PGIM

REAL ESTATE CHARTPACK

EUROPE



November 2026

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EUROPE

Capital values have come under renewed pressure in line with higher bond yields and rising debt costs, but occupier markets remain resilient and total returns are expected to improve in 2027

Liquidity is abating after stable transaction volume in the first half of 2026, while a pick up in debt originations makes for a potentially attractive entry point for debt investments

Low entry values, a constrained supply pipeline and structural demand from basic needs real estate continue to support a broad set of opportunities despite near-term headwinds

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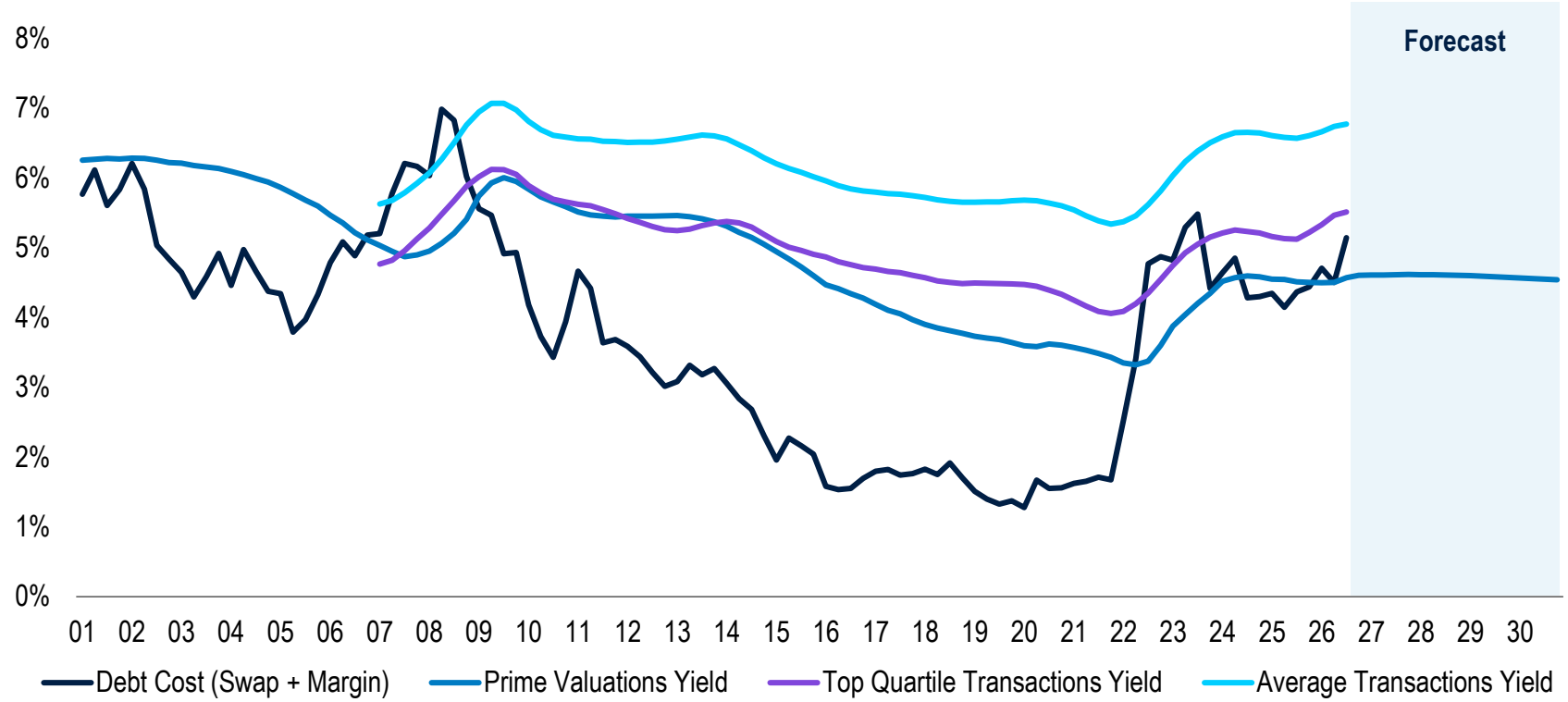
MARKET OUTLOOK

Pricing momentum in European real estate has weakened in 2026, as higher bond yields and elevated debt costs weigh on values. Liquidity is slowing while debt origination has picked up, and low entry values point to a potentially attractive starting point for the next cycle. Occupier markets are holding up, supported by low supply and improving productivity growth.

01

Elevated Debt Costs Are Putting Pressure on Equity Transactions

Debt Costs (60% LTV) Versus Yields — All Property, Europe Average



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Debt cost defined as swap rate plus bank senior loan margin at 60% loan-to-value.
Sources: PMA, MSCI / Real Capital Analytics, PGIM. As of November 2026.

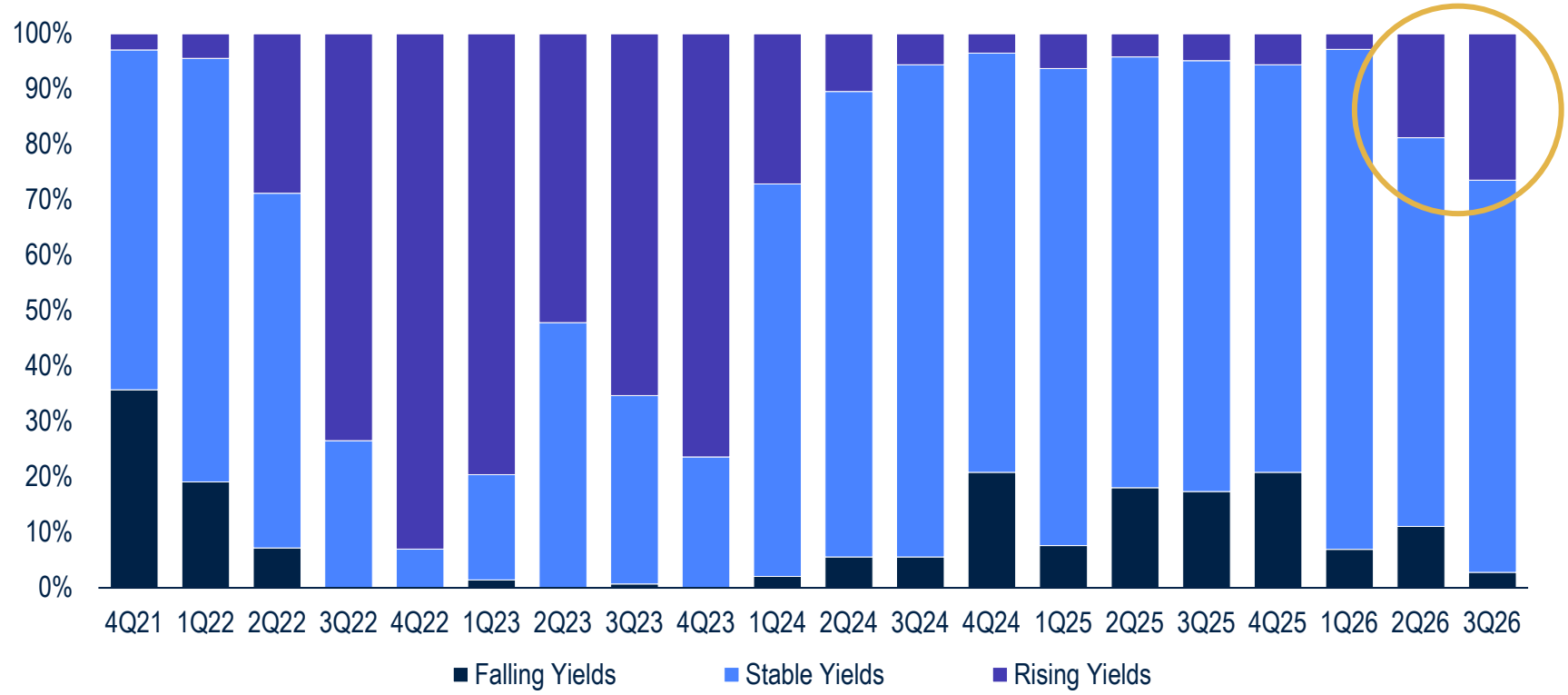
Government bond yields have moved higher since the outbreak of the Iran war.

The increase in debt costs this year is challenging for equity transactions, with all-in borrowing costs at 60% LTV now above prime all property yields.

However, typical transaction yields are higher than prime valuation yields, leaving room for positive leverage outside the prime segment.

Pricing Momentum Has Turned on the Back of Higher Interest Rates

Share of Markets Recording Falling, Stable and Rising Yields Over the Quarter (%)



Note: Aggregate of office, retail, logistics and apartment markets.
Sources: Cushman & Wakefield, PMA, CBRE, PGIM. As of November 2026.

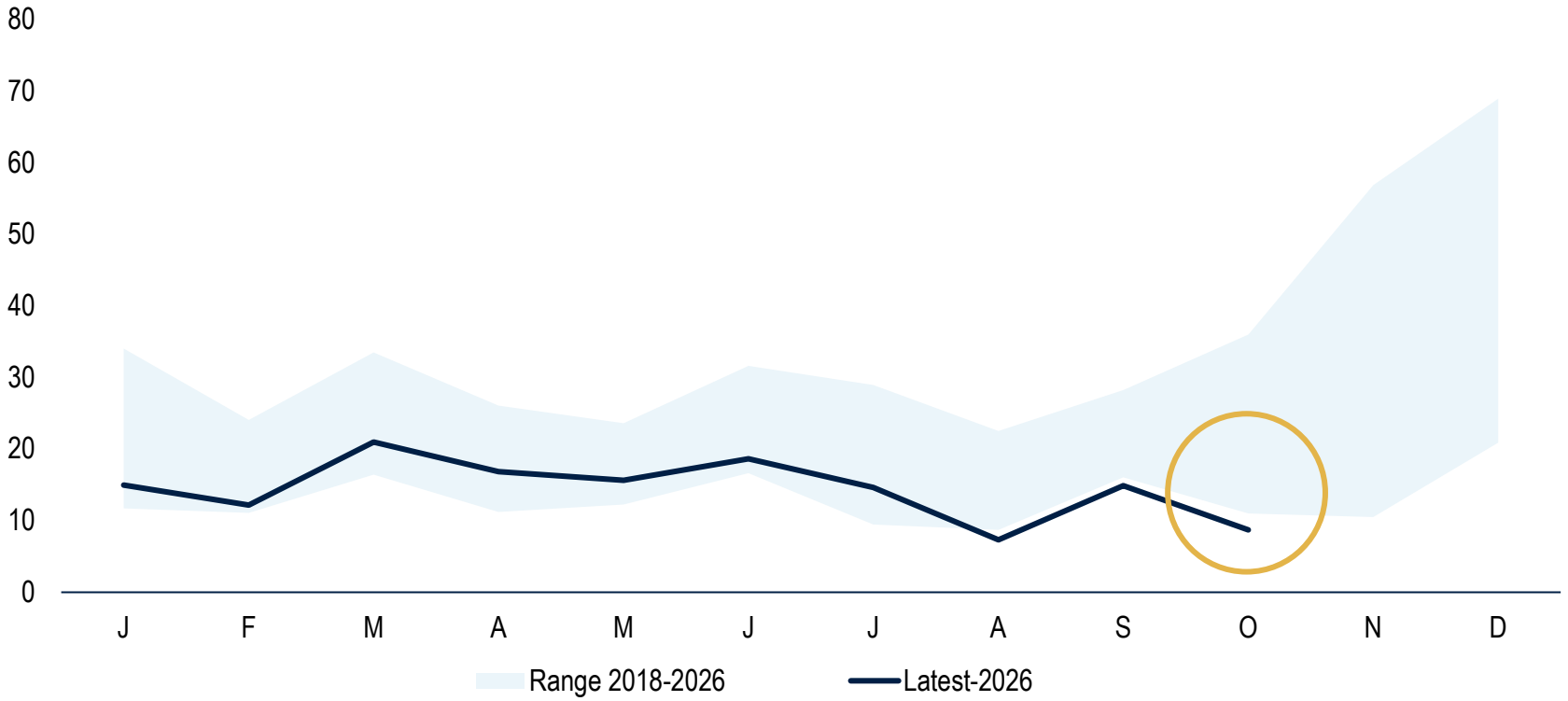
Yield compression is giving way to rising yields.

