



2026 REAL ESTATE OUTLOOK

PRIVATE CRE CREDIT



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

PRIVATE CRE CREDIT

Private CRE credit income yields are expected to stay elevated even as rates decline, supported by stabilizing financing costs that reinforce positive leverage and income durability.

Refinancing drives production as low transaction volumes persist; improving securitization and broader lender mix enhance market depth and liquidity.

Opportunities are diverse: core may deliver durable yield premiums; transitional lending benefits from capex recovery; while dislocation and liquidity gaps sustain selective high yield opportunities.

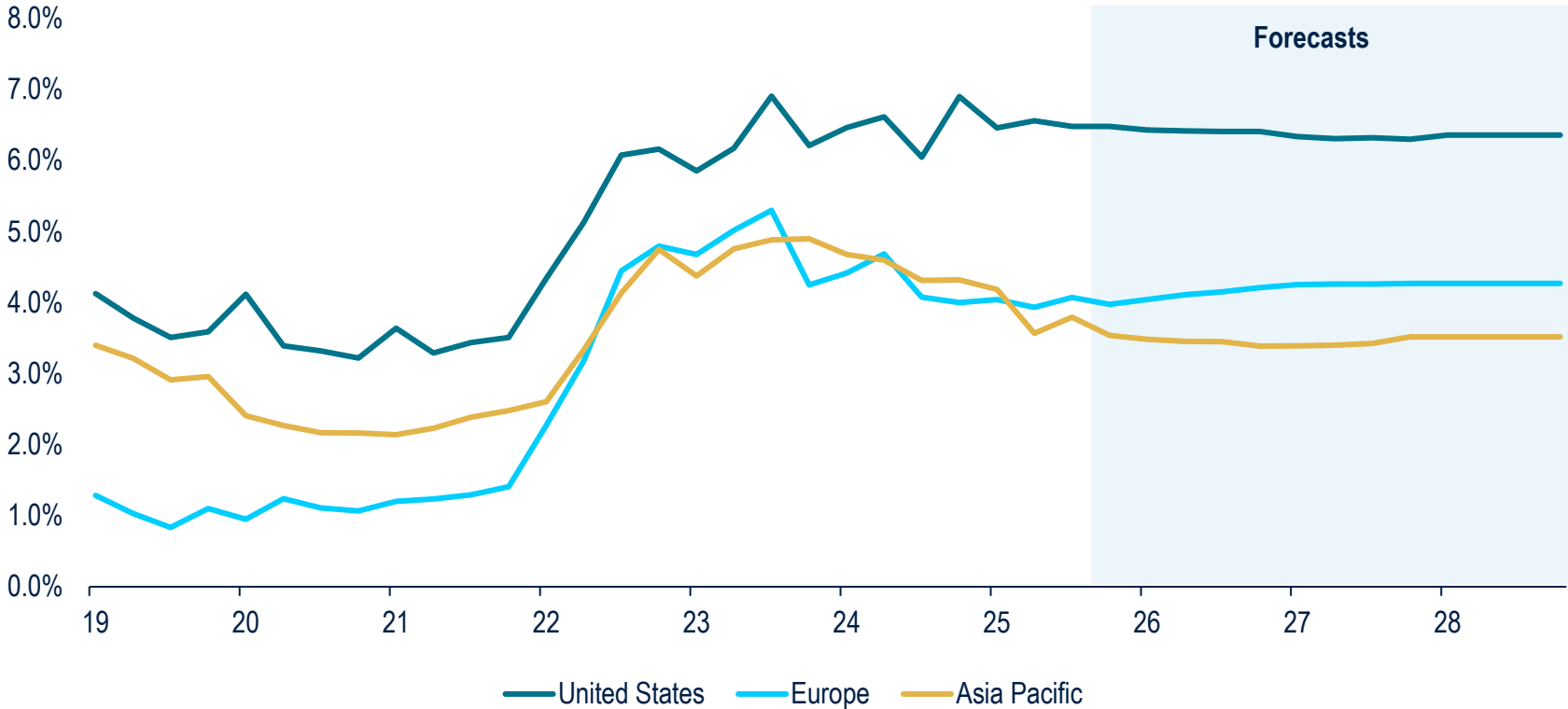
MARKET OUTLOOK

Income yields remain attractive as rates ease and stabilize, while positive leverage re-emerges and fundamentals strengthen. Rising equity inflows signal deepening opportunities for private CRE credit.



CRE Debt Income Yields Stay Elevated as Rates Ease

Senior Office Bank Loan Coupons* (%)



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

*Note: U.S. coupons are based on 10Y Treasury yield and 10Y fixed rate balance sheet spreads, 60-65% LTV; European coupons are based on 5Y swap rates and bank margins, 60% LTV; Asian Pacific coupons are based on 3M rates and bank margins, 60% LTV. Europe includes France, Germany, Italy, Netherlands, Spain and the UK. Asia Pacific includes Australia, China, Hong Kong, Japan, Singapore and South Korea.

Sources: Bloomberg, Oxford Economics, PMA, CREFC, MSCI/Real Capital Analytics, NCREIF, PGIM. As of November 2025.

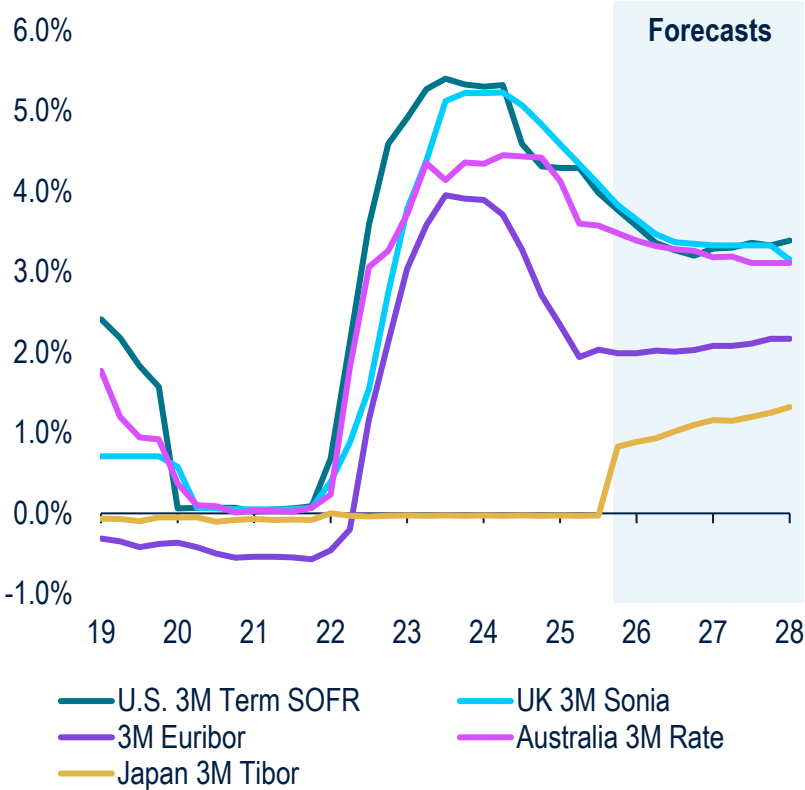
Interest rates are expected to decline gradually before stabilizing at a higher equilibrium than the previous cycle.

This shift supports sustained attractive coupons on CRE debt, with senior bank loan yields across the United States, Europe and Asia Pacific forecast to remain stable.

This signals continued income resilience even as monetary policy normalizes.

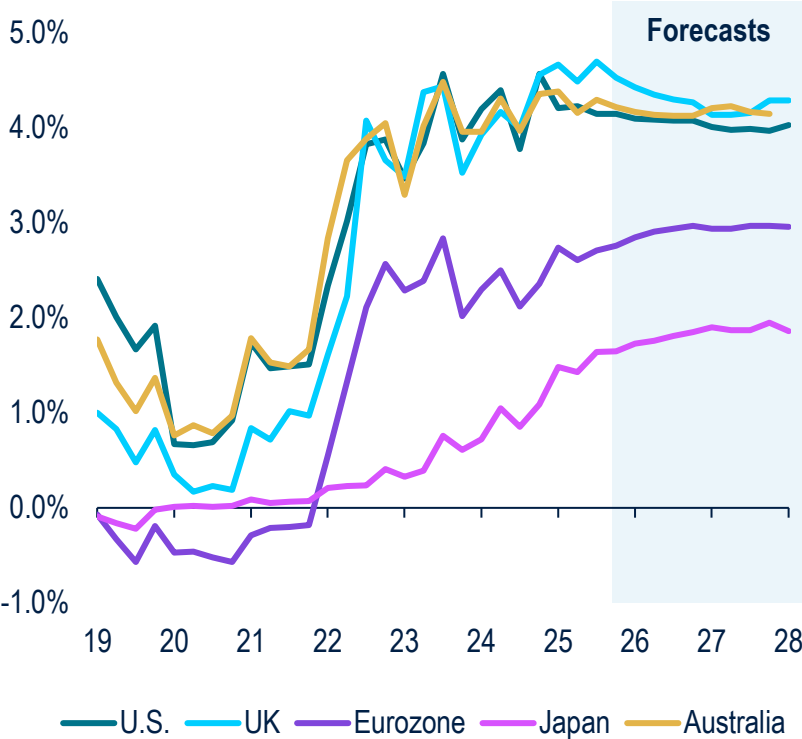
Rate Normalization Brings Predictability

