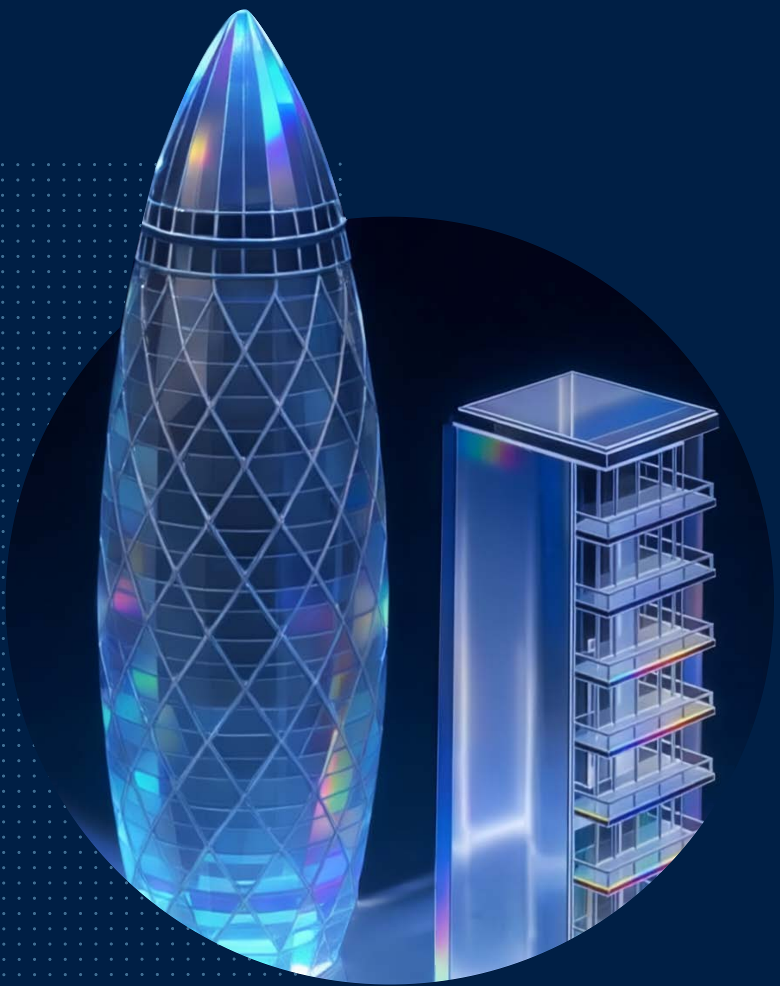
PGIM

2026 REGIONAL REAL ESTATE VIEWS

EUROPE



June 2026

For Professional and Institutional Investors only.
All investments involve risk, including possible loss of capital.

KEY TAKEAWAYS

A new cycle is underway, and real estate in Europe offers an attractive combination of cash flow generated by resilient, basic needs-driven demand and growth potential.

Here are three key takeaways from the report:

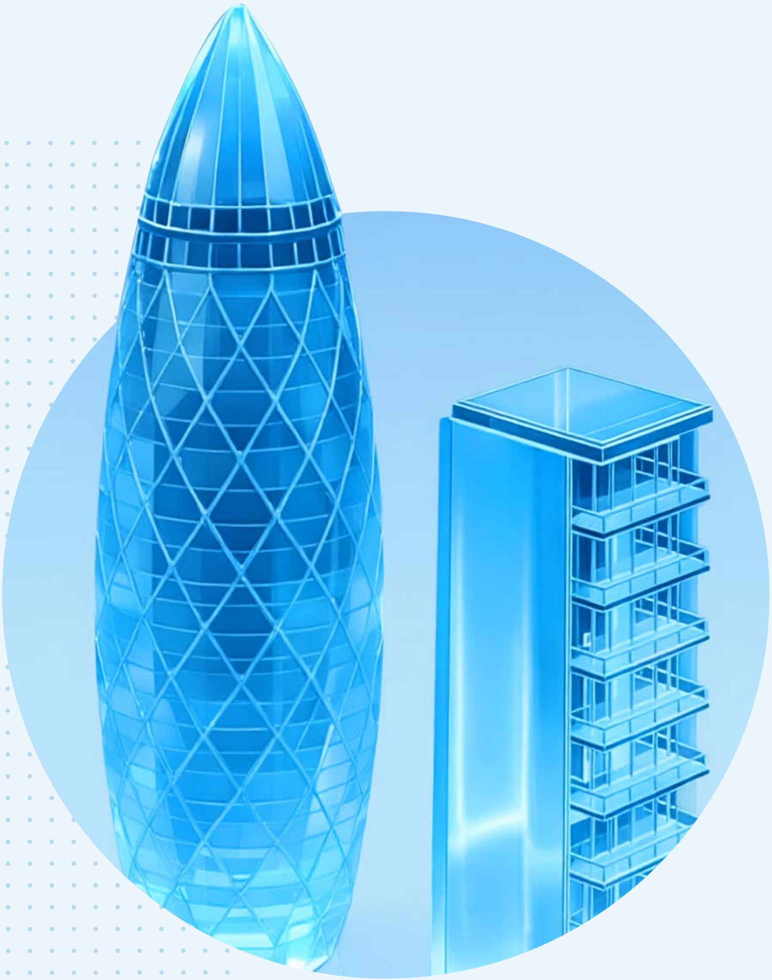
01 **Capitalize on upside potential.** 2026 is expected to be a strong investment vintage in this cycle, via basic needs investing for everyday life or targeting market momentum.

02 **Take a focused approach.** Be selective about where to deploy capital as gaps between winners and losers may widen.

03 **Diversify to manage risk.** Diversifying by geography, sector, and capital type helps to build a resilient portfolio.

PART 01

EUROPE OVERVIEW

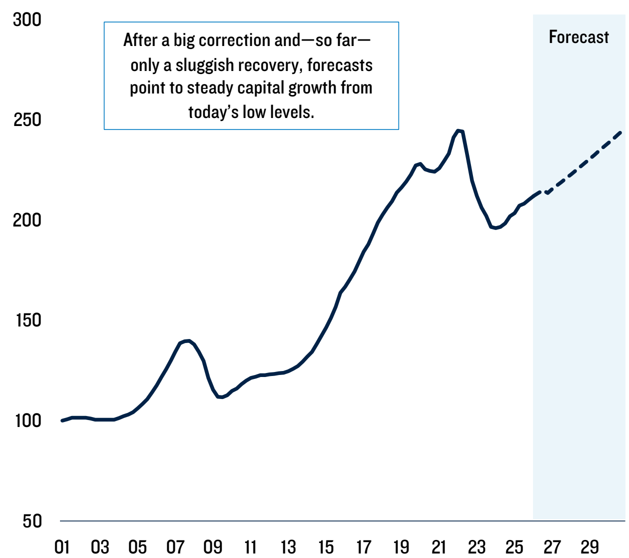


EUROPE'S RECOVERY STORY REMAINS INTACT

Continued elevated geopolitical uncertainty has changed the economic outlook. However, total real estate returns continue to show resilience, driven by rising rents, while low entry values provide downside protection.

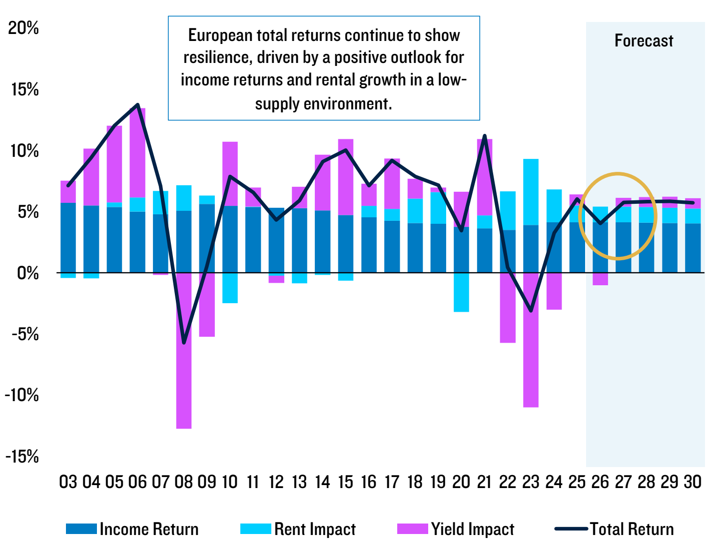
- The conflict in the Middle East has led to downgrades to economic growth and an uptick in inflation expectations, shifting the interest rate curve upward.
- While weakening sentiment and higher market interest rates are affecting borrowing costs and dampening investment activity, Europe's real estate story is holding up.
- The outlook is for stable returns in 2026, supported by attractive income returns, elevated occupancy, and ongoing rental income growth boosted by productivity gains in a low supply environment.
- While hopes of a boost to values from lower interest rates have faded, today's market offers an attractive entry point. Values fell a long way during the recent correction, and the nascent recovery implies plenty of further upside potential through the next cycle.
- In terms of forecasts, the drivers of returns are further shifting in emphasis toward income and income growth, in contrast to the yield compression-driven returns that dominated in the last cycle.

Prime European All Property Nominal Capital Values (1Q01=100)



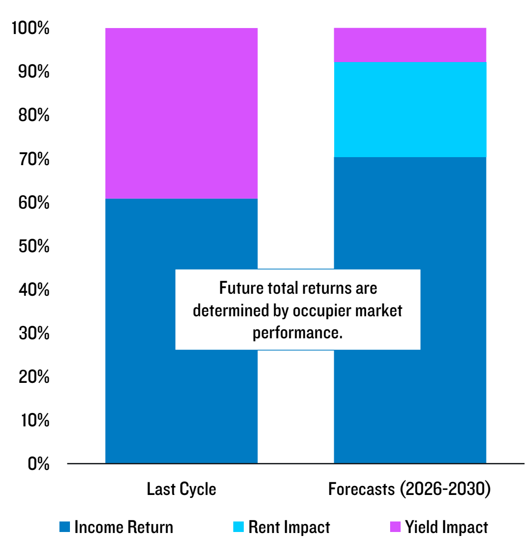
Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.

MSCI Europe Annual Property Index, Unlevered All Property Total Returns (% p.a.)



