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REAL ESTATE CHARTPACK

UNITED STATES



November 2026

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UNITED STATES

Higher interest rates are resetting entry yields, pressuring existing values but raising go-forward returns on new investments

Stronger economic growth should feed through to property income as demand gains momentum and supply recedes further

Debt returns are likely to be higher than core equity in the near-term. Sectors driven by demographic and structural tailwinds offer good risk-adjusted returns

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MARKET OUTLOOK

Higher rates will pressure property valuations in the near term but also offer better entry yields and elevated returns from credit. At the same time, a stronger economy is set to lift property income. With demand broadening and supply constrained, conditions are lining up for improved returns on new investments.

01

Interest Rate Expectations Shifting Up…

Median U.S. 10-Year Treasury Yield Expectation, 3 Years Ahead



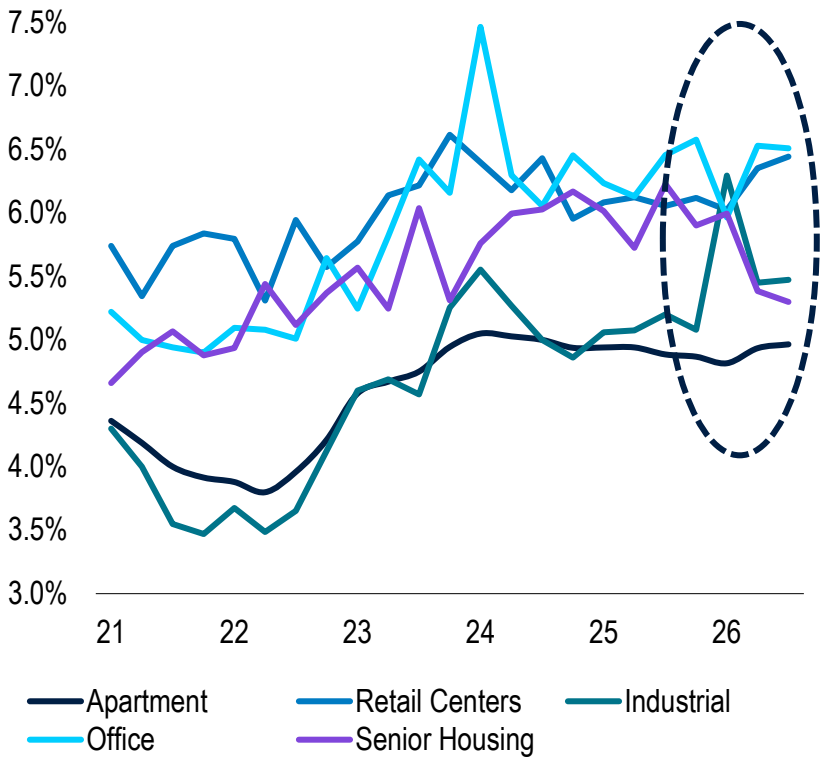
New range reflects PGIM's view.
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Survey of Professional Forecasts — Federal Reserve Bank of Philadelphia, PGIM. As of November 2026.

In recent years, CRE was valued when 10-year Treasury expectations were 3.5%–4.0%.

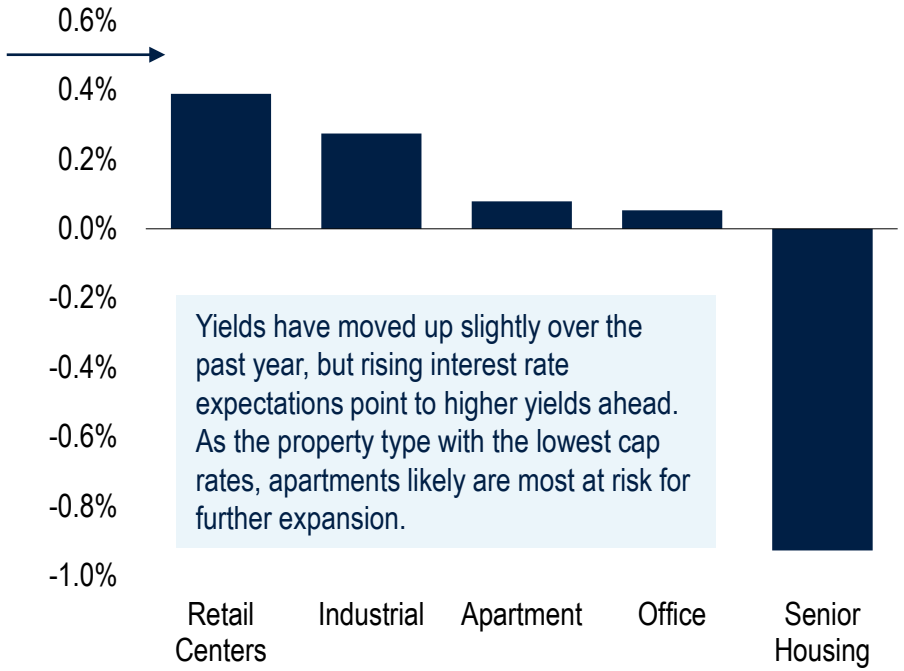
As expectations move toward 4.5%–5%, pricing is resetting. This places pressure on existing values while offering investors a chance to lock in higher yields on new acquisitions.

… Making Way For Higher Yields

Top Quartile Transaction Cap Rate, Quarterly Average



Annual Change Through Q3 '26



Yields have moved up slightly over the past year, but rising interest rate expectations point to higher yields ahead. As the property type with the lowest cap rates, apartments likely are most at risk for further expansion.

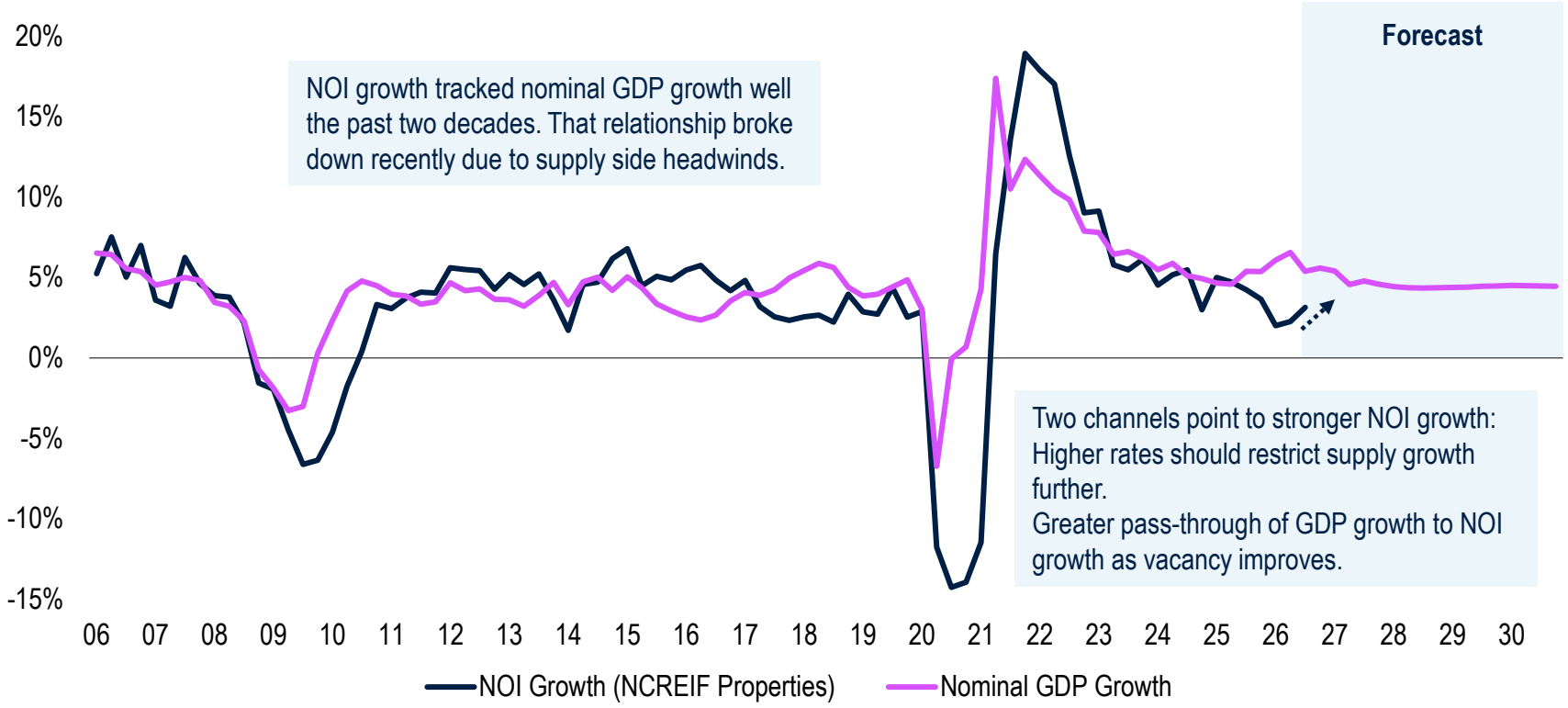
Note: Based on deals of size $25 million or more. Q3 data is based on preliminary results.
Sources: MSCI/RCA, PGIM. As of November 2026.