While there were some signs of yield compression in the first half of 2026, there was also an uptick in markets reporting yield expansion as interest rates moved higher.

The expectation is that yields will rise across the majority of sectors and geographies over the next few quarters.

Deal Activity is Being Affected—Recovery in Transaction Volume Paused

Monthly European Transaction Volume — 2018–2026 (€ billions)



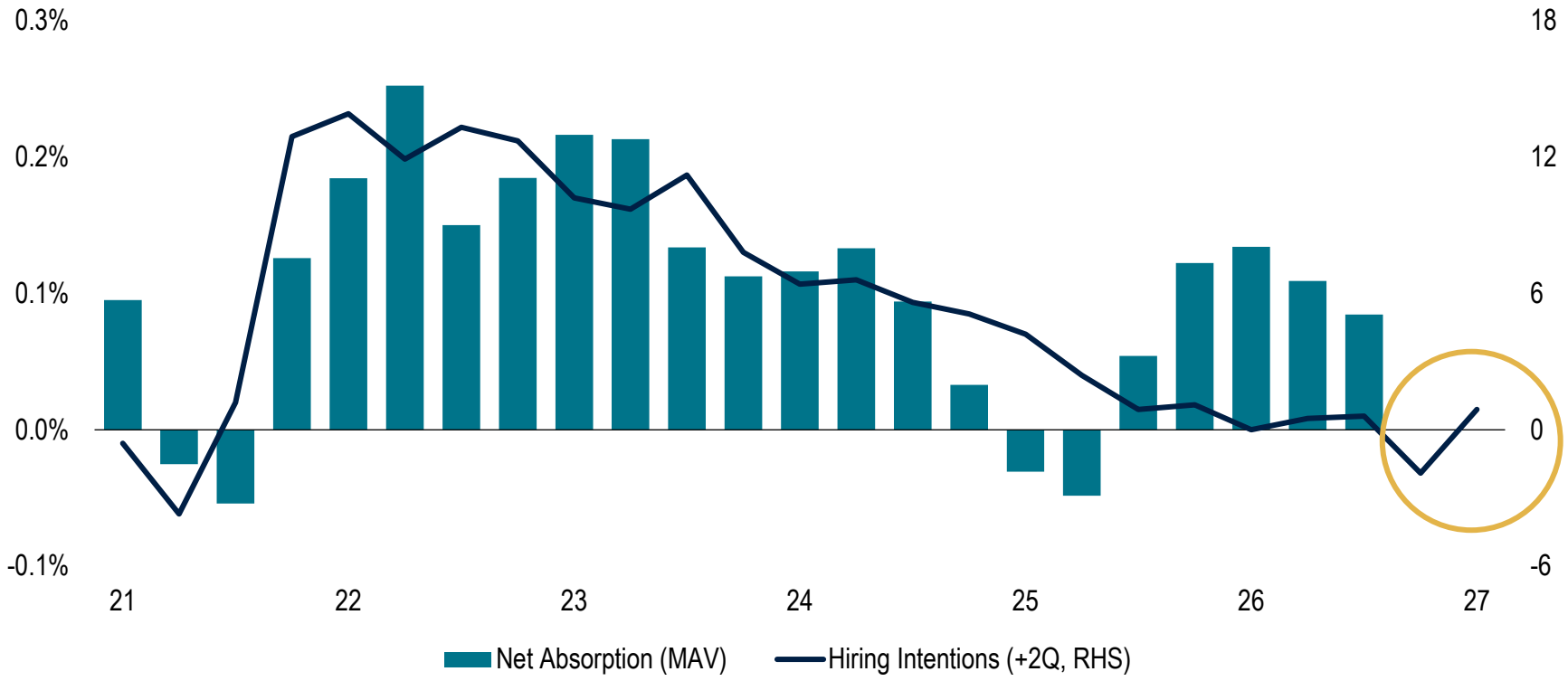
Sources: MSCI / Real Capital Analytics, PGIM. As of November 2026.

Transaction volume has been sluggish all year, with recent months looking particularly weak.

As the market is slowing again, volumes are likely going to undershoot the range for the rest of the year.

Occupier Story Is Holding Up, Sentiment Starting to Improve From Low Levels

Quarterly Office Net Absorption (% of Stock) vs. Hiring Intentions



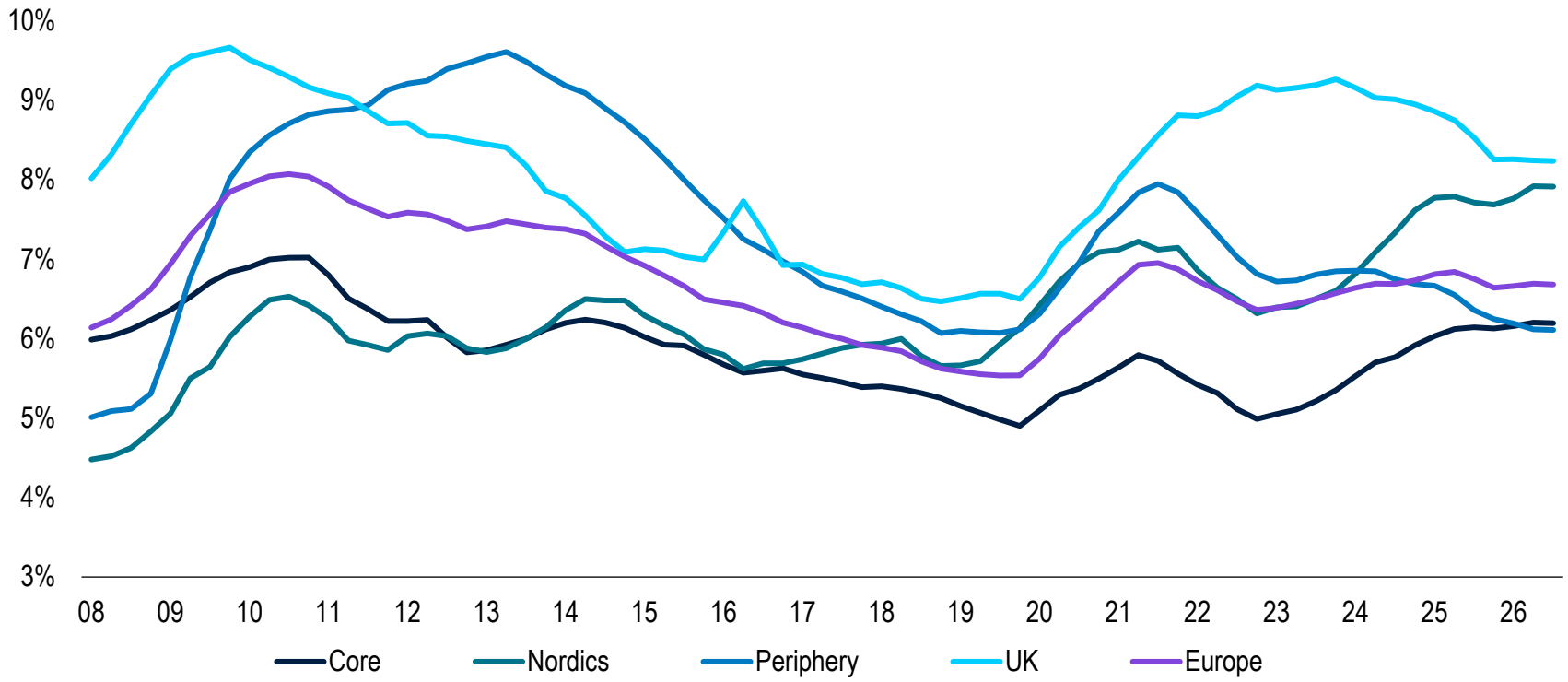
Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.
Sources: MSCI / Real Capital Analytics, PGIM. As of November 2026.

Office leasing activity has held up so far.

Hiring sentiment remains subdued but has started to pick up from low levels, although leasing conditions are set to remain challenging going into 2027.

Vacancy Remains Contained, Especially in Core Europe and the Periphery

Estimated All Property Vacancy Rate by Geography (%)



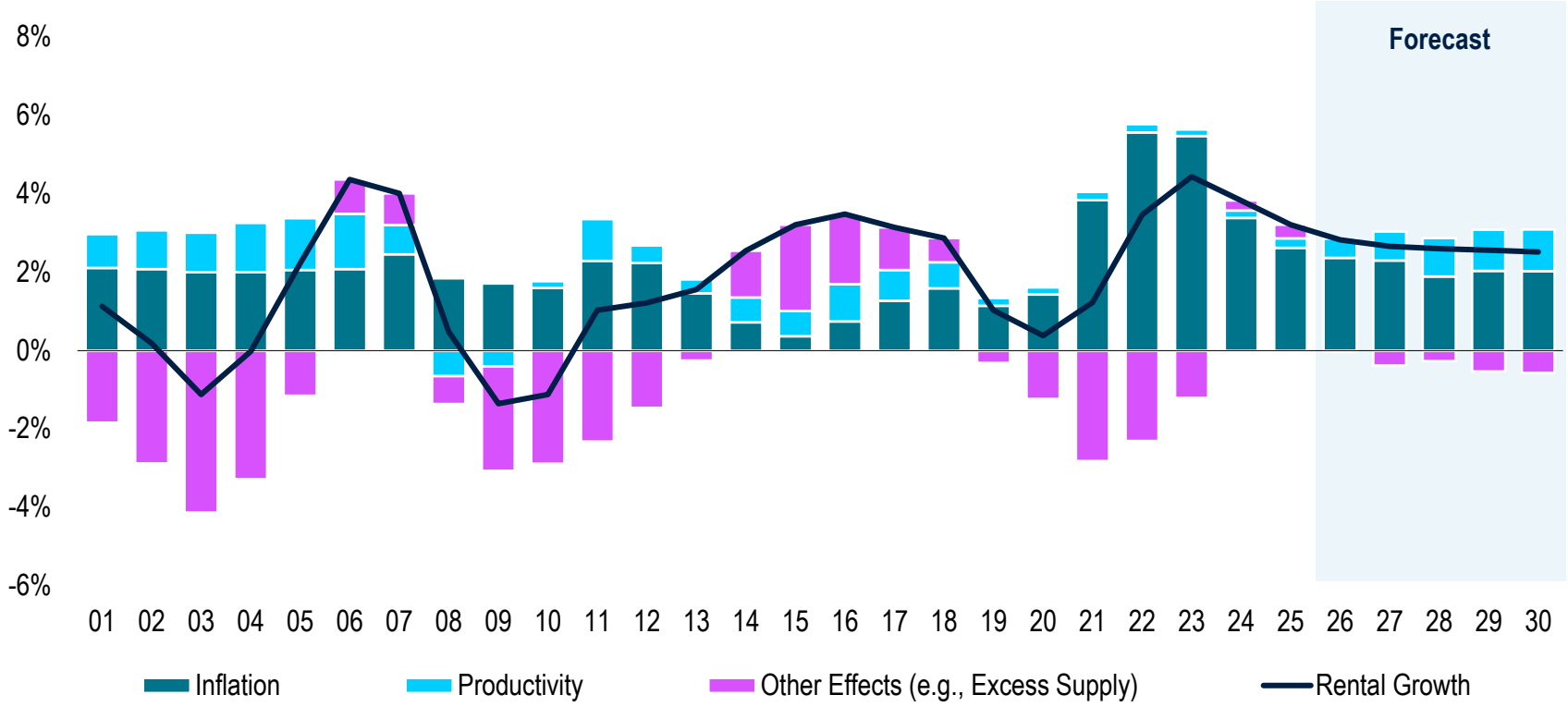
Note: Core Europe includes Austria, Belgium, France, Germany and the Netherlands; Periphery includes Ireland, Italy, Spain and Portugal; Nordics includes Denmark, Sweden, Finland and Norway. Figures and information provided are estimates subject to change. Sources: PMA, PGIM. As of November 2026.