Sources: MSCI, PMA, PGIM. As of June 2026.

MSCI Europe Annual Property Index Returns Breakdown (%)

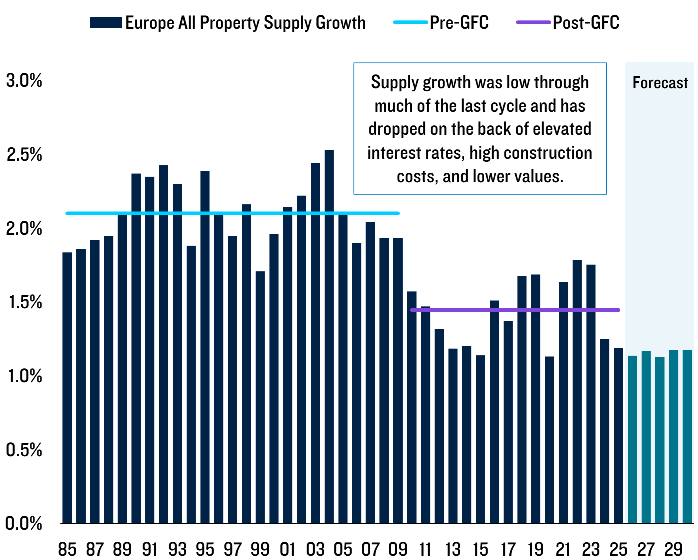


Sources: MSCI, PMA, PGIM. As of June 2026.

OUTLOOK SUPPORTED BY LOW SUPPLY

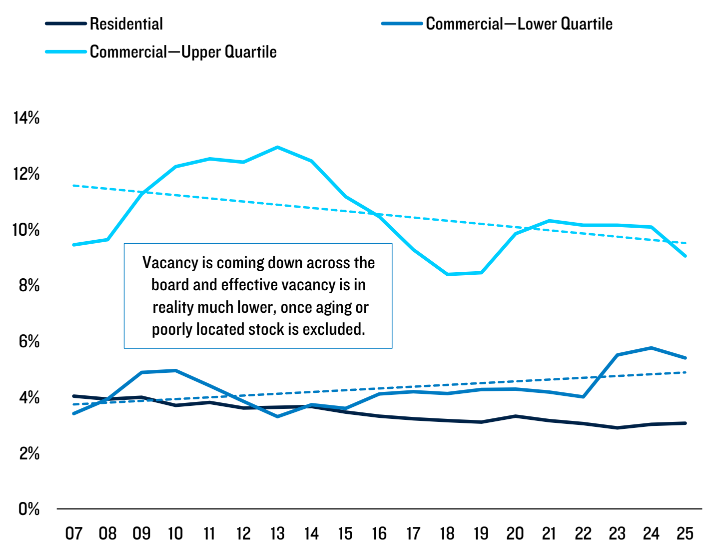
While Europe's economic outlook remains subdued, historically low supply growth and high and rising occupancy rates are supporting rental growth prospects.

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



Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.
Forecast is from 2026-2030.

Vacancy Rate Across Major European Markets (%)



Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.

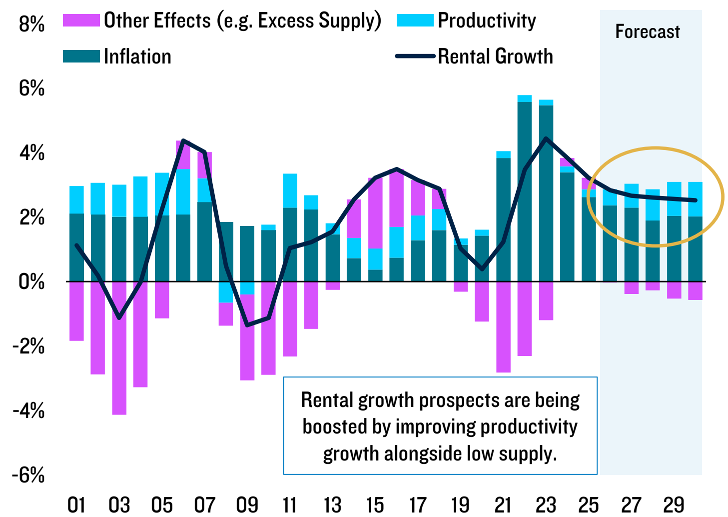
- A combination of renewed higher build costs, elevated short-term interest rates, and uncertainty over the near-term demand outlook has been weighing on development activity.
- Europe's supply pipeline is historically low, so risks of rising vacancy—and falling rents—are contained, even if demand eases in the near-term.
- And while rising geopolitical tensions have led to downgrades to the economic outlook, in a downside scenario supply forecasts would move even lower as development projects get delayed or canceled.
- Reflecting the low supply environment, vacancy rates remain contained across Europe and are expected to fall further, even if near-term occupier demand growth is held back by elevated uncertainty.
- The need for modern space is particularly acute in residential sectors, including apartment, senior living, and student housing.
- Residential vacancy rates are very low across most European markets and housing shortages persist.
- Availability also remains very low in commercial real estate sectors such as urban logistics, necessity retail, and data centers where demand is mainly basic needs-driven.
- High street retail and office make up most of the upper quartile, higher vacancy markets but have also an obsolescence story.
- Excluding stock that is, for example, aging or poorly located, effective vacancy is much lower and supporting ongoing rental growth.

A RESILIENT RENTAL GROWTH STORY

Europe is set to deliver resilient rental growth on the back of low supply and vacancy, productivity gains, and affordability, with non-traditional sectors outperforming.

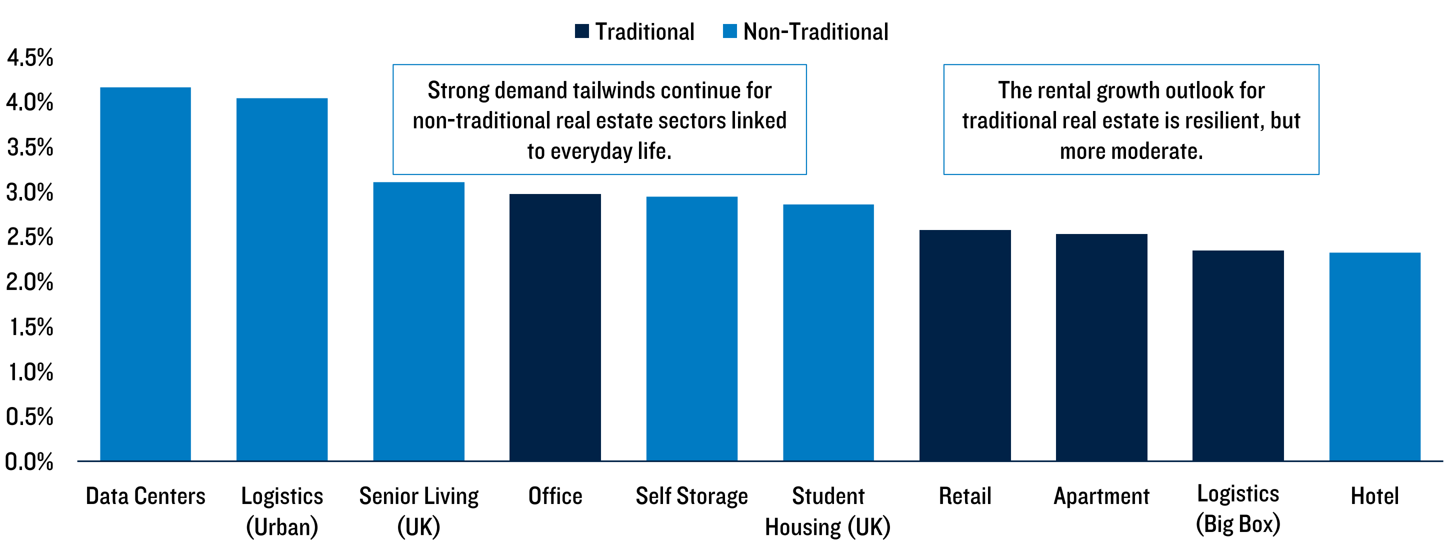
- Expectations for real estate to deliver ongoing rental growth through the next cycle are driven by several key factors, including:
  - The ongoing low supply environment, with scarcity boosting pricing power for landlords.
  - A shift toward more productivity-driven economic growth—on the back of efficiency gains, tech adoption and AI usage—that is linked to higher rental growth.
  - Elevated affordability metrics that imply headroom for rents to increase, especially for office and retail assets.
- Over the next five years, mainstream real estate sectors (office, retail, big box logistics, and apartments) are expected to record rental growth of about 2.6% per year.
- However, investors can seek to outperform by allocating to parts of the market that have stronger rental growth prospects linked to structural demand tailwinds.
- These include specialist sub-sectors, such as urban logistics, data centers on the back of rapid AI-driven demand growth, and non-traditional living sectors.

Prime Rental Growth Breakdown—Europe All Property (% p.a., Moving Average)



Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.

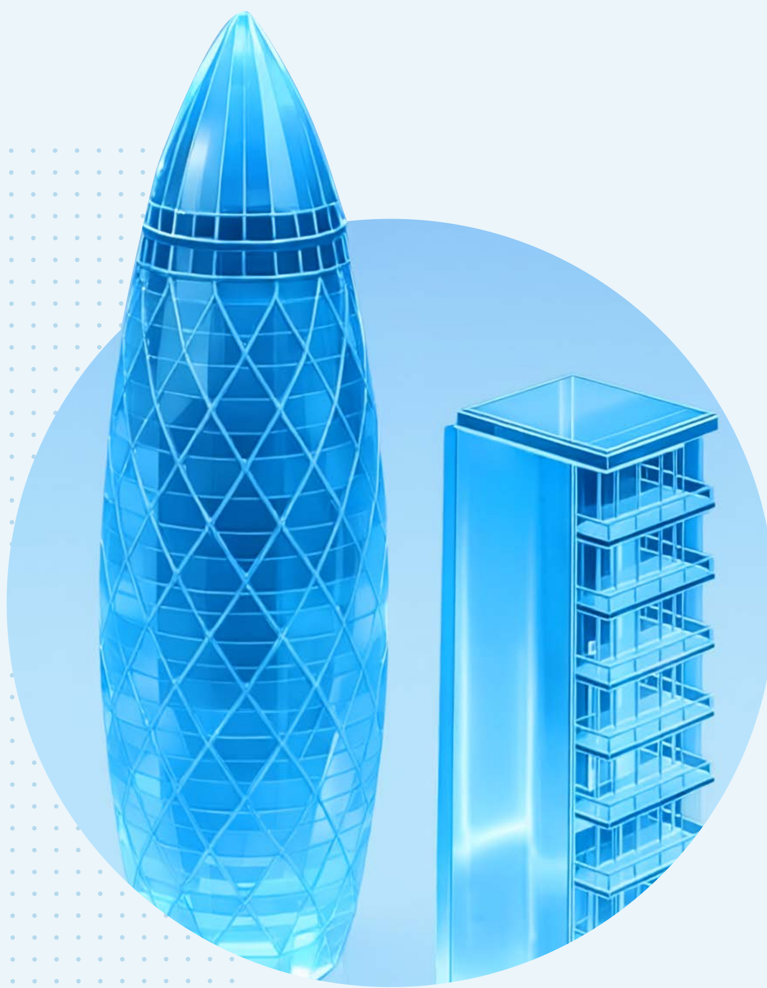
Prime Rental Growth Forecast by Sector—Europe (2026–30, % p.a.)