Top-quartile cap rates have moved modestly higher over the past year. The one exception is in Senior Housing, where strong investor demand has pushed cap rates down.

With interest rate expectations shifting higher, some further yield expansion is likely over the next year. However, improving space market fundamentals and rent growth prospects should partially offset some of the expansion.

Strong Economic Growth Should Boost NOI

Net Operating Income (NOI) Growth (ex Office) vs. Nominal GDP Growth



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

Nominal GDP growth ran above 6% over the past year. Held back by elevated new supply in certain property types, annual NOI growth slowed to ~2% in early 2026. Growth has picked up in recent quarters.

With supply growth slowing, vacancy should continue to decline and allow greater pass-through of nominal GDP growth to property NOI.

Demand Is Gaining Momentum…

Net Absorption by Property Type, Standardized (0 = 10-Year Average)



Note: Shaded areas indicate when net absorption is positive on average across property types.
Sources: CoStar, PGIM. As of November 2026.

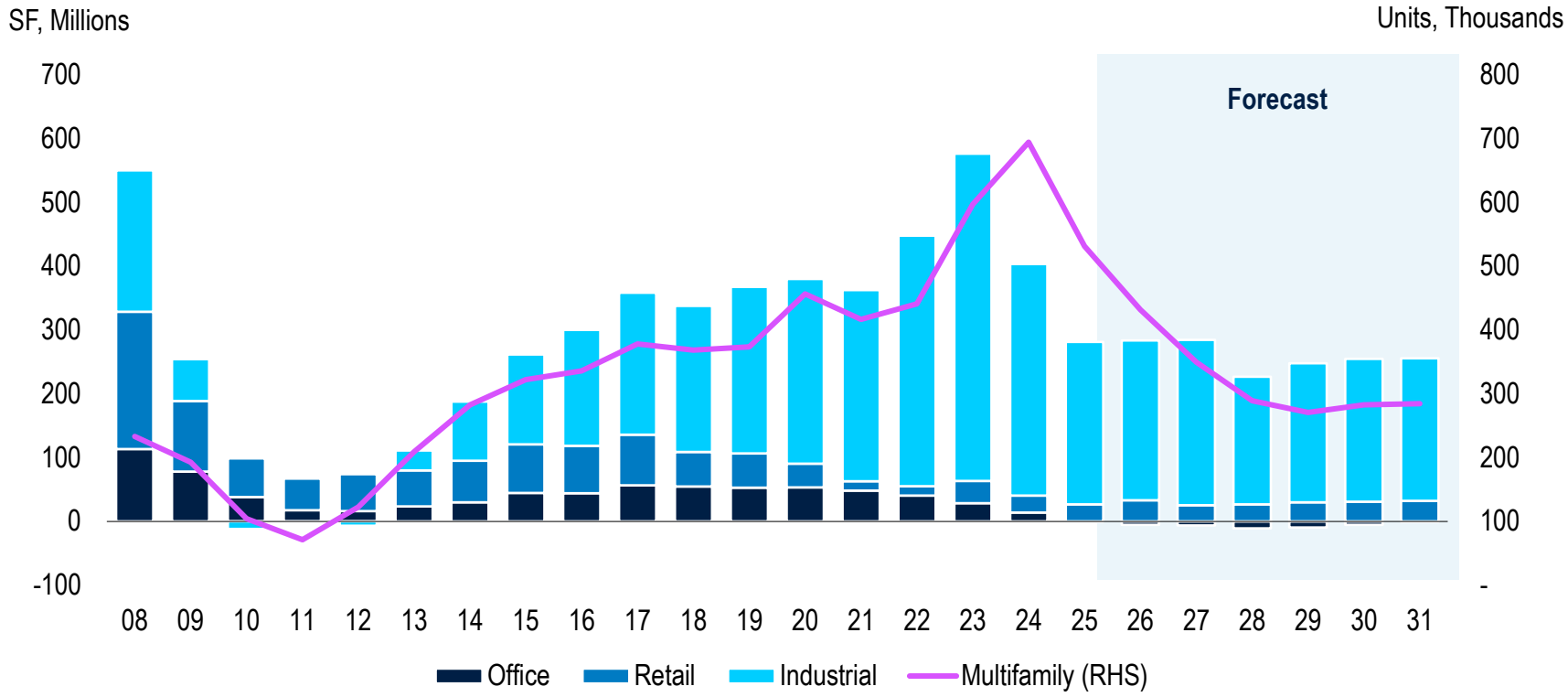
A resilient economy is translating into stronger tenant demand across the major sectors.

Apartment absorption is above its 10-year average and strengthening, and office has moved above average for the first time since 2022.

Industrial and retail remain below average but have improved sharply over the past year.

…While The Supply Pipeline Thins To Decade Lows

Completions By Property Type



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

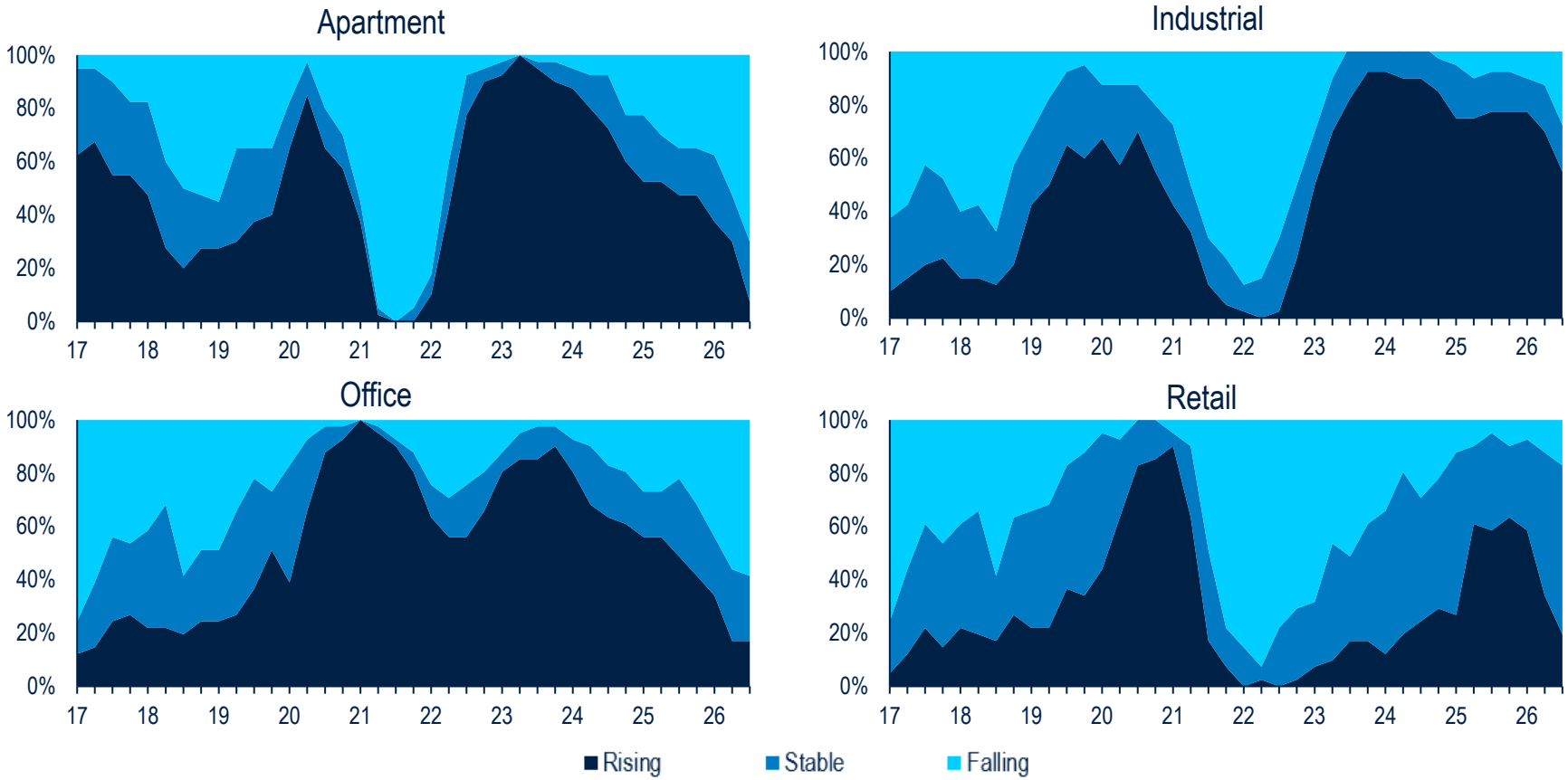
Completions have peaked across the major sectors. Industrial deliveries are running at about half their 2023 peak, and apartment completions are expected to fall to less than half their 2024 peak by 2028.

Office inventory is shrinking as removals outpace construction. Retail deliveries are near historic lows.

With today's higher interest rates, more expensive all-in construction financing costs should restrict development pipelines even further than indicated here.