3M Reference Rates (%)



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

10Y Government Bond Yields

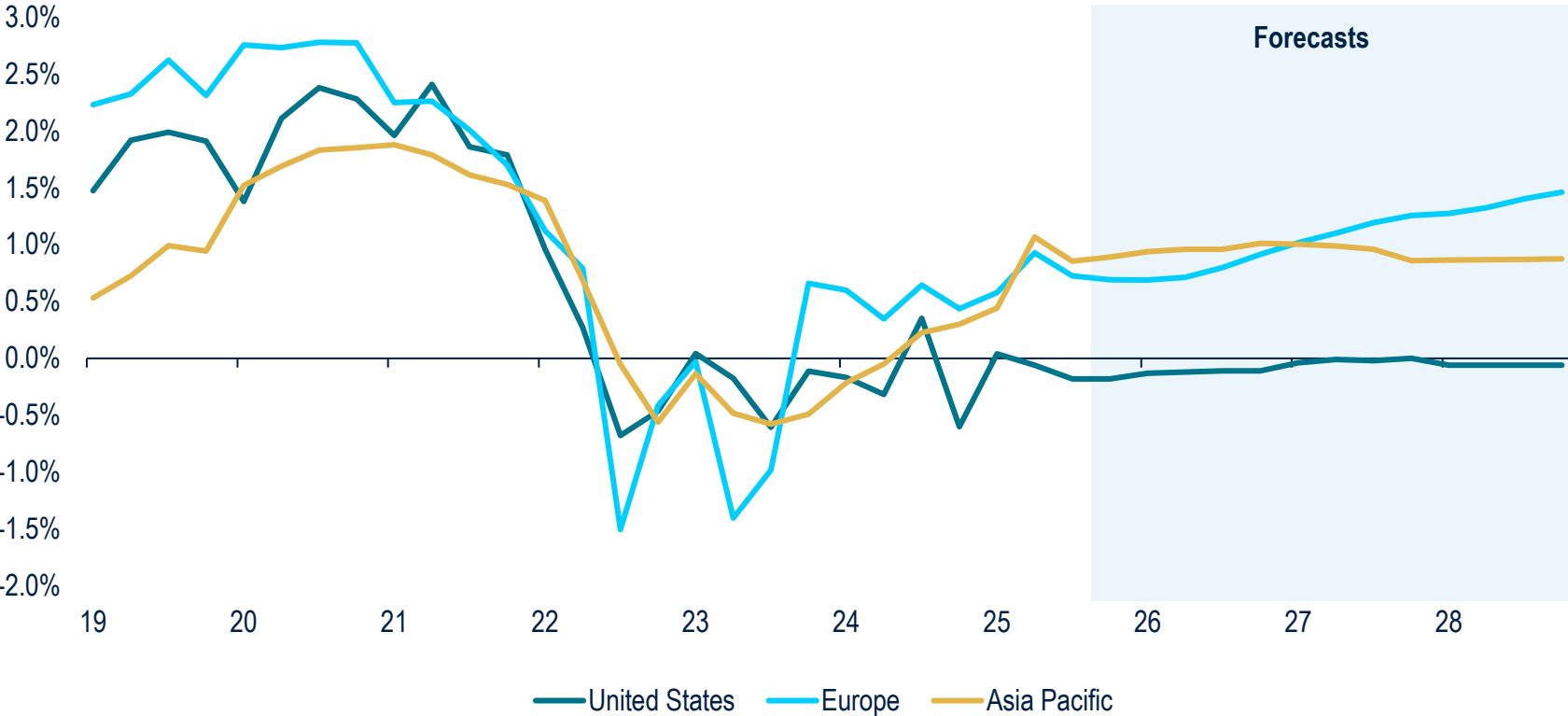


With short-term reference rates and long-term government bond yields forecast to stabilize, the interest rate environment is entering a phase of greater predictability.

This normalization reduces volatility and provides clearer visibility on funding costs, reinforcing confidence in underwriting and portfolio positioning.

Positive Leverage Re-Emerges

Prime Office Leverage* (%)



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

*Note: Leverage is defined as the delta between top quartile cap rates for the U.S. and prime property net initial yields for Europe and Asia Pacific and senior office bank loan coupons of 60% LTV. Positive leverage means that loan coupons are lower than cap rates/property yields. Sources: Bloomberg, Oxford Economics, PMA, CREFC, MSCI/Real Capital Analytics, NCREIF, PGIM. Sources: Bloomberg, Oxford Economics, PMA, CREFC, MSCI/Real Capital Analytics, NCREIF, PGIM. As of November 2025.

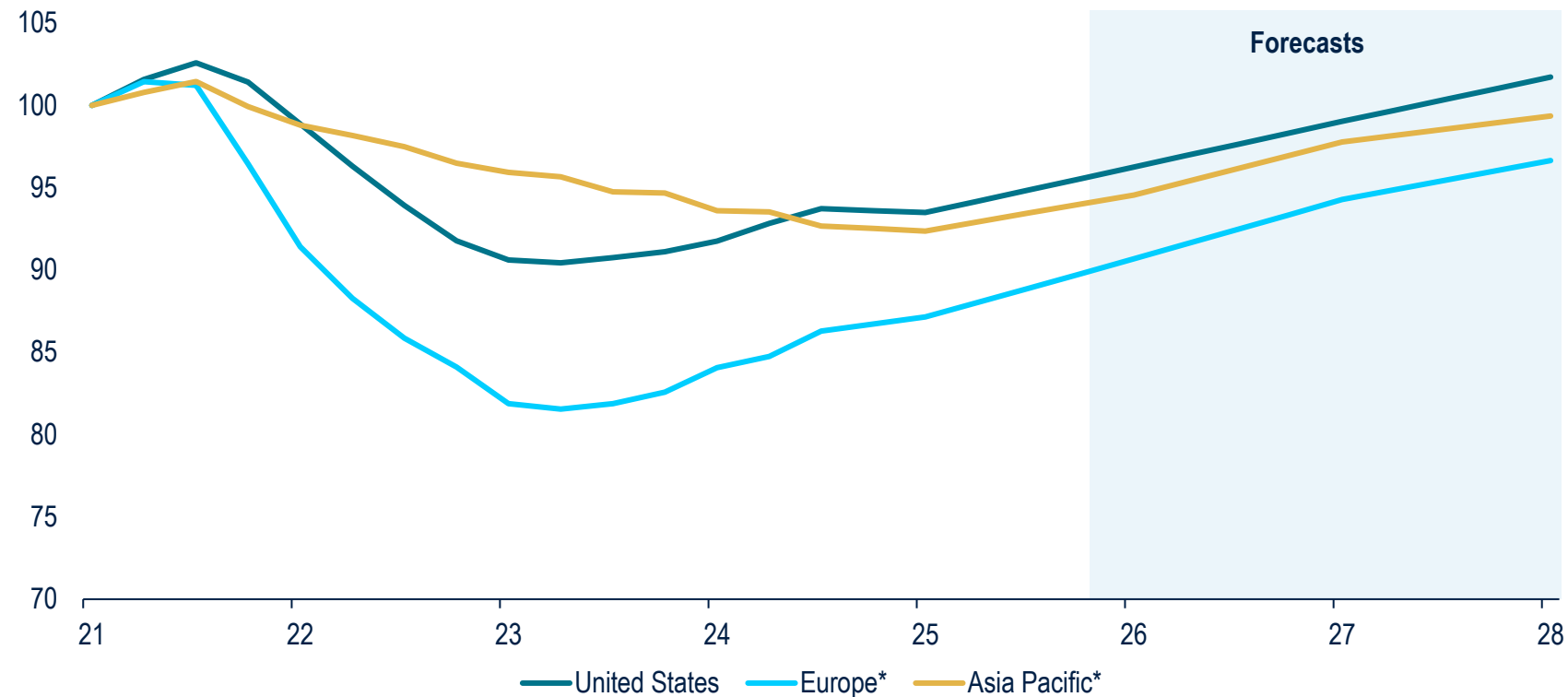
The gap between senior loan coupons and prime property yields is turning favorable, creating selective opportunities.

In Europe and Asia Pacific, positive leverage is set to accelerate, boosting returns for debt-backed strategies, while the United States remains near breakeven, requiring selective financing for upside.

This shift signals improving financing dynamics as income returns start to outpace borrowing costs in key markets.

Strengthening Fundamentals Reduce Downside Risk

Capital Value Index (100 = 31 December 31, 2021)



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

*Note: Europe comprises Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom. Asia Pacific comprises Australia, China Hong Kong, Japan, Singapore and South Korea.

Sources: PMA, PGIM. As of November 2025.