Sources: PMA, PGIM. As of June 2026.

PART 02

INVESTMENT THEMES



FOCUS ON REAL ESTATE FOR EVERYDAY LIFE AND INVESTING INTO CYCLICAL MOMENTUM

Elevated uncertainty calls for a portfolio tilt toward the living sector to benefit from structural demand growth and resilient cash flow generation. At the same time, looking beyond near-term risks, low valuations and capex shortfalls mean today's market represents an attractive entry point for strategies that capitalize on market momentum.

EQUITY & CREDIT	
Everyday Life	**Market Momentum**
Nature of Opportunity Real estate 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.	**Nature of Opportunity** Despite elevated global risks, liquidity is improving and there are significant opportunities related to the anticipated upward momentum of cyclical valuations, supporting strategies targeting leasing growth, capex deployment, and capital stack restructuring.
Three Key Structural Drivers • Housing shortages • Aging demographics • Digitalization/AI penetration	**Three Key Tactical Drivers** • Leasing upswing • Capex shortfalls • Debt refinancing/restructuring
Capital Deployment Approaches CORE/CORE + • Buy-and-hold • Build-to-core • Senior lending VALUE-ADD • Development financing • Operating platforms • Mezzanine debt CREDIT-SPECIFIC • Bridge-to-agency	**Capital Deployment Approaches** CORE/CORE + • Active asset management • Reversionary growth • Senior lending VALUE-ADD • Conversions/modernization • Institutionalization • Mezzanine debt CREDIT-SPECIFIC • Transitional finance
European Target Sectors • Multifamily/single family • Senior housing • Urban logistics • Low latency data centers • Necessity retail	**European Target Sectors** • Office • Hospitality • Conversions (e.g. office to living/hotel)

INVESTMENT OPPORTUNITY: SUMMARY TABLE

Variations in such factors as the exposure to global risks, cyclical dynamics, the degree of institutional participation, and exit liquidity mean that the opportunity set differs across sectors and geographies. While the opportunity set is broad early in the cycle, investors need to remain focused on the parts of the market that can deliver resilient returns and are conducive to value creation.

			Geography			
Theme	Strategy	Target Sector	U.S.	Mexico	Europe	APAC
EVERYDAY LIFE	Living	**Senior living**	●	○	●	●
		Multifamily	■	○	●	●
		Single family	■	○	●	○
		Manufactured housing	●	○	○	○
		Student/co-living	■	○	●	■
	Critical urban infrastructure	**Urban logistics**	●	●	●	●
		Low latency data centers	●	○	●	●
		Necessity retail	●	○	●	●
		Medical office	●	○	○	○
		Self storage	■	○	●	○
	Credit-specific	Bridge-to-agency	●	○	○	○
MARKET MOMENTUM	Leasing upswing	**Big box/manufacturing logistics**	■	●	▲	■
		Hotels	○	○	●	●
		Open-air hospitality	○	○	●	○
		Discretionary retail	■	○	■	▲
		Office	■	○	■	■
	Capital injections	**Conversions e.g. office to living/hotel**	●	○	●	●
	Credit-specific	Transitional finance	●	○	●	●

Note: Global target sectors shown in **bold and blue**.

Key to Table
- ● **Highest conviction strategies,** most resilient to evolving market conditions.
- ■ **Contingent strategies,** apply broadly but some caution required given market risks.
- ▲ **Selective strategies,** market risks and headwinds potentially affect execution.
- ○ Strategy not under consideration in that geography.

KEY INVESTMENT THEME

EVERYDAY LIFE

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.

LIVING

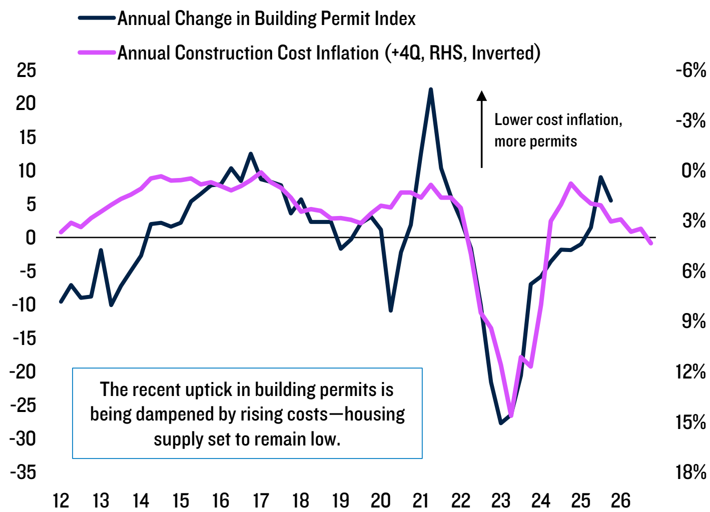
Pressure on development margins mean housing shortages remain significant across Europe. Residential rents are expected to rise further on the back of scarcity, rising incomes and demographic patterns.

TOP INVESTMENT PICKS

- Apartments and multifamily in major cities
- Single family housing

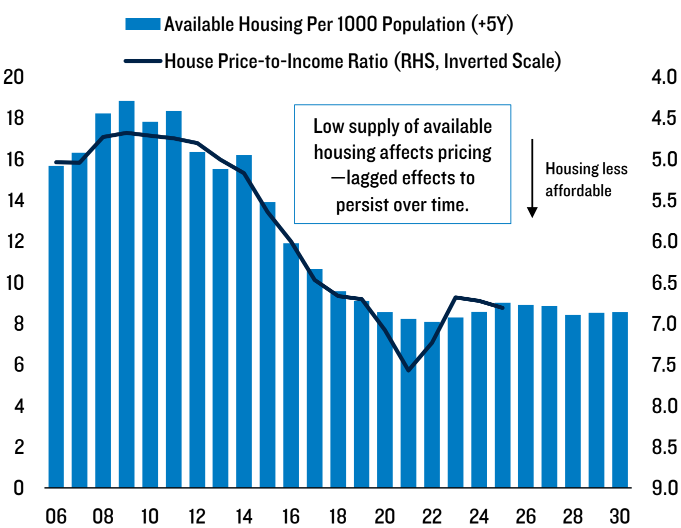
- Across Europe, residential supply growth has pulled back in recent years, with development margins eroded by elevated build costs, the shift to a higher interest rate environment and higher exit yields.
- Building permits ticked up in 2025, but a renewed increase in cost pressures in recent months, on the back of higher global energy prices, is set to weigh on supply once again.
- With vacancy rates also falling, the upshot is that the supply of available housing is very low in major European cities.
- As housing scarcity has risen, so have ownership affordability metrics, with price-to-income ratios well above previous norms.
- Lagged effects of low available supply plus a constrained supply pipeline mean that affordability is set to remain stretched and structural growth in multi and single family rental demand is set to persist.
- Rental growth remains closely linked to household balance sheet affordability and is set to track income growth in the coming years.

Index of Building Permits and Residential Construction Cost Inflation—Major European Countries



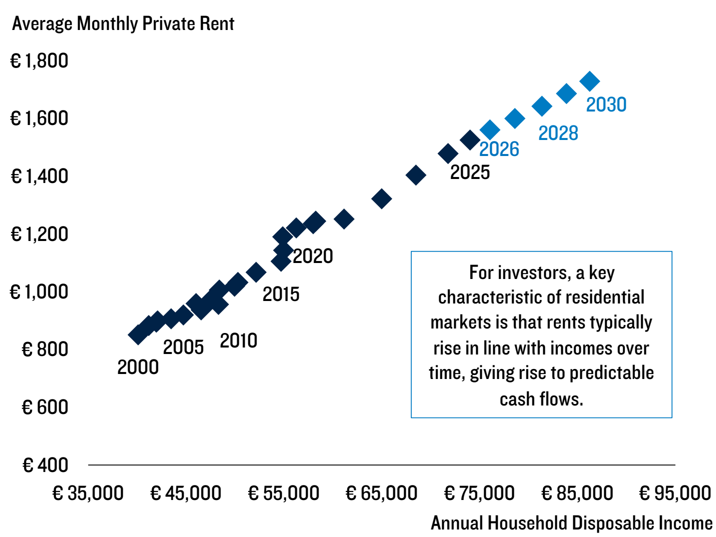
Sources: Eurostat, PGIM. As of June 2026.

Supply of Available Housing vs. House Price-to-Income Ratio—Major European Cities



Sources: PMA, Oxford Economics, PGIM. As of June 2026.

Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000—Major European Cities (€)



Sources: PMA, Oxford Economics, PGIM. As of June 2026.

