PGIM REAL ESTATE

PERSPECTIVES

“Great Reset” Presents Great Opportunity for REITs

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The sharp rise in global interest rates over the past year is driving a “great reset” of real estate values. Global repricing is playing out across the board, exacerbated by looming recession risks, making benchmark-driven investing difficult. Global real estate returns will likely remain under pressure over the next 12 months, leaving many investors on the sidelines until the turmoil subsides. With the correction in private markets continuing, REITs offer an attractive entry point and the potential to take listed names private.

Expect More Real Estate Repricing and Consolidation

In weaker parts of the market, we expect to see some overshooting— higher risks and weakening occupier performance mean prices correcting beyond what is required to simply adjust values to higher market interest rates. On the flip side, parts of the market that are exposed to favorable structural tailwinds and contain supply that supports income generation and income growth should see more limited pricing downside. In aggregate, the repricing story has further to go to fully reflect higher long-term interest rates. As the repricing process unfolds, there will likely be a wave of consolidation as well-capitalized firms buy attractive properties at steep discounts.

Public/Private Pricing Disconnect Favors REITs

A significant disconnect between public and private real estate markets is rare but does occur on occasion. Historically, periods of large disconnects have benefited REITs. Given the current disconnect, REITs offer an attractive entry point to global real estate and an opportunity for outperformance as private markets continue to correct. Given the lagging nature of private real estate, REITs offer investors exposure to real estate at values that have already adjusted significantly. Investors can capitalize on this temporary public-versus-private dislocation by investing directly in REITs to benefit from expected outperformance or potentially by taking REITs private.

Rate Stability to Boost REIT Appeal

With the Fed winding down its tightening, there will be more stability around the outlook for interest rates. This should ease the pressure seen in the REIT market recently. Historically, REITs have shown strong returns after Fed tightening cycles ended. While timing recessions is difficult, value dislocations allow investors to generate above-private-market returns in the public markets, even if the entry point is not precise. While sectors differ, current prices in the REIT market already incorporate substantial discounts to asset values that are broadly in line with our expectations for further private market value declines.

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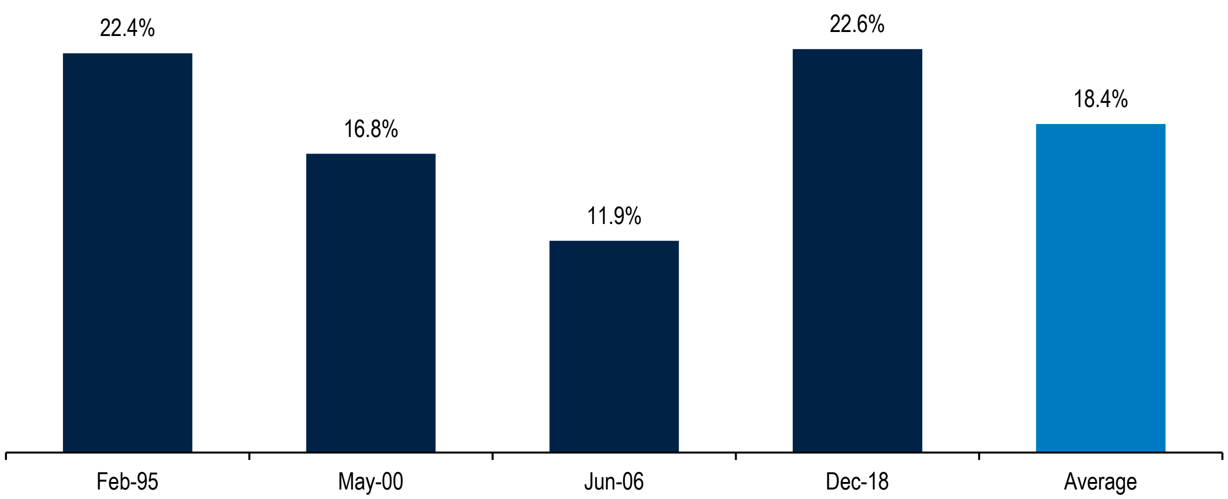
REIT Returns 12 Months After Fed Rate Hike Cycles End



Source: Morningstar. REITs represented by FTSE NAREIT All REITs Index. Past performance is not a guarantee or reliable indicator of future results.

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Important information *(continued)*

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