Major Sector Vacancy Declines Broadening…

Percent of Markets with Falling, Stable and Rising Vacancy Rates



Note: Based on year-over-year trends of 40 major markets. Stable vacancy is defined as a vacancy rate within 20 bps of its year-ago value.
Sources: CoStar, PGIM. As of November 2026.

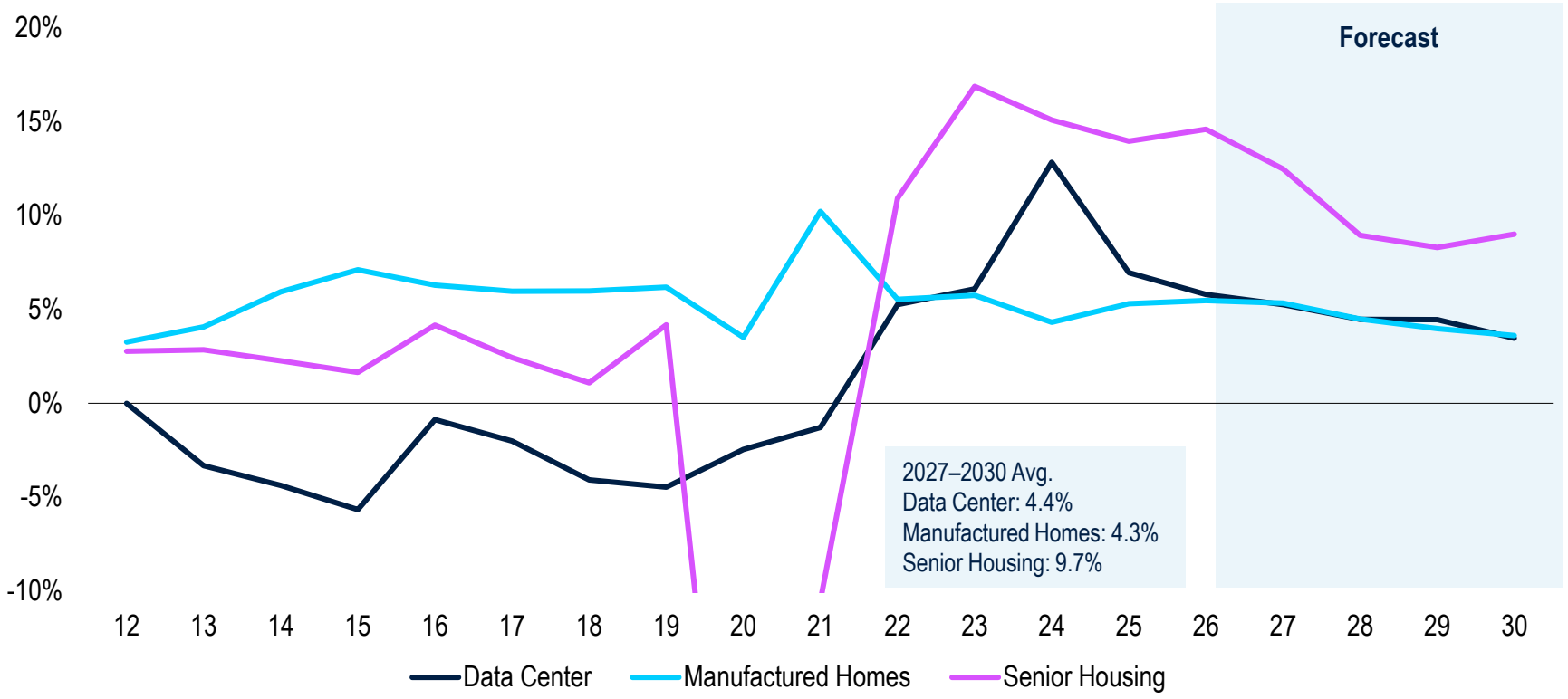
Vacancy is now falling in more than 70% of apartment markets and 60% of office markets.

Industrial is starting to turn, while retail vacancies remain near all-time lows.

This increasing breadth of improvements sets up stronger rent and NOI growth across portfolios.

…With Strong Growth In High-Conviction Sectors

Same-Store NOI Growth



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Y-axis is truncated for display. Senior Housing same-store NOI fell 33.9% in 2020 and 10.5% in 2021.
Sources: Green Street, PGIM. As of November 2026.

Beyond the major sectors, our highest-conviction property types continue to deliver strong NOI growth.

Senior housing leads, with NOI growth forecast to average nearly 10% a year through 2030, while data centers and manufactured housing are expected to sustain growth above 4%.

These property types are reliant on structural growth drivers that are less dependent on the economic cycle.

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INVESTMENT OPPORTUNITIES

02

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

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Investment Style

CREDIT STRATEGIES

Debt returns are expected to exceed core equity as refinancing needs grow

VALUE-ADD STRATEGIES

Tenant demand for quality space favors building upgrades

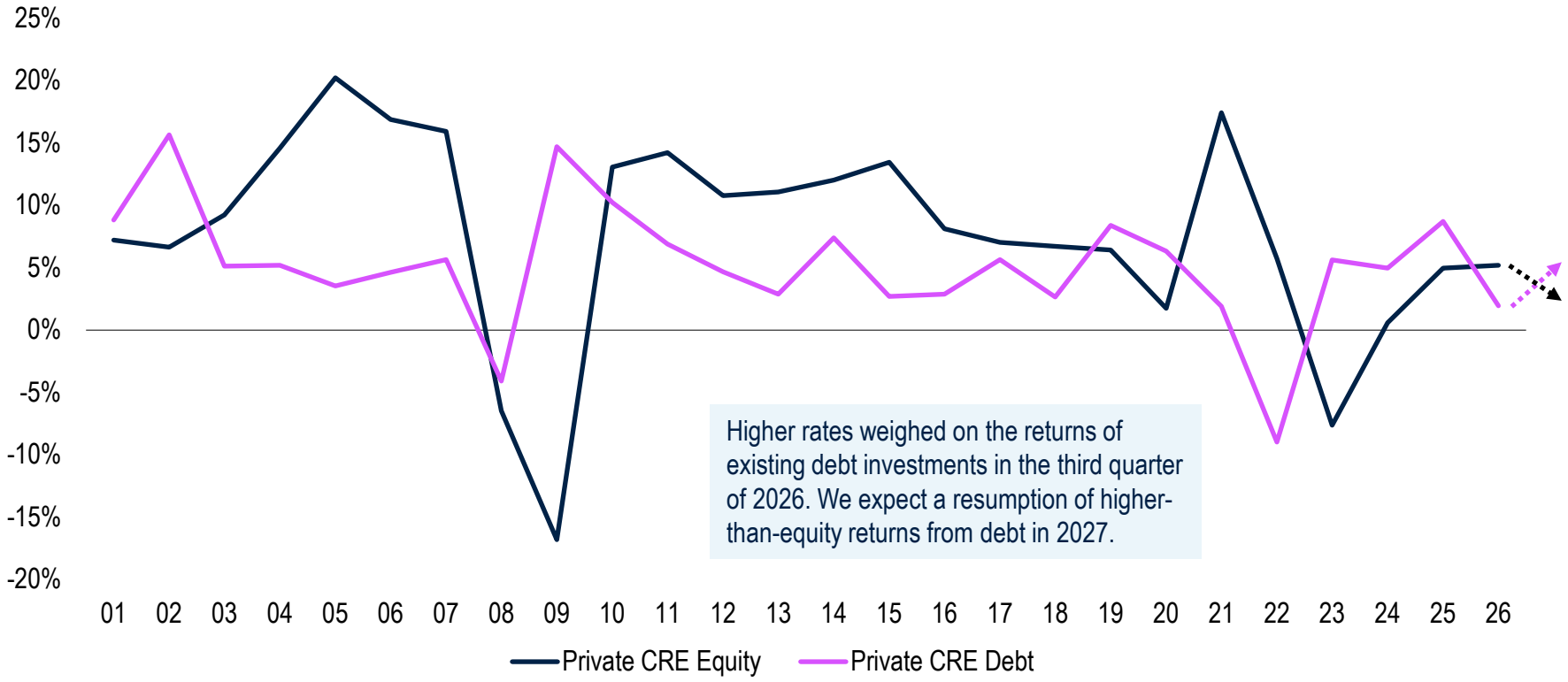
CORE/CORE+ STRATEGIES

Return dispersion has normalized; favor durable income growth

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Credit Strategies: Attractive Relative Returns

Unlevered Real Estate Total Returns



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Private Real Estate shows NCREIF Property Index returns. Private Debt shows GL-1 Index returns.
Sources: NCREIF, NAREIT, Giliberto-Levy, PGIM. As of November 2026

