a “flight-to-quality” dynamic, where strong occupancy in top-tier buildings requires tenants to pay a premium for superior space.

### High occupancy rates across sectors



Sources: Costar, JBREC, Green Street, and PGIM. As of November 2025.

## HIGH CONVICTION INVESTMENT THEMES

### Q: What are today’s most compelling investment themes?

**CO:** We see two broad opportunity sets: Everyday Life and Market Momentum. Everyday Life is a structural theme referring to needs-based real estate tied to essential, non-discretionary demand. Market Momentum is a tactical trend related to cyclical opportunities that materialize after a significant reset, typically driven by liquidity, capital structure, or sector-specific dislocation. Together, these themes support a balanced approach that combines stability with selective opportunistic exposure.

Within Everyday Life, there are investment opportunities that lean into the resilience of basic needs demand, comprised predominantly of strategies focused on delivering the living space and critical urban infrastructure that households need for everyday life.

### Living Sector

#### Multi-Family

- Housing shortages and steady household formation support demand
- High occupancy and consistent rent growth across cycles
- Core income foundation with defensive characteristics

#### Senior Living

- Aging population expands addressable tenant base
- Supply discipline improving occupancy and fundamentals
- Needs-based demand supports stable, recurring cash flow

#### Student Housing

- Enrollment-driven demand provides stability
- Constrained supply near campuses supports pricing power
- Short lease cycles enable faster rent resets

### Critical Urban Infrastructure

#### Urban Logistics

- E-commerce growth drives sustained demand for last-mile logistics
- Supply-constrained infill locations support rental growth
- Digital infrastructure supports cloud and AI-driven workloads

#### Necessity Retail

- Daily-use tenants drive consistent foot traffic
- Rationalized supply supports occupancy recovery
- Less exposed to discretionary consumer cycles

#### Medical Outpatient

- Aging demographics increase healthcare utilization
- Shift to outpatient care supports long-term demand
- Long leases and specialized buildouts enhance income visibility

Market Momentum reflects a post-repricing cycle where values are more attractive but recovery remains uneven, creating opportunities that emerge market by market and sector by sector—making local expertise and disciplined underwriting critical. Refinancing pressure, higher capital requirements, and constrained financing are driving a growing need for capital across the stack, particularly as rising capex needs, now roughly double levels from a decade ago, outpace available funding. At the same time, conversions are becoming an increasingly important source of value creation as demand shifts, including office-to-residential and select industrial-to-data center conversions.

# THE PGIM ADVANTAGE

**Q: What differentiates your approach and how can that help investors in this environment?**

**CO:** The real estate market is entering a new phase in which outcomes are increasingly driven by fundamentals, selectivity, and capital positioning rather than broad market beta. Lower entry values, resilient income streams, and constrained supply provide a supportive backdrop, while capital market dislocations are creating differentiated opportunities across equity and credit. In this environment, PGIM's comprehensive attributes can help investors identify and access the most attractive opportunities.

- **Scale:** **\$218B global platform<sup>2</sup>** across public and private markets, with deep, cycle-tested expertise
- **Sourcing advantage:** **640+ on-the-ground experts** delivering real-time insights and access
- **Selectivity:** **80% of investments sourced off-market**, enabling better pricing and terms
- **Innovation:** Pioneer of **open-end core (1970)** and **core-plus (1980)** real estate strategies
- **Living sector leadership:** **\$57B AUM**, 698K units owned or financed, and about 60% of 2025 capital deployed in the sector

With more than five decades of experience managing real estate through multiple market cycles, including extensive experience managing liquidity in open-end vehicles, PGIM is well-positioned to help investors navigate evolving conditions and capitalize on structural and cyclical opportunities.

## DISTINCT SCALE, ACCESS, AND EXPERTISE

**\$218B**

Global platform<sup>2</sup>

**640+**

Investment professionals

**6,100+**

Owned and financed properties

**56 Years**

Real estate investment experience

**1st**

Core plus open-end private real estate fund

Source: PGIM as of 3/31/2026. <sup>2</sup>Includes AUM and AUA.

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