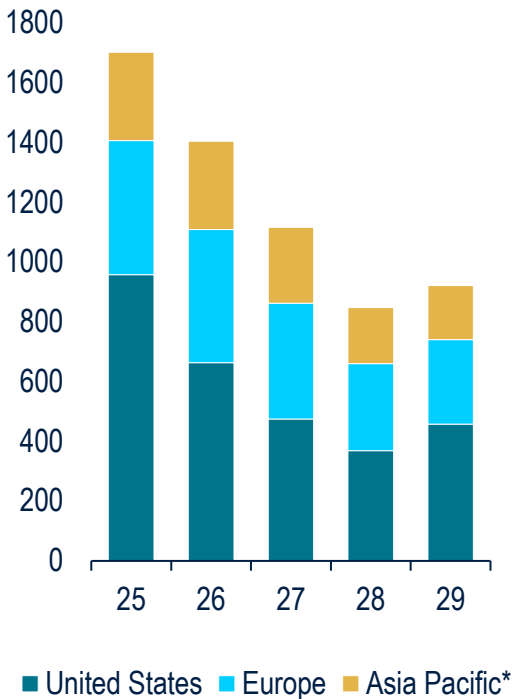
Capital values across the United States, Europe and Asia Pacific are forecast to recover steadily, reinforcing credit quality and reducing default risk.

Improving fundamentals provide a stronger collateral base, supporting lender confidence and enhancing resilience for investors.

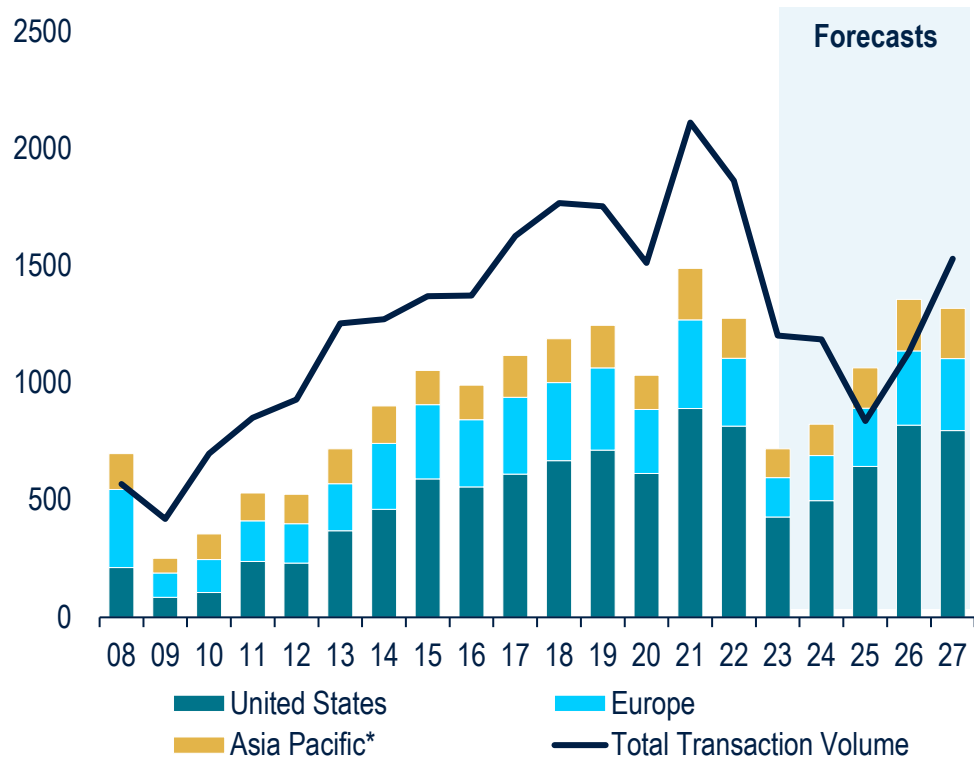
As property values trend upward, downside risk moderates, creating a more stable backdrop for private CRE credit strategies.

Refinancing Drives Origination Amid Slow Transactions

Loan Maturities (USD\$ Billions)



Origination and Transaction Volumes (USD\$ Billions)



Origination volumes have rebounded, driven largely by refinancing as the transaction market remains muted. Front-loaded loan maturities have accelerated this trend, creating a steady pipeline of refinancing deals.

As transactions begin to recover, additional origination opportunities are expected to emerge, signaling a broader pick up in lending activity ahead. This could set the stage for debt strategies to capture this momentum.

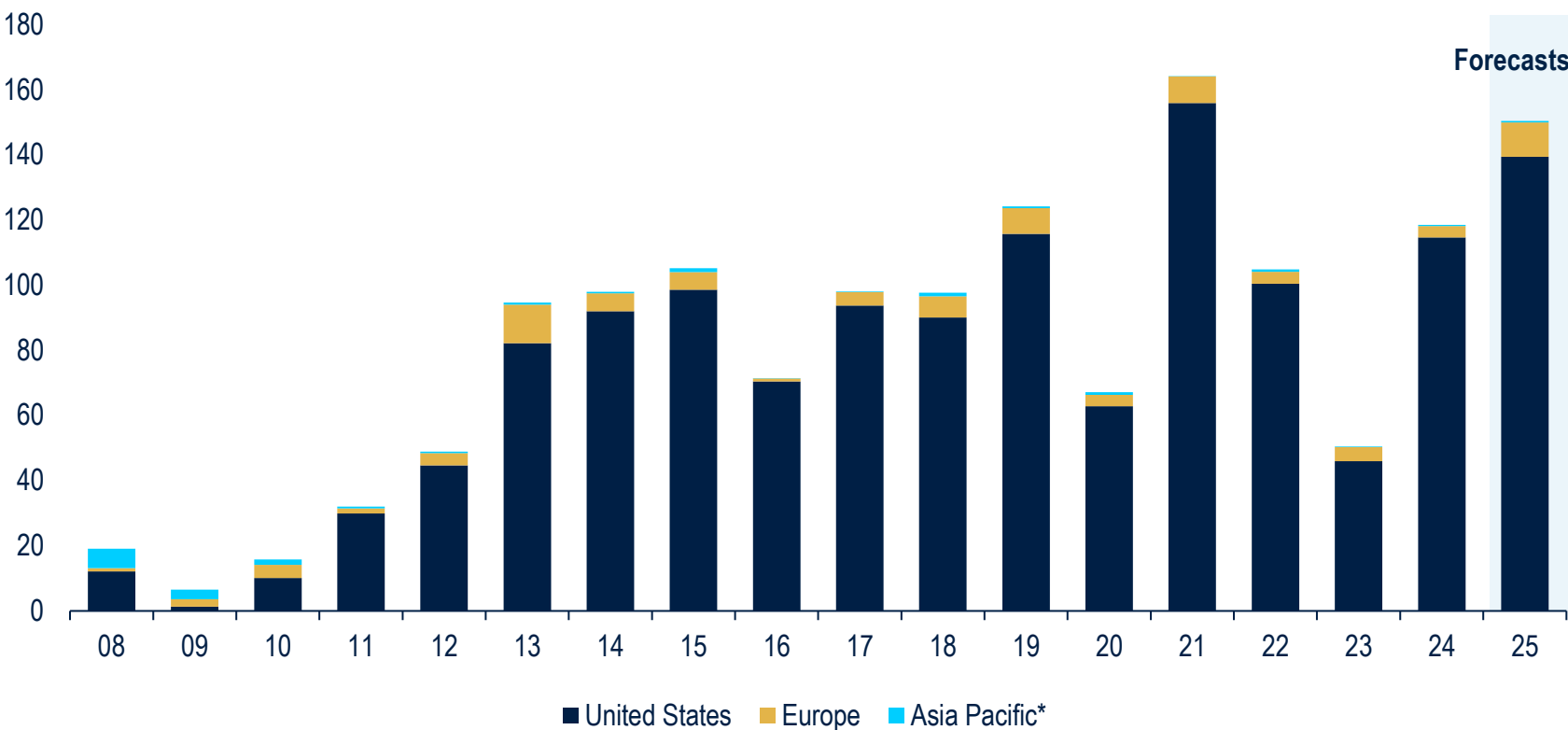
Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: Asia Pacific includes Australia, Hong Kong, Japan, South Korea, New Zealand and Singapore.

Sources: Mortgage Bankers Association, ECB, APRA, Bayes Business School, Cushman & Wakefield, MSCI/Real Capital Analytics, IREBS, IEIF, PGIM. As of November 2025.

Securitization Revival Deepens Market Liquidity

Private Label CMBS and CRE CLO Issuance (USD\$ Billions)



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

*Note: Asia Pacific includes Japan only.

Sources: CREFC, Commercial Mortgage Alert, Recursion, BofA, PGIM. As of November 2025.