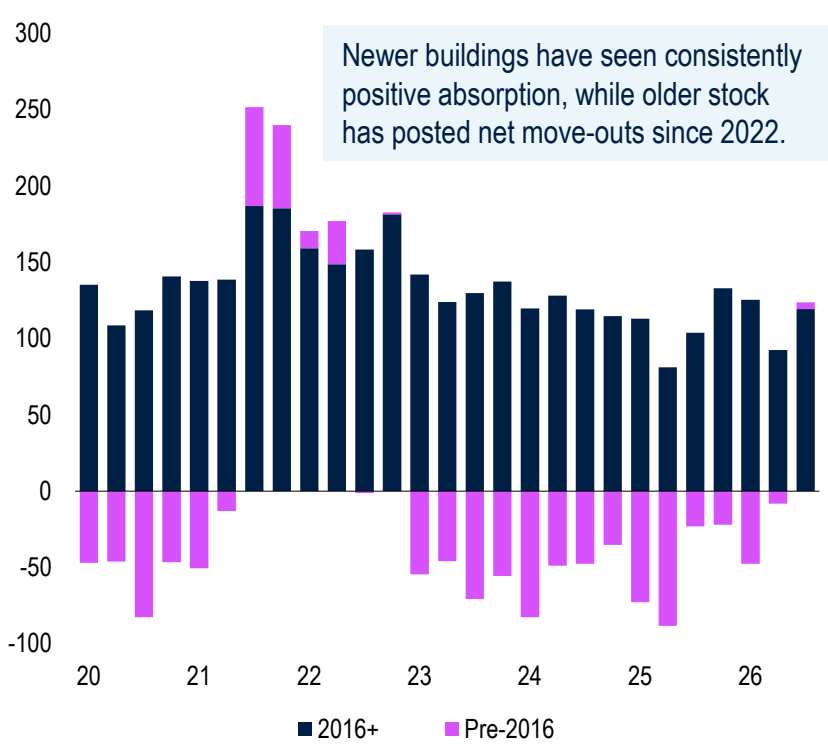
All-in borrowing costs have increased due to the rise in base rates and are barely accretive relative to return expectations of stabilized real estate equity portfolios. We expect cap rates to adjust higher to compensate.

We expect the impact of elevated financing costs to reach equity returns with a lag as loans refinance and valuations adjust.

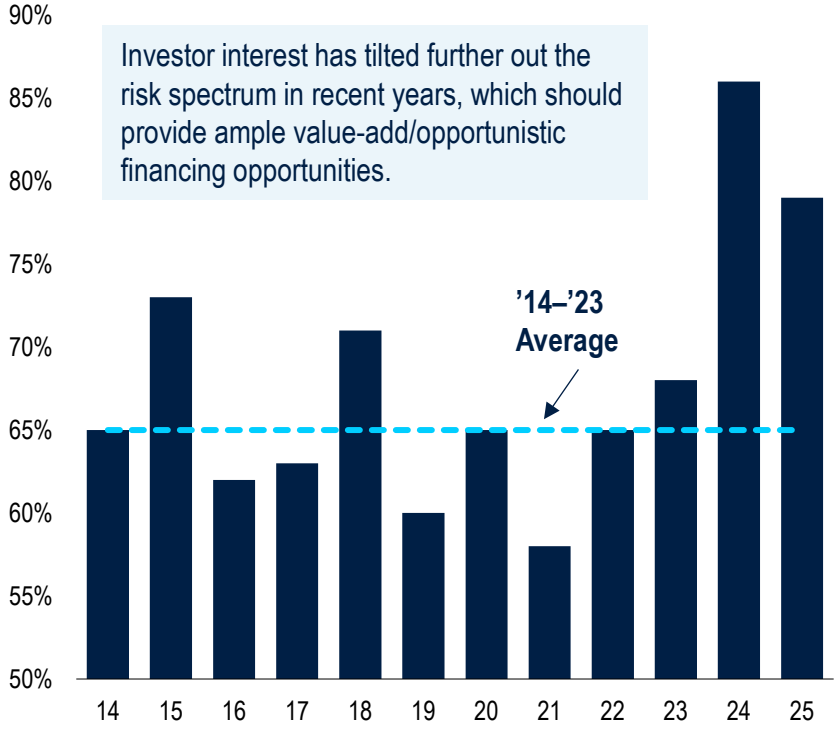
In this higher-rate environment, credit offers income and downside resilience.

Value-Add Strategies: Meeting Tenant Demand for Quality

Commercial Net Absorption by Year Built (MSF)



Percent of Real Estate Investors Viewing Value-Add/Opportunistic as Most Attractive



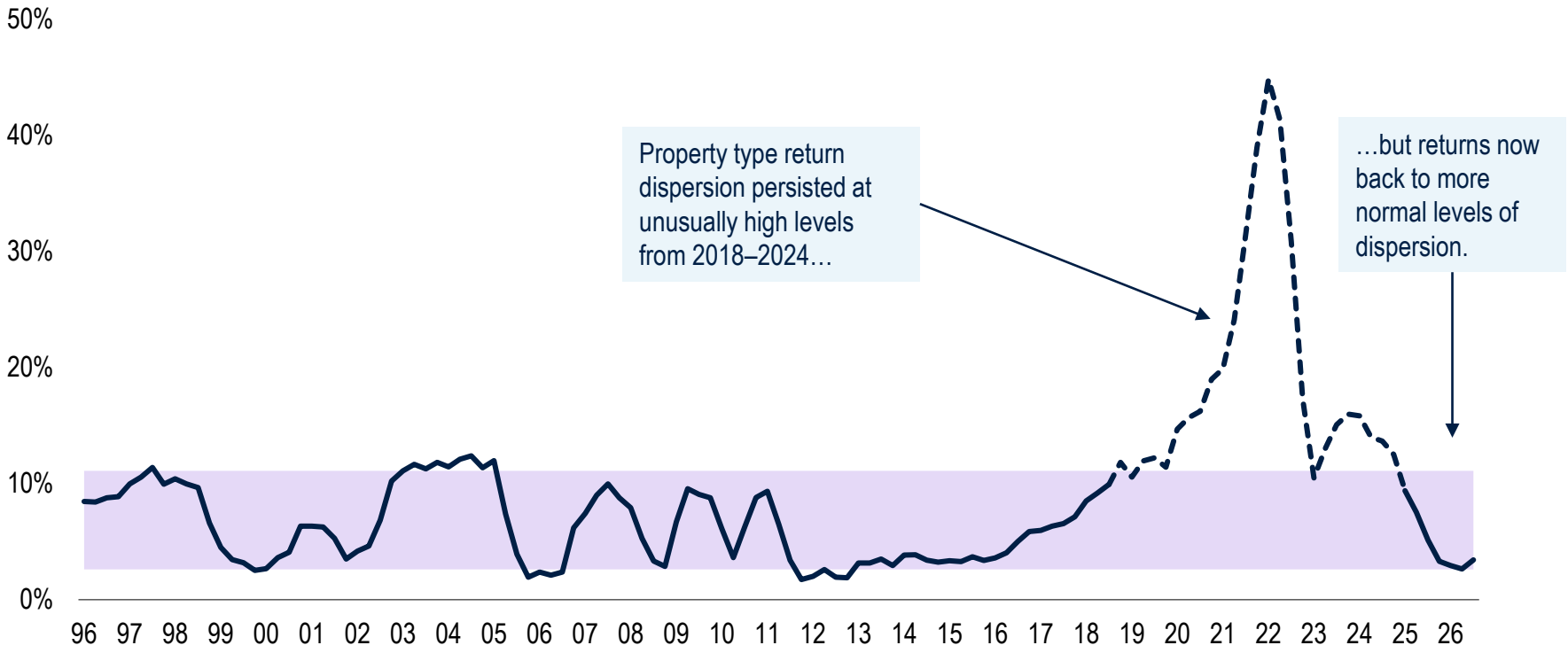
Note: Commercial here includes Industrial, Office and Retail for buildings of 50,000 SF or more.
Sources: CoStar, PREA, PGIM. As of November 2026.

Tenants are concentrating in newer, higher-quality buildings. With new supply staying low, building upgrades and selective development offer a way to capture that demand.

Investor interest has recently favored value-add and opportunistic strategies over core equity, indicating continued demand for financing in this space. We expect these opportunities will tilt more toward rehab activity than construction.

Core/Core+ Strategies: Diversification Matters Again

Range of Annual Unlevered Total Returns, Major Property Types



*Major property types include Industrial, Office, Apartment, and Retail.
Sources: NCREIF, PGIM. As of November 2026.

Return dispersion across the major property types was unusually wide for much of the last decade, peaking above 40%. In this environment, well-diversified portfolios were penalized while those making significant sector bets benefitted.

Dispersion has since fallen back within its long-run range, restoring the benefits of diversification for core investors.

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Summary of U.S. Investment Opportunities

	NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
 **LIVING SECTOR**	• Demographics • Low homeownership affordability • High construction costs	• Senior housing • For-rent apartments • Single-family housing • Manufactured housing
 **MEDICAL OUTPATIENT**	• Aging population • Shift of care to outpatient settings • Needs-based, less cyclical demand	• Medical outpatient buildings • Ambulatory surgery centers
 **DATA CENTERS**	• AI and cloud-driven demand • Power constraints limiting supply	• Hyperscale • Colocation
 **CREDIT**	• Higher-for-longer rates • Refinancing and recap needs • Bank retrenchment	• Core originations • Transitional debt • Subordinated debt • Refinancings and recapitalizations
 **TACTICAL**	• Consumer spending • Low supply of high-quality product • Need for redevelopment	• Modern logistics facilities • Shopping centers • Higher-end office stock

Sources: PGIM. As of November 2026.