Vacancy has edged up in the last few years but remains low in many markets, especially in core Europe (notably residential), driving rental growth prospects on the back of scarcity.

The UK (due to high street retail) and Nordics (logistics) have seen a bigger increase in vacancy, although obsolescence of older stock means the impact on the rental growth outlook is contained.

Positive Tailwinds for Rental Growth Despite the Macro Environment

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



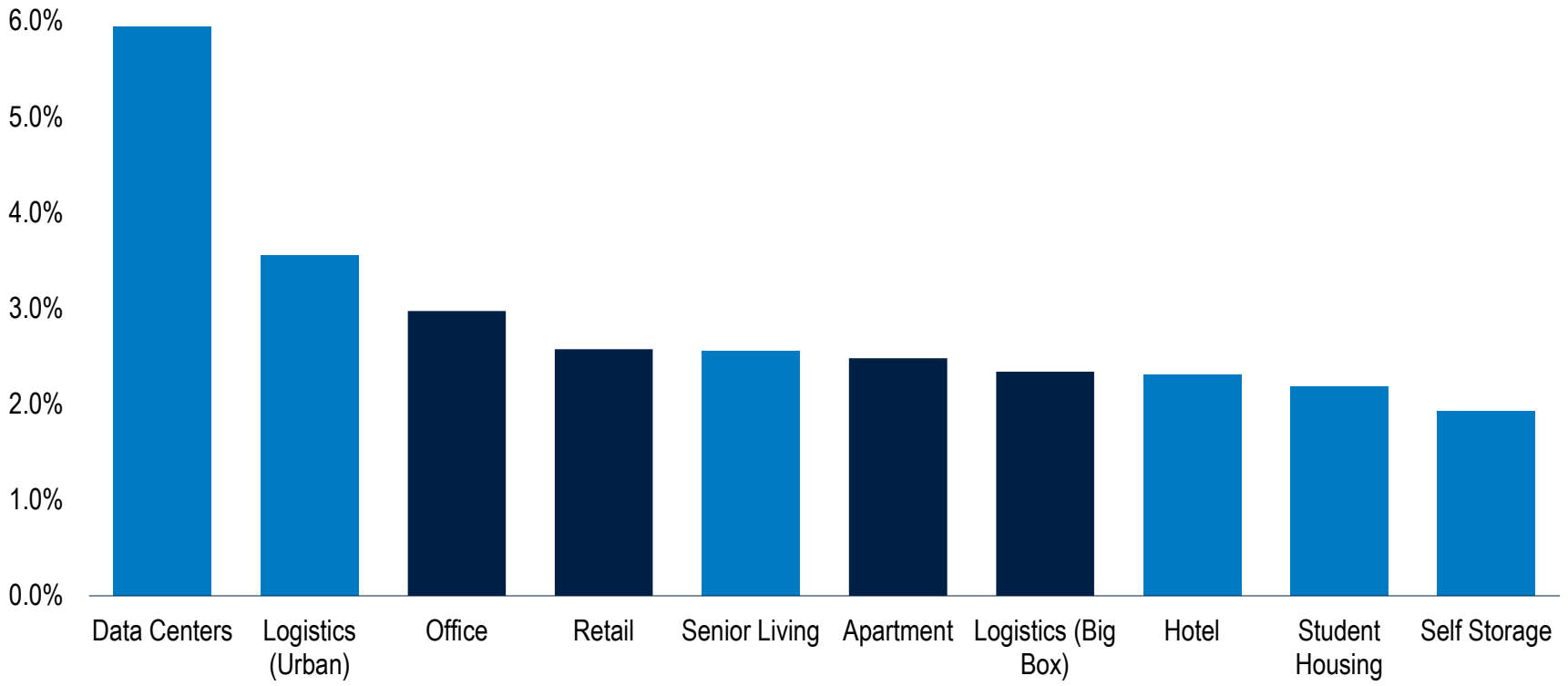
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: PMA, Oxford Economics, PGIM. As of November 2026.

Rental growth prospects are being boosted by improving productivity growth alongside low supply.

Prime all property rental growth is forecast to remain positive at around 2.5% to 3% p.a. through 2030.

Non-Traditional Sectors Forecast to Experience Higher Rental Growth

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



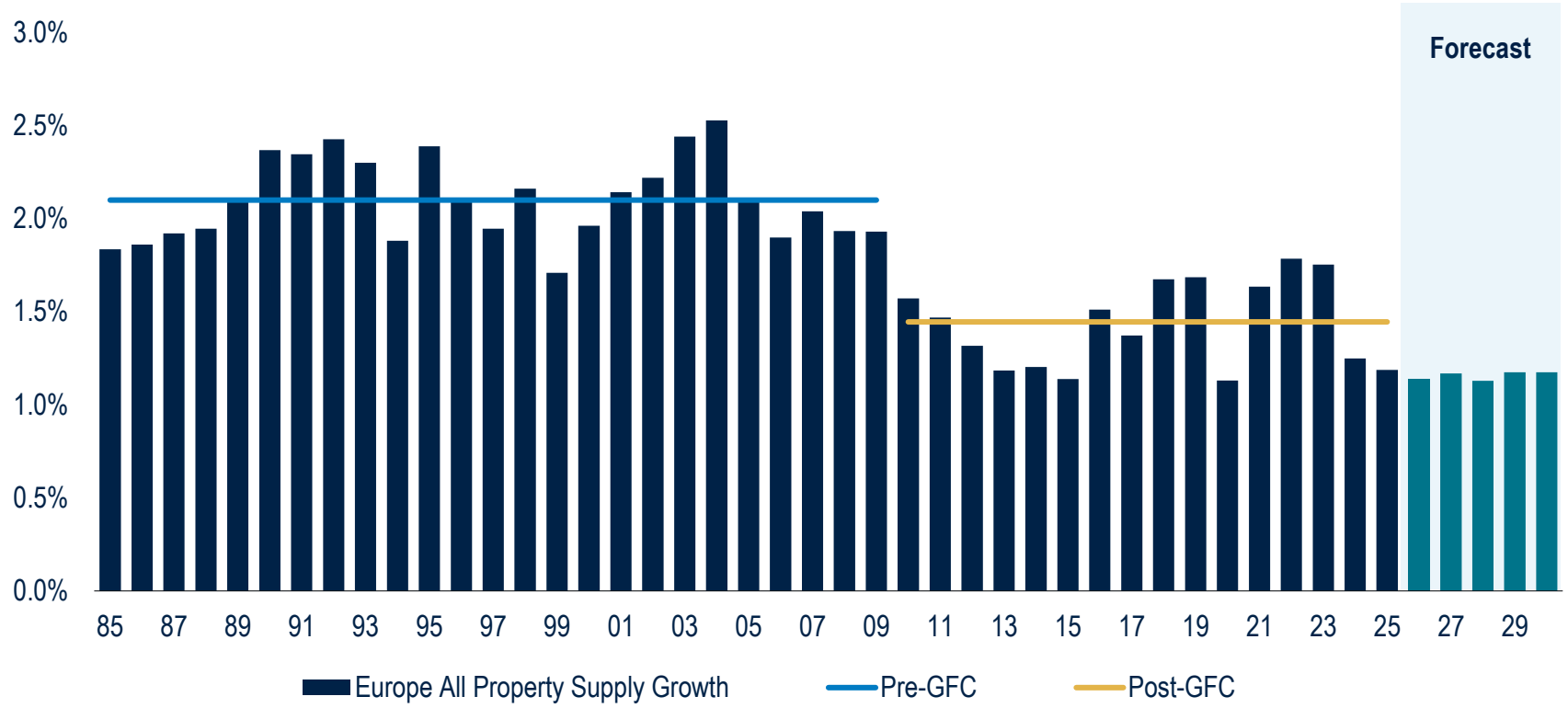
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Dark blue bars show traditional real estate sectors, light blue bars show non-traditional sectors.
Sources: PMA, PGIM. As of November 2026.

Strong demand tailwinds continue for non-traditional real estate sectors linked to everyday life, such as data centers, urban logistics and senior living.

The rental growth outlook for traditional real estate sectors is resilient, but more moderate.

And Underpinned by a Low Supply Pipeline

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



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: PMA, PGIM. As of November 2026.

Low supply across nearly all sectors and geographies is supporting the occupier market outlook.

Supply growth was low through much of the last cycle and has dropped further on the back of elevated interest rates, high construction costs and lower values.

Low supply is a consistent theme across European cities and sectors.

Energy Grid Capacity Further Restricting Supply

Expected Renewable Energy Supply Additions by 2030 vs. Available Grid Capacity, Selected EU Countries (GW)



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Ember, Eurostat, PGIM. As of November 2026.