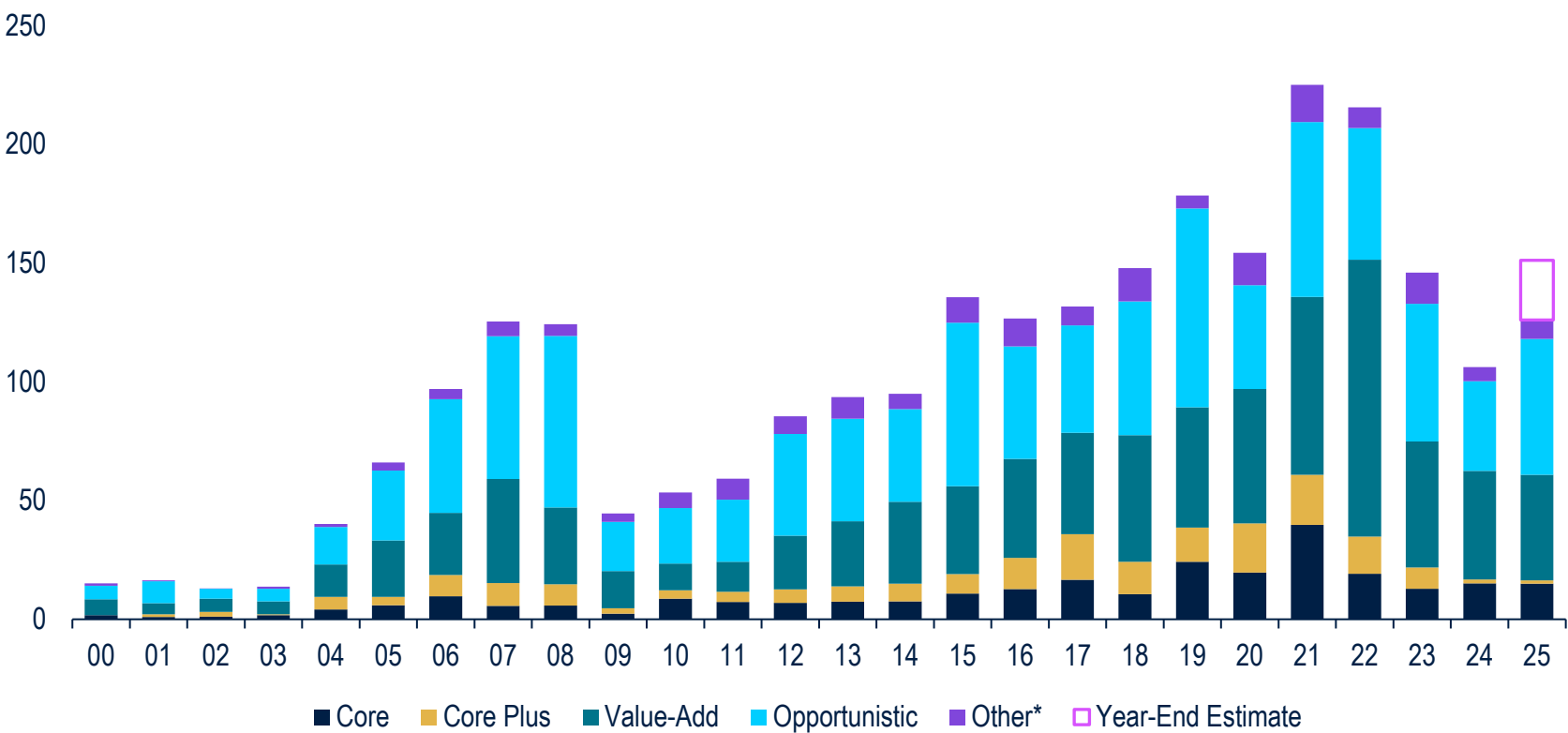
Building on the rebound in CRE loan origination, securitization markets have regained momentum, reinforcing liquidity across the CRE credit market.

Private-label CMBS and CRE CLO issuance in 2025 is on track to surpass 2024’s pace, which was already more than double that of 2023.

This resurgence expands funding channels and supports broader lending activity, resulting in a deeper and more flexible market environment for private CRE credit strategies.

Rising Equity Fundraising Signals New Lending Demand

Capital Raised by Global Equity Fund Strategies (USD\$ Billions)



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

*Note: Other refers to co-investment, distressed, fund of funds and secondaries. Data refers to capital raised for global equity fund strategies.

Sources: Preqin, PGIM. As of November 2025.

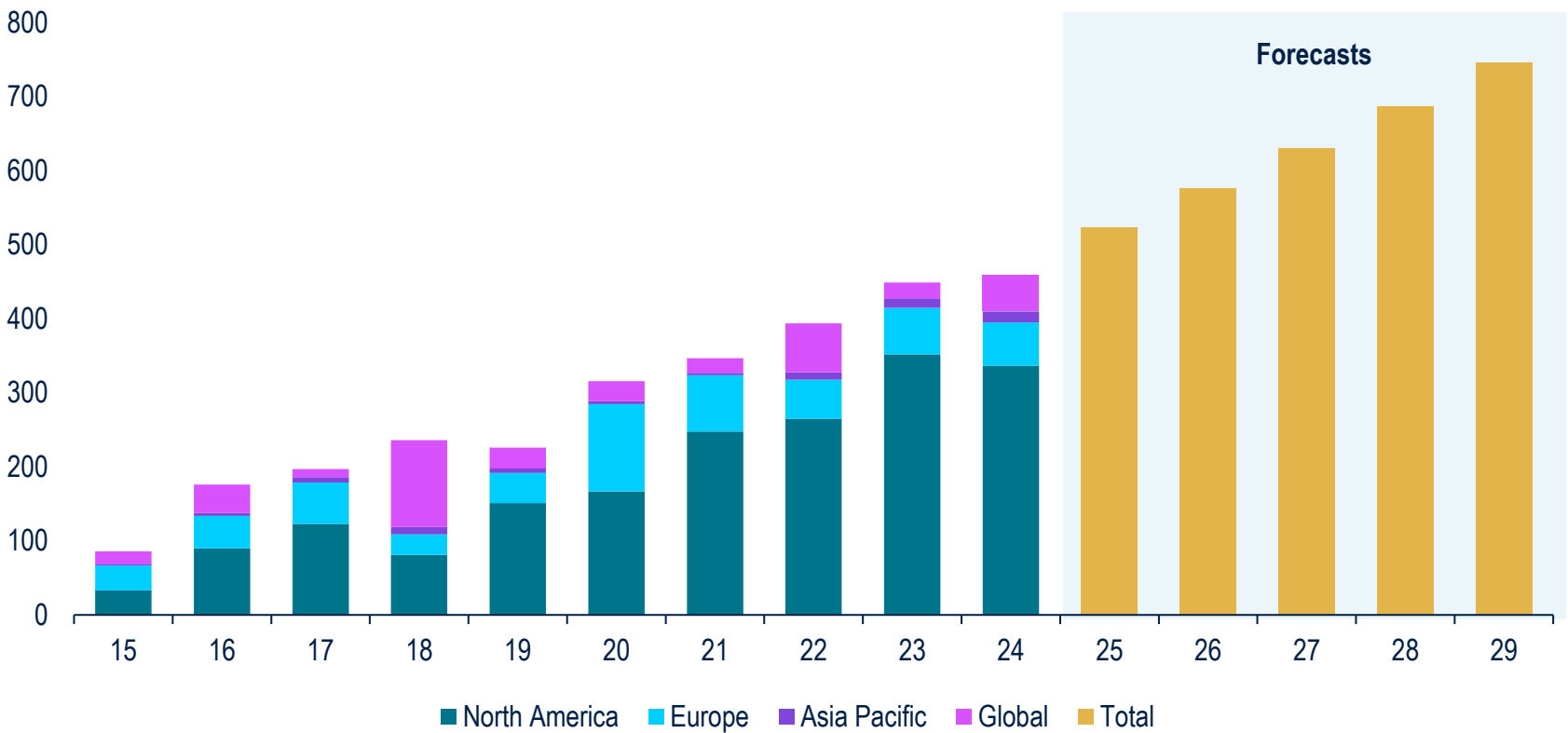
Fundraising for value-add and opportunistic real estate equity strategies is gaining traction, signaling renewed investor confidence and future acquisition activity.

As these capital-intensive funds target deployment, demand for debt financing is expected to rise in tandem, creating opportunities for lenders to support recapitalizations and new investments.

This dynamic reinforces the outlook for sustained growth in private CRE credit markets.

Private CRE Credit AUM Growth to Continue

Global CRE Private Credit Funds AUM* (USD\$ Billions)



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

*Note: Data refers to non-listed real estate debt vehicles. Global refers to globally diversified or unspecified strategies.

Sources: ANREV, INREV, NCREIF, PGIM. As of November 2025.