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Structural Investment Themes for 2027

CREDIT

Refinancing and recapitalization needs, with returns expected to remain above equity amidst elevated interest rates



LIVING SECTOR

Needs-based housing that meets affordability objectives, led by senior housing and manufactured housing, where limited supply meets growing demand



MEDICAL OUTPATIENT

Structural shifts in the population base and the delivery of medical care is driving demand in a sector that provides resilient income growth



DATA CENTERS

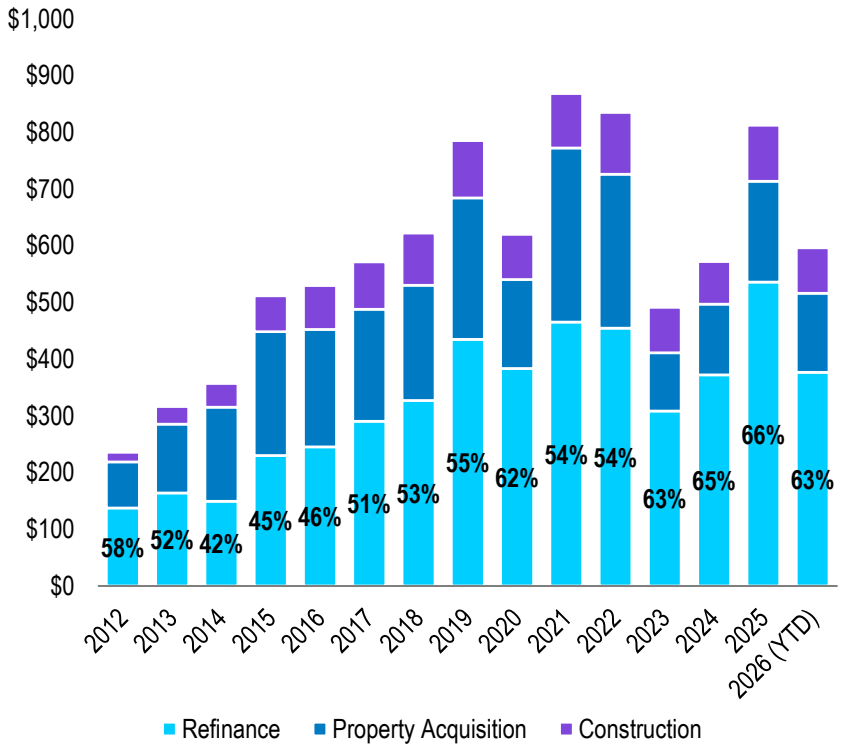
Cloud and AI-related demand outpacing supply, as power availability constrains new development



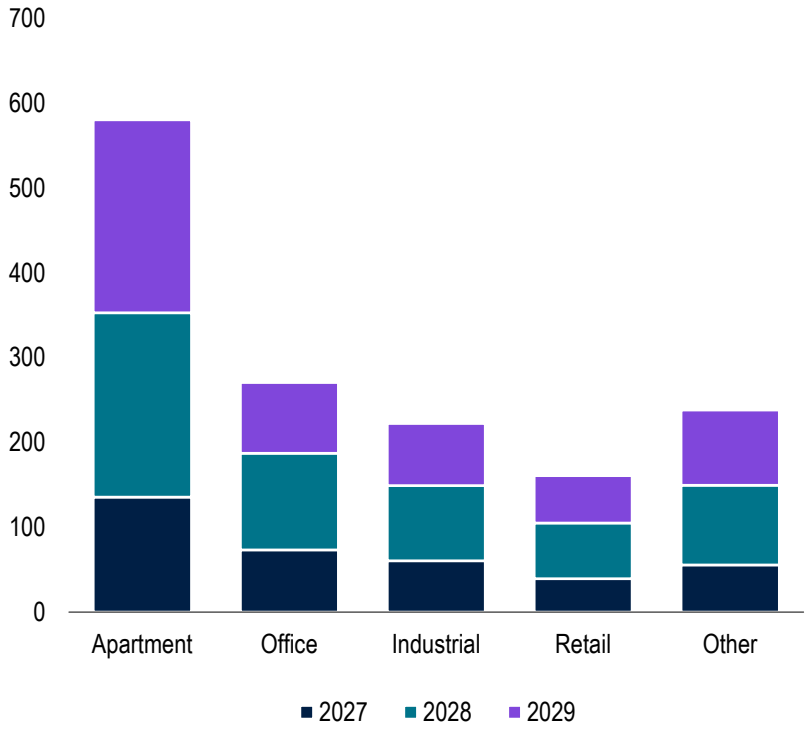
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Credit: Originations Lean on Refinances

U.S. Origination Volume By Purpose ($ billions)



Loan Maturities By Property Type ($ billions)



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

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CREDIT

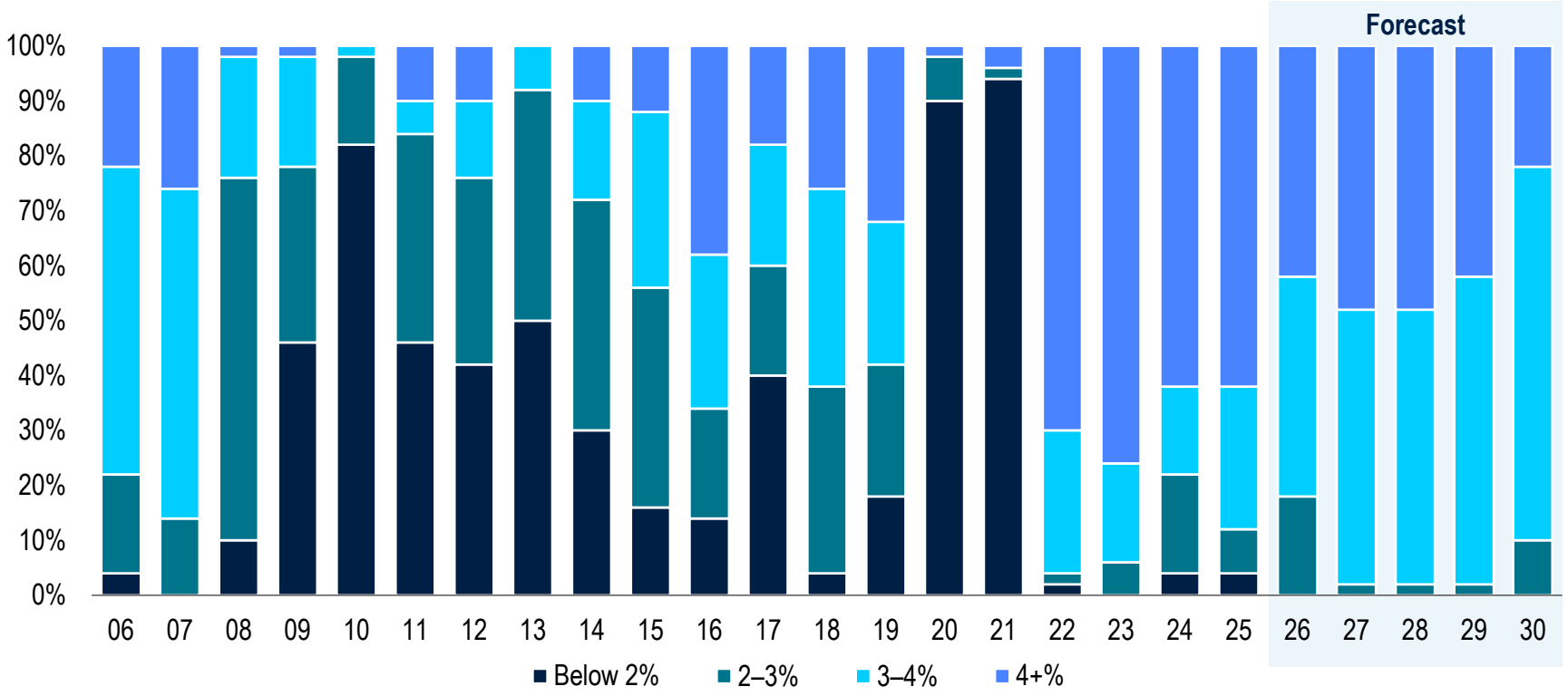
The credit opportunity centers on loan refinances, which accounted for about two-thirds of 2025 originations. We expect this elevated share to persist.

Roughly $1.5 trillion of loans mature from 2027 to 2029, nearly 40% of them apartment loans, where fundamentals are improving.

With spreads historically narrow across property types, risk-adjusted returns are attractive for apartment and industrial, given less volatile cash flows.