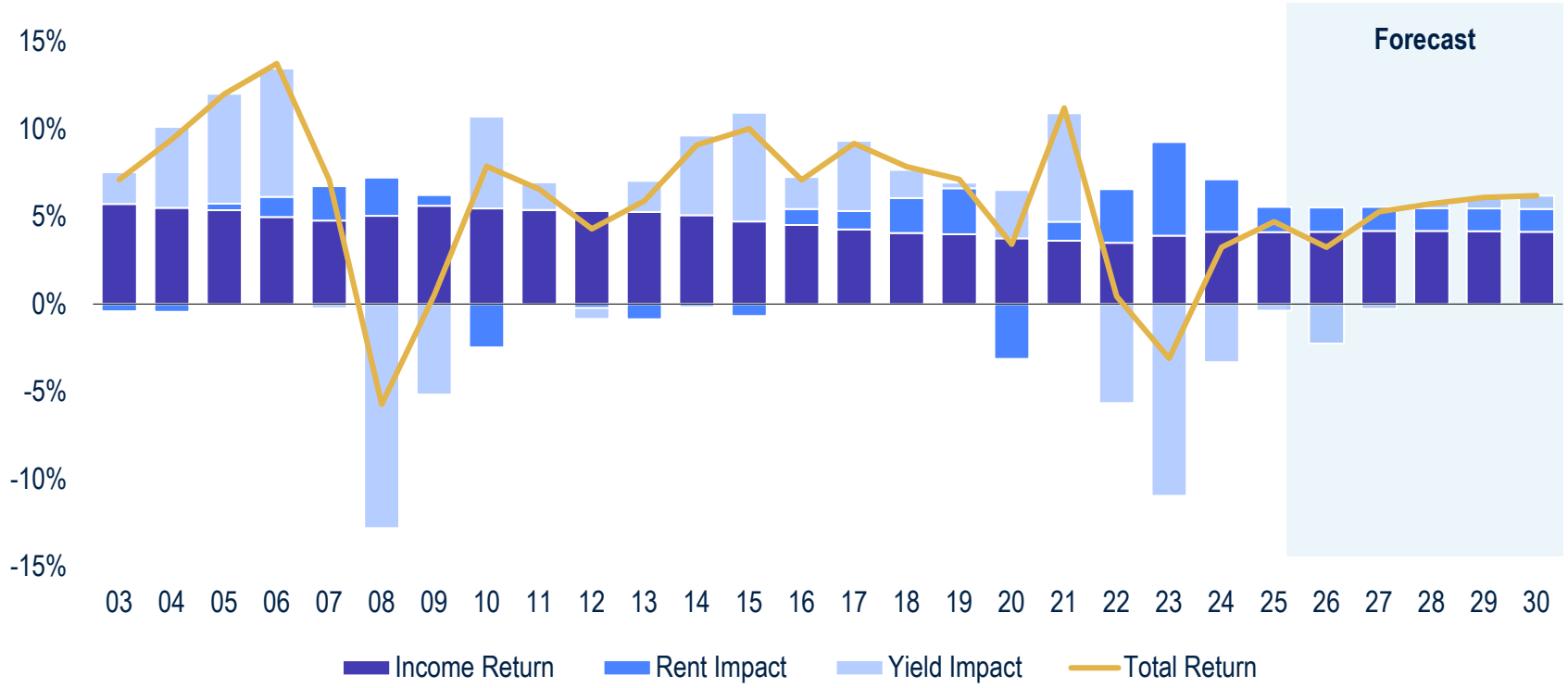
Grid connection constraints are an additional emerging barrier to new supply across European real estate.

The estimated gap between planned renewable energy expansion by 2030 and available grid capacity has widened to electricity use of about 200 million homes at elevated annual electricity consumption of 5,000 kWh.

At the same time, demand for power is accelerating in line with a structural move toward electrification.

Total Returns Under Pressure in 2026, but Set to Improve From 2027

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



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: MSCI, PMA, PGIM. As of November 2026.

European total returns are under pressure in 2026, as higher interest rates weigh on valuation yields.

However, underlying occupier performance remains resilient, with positive rental growth continuing to support returns.

The outlook is for an improvement from 2027 onward, with total returns forecast at around 6% p.a. over 2027–30.

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INVESTMENT OPPORTUNITIES

Investment Style

Different styles for the same opportunities means targeting different parts of the market.

Structural Themes

Investment conviction driven by basic needs and long-term structural trends that support ongoing demand creation

Tactical Plays

Opportunities arising from near-term growth, the anticipated cyclical value rebound and market dislocation.

02

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Investment Style

CREDIT STRATEGIES

Credit investments continue to offer attractive income returns

VALUE-ADD STRATEGIES

The need for capital injections into existing stock presents a compelling opportunity

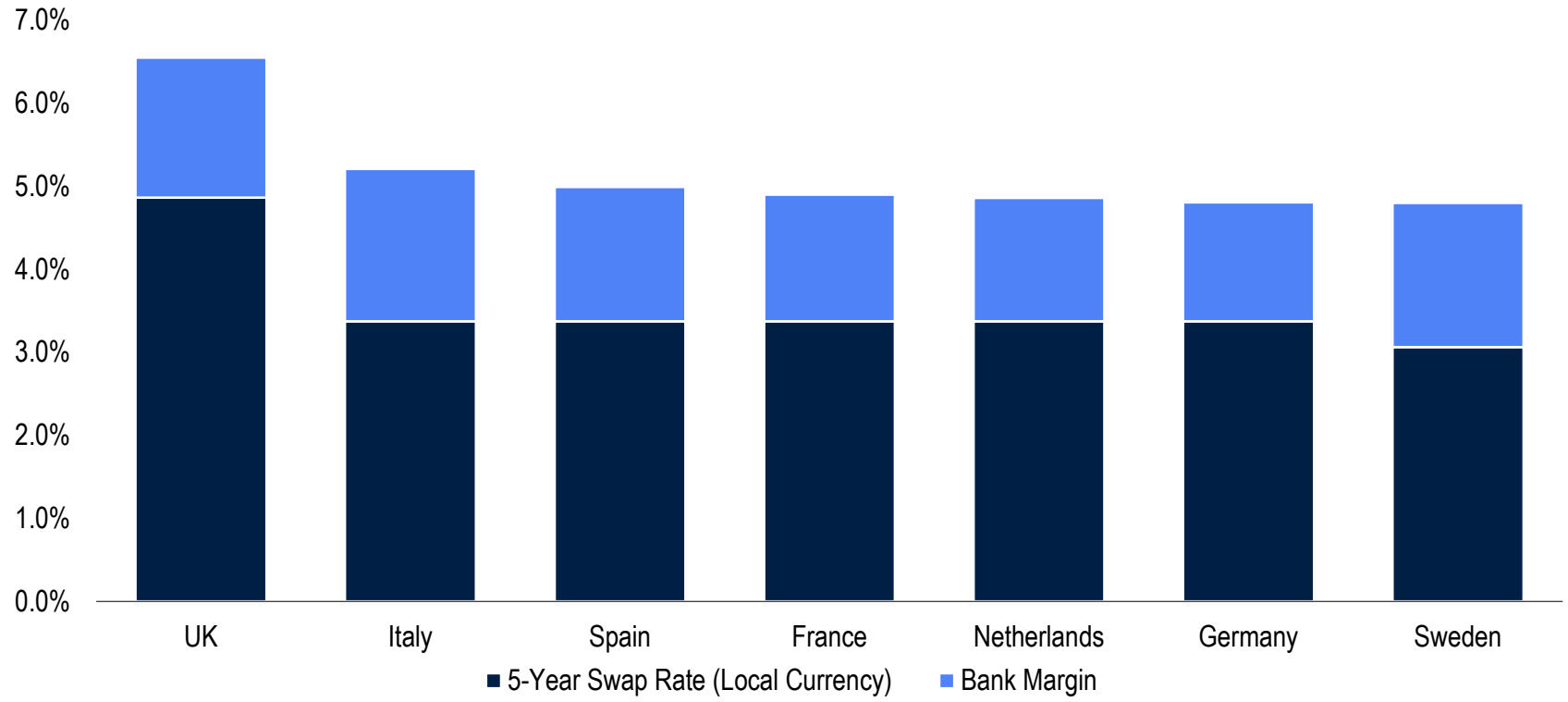
CORE/CORE+ STRATEGIES

European core real estate plays an important role as a low volatility diversifier

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Credit Strategies: CRE Debt Continues to Offer Attractive Income

Finance Costs by Country at 60% LTV, Q3 2026 (%)



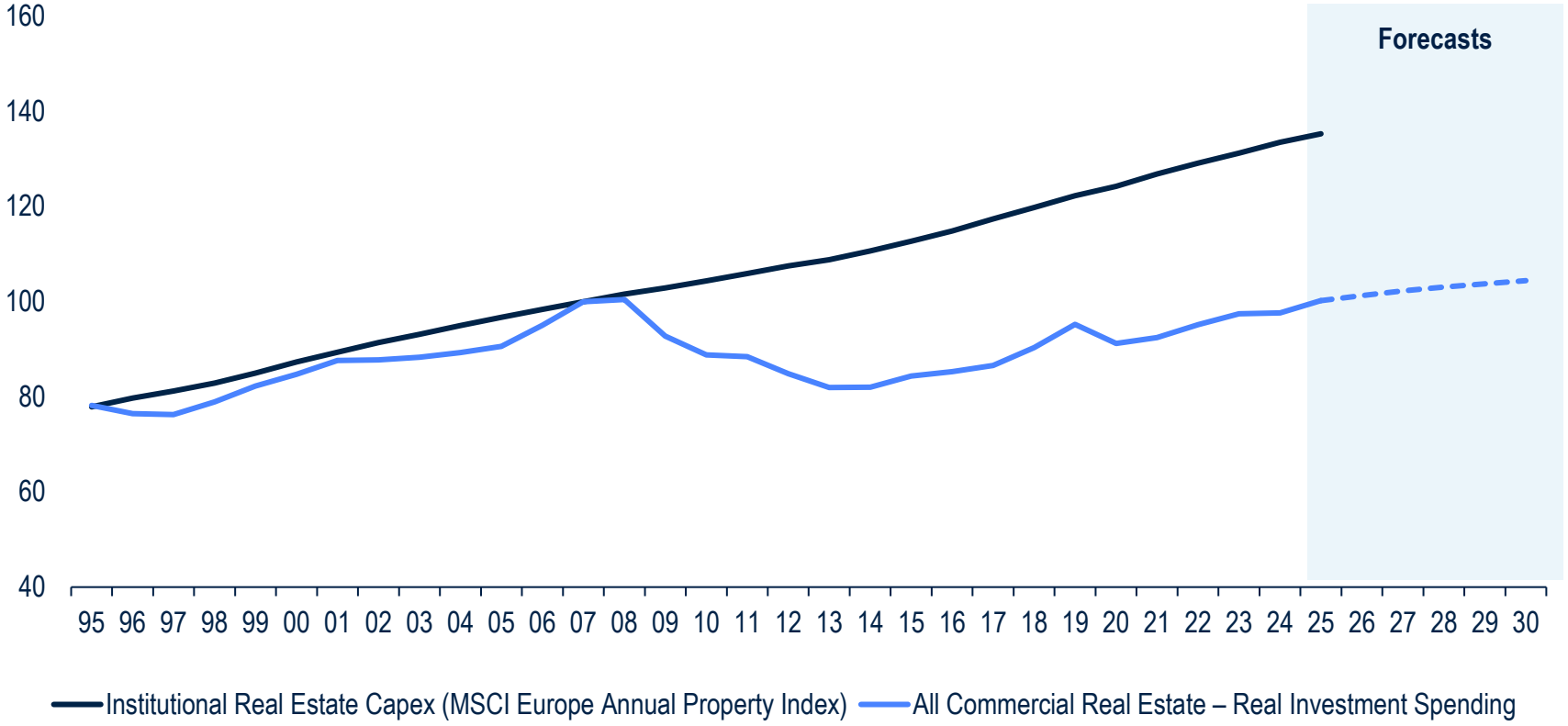
Sources: PMA, PGIM. As of November 2026.

Finance costs rose across Europe in Q3, driven by higher swap rates as bond market volatility returned.

Bank margins remain broadly stable and, with all-in finance costs of between 4.8% and 6.6%, senior CRE debt continues to offer attractive income. Note: Will depend on loan pricing, credit performance, financing structures and associated costs.