OPERATIONAL LIVING

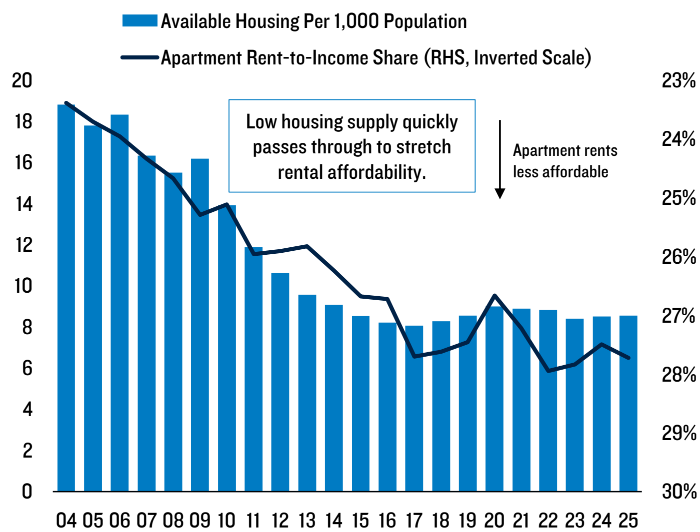
Housing shortages and affordability pressures for younger households are driving demand for high density living concepts in urban locations.

- Housing shortages are stretching rental affordability. The decline in available housing in major cities has been accompanied by an increase in rent-to-income ratios.
- This creates a challenge for investors to develop product that meets an affordable price point, especially as build costs are elevated and development margins stretched.
- In the near-term, an attractive route to working around this is to focus on higher density living projects including co-living and microliving assets targeting young workers, along with specialized operational assets such as student accommodation and senior housing.
- Aging demographics are driving a need for senior housing, but it is the growth in younger, working-age city populations that is playing a role in driving apartment rental growth—and therefore rents on competing products like co-living and microliving.
- For investors, there are benefits associated with operational living assets, including dynamic leasing, platform value creation and yield spreads versus traditional living assets.

TOP INVESTMENT PICKS

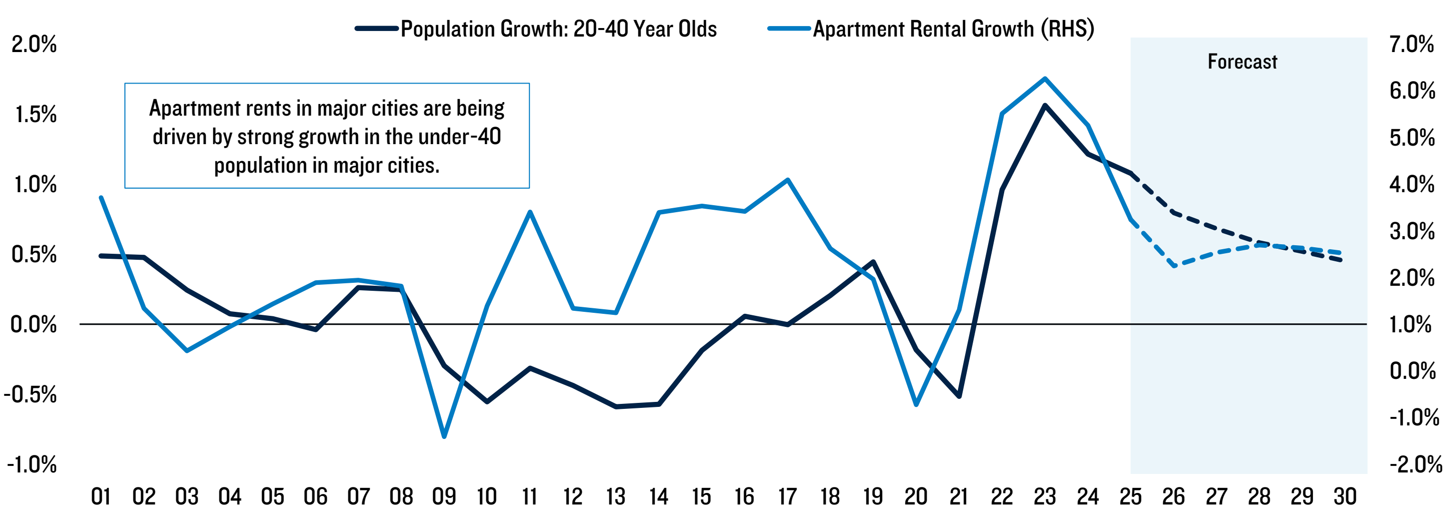
- Co-living, microliving and student accommodation in major cities
- Senior housing

Supply of Available Housing vs. House Price-to-Income Ratio—Major European Cities



Sources: PMA, Oxford Economics, PGIM. As of June 2026.

Annual Young Adult Population Growth and Apartment Rental Growth—Major European Cities (%)



Sources: Oxford Economics, PMA, PGIM. As of June 2026.

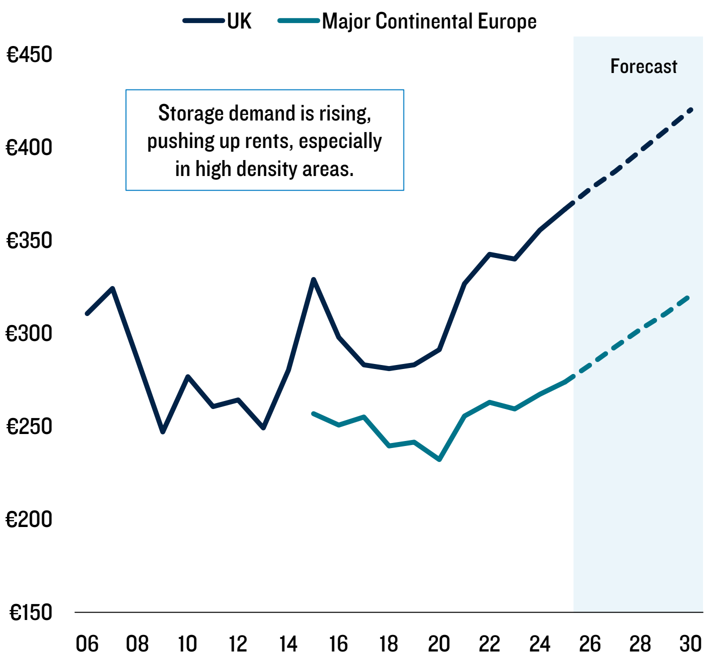
SELF STORAGE

A shift toward smaller living spaces implies a rising need, and rental growth potential, for living-related urban infrastructure such as self storage.

TOP INVESTMENT PICKS

- High density cities in nascent, undersupplied markets such as France and Spain

Average Self Storage Rents (€/sqm/year)



Sources: European Self Storage Association (FEDESSA), PGIM. As of June 2026.

- Europe's storage market faces some near-term headwinds, as demand and occupancy rates are linked to housing markets, where sales demand is subdued.
- However, rents are expected to rise in the coming years on the back of rising household income, despite some short-term uncertainty, and there is a significant structural opportunity too.
- High urban density in many European cities points to the potential for storage provision to expand further from very low existing levels.
- And while the UK market is well established, investors can capitalize on a lack of institutional depth in major continental European markets, such as France and Spain, to source attractive deal opportunities.

URBAN LOGISTICS

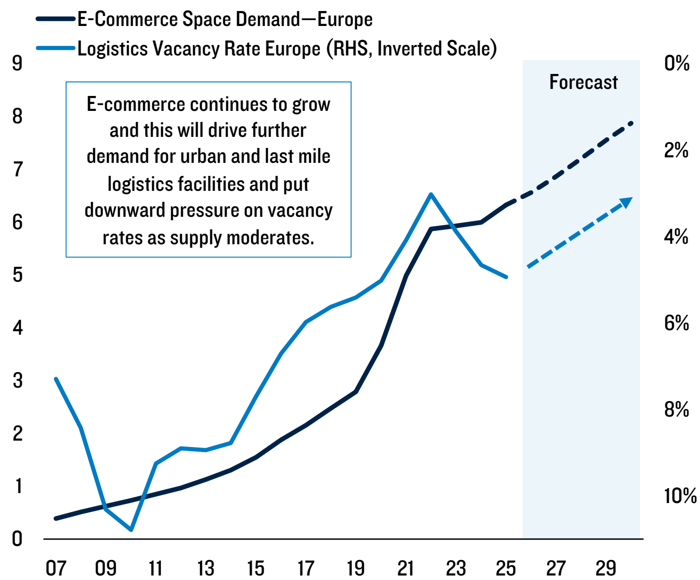
Logistics assets in close proximity to major European conurbations continue to be supported by everyday life e-commerce activity, despite headwinds such as a rise in transport cost.

- Logistics space demand is forecasted to continue to rise on the back of supply chain restructuring, rising defense spending and ongoing e-commerce growth.
- Rising e-commerce penetration rates remain the main driver for space demand, as online retail continues to expand in key markets, particularly in urban areas close to the end consumer.
- While vacancy has risen from historic lows over the last three years, supply is now pulling back meaningfully, and further rising space demand is set to push vacancy rates lower again.
- Higher energy costs significantly affect logistics companies' profit margins and can undermine the ability to pay rising rents. In combination with stretched affordability on the back of past rental increases, prospects for further rental growth are focused on modern assets in urban areas.
- Prime urban rental growth is set to outstrip prime big box rental growth as demand remains concentrated in areas close to the end consumer and as supply shortages persist in high density urban conurbations.