Senior Housing: Broad-Based Rental Growth

Percent of Markets By Annual Rental Growth



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

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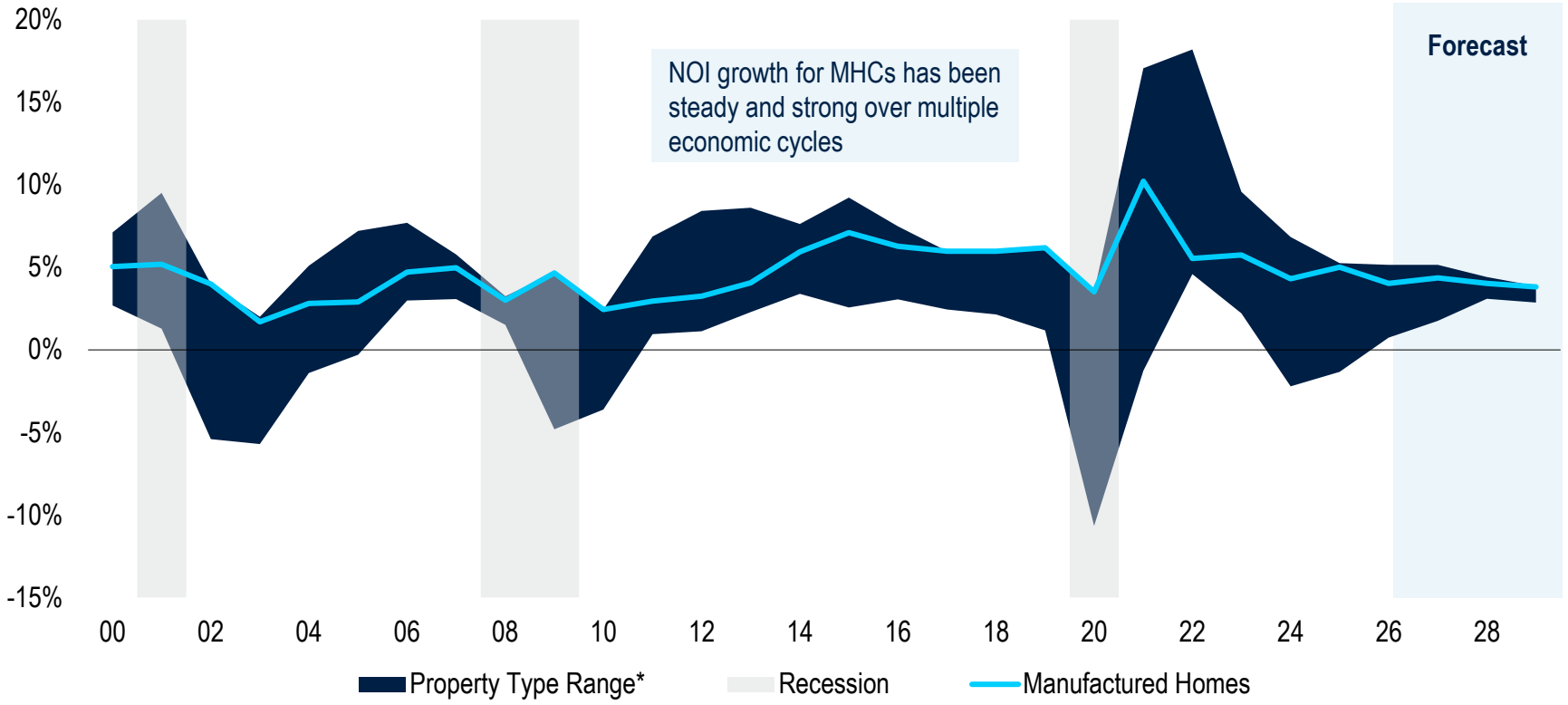
LIVING SECTOR

Senior housing NOI growth is robust, supported by improving occupancy, limited new supply and powerful demographic demand tailwinds.

Rental growth is broad-based: at least 90% of markets are forecast to see rent growth of 3% or more each year through 2030.

Manufactured Homes: Strong, Stable Income Growth

Same-Store Net Operating Income Growth



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

* Range of property type NOI growth includes Apartment, Industrial, Strip Centers, Office, Self-Storage and Manufactured Housing.

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

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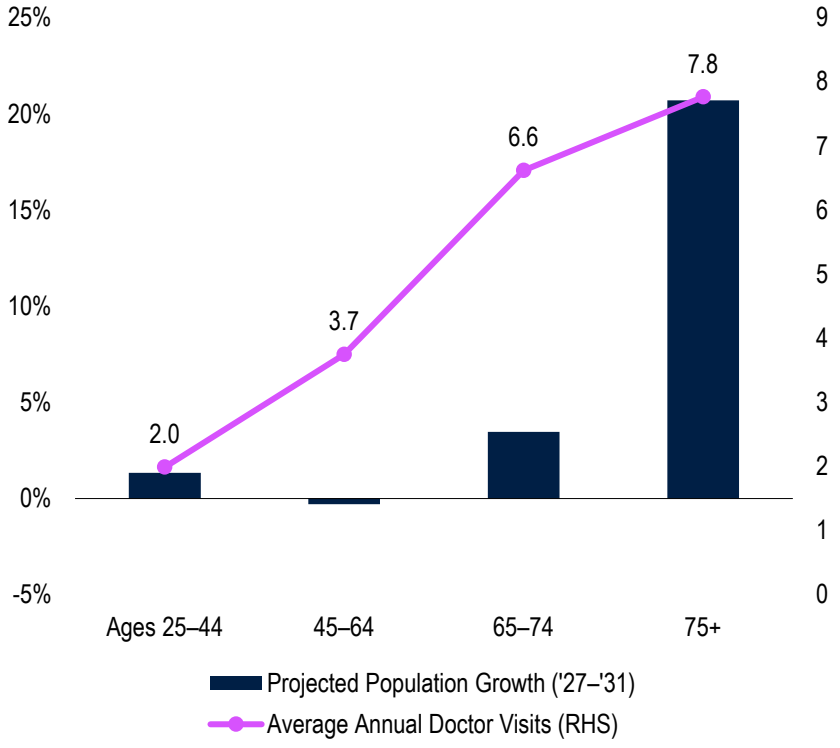
LIVING SECTOR

Manufactured Home Communities (MHCs) continue to benefit from very limited supply and affordability-driven demand.

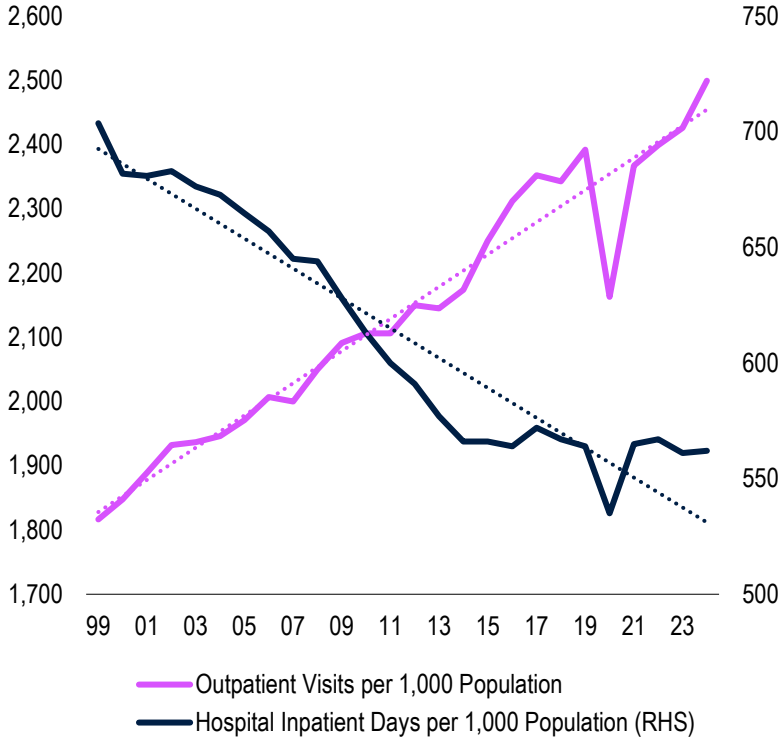
NOI growth has held up through past downturns and is forecast to stay around 4% a year, at the upper end of the property type range.

Medical Outpatient: Rising Care, Stable Income

U.S. Population Growth and Average Annual Doctor Visits



Outpatient Visits vs. Hospital Inpatient Days (per 1,000 Population)



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

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MEDICAL OUTPATIENT

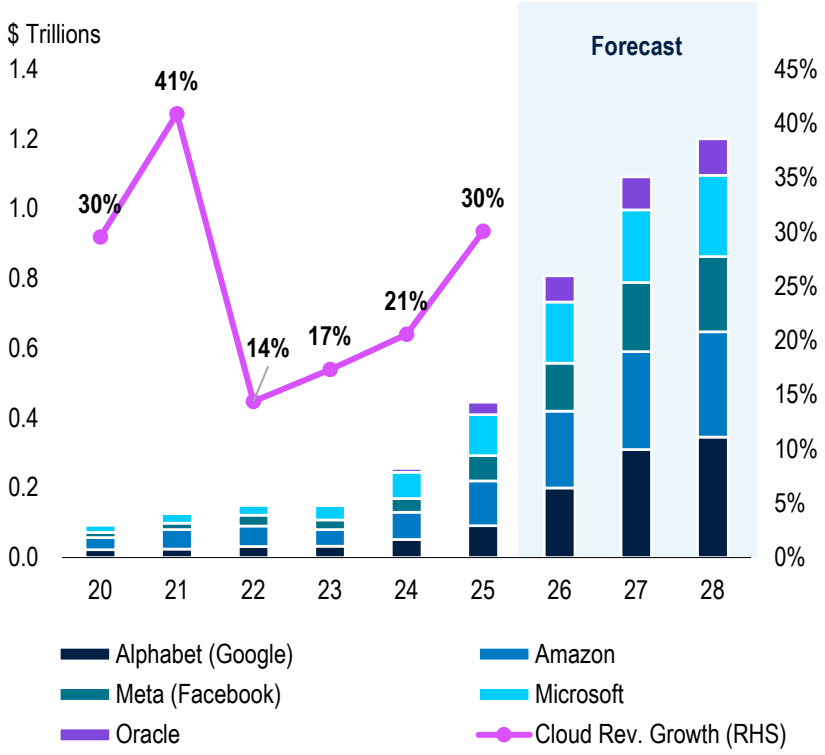
Medical outpatient buildings offer stable income growth. Demand is needs-based and not closely tied to the economic cycle, while the underlying tenancy is sticky.