Value-Add Strategies: The Need for Capital Spending

Index of European Capex Spending (2007 = 100)



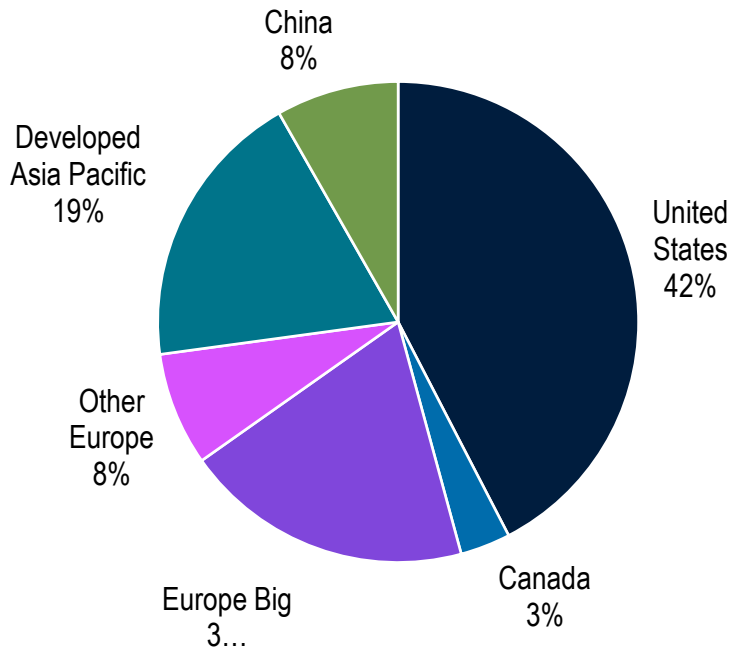
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: OECD, Oxford Economics, MSCI, PGIM. As of November 2026.

In the wider economy, the last cycle was characterized by a relatively low pace of investment going into the built environment.

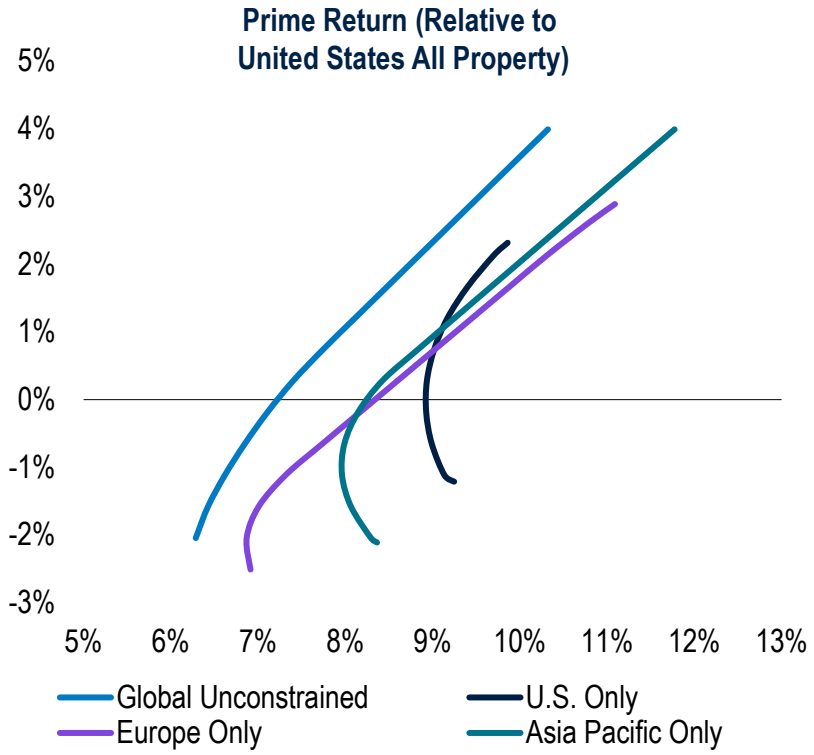
Institutional investment capex held up, but many buildings across Europe will need fresh capital injections, especially as ESG requirements are growing.

Core/Core+ Strategies: Europe Has a Role to Play in a Global Portfolio

Estimated Neutral Investment Market Weights by Region (%)



Risk-Return Plot: Global Sector-Region Prime Returns — Region and Global Efficient Frontiers



Risk-return possibilities improve once all major regions are included in a global portfolio.

European core exposure, for example to low volatility apartments, significantly enhances the risk-return profile of a global investor.

Sources: MSCI, PGIM. As of November 2026.

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Summary of European Investment Opportunities

	NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
 **LIVING SECTOR**	Low ownership affordability High construction costs and supply shortfall Demographics	• For-rent apartments • Microliving • Senior housing
 **URBAN INFRASTRUCTURE**	Data demand outstripping capacity Rising self storage demand E-commerce growth	• Hyperscale / colocation • Self storage • Infill logistics
 **CREDIT**	Debt origination activity rising Refinancing needs	• Core originations • Transitional debt • Subordinated debt
 **TACTICAL**	Tourism growth and low supply In-store consumer spending Office rental upswing	• Hotels and open-air • High street retail • CBD and central office

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Structural Investment Themes for 2027

LIVING

Needs-based real estate that meets affordability objectives, targeting growing demographic segments in preferred locations amid a general supply shortfall



URBAN INFRASTRUCTURE

Data centers, self storage and urban logistics—essential digital and urban infrastructure with favorable demand-supply dynamics



CREDIT

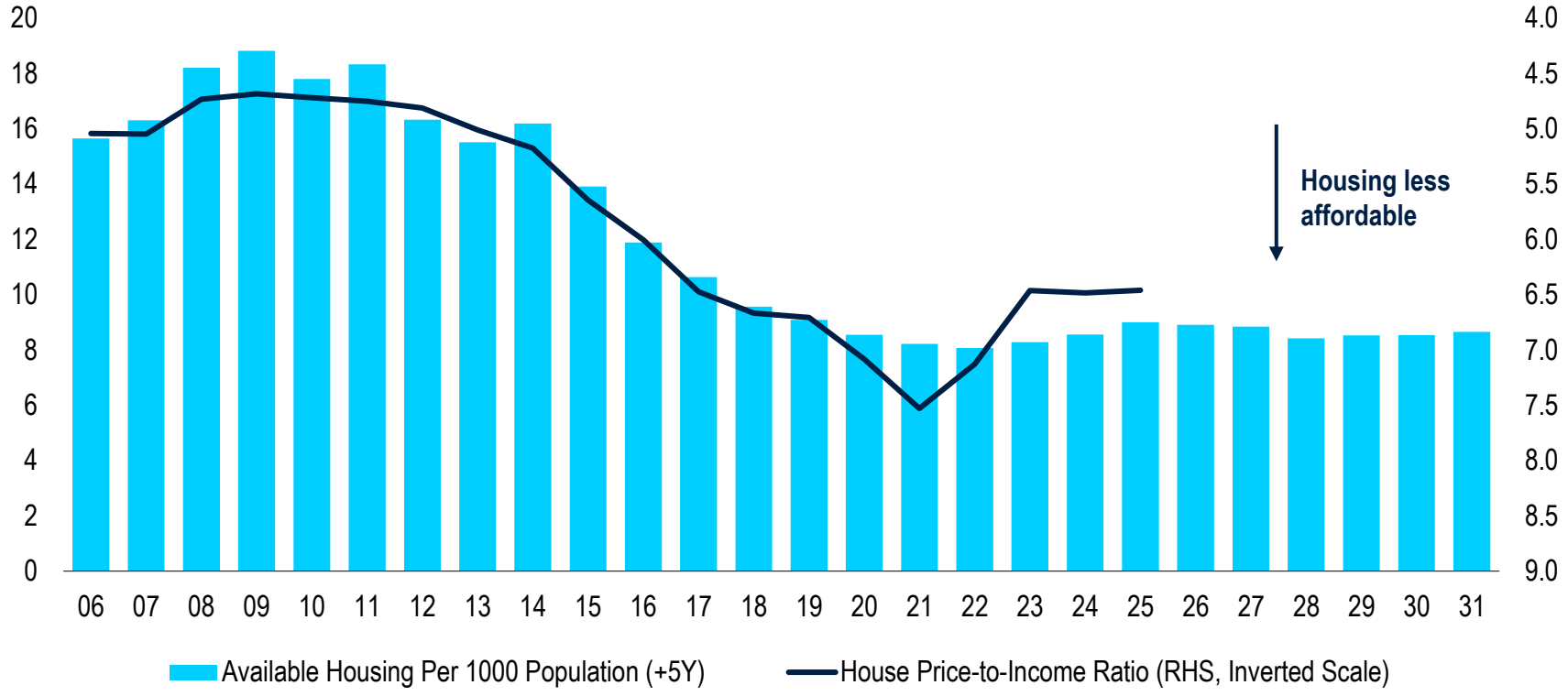
Capturing opportunities as bank financing retrenches and demand for flexible capital solutions grows



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Living: Lack of Available Housing Putting Strains on Affordability

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



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

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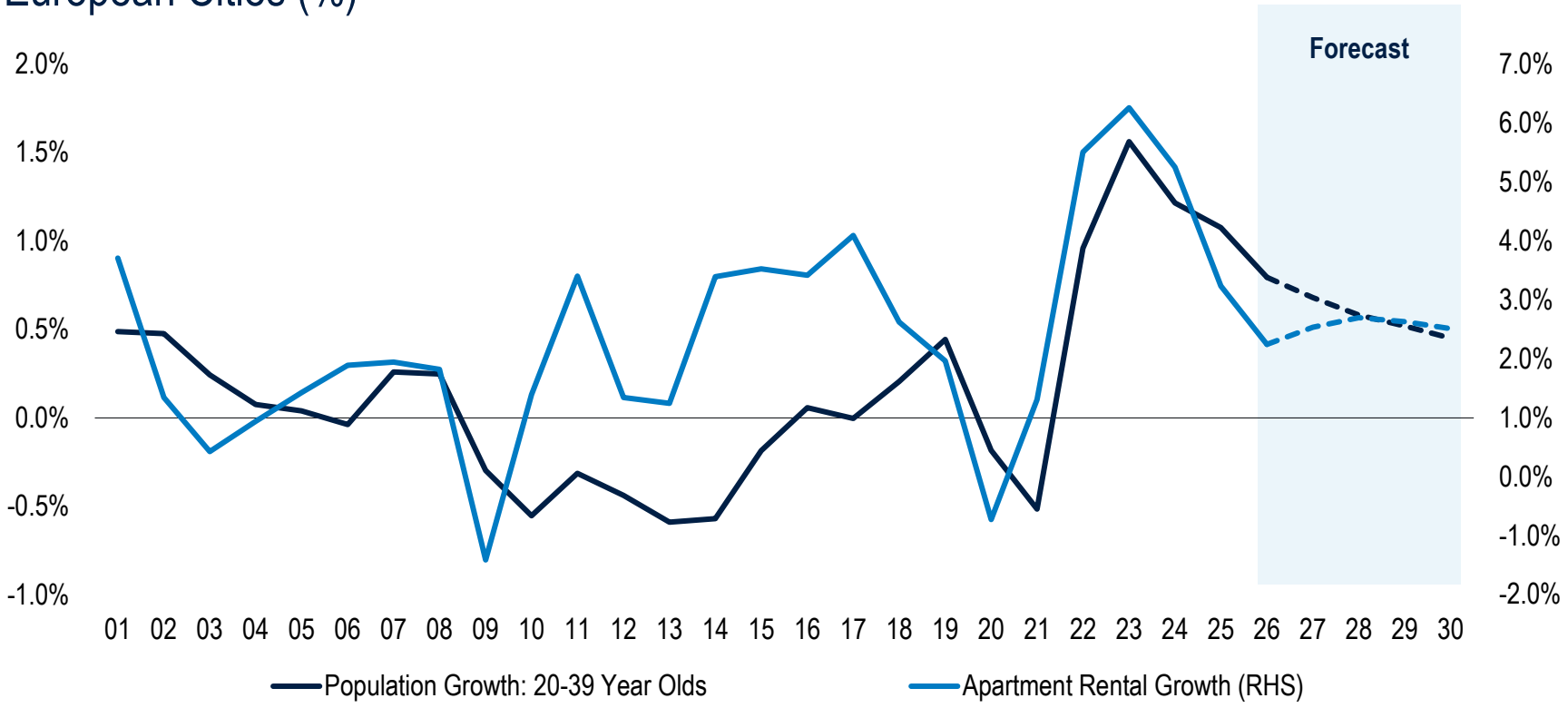
LIVING SECTOR

A low supply of available housing is pushing up house prices relative to incomes in major European cities.