TOP INVESTMENT PICKS

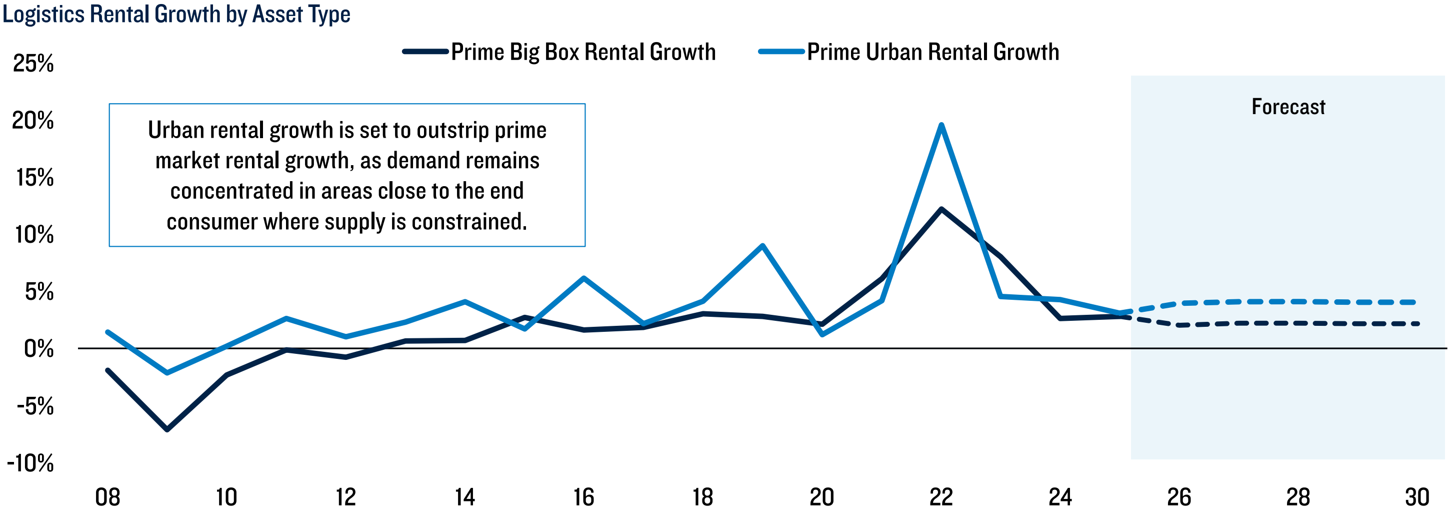
- Urban assets in locations with positive e-commerce dynamics
- Core distribution markets that benefit from supply chain restructuring

Estimated E-Commerce-Related Urban Logistics Demand (Million sqm) and Logistics Vacancy (%)



Sources: Oxford Economics, PMA, Knight Frank, PGIM. As of June 2026.

Logistics Rental Growth by Asset Type



Sources: PMA, PGIM. As of June 2026.

DATA CENTERS

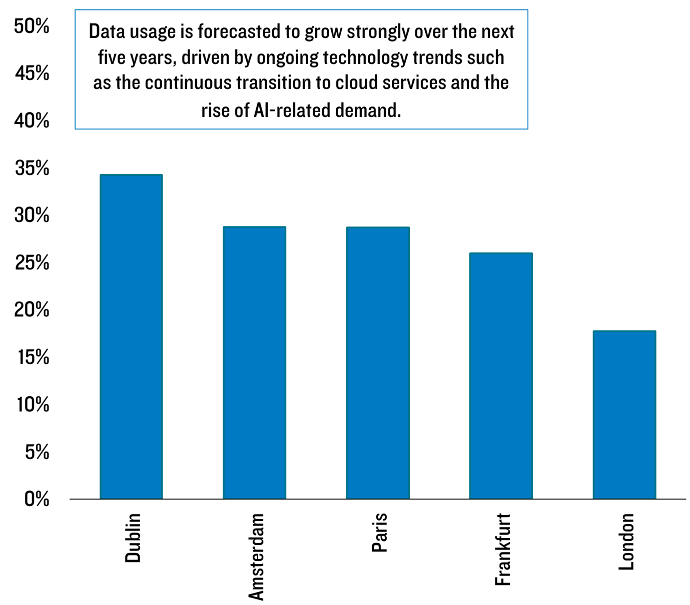
Continuously rising data usage provides a favorable backdrop for data centers, but development activity and obsolescence risks are picking up too, which makes a focused approach to asset and location selection more important than before.

- Our base case points to data usage growing strongly, by around 25% per year, over the next five years, with AI-driven needs providing a further upside.
- Data center supply is increasing in response to rising data storage requirements, but not at a sufficient pace to keep up with demand. Supply shortfalls are set to persist across major European markets.
- In the major European FLAP-D markets, vacancy has fallen dramatically and is supporting a much faster pace of rental growth than was recorded in the last cycle.
- Total returns are expected to remain elevated on the back of income growth, even though expectations for yield compression have been tempered.
- Longer term, there is some uncertainty around space requirements, for example, as AI models become more efficient and consume less power for the same level of output.
- The most attractive assets are low-latency data centers close to urban conurbations that can be used for everyday usage such as financial trading, streaming and gaming and are less likely to be challenged by new supply and obsolescence risks.

TOP INVESTMENT PICKS

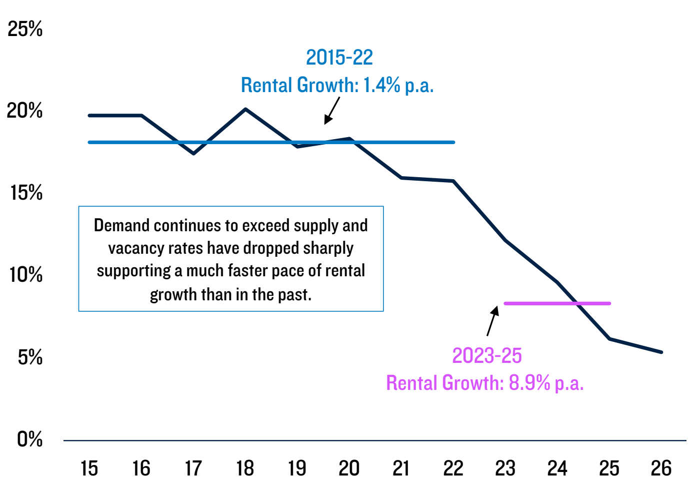
- Locations with a demand/supply imbalance
- Focus on low-latency data centers that can be utilized for everyday life usage

Data Usage Growth Forecasts (% p.a., 2026-30)



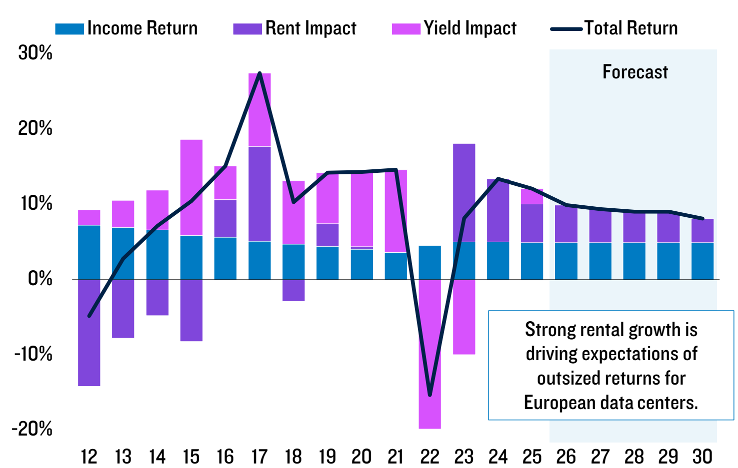
Sources: Arthur D. Little, PGIM. As of June 2026.

Data Center Vacancy Rate—Europe (FLAP-D, %)



Sources: JLL, CBRE, Green Street, PGIM. As of June 2026

Annual Data Center Prime Market Returns (%)



Sources: CBRE, Green Street, JLL, PGIM. As of June 2026.

NECESSITY RETAIL

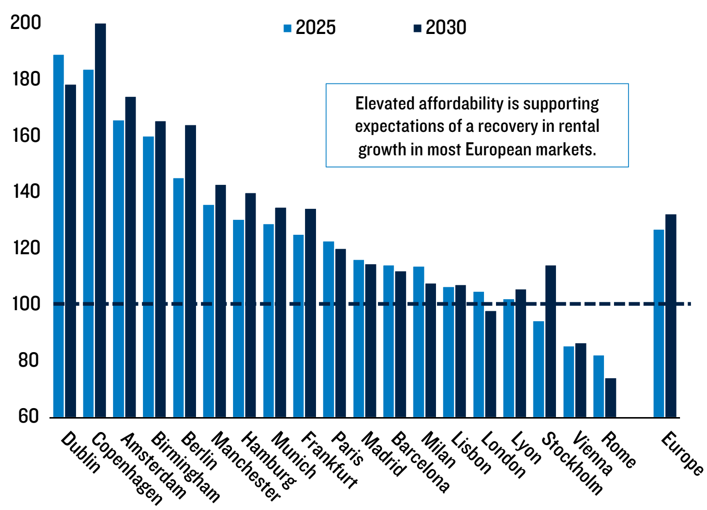
Retail formats serving consumers looking for value have been resilient through times of economic uncertainty. Rents of retailers predominantly found in retail parks have risen and are set to continue to grow.

- In line with downward revisions to e-commerce penetration rates and also due to a general pick up in retail spending, in-store retail spending growth has turned positive. This provides an improving environment for all retailers.
- While retailers predominantly found on high streets have been consolidating units and closing non-performing stores, retail parks have seen rising demand for units even during a challenging period for physical retailers.
- As a result, vacancy in retail parks is relatively low, in-place income yields attractive, and the rental growth outlook is stable and defensive—which matters as retail spending could come under pressure as the economic outlook deteriorates.
- While high street retail formats are exposed to pressures on real incomes and retail spending, significant downward adjustments in headline rents mean that rents are affordable for retailers compared to in-store sales, which provides downside protection in times of elevated uncertainty.