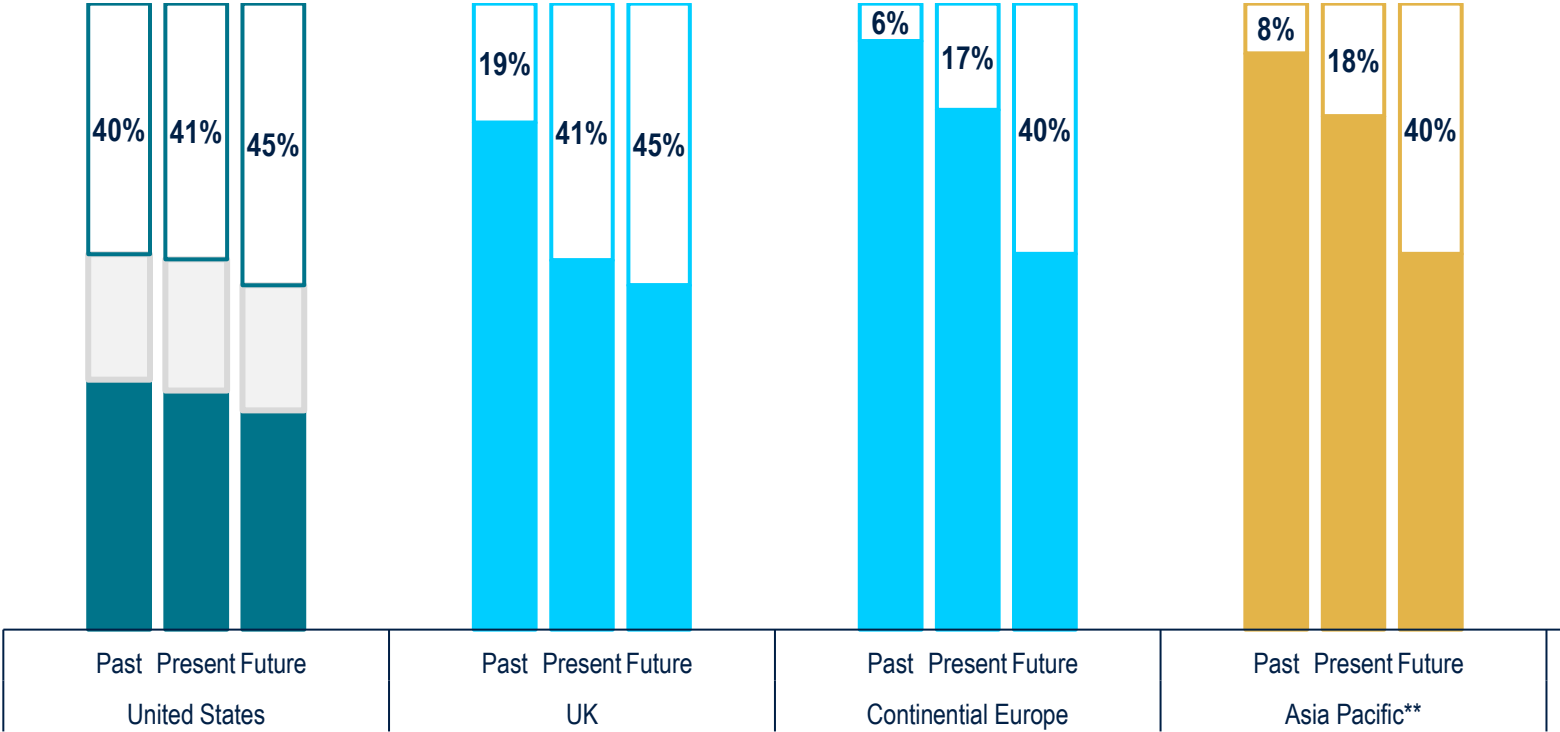
Building on stronger fundraising and a deepening origination pipeline, private CRE credit platforms are positioned for significant AUM growth.

Rising reinvestment from refinanced loans and new deal flow will support expansion across senior and structured strategies.

This scaling provides a deeper, more liquid market for private CRE credit, enabling participation in a wider and more diversified range of lending opportunities.

Lender Mix Is Changing

Evolving Market Composition: Bank vs. Non-Bank Market Share* (%)



*Note: Market share refers to CRE debt outstanding. Past refers to 3Q15, present to 3Q25 and future to 2030. The non-bank lender market in the United States includes GSEs (government-sponsored enterprises), which is not present in any other market and comprise around 20% of the U.S. market.

**Note: APAC includes Australia, Hong Kong, Japan, New Zealand, Singapore and South Korea.

Sources: Cushman & Wakefield, Mortgage Bankers Association, Bayes Business School, ECB, IEIF, IREBS, APRA, MSCI/Real Capital Analytics, PGIM. As of November 2025.

As private CRE credit platforms scale, the lender mix is evolving. Regulatory constraints and balance sheet priorities are keeping banks selective, particularly on transitional and higher-risk loans.

Non-bank lenders are stepping in to fill refinancing gaps and support new acquisitions.

This shift broadens financing solutions and reinforces private CRE credit’s growing role in meeting diverse borrower needs.

INVESTMENT OPPORTUNITIES

Investment Style

Targeting markets with high coupons against conservative loan metrics.

Structural Themes

Structurally higher interest rates and ongoing banking restrictions drive opportunities.

Tactical Plays

Gap financing – lending where banks are constrained, capturing cyclically high coupons.



CORE STRATEGIES

CRE spread premium over corporates remains above historical norms and supports stabilized assets.

TRANSITIONAL STRATEGIES

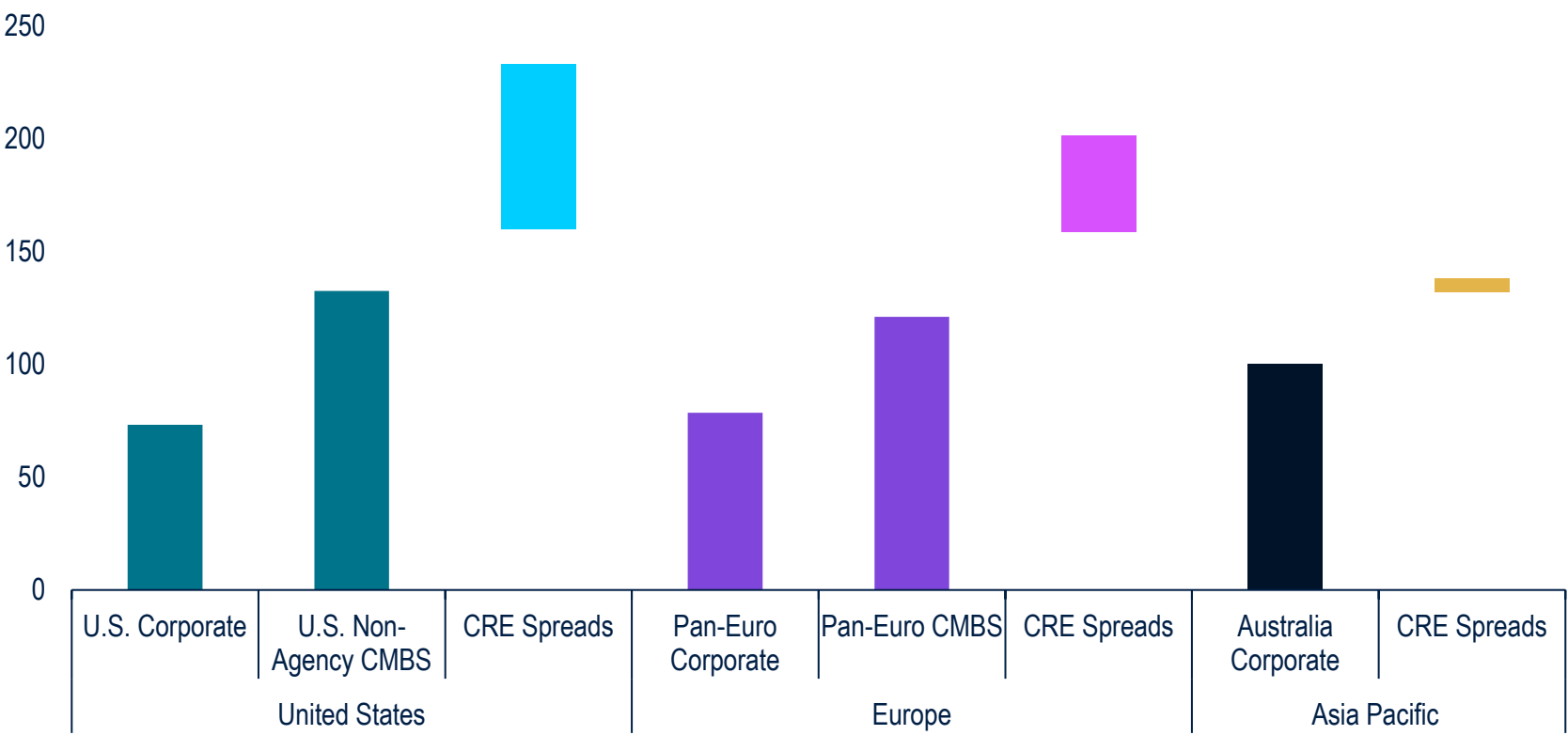
Relatively high spreads.
Financing value-add business plans, assets undergoing transition.

HIGH YIELD STRATEGIES

Subordinated and development lending benefit from reduced bank participation.