These lagged effects are expected to persist over time, keeping homeownership affordability stretched and supporting demand for rental housing.

Living: Young Adults Driving Apartment Rents in Major Cities

Annual Young Adult (20–39) Population Growth and Apartment Rental Growth—Major European Cities (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Oxford Economics, PMA, PGIM. As of November 2026.

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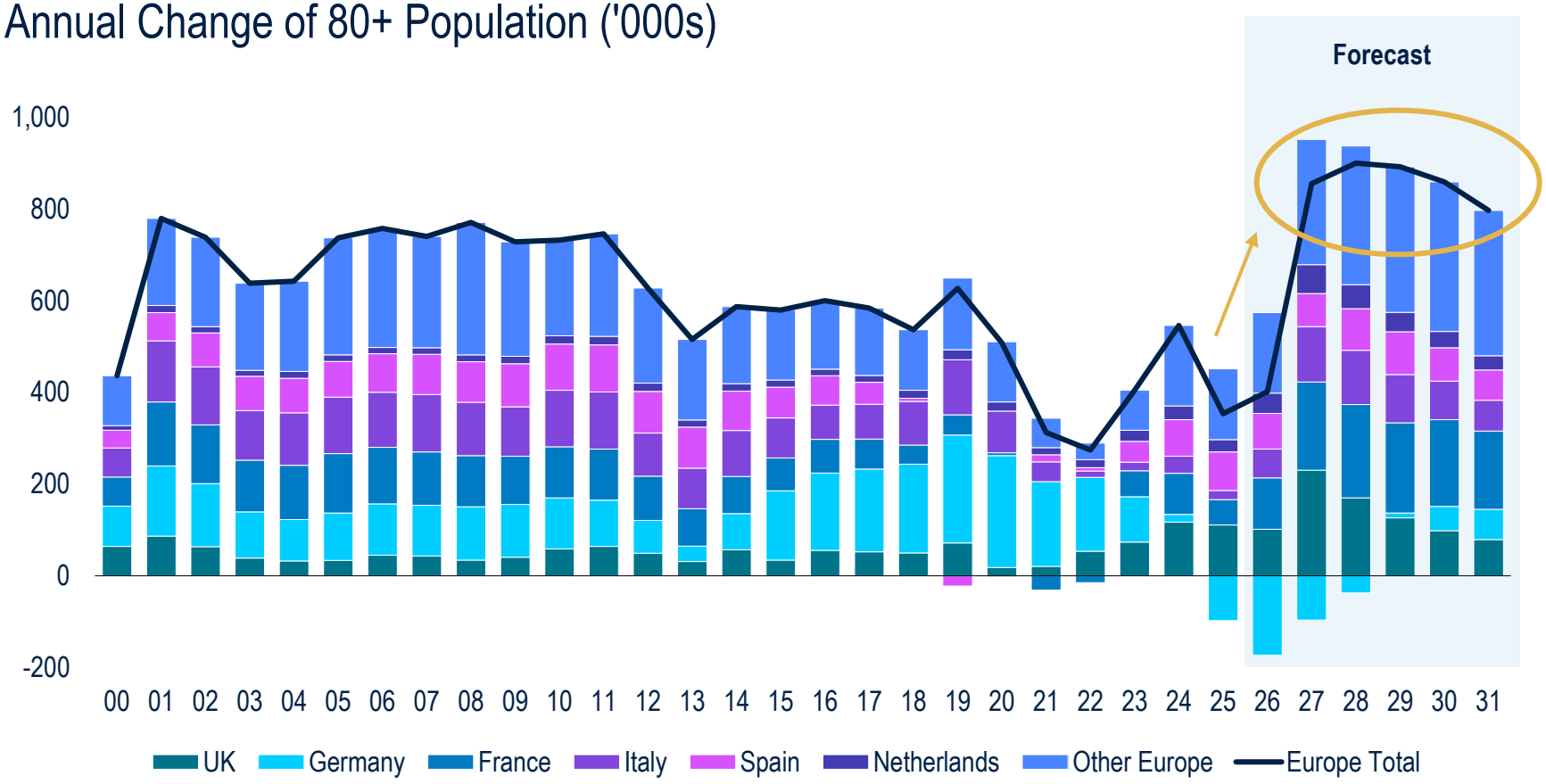
LIVING SECTOR

Apartment rents in major cities are being driven by strong growth in the under-40 population.

Young adult population growth is forecast to moderate but remain positive, supporting further apartment rental growth.

Living: Significant Pick Up of 80+ Population Expected From Post-War Baby Boom

Annual Change of 80+ Population ('000s)



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Oxford Economics, PGIM. As of November 2026.

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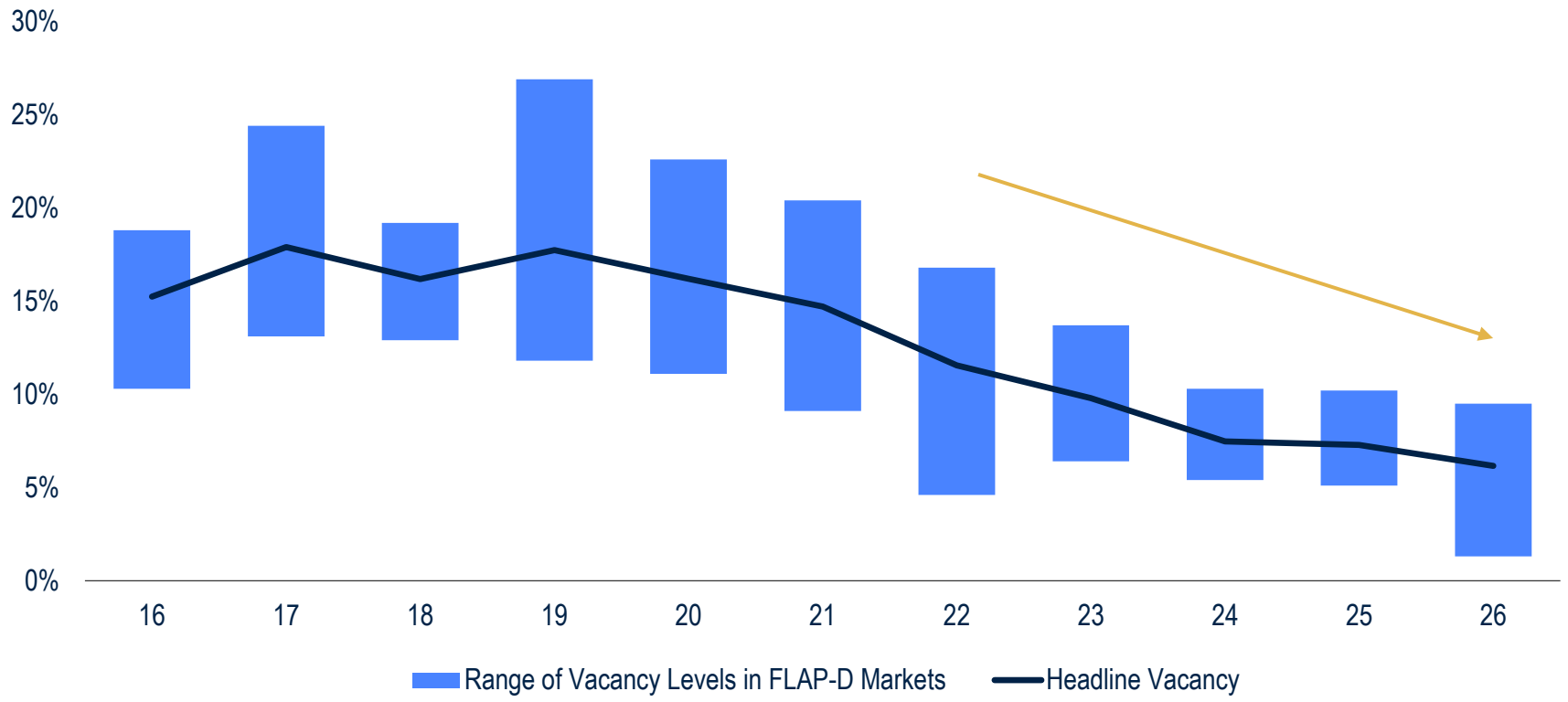
LIVING SECTOR

Senior housing opportunities are driven by an expected record high increase of 80+ year olds in Europe over the next few years, reflecting the post-war surge in birth rates.

With public sector balance sheets stretched, opportunities for private sector developers and operators to provide senior living facilities are set to increase further.

Urban Infrastructure: Intense Competition for Space Has Driven Data Center Vacancy Down

Estimated Data Center Vacancy Rates (%)



Note: Figures and information provided are estimates and subject to change.
Sources: CBRE, PGIM. As of November 2026.

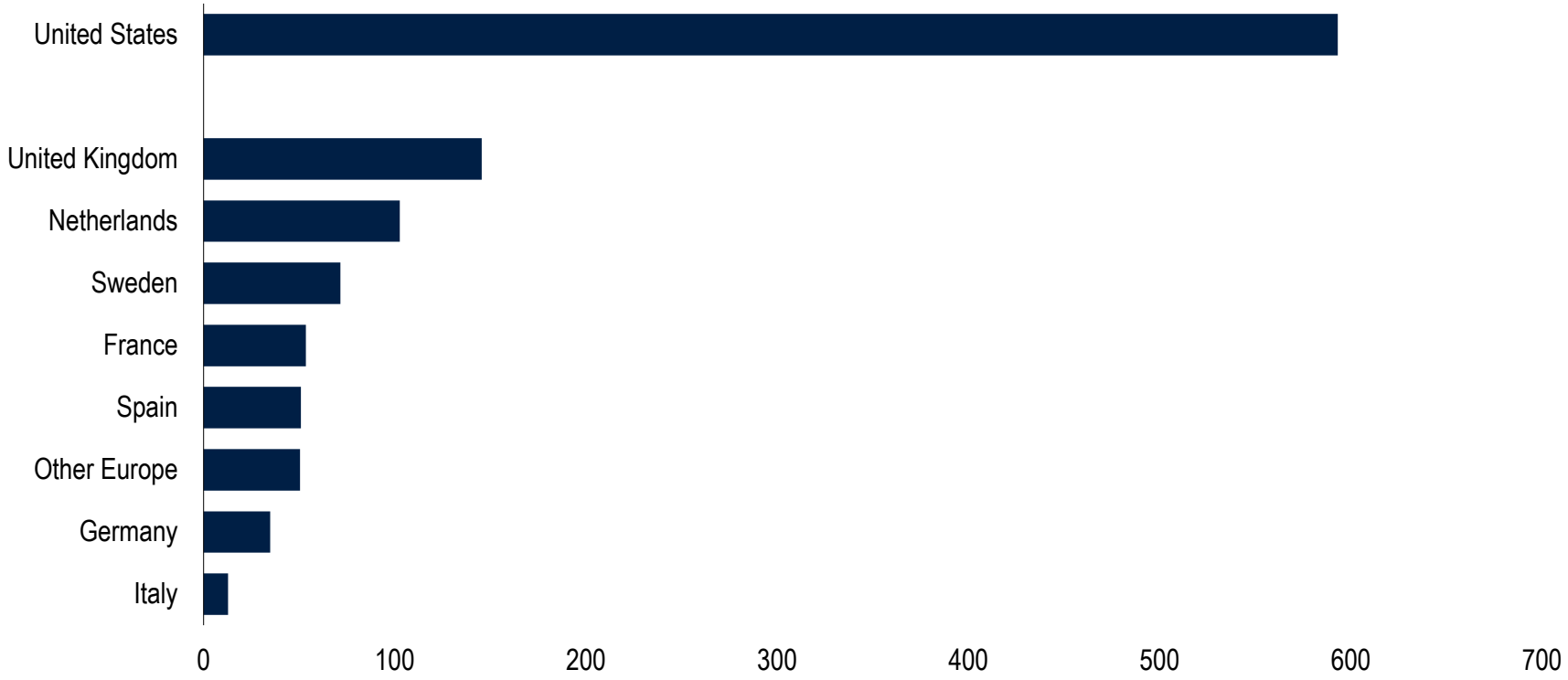
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URBAN INFRASTRUCTURE

Reflecting intense competition for data center capacity, vacancy rates have fallen to record lows in all the top data center markets of Frankfurt, London, Amsterdam, Paris and Dublin (FLAP-D).