Two key trends will drive higher demand growth:

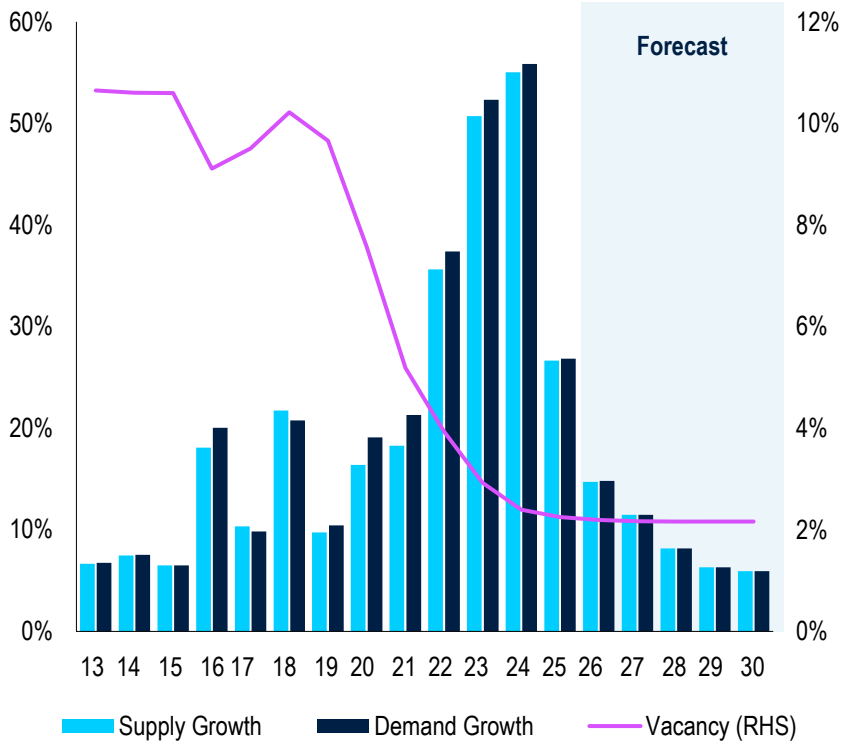
First, the 75+ population, which averages 7.8 doctor visits a year, is projected to grow 21% from 2027 to 2031. Second, care is shifting out of hospitals as less-invasive procedures move to medical outpatient facilities.

Data Centers: Strong Demand, Power Constraints

Hyperscaler Capital Expenditures and Cloud Revenue Growth



Data Center Supply, Demand and Vacancy



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Supply, demand, and vacancy data includes primary and secondary data center markets.
Sources: CBRE, Green Street, Bloomberg, PGIM. As of November 2026.

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DATA CENTERS

Hyperscaler capital spending is expected to rise from $800 billion in 2026 to nearly $1.3 trillion in 2028, as cloud and AI demand accelerates.

Supply continues to lag demand because of limited power availability, keeping vacancy near a record-low 2%.

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Tactical Investment Plays for 2027

LOGISTICS

Logistics demand drivers are evolving to include rising manufacturing and data center-related demand. Markets positioned to benefit from these trends and the continued growth in e-commerce sales are likely to outperform



RETAIL

Shopping centers, supported by near-record-low supply and continued consumer spending



OFFICE

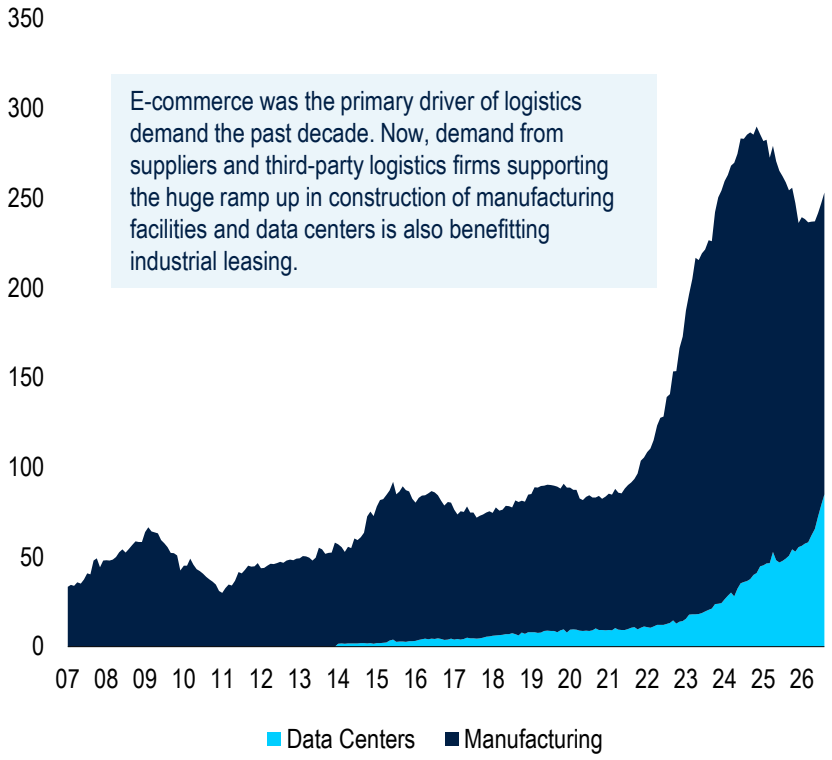
Higher-end office, as absorption stays positive, inventory shrinks and rents steady



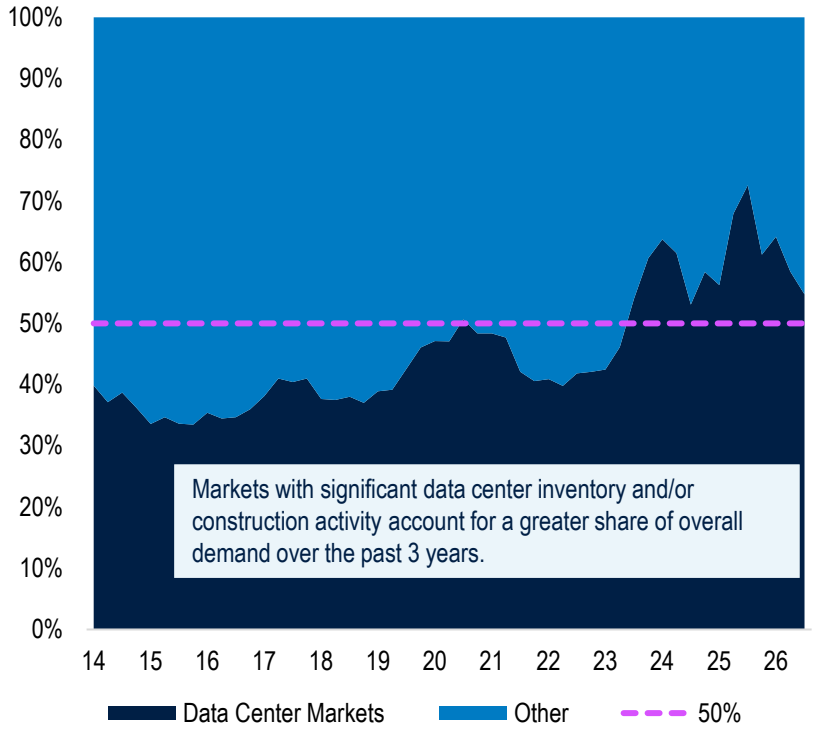
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Logistics: Evolving Demand Drivers

Construction Spending ($ billions)



Share of Industrial Net Absorption



Note: Markets included in Data Center group are Atlanta, Austin, Chicago, Columbus OH, Dallas, Phoenix, San Antonio and Washington/Baltimore.
Sources: CoStar, PGIM. As of November 2026.