Core Strategies: An Attractive Premium Over Corporates

Corporate Option-Adjusted Spreads vs. Senior Bank Loan Spreads* (Basis Points)



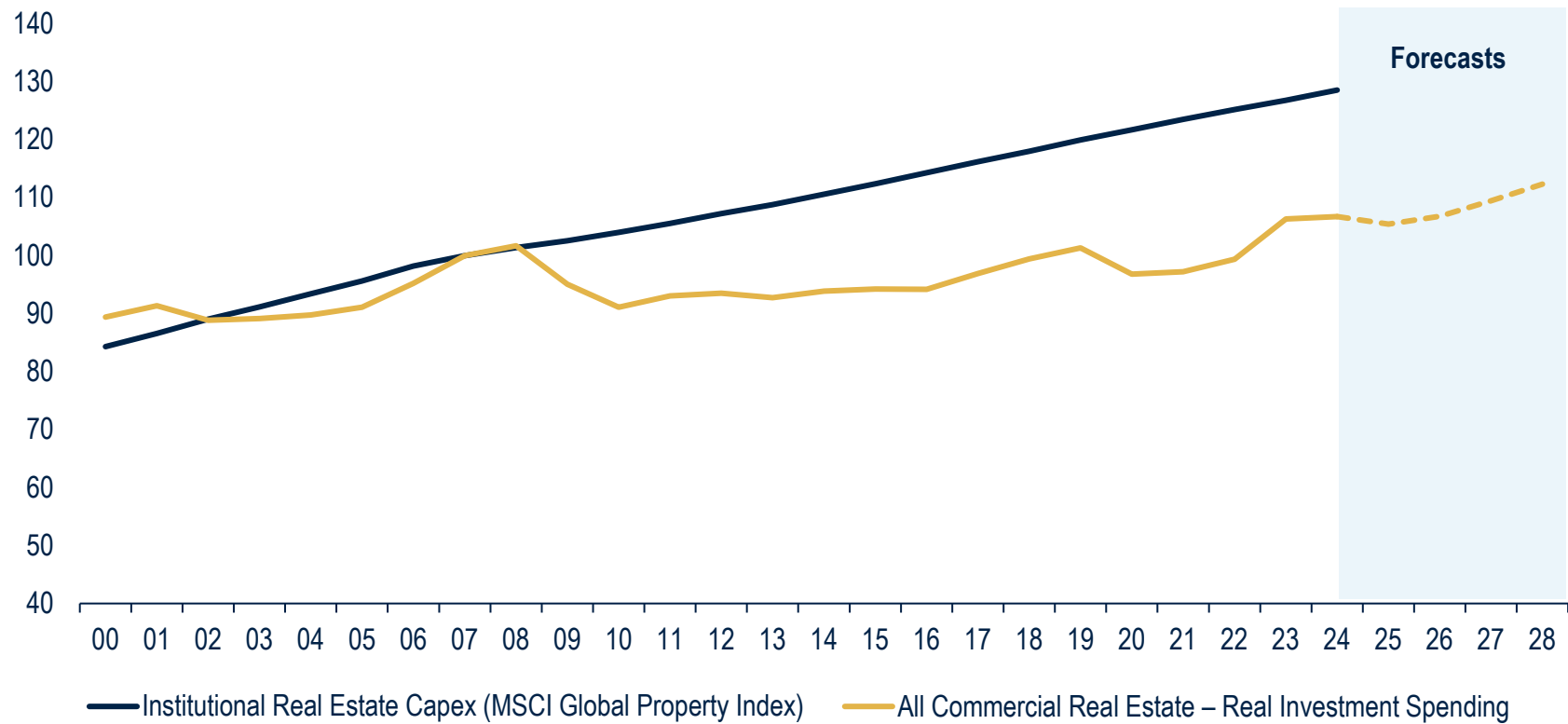
*Note: CRE spreads include office, retail, industrial and residential. The spread range shows the dispersion between the lowest spread and highest spread for senior bank loans as of 3Q25.
Sources: Bloomberg, CREFC, PMA, PGIM. As of November 2025.

Core debt stands to benefit as markets stabilize, with low leverage and strong sponsorship providing resilience. Investment-grade senior loans with substantial equity and covenant protections can help deliver predictable cash flows and support risk control.

The current environment continues to offer an attractive entry point with core debt strategies capturing a meaningful spread premium over corporates. At the same time, a growing desire for flexibility is driving up event-driven fees, which may create additional opportunities to capture enhanced returns.

Transitional Strategies: Financing Value Creation Business Plans

Index of Global 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 2025.

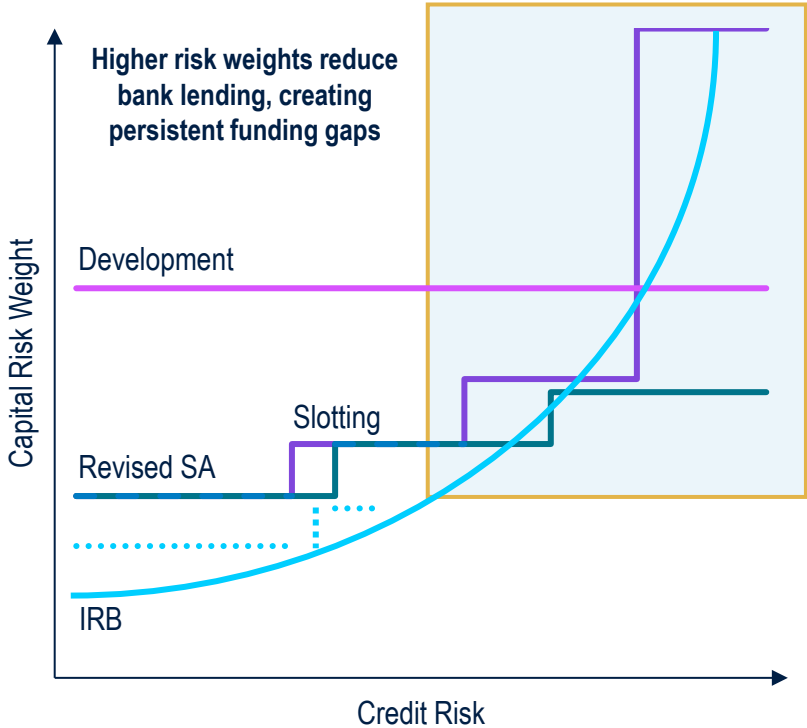
Underinvestment in building capex during the last cycle has left many assets requiring upgrades or repositioning to remain competitive.

As owners execute value-creation business plans, modernizing properties, improving ESG credentials and enhancing tenant appeal, demand for transitional credit strategies is expected to rise.

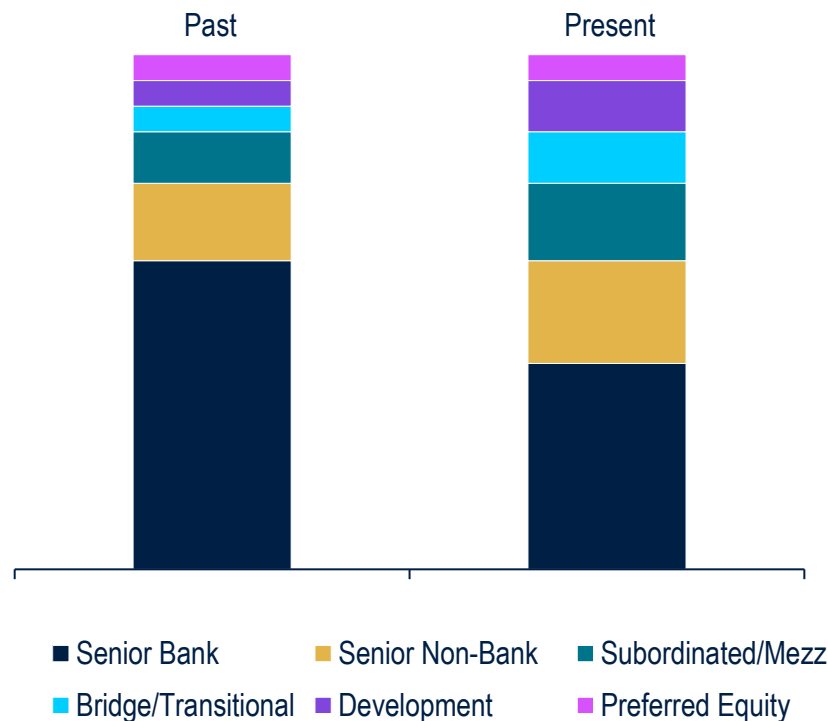
This creates opportunities for lenders to provide capital that supports these transition phases, with the potential of capturing attractive returns linked to asset improvement and stabilization.

High Yield Strategies: Meeting Demand for Flexible Capital Solutions

Bank Regulatory Requirements



Shifts in the Capital Stack



Stricter banking regulations have curtailed bank lending capacity, reshaping the capital stack.

High yield credit continues to meet demand for flexible solutions as senior lending remains constrained.