Urban Infrastructure: Self Storage Expanding From a Low Base

Self Storage Space per 1,000 Population (sq m)



Sources: Green Street, PGIM. As of November 2026.

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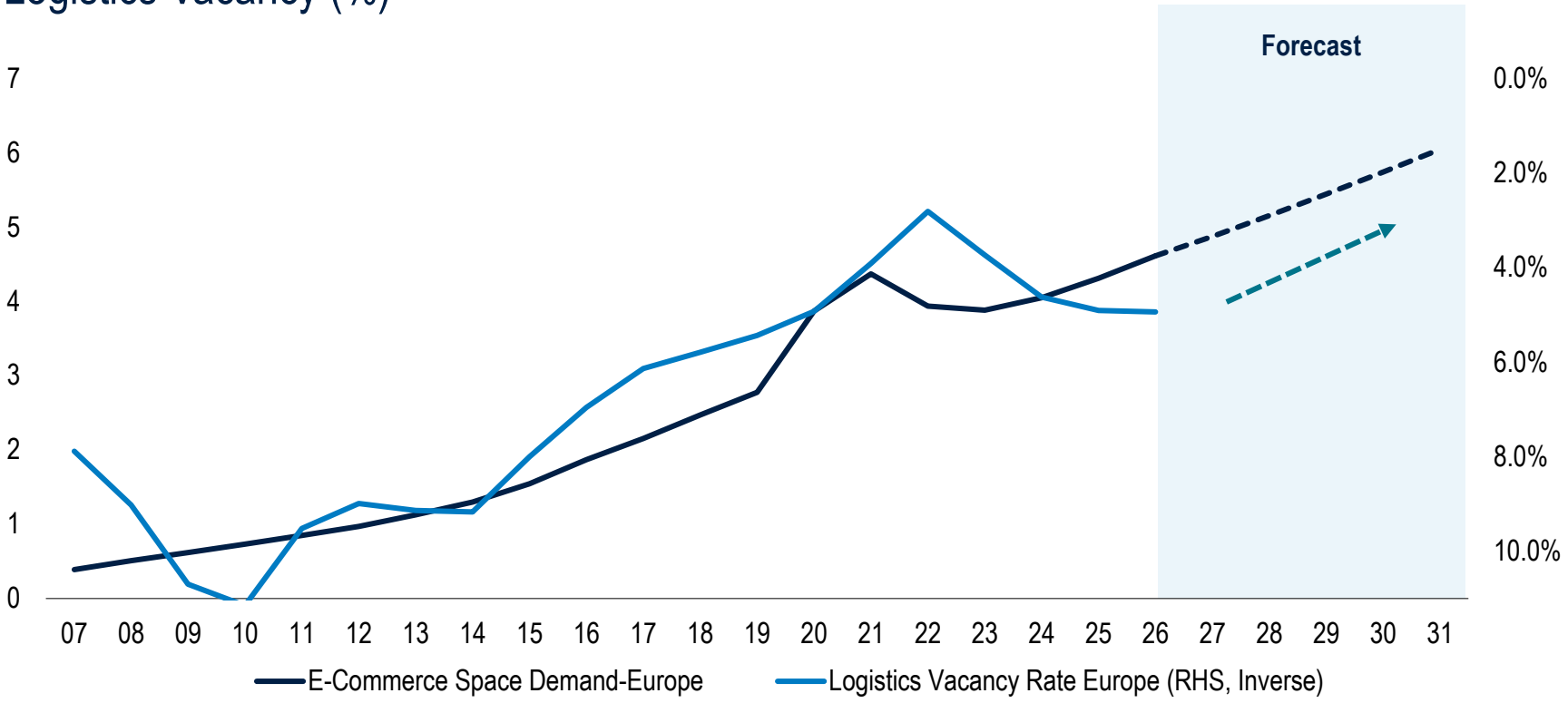
URBAN INFRASTRUCTURE

Self storage provision in Europe is expanding from a low base compared with the U.S. and the UK.

Investors can seek to capture excess returns from rapid demand growth and the institutionalization of the sector.

Urban Infrastructure: Urban Logistics Demand Continues to Rise

Estimated E-Commerce-Related Urban Logistics Demand (million sq m) and Logistics Vacancy (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Oxford Economics, PMA, Knight Frank, PGIM. As of November 2026.

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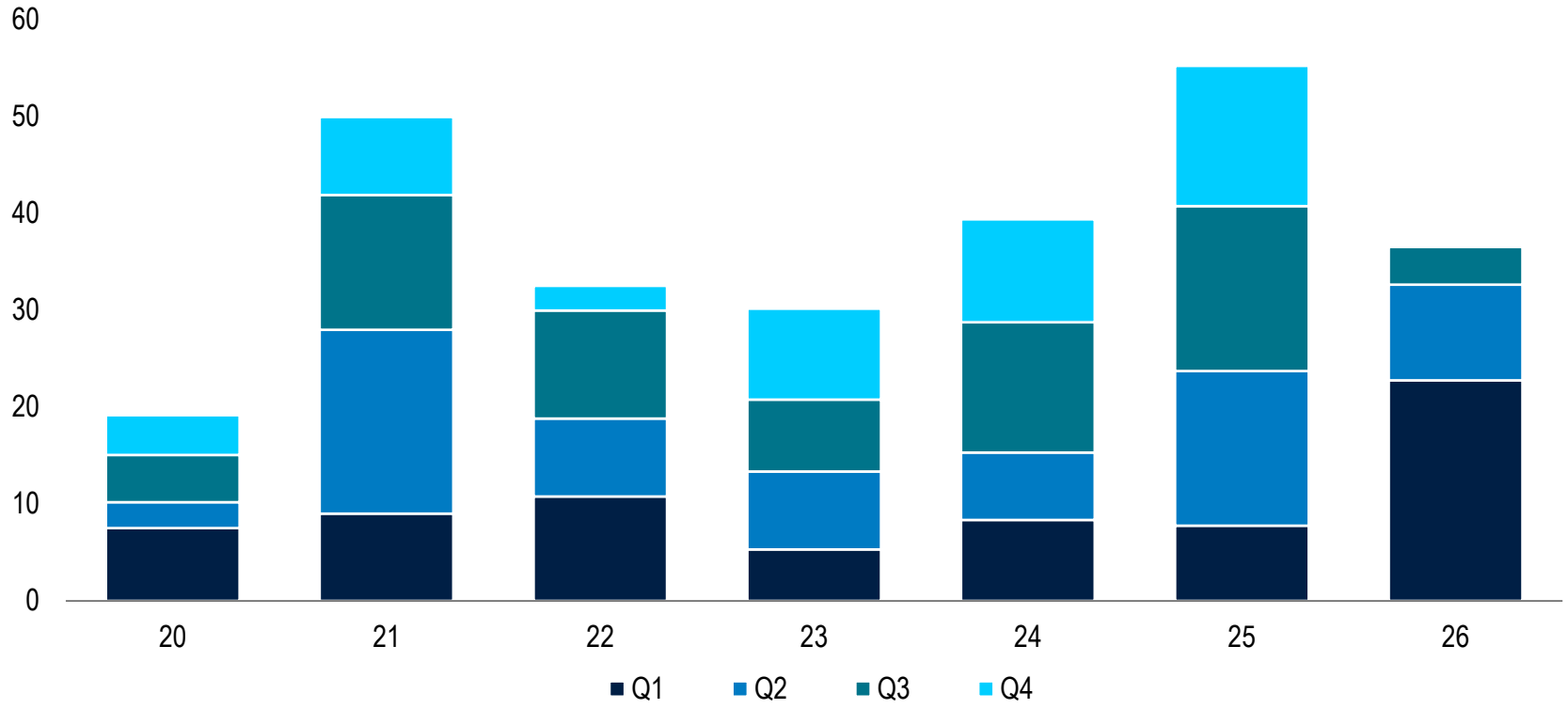
URBAN INFRASTRUCTURE

E-commerce continues to grow, which will drive further demand for urban and last mile logistics facilities.

As new supply moderates, this should put downward pressure on vacancy rates.

Credit: Debt an Attractive Entry Point for Investors in Today's Market

European Real Estate Debt Origination Volume by Quarter (€ billions)



Note: Origination volumes are a snapshot based on public reports and indicative of market trends.
Total market volume will be higher.
Sources: PMA, PGIM. As of November 2026.

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CREDIT

Debt origination was exceptionally strong in H1, boosted by several large data center loans, before slowing in Q3 as rising finance costs weighed on deal activity.

With significant ongoing refinancing needs and higher debt costs putting pressure on equity transactions, real estate debt offers investors an attractive entry point in today's market.

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Tactical Investment Plays for 2027

HOSPITALITY

Occupancy rising on the back of increased tourism and low supply, especially in open-air hospitality



RETAIL

Opportunities emerging on the back of rising in-store spending as well as elevated space affordability