TOP INVESTMENT PICKS

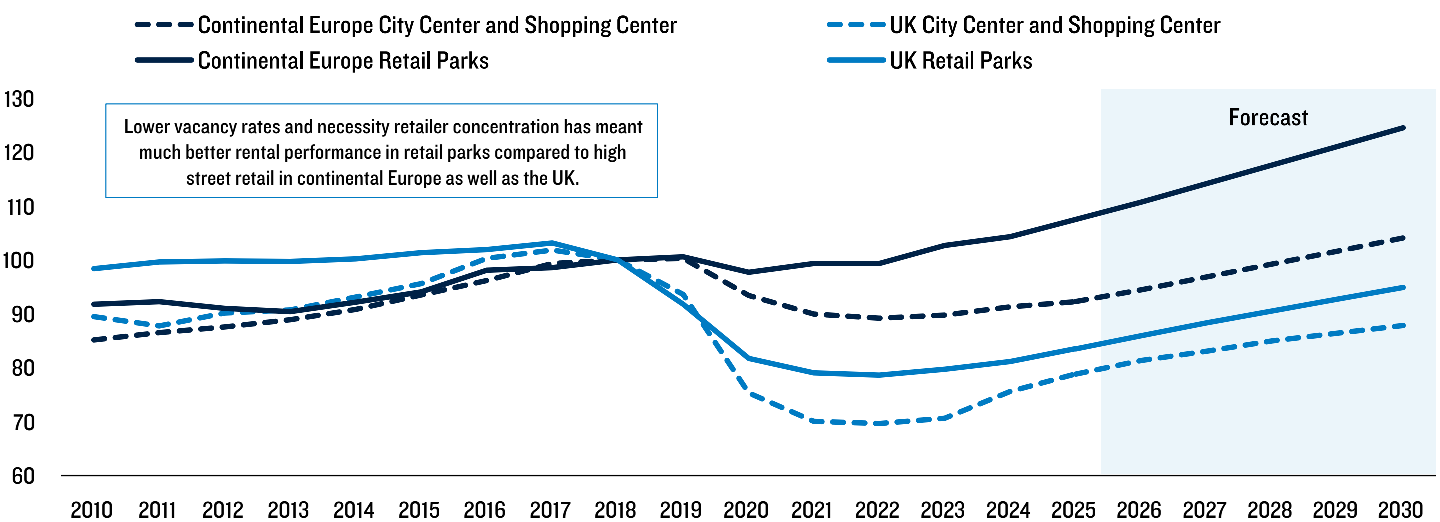
- Retail parks with defensive income profiles
- Discount retail formats

City Center Retail Rent Affordability by City (2025, City Long-Term Average=100)



Sources: PMA, Oxford Economics, PGIM. As of June 2026.

Prime Retail Rents (Index, 2018=100)



Sources: PMA, PGIM. As of June 2026.

KEY INVESTMENT THEME

MARKET MOMENTUM

There are significant opportunities related to the anticipated upward momentum of cyclical valuations, supporting strategies targeting leasing growth, capex deployment, and capital stack restructuring.

HOTEL

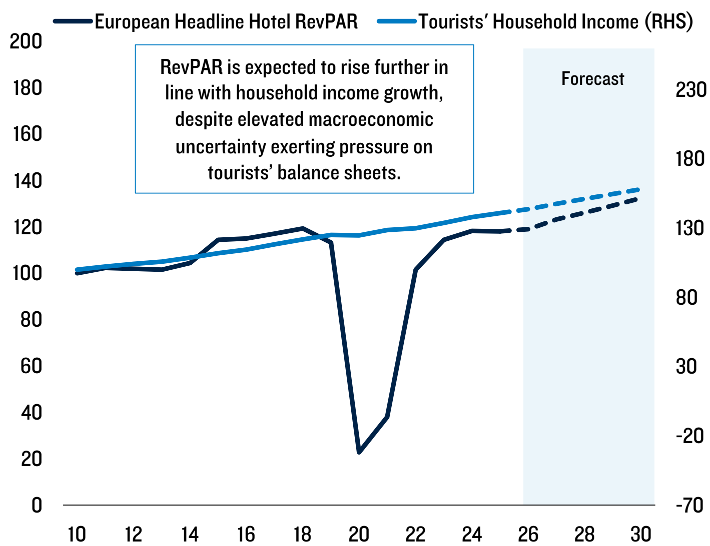
While geopolitical risks weigh on the outlook, European hotel RevPAR is forecasted to grow, underpinned by resilient real household income growth, elevated occupancy rates and limited new supply.

- Persistent inflation and potential spillovers from geopolitical tensions pose downside risks to European hospitality, but forecasts point to continued RevPAR growth, supported by resilient real household income growth.
- While elevated geopolitical uncertainty may disrupt international tourism in the near-term, it is also likely to redirect demand toward domestic and intra-European travel, offsetting external demand volatility.
- In addition, many core European hotel markets benefit from resilient domestic demand, in particular for mid-market hotels, while limited supply growth underpins elevated occupancy levels and supports income growth.
- In Europe, hotels are frequently acquired with a lease structure in place, which significantly mitigates risks of unplanned capital expenditure, reducing the drag on hotel investment performance.
- As a result, leased hotel assets tend to exhibit more stable cash flows and lower return volatility, supporting a compelling risk-adjusted return profile relative to the all-property average.

TOP INVESTMENT PICKS

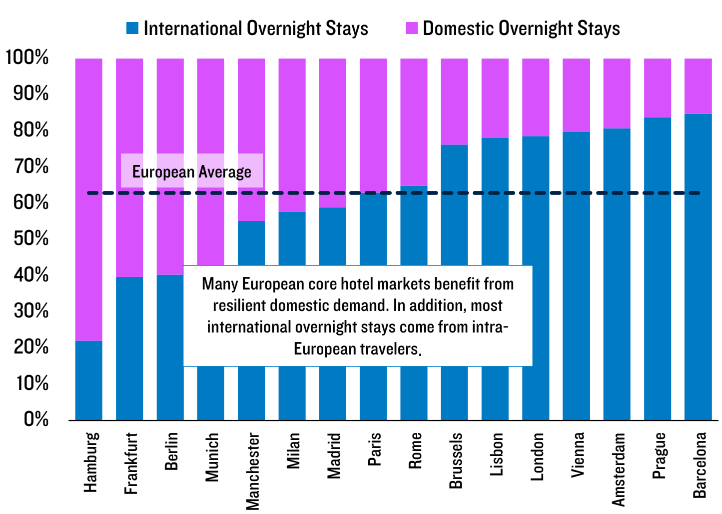
- Mid-market hotels
- Open-air hospitality

European Hotel RevPAR vs. Visitors' Household Income (2010=100, Real Terms, Estimated)



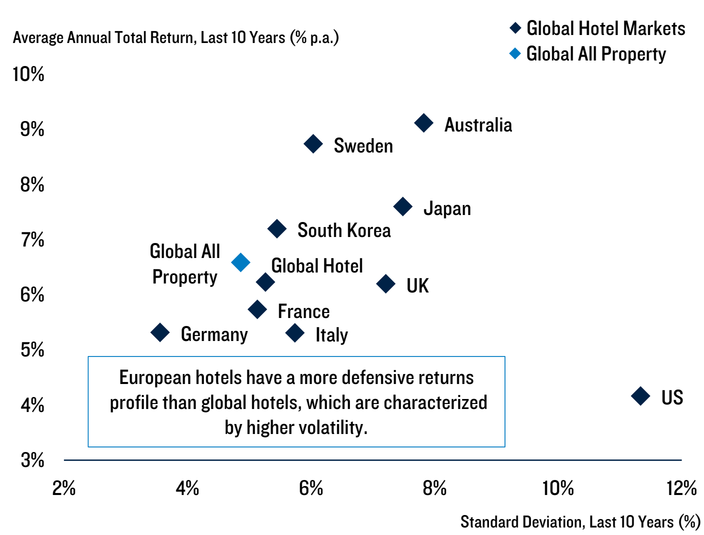
Sources: Eurostat, PMA, Oxford Economics, PGIM. As of June 2026.

Share of International Visitors (%, 10-Year Average)



Sources: MSCI, PMA, PGIM. As of June 2026.

Risk vs. Return—Major Hotel Markets



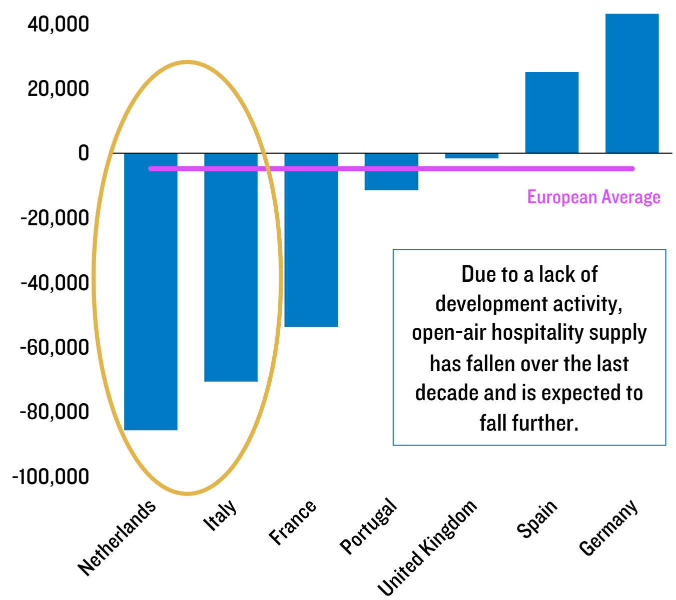
Sources: MSCI, PMA, PGIM. As of June 2026.

OPEN-AIR HOSPITALITY

Open-air hospitality provides alternative accommodation options to hotels for tourists looking for value offerings. Under-managed sites represent a compelling opportunity for institutional investors to generate value.