Persistent funding gaps create opportunities in bridge financing, sustainable refurbishment and development projects.

Restructuring and growth capital will help sponsors unlock value from stressed stacks, supported by an ongoing shortage of quality stock.

Note: These are simplified illustrations of the impact of increased bank regulation on bank CRE lending. IRB banks refer to banks using internal ratings-based models for calculating risk, which face higher minimum output floors – higher risk weights for lower risk lending. The revised standardized approach (SA) and slotting is LTV and credit risk-based, the higher the LTV and credit risk, the higher the capital charge.

Sources: Bank for International Settlements (BIS), CREFC Europe, INREV, PGIM. As of November 2025.

Summary of **Private CRE Credit** Investment Opportunities

		NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
	SENIOR DEBT	CRE debt spread premium over corporates still trading wider than historical averages, offering relative value upside.	• High-quality stabilized assets positioned for long-term relevance. • Assets located in attractive markets and locations.
	TRANSITIONAL FINANCING	Pick up in equity value-add fundraising suggests increased need to finance value creation business plans.	• Light transitional properties. • Assets with value-add business plans focused on growing income and property value.
	DEVELOPMENT FINANCING	An area where banks have strongly pulled back due to high capital charges.	• Markets with an undersupply of suitable stock. • Assets requiring major upgrades or repositioning to meet future needs.
	BRIDGE-TO-AGENCY	Short-term debt to acquire and stabilize multifamily properties until qualifying for long-term, lower-cost agency financing – unique to the United States.	• Growth and depth of the U.S. multifamily market and availability of permanent agency take-out from Fannie Mae and Freddie Mac.
	TACTICAL	Gap financing and bridge financing providing flexibility prior to securing long-term financing.	• Assets that are not ready for longer-term financing. • Assets in need of shorter-term financing to stabilize, reposition or refinance.

Structural Investment Themes for 2026



1. SENIOR DEBT

CRE debt spread premium over corporates still trading wider than historical averages.



2. TRANSITIONAL FINANCING

Capex underinvestment in the last cycle means that assets require significant investment, upgrades or repositioning to meet future requirements.



3. DEVELOPMENT FINANCING

Regulatory pressures have reduced bank appetite for development loans.

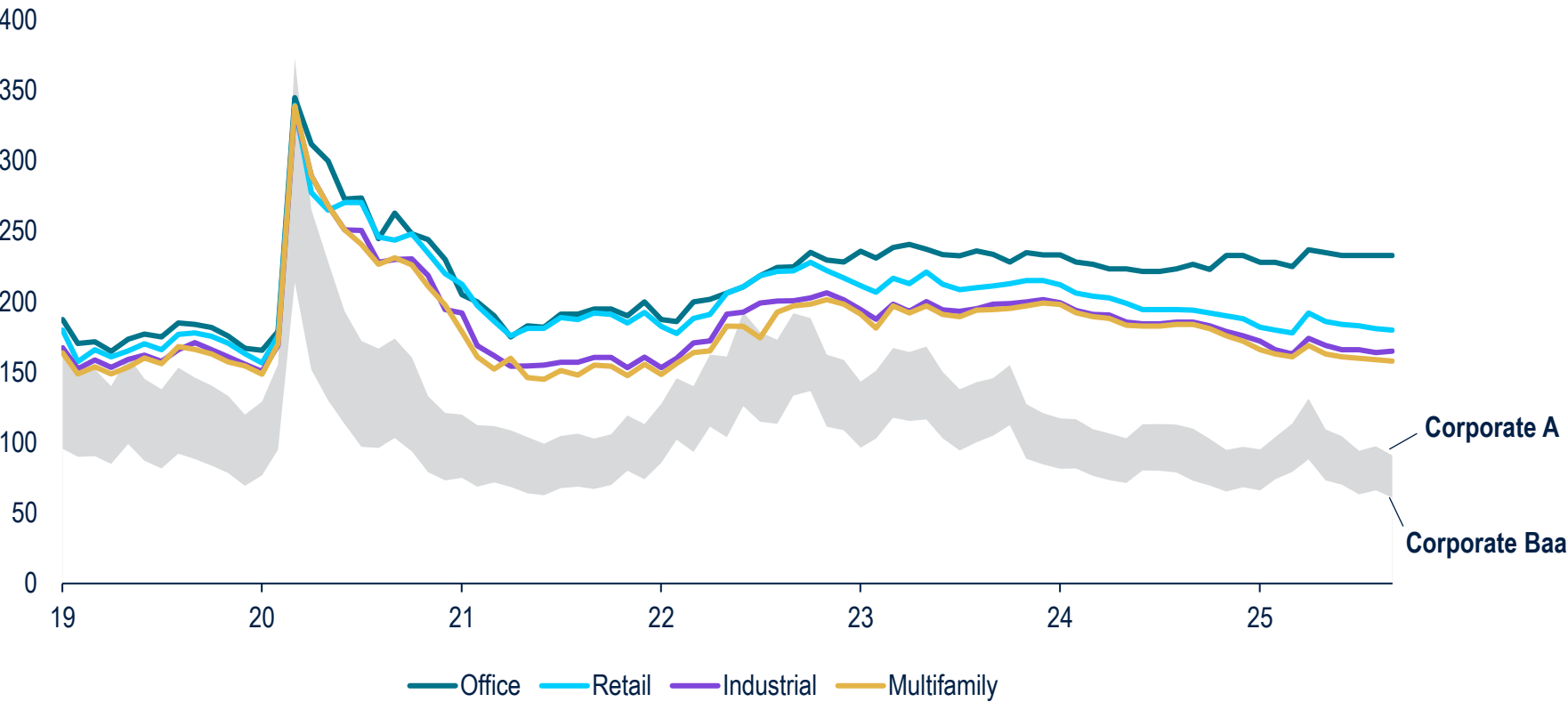


4. BRIDGE-TO-AGENCY

Shorter-term financing before permanent agency take-out.

Senior Debt: A Persistent Premium Over Corporate Credit

U.S. Option-Adjusted Spreads* vs. CRE Debt 10Y Fixed Rate Spreads (Basis Points)



*Note: CRE spreads refer to U.S. 10-year fixed rate balance sheet spreads 60-65% LTV.
Sources: Bloomberg, CREFC, PGIM. As of November 2025.

SENIOR DEBT

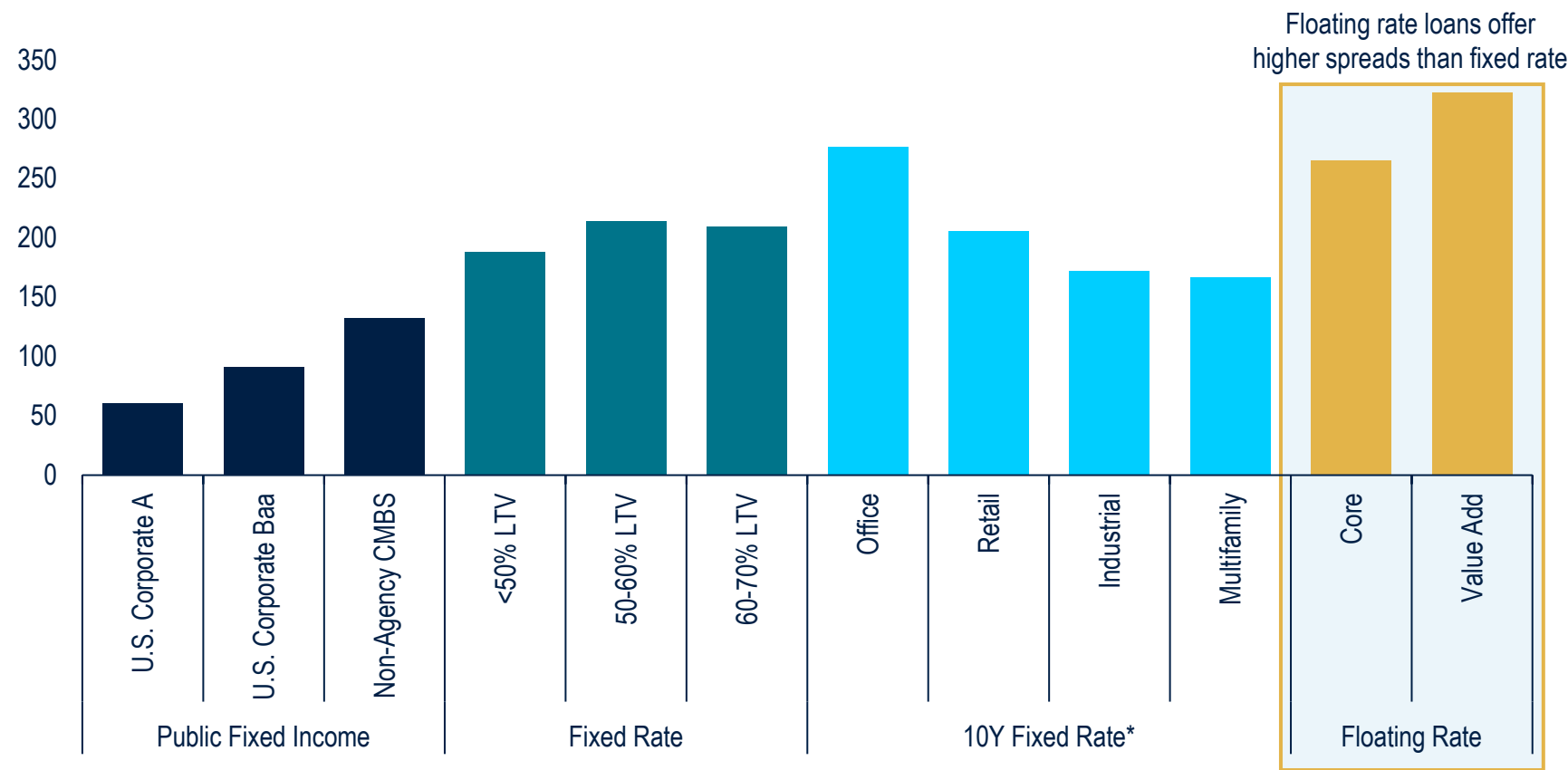


Senior CRE debt continues to offer an attractive yield advantage versus corporate credit, supported by conservative LTVs and structural protections.