OFFICE

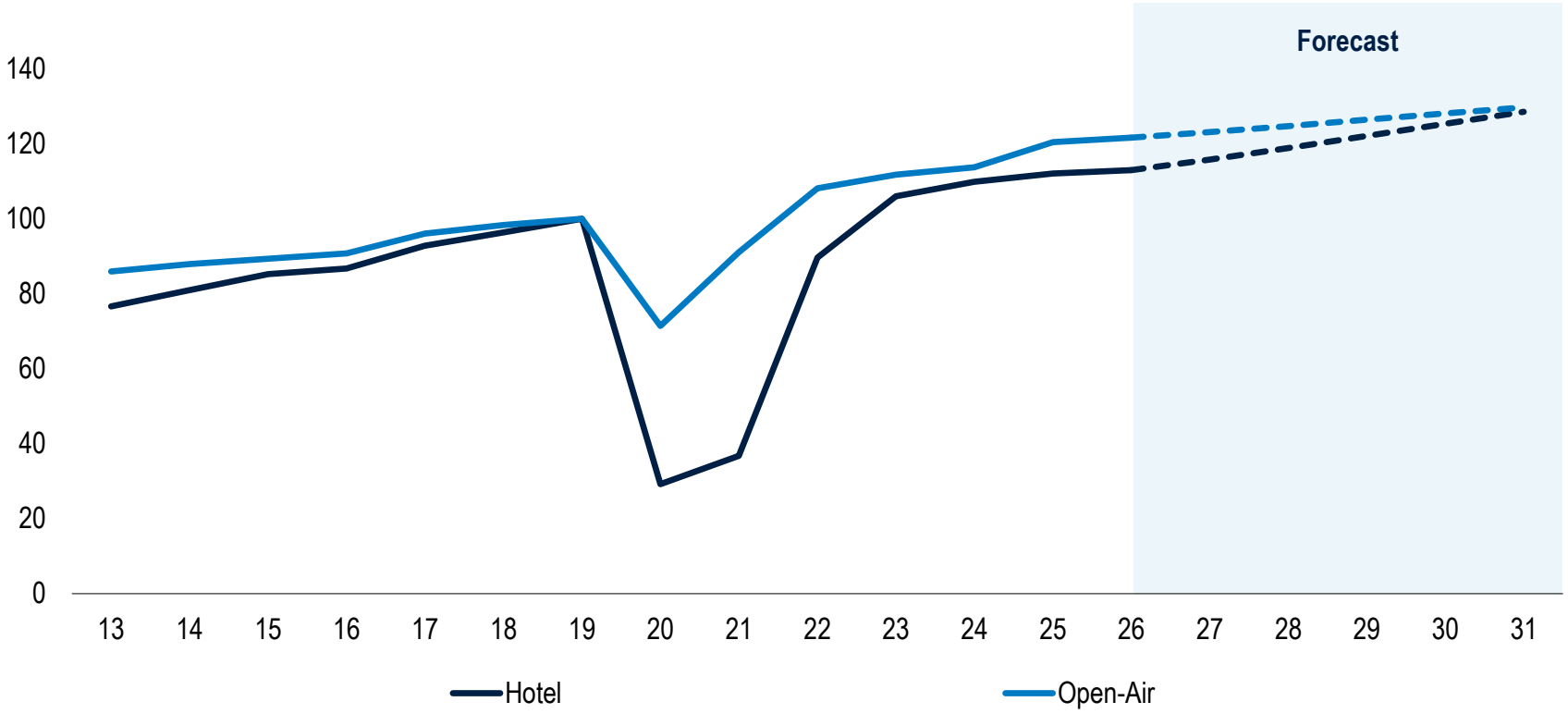
With productivity growing and the rental upswing gathering momentum, target high rental value locations that are in demand among occupiers



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Hospitality: Occupancy Rising on the Back of Increased Tourism and Low Supply

European Hospitality Occupancy Index (2019 = 100)



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

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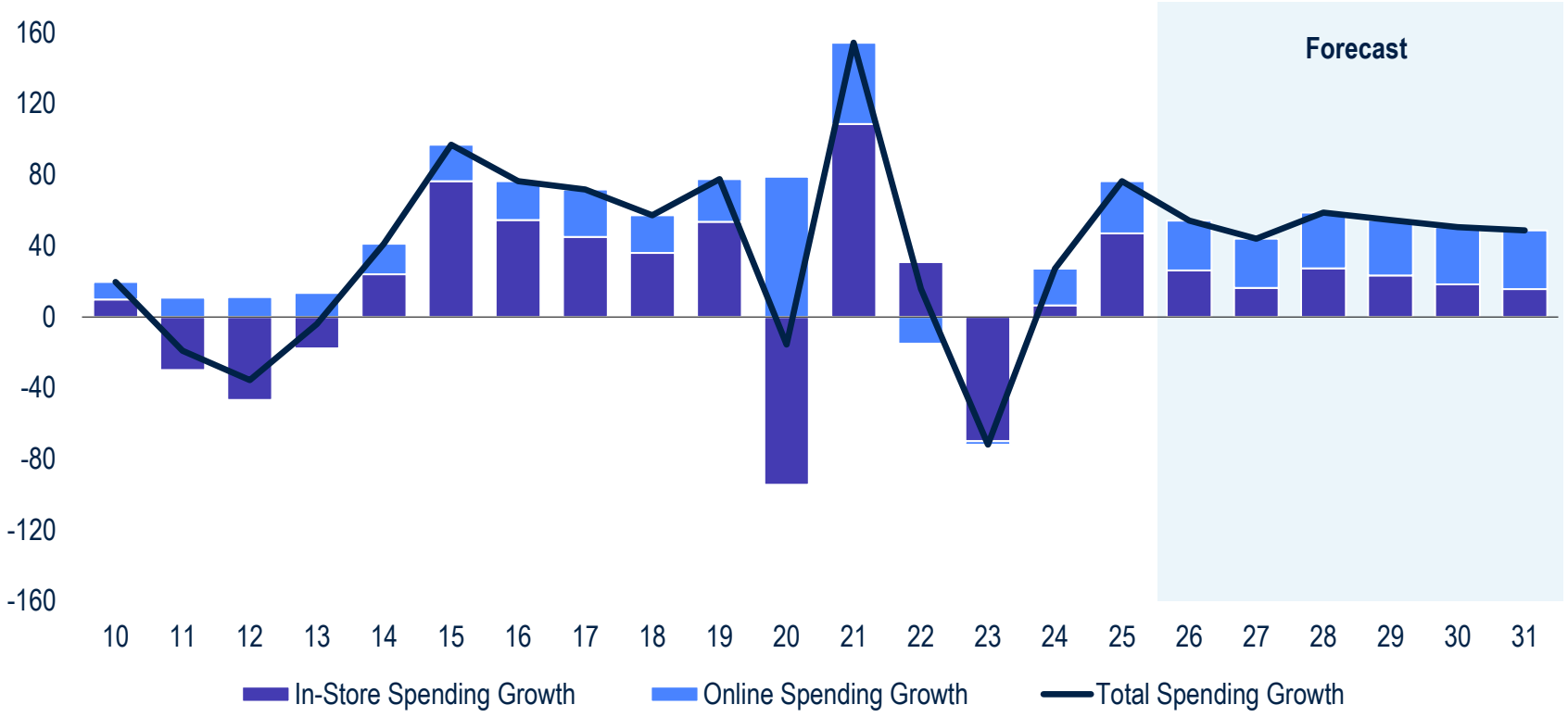
HOSPITALITY

Hospitality occupancy has recovered above pre-pandemic levels and is forecast to keep rising on the back of increased tourism and low supply.

The outperformance is especially pronounced in the open-air sector.

Retail: Environment for Physical Retailers Looking Increasingly Positive

Retail Spending Growth — Europe (Real, 2025 Prices, € billions)



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

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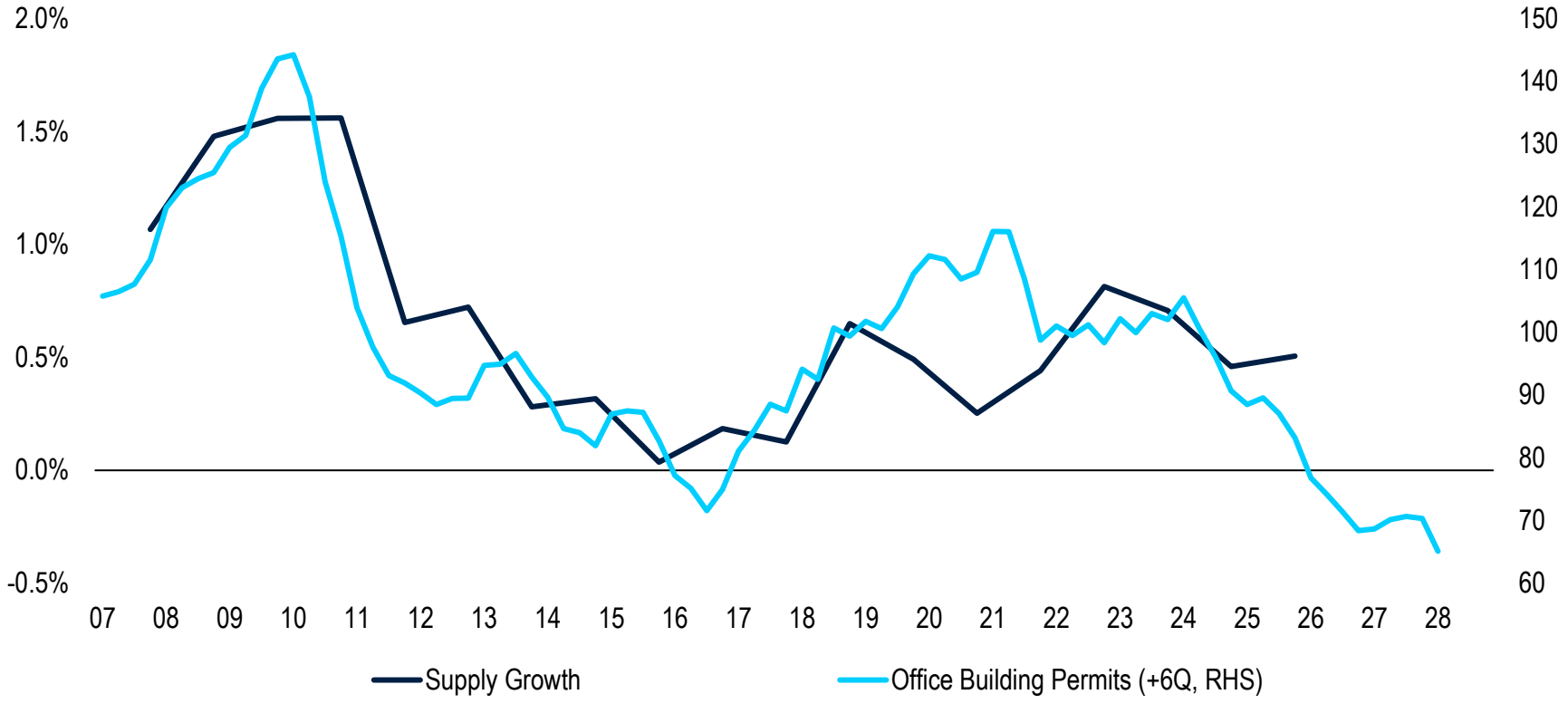
RETAIL

As e-commerce penetration levels off, in-store spending has started to grow alongside online spending.

This is creating a more positive environment for physical retailers than the last few years, when most sales growth was created through online channels.

Office: Lack of Supply Driving Rental Growth in CBD/Central Submarkets

Annual Office Supply Growth (%) Versus Building Permits (Index) — Europe



Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.
Sources: Eurostat, PMA, PGIM. As of November 2026.

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OFFICE

Office supply growth is set to fall further based on declining building permits across Europe.

At the same time demand has held up in recent quarters, and vacancy is starting to edge down.

Occupier choice is highly limited in desirable submarkets, and rental growth prospects are strong in CBDs and central areas.


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Investments in commercial real estate and real estate-related entities are subject to various risks, including adverse changes in domestic or international economic conditions, local market conditions and the financial conditions of tenants; changes in the number of buyers and sellers of properties; increases in the availability of supply of property relative to demand; changes in availability of debt financing; increases in interest rates, exchange rate fluctuations, the incidence of taxation on real estate, energy prices and other operating expenses; changes in environmental laws and regulations, planning laws and other governmental rules and fiscal policies; changes in the relative popularity of properties risks due to the dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; and acts of God, uninsurable losses and other factors. As compared with other asset classes, real estate is a relatively illiquid investment. Therefore, investors' withdrawal requests may not be satisfied for significant periods of time. In addition, as recent experience has demonstrated, real estate is subject to long-term cyclical trends that give rise to significant volatility in real estate values. An investor could lose some or all of its investment. Real estate investment trusts (REITs) may invest in equity securities of issuers that are principally engaged in the real estate industry. Therefore, an investment in REITs is subject to certain risks associated with the real estate industry and, more generally, the public markets.

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