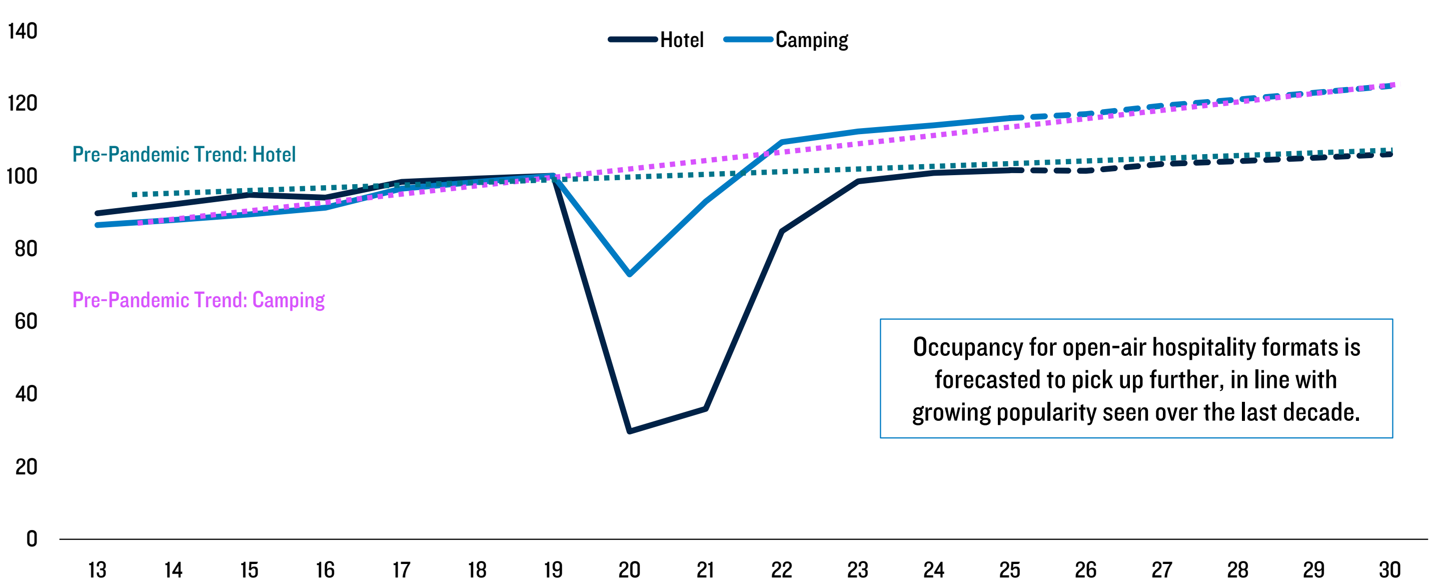
- Open-air hospitality includes accommodation formats such as campsites and caravan parks, which provide affordable options for tourists and, as such, significant downside protection as tourists downgrade from hotels amid pressure on retail spending.
- The number of camping bedplaces in Europe has fallen over the last decade due to limited development activity, with Italy having the most significant reduction of supply.
- The lack of fresh capital in open-air hospitality assets, which are often family-owned, points to compelling opportunities for institutional investors to generate value by implementing dedicated capex programs in under-managed assets.
- On the demand side, overnight stays in campsites tend to be more predictable than in hotels, which are more exposed to the volatility of overseas travel.
- Given camping supply is forecasted to fall further and demand is set to hold up, open-air hospitality occupancy is expected to continue to improve.

Change of Camping Bedplaces Over Last 10 Years (Estimated)



Sources: Eurostat, PMA, PGIM. As of June 2026.

Occupancy Index: Hotel vs. Camping (2019=100)



Sources: Eurostat, PMA, PGIM. As of June 2026.

PRIME OFFICE

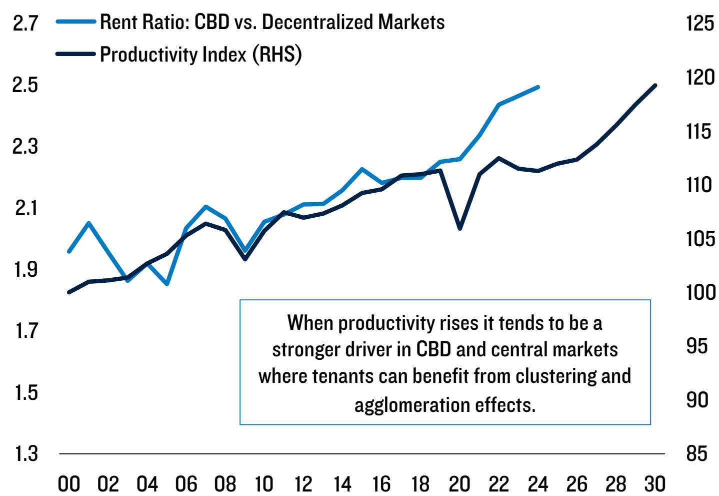
The office market bifurcation is ongoing and productivity growth is further accelerating prime CBD office outperformance.

- Prime CBD office rental growth outperformance is set to continue, pointing to a selective opportunity for offices in high rental value locations with strong ESG credentials over non-CBD markets and secondary assets.
- The medium-term outlook is supported by rising obsolescence, stranded office assets being converted and removed from the market, falling vacancy in a low supply environment, and rising productivity growth.
- Investment into AI, technology, and related infrastructure is now a meaningful driver of productivity growth, which in turn affects the ability of firms to pay office rent.
- The office sector is on the front line. In the short term, AI and technology threaten to displace jobs and hold back overall take-up.
- However, there is also a flight-to-quality story playing out, and, in recent years, rising productivity has been accompanied by a notable acceleration in the gap between prime asset and prime submarket performance versus lower quality stock and locations.

TOP INVESTMENT PICKS

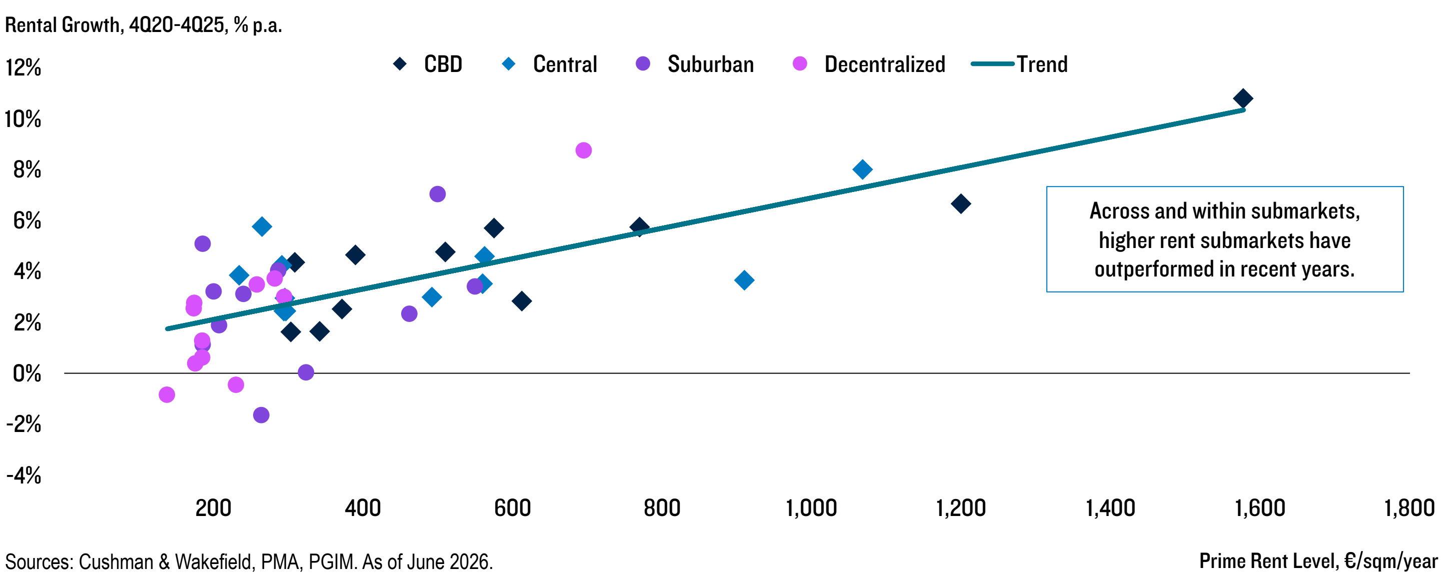
- Prime CBD office assets in high value, low vacancy submarkets
- Conversions of older stock to alternative uses such as residential or hotel

Prime Rents by Submarket Type—Major European Cities (Index, 4Q20=100)



Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.

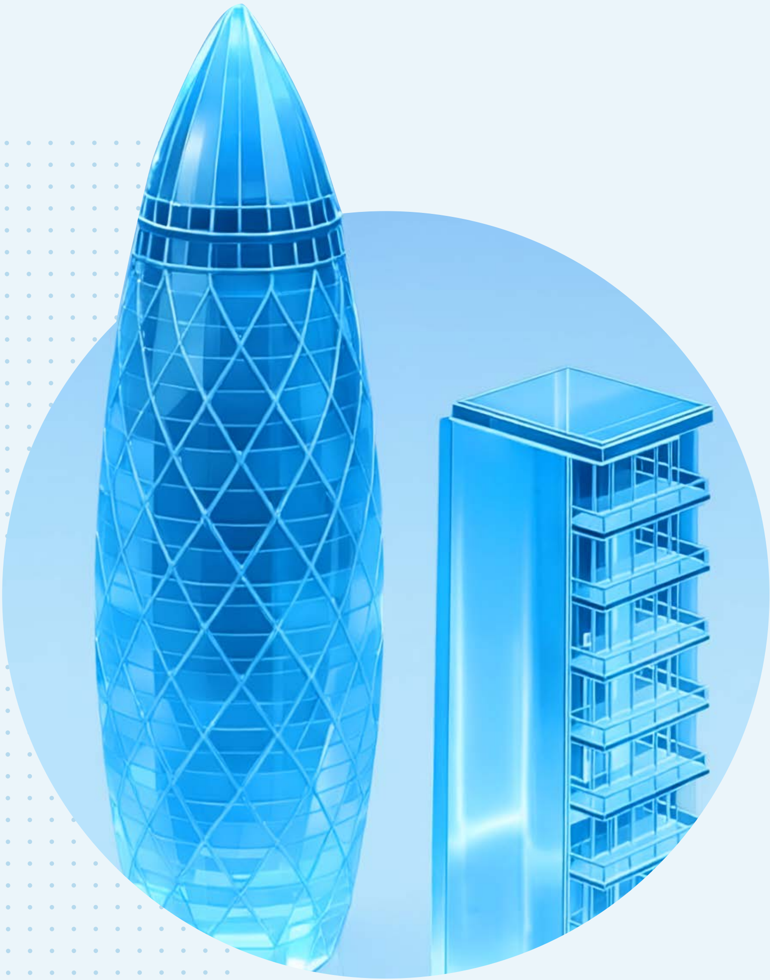
Prime Rental Growth vs. Rent Levels—Major European Cities



Sources: Cushman & Wakefield, PMA, PGIM. As of June 2026.