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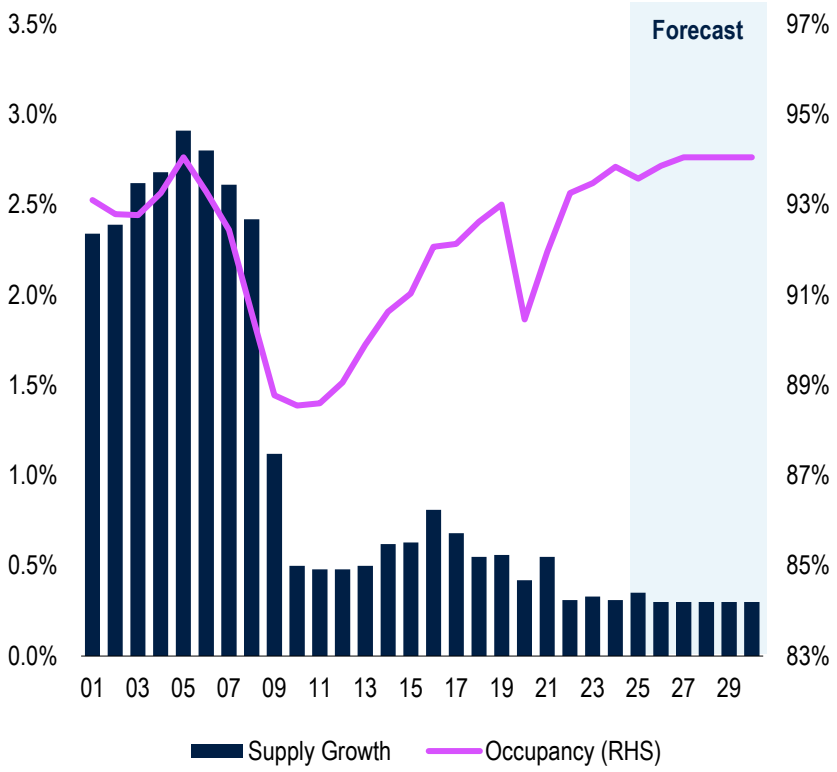
LOGISTICS

Logistics demand drivers are evolving. E-commerce was the primary driver of demand the past decade. Now, leasing related to manufacturing and the AI buildout is a powerful tailwind.

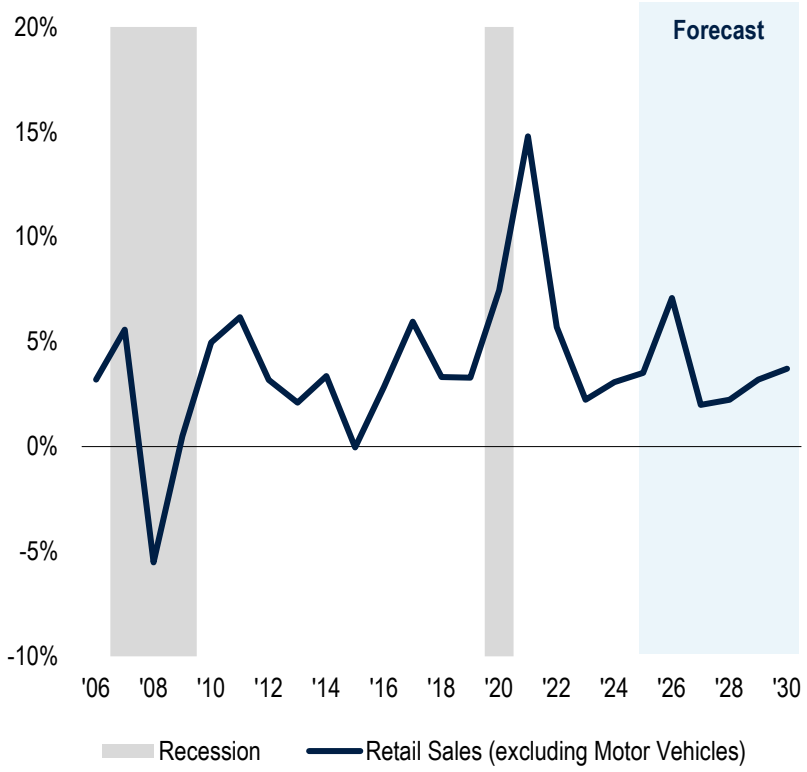
Markets with large data center inventory and construction activity accounted for ~60% of demand in recent quarters. Manufacturing-related demand is another near-term tailwind supporting absorption in some of these markets, as well as others in the South and Midwest.

Retail: Low Supply, Continued Consumer Spending

Strip Center Retail Supply and Occupancy



Nominal Retail Sales, Annual % Change



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Sources: Green Street, Oxford Economics, PGIM. November 2026.

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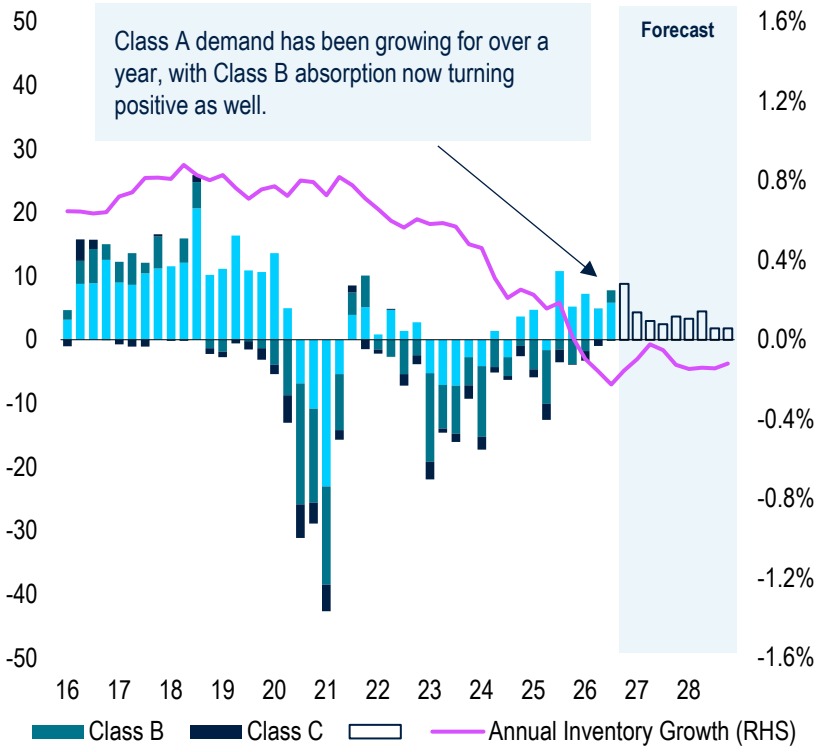
RETAIL

Strip center supply growth is forecast to stay near record lows of about 0.3% a year, keeping occupancy around 94%.

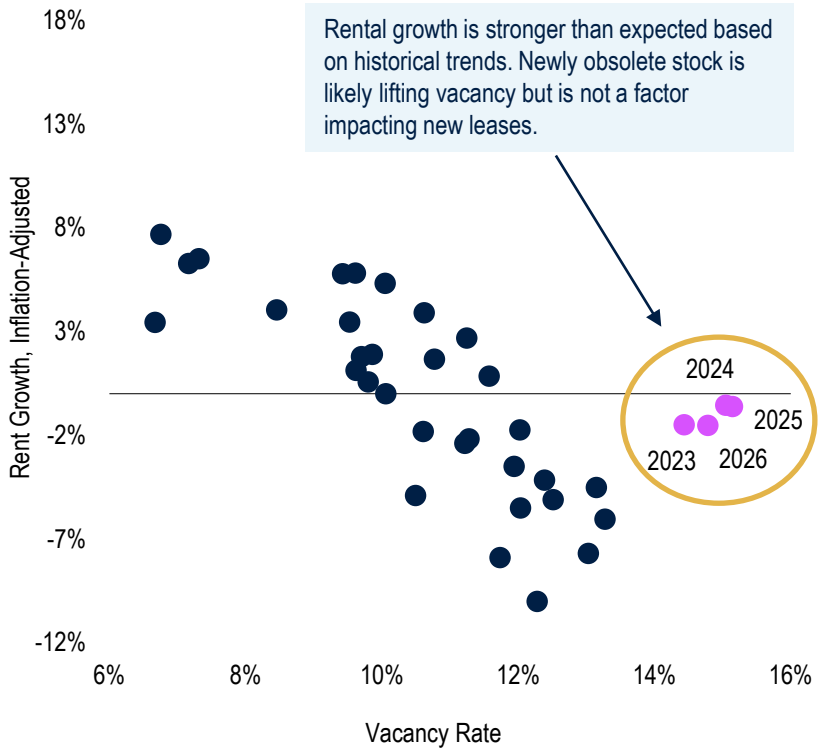
Retail sales are expected to grow about 2.9% a year from 2027 to 2031, supporting demand for shopping centers.

Office: Demand Growth Broadening

Office Net Absorption, MSF by Class vs. Annual Inventory Growth



Office Rent Growth (% p.a., Inflation-Adjusted) & Vacancy Rate



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Rent growth and vacancy data reflect major 30 office markets. 2026 figures are as of November.
Sources: CoStar, PGIM. As of November 2026.

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OFFICE

Office absorption has been positive for over a year, led by Class A, with Class B now gaining traction. At the same time, total inventory is shrinking, a trend expected to continue.

National rent growth remains slightly negative on an inflation-adjusted basis but has steadied, with some markets seeing gains.

We see opportunities in higher-end stock and in repositioning older buildings to meet tenant demand.


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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.

REF: 6119926