PART 03

PORTFOLIO CONSTRUCTION

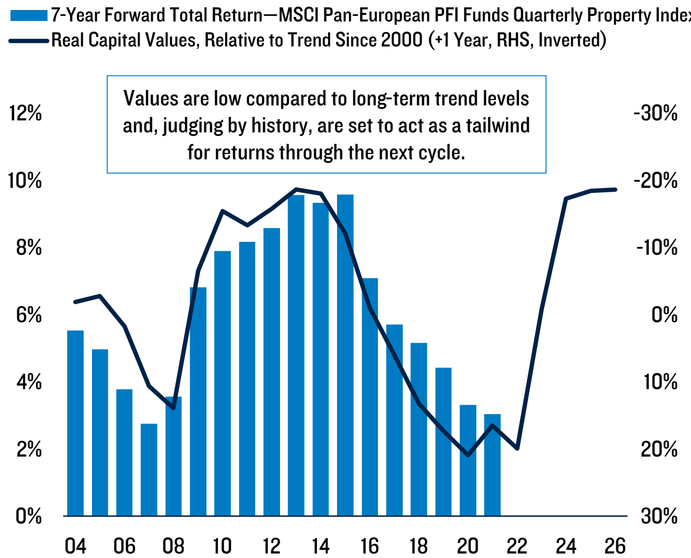


CORE/CORE+ STRATEGIES: EQUITY AND DEBT

Values are low compared to long-term trend levels, and resilient rental growth is set to underpin European core returns. Supply shortages and productivity-driven economic growth are creating a favorable backdrop for robust income.

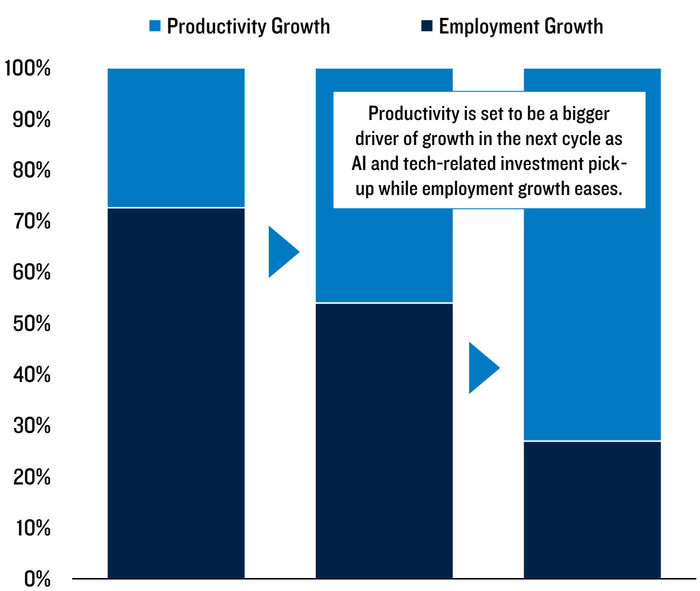
- Elevated yields, resilient income returns and recovering capital values are set to act as a tailwind for core returns throughout the next cycle.
- The shift in the economic environment, away from employment-driven growth and toward productivity-driven growth, is boosting rental growth potential, particularly benefiting dominant assets in prime locations.
- Traditional core sectors, including office and retail, are showing signs of recovery and are set to deliver resilient rental growth in a low supply environment. Core portfolios can benefit from selectively rebuilding exposure to necessity retail and CBD office markets.
- Importantly, the opportunity set is expanding, allowing core portfolios to be positioned to capture potential upside linked to key investment themes around living and urban infrastructure and in areas of market momentum such as tourism growth.
- Non-traditional living sectors with an elevated returns outlook, including student housing and senior living, can provide a boost to risk-adjusted returns with ownership possible through lease structures to operators that dampen operating risk exposure.

Seven-Year Forward Total Returns—MSCI Pan-European PFI Funds Quarterly Property Index



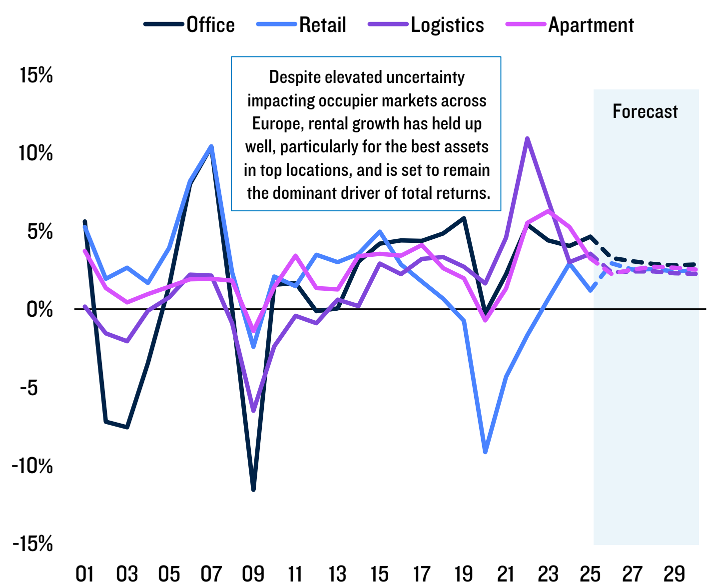
Sources: MSCI, Cushman & Wakefield, PMA, PGIM. As of June 2026.

Share of European Cities GDP Growth (%)



Sources: Oxford Economics, PGIM. As of June 2026.

Prime Annual Rental Growth Forecasts by Sector (%)



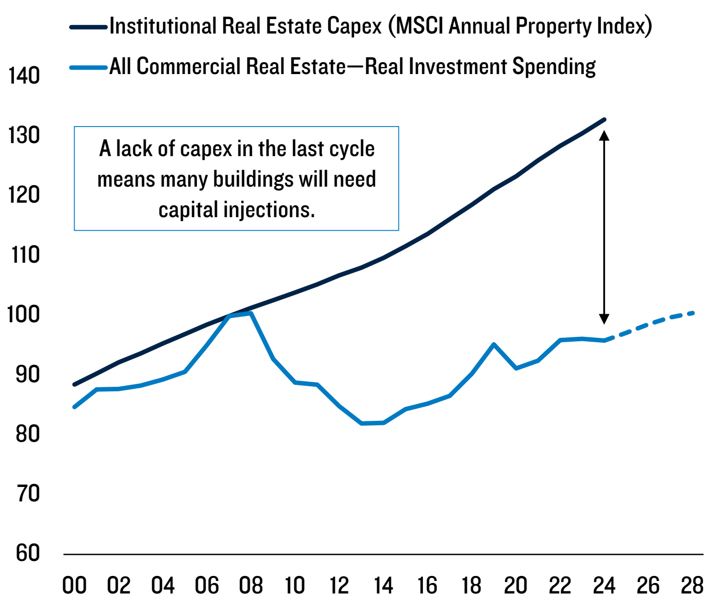
Sources: PMA, PGIM. As of June 2026.

VALUE-ADD STRATEGIES: EQUITY AND DEBT

Current market conditions support the outlook for value-add investing in Europe. Liquidity remains low and near-term capital shortages mean attractive opportunities can be sourced in the market.

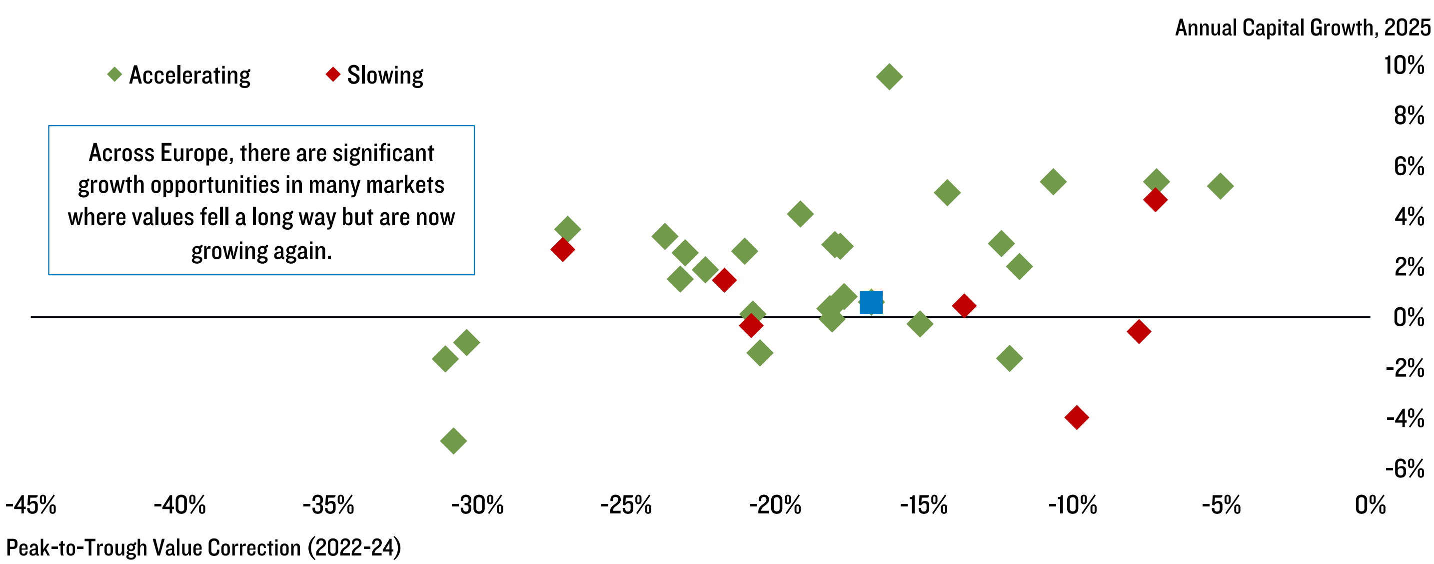
- The case for European value-add is driven by rebounding values, a need for capital after years of underinvestment, supply shortages, and an expanding opportunity set.
- Everything points toward 2026 being a compelling vintage, but one that needs a clear focus: this means executing on high conviction structural and tactical themes and seeking exposure and outperformance in the best performing parts of the European real estate market.
- For value-add, low investment volume and capital shortages can throw up opportunities to acquire assets in need of capex or repositioning at attractive entry valuations.
- To play the everyday life theme, investors can take on risk set against a robust demand backdrop, for example, by developing assets and establishing operating platforms to generate outsized returns.
- In sectors such as hotels and self storage, Europe offers a significant opportunity to generate returns by institutionalizing assets and platforms by modernizing buildings and operations.

Index of European Capex Spending (Index 2007=100)



Sources: OECD, MSCI, Oxford Economics, PGIM. As of June 2026.

Annual Capital Growth vs. Recent Peak-to-Trough Value Correction by MSCI Country-Sector Segment—Europe



Sources: PMA, PGIM. As of June 2026.

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