This premium reflects the illiquidity and complexity inherent in CRE lending. This differential remains attractive for those seeking enhanced yield without moving down the credit spectrum.

Transitional Financing: Elevated Yields With Improving Credit

U.S. Credit Spreads (Basis Points)



*Note: 10Y fixed rate refers to bank balance sheet loans..
Sources: Bloomberg, CREFC, Cushman & Wakefield, Chatham Financial, PGIM. As of November 2025.

TRANSITIONAL FINANCING

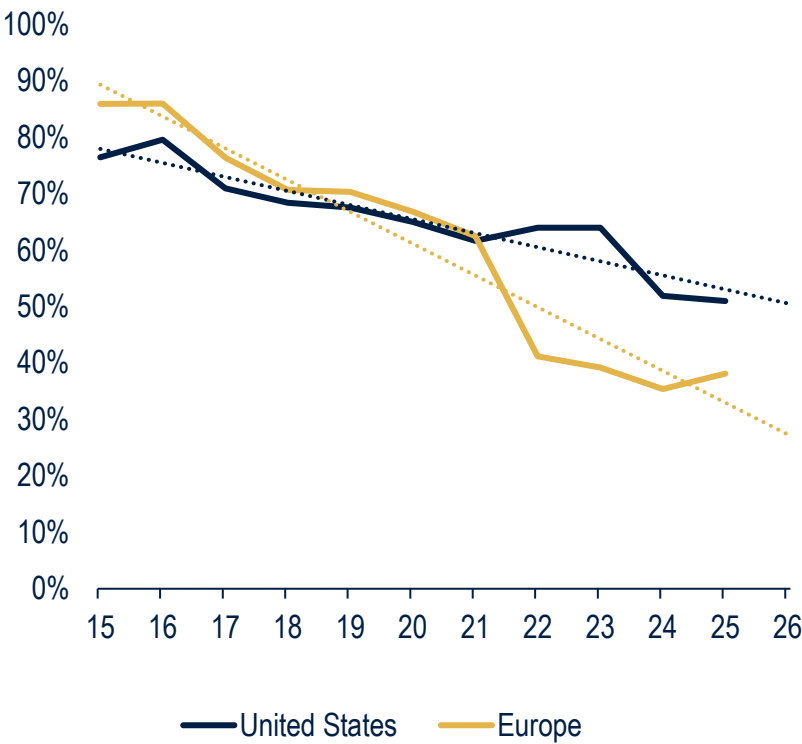
Transitional financing is well positioned for the next cycle, as capital rotates toward income growth and asset repositioning.

Loans back business plans that aim to build cash flow and strengthen credit, potentially creating future refinancing and exit catalysts.

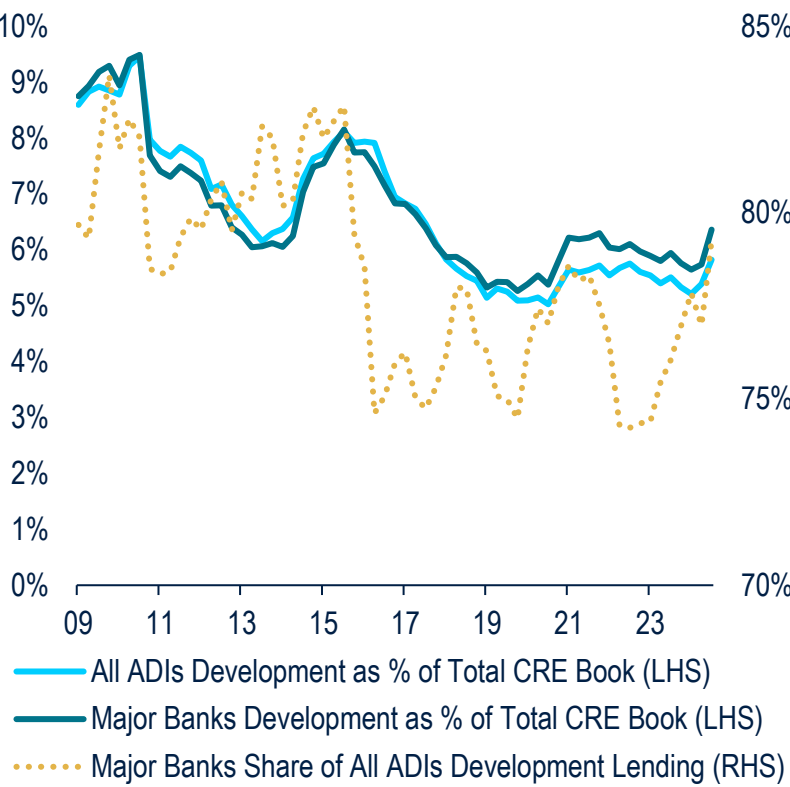
The floating rate structures capture elevated income yields from higher short-term rates and wider spreads, positioning these value-add credit strategies for upside as markets reset and stabilize.

Development Financing: Declining Bank Participation

United States and UK:
Bank Market Share of Development (%)



Australia:
Development Lending as % of Total CRE Book (%)



Sources: MSCI/Real Capital Analytics, Bayes Business School, APRA, PGIM. As of November 2025.

DEVELOPMENT FINANCING



Regulatory pressures and risk-weighted capital constraints have reduced bank appetite for development loans.

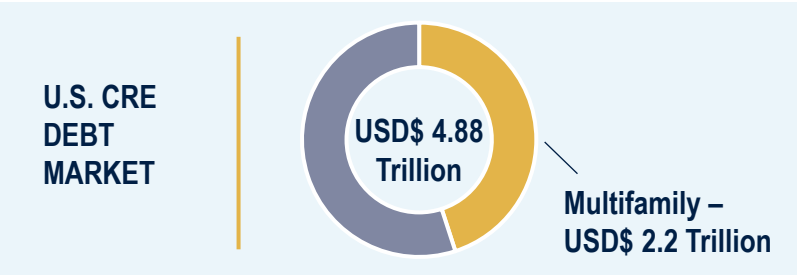
In the United States and Europe, bank market share of development financing continues to decline. A similar trend is observed in Asia Pacific, particularly in Australia, where banks have been reducing their share of development in their overall CRE book.

This retreat opens space for non-bank lenders to step in with bespoke financing solutions, often at favorable risk-adjusted returns.

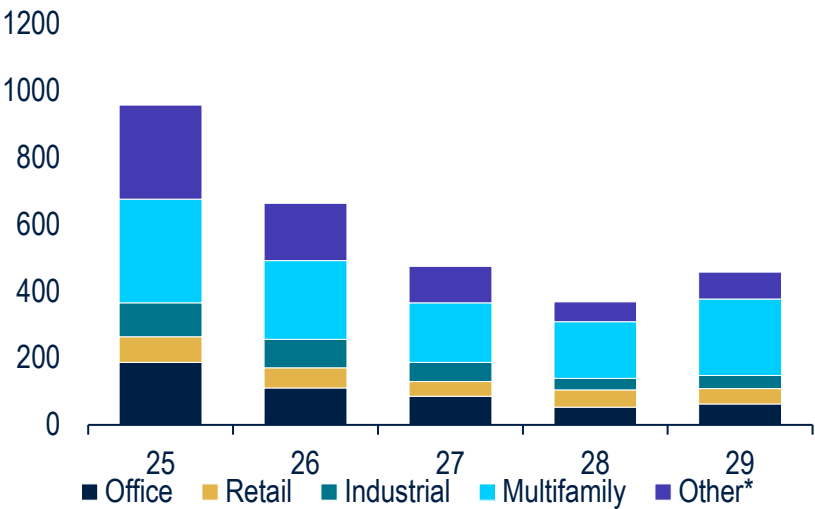
Bridge-to-Agency: Multifamily Dominance and Agency Depth



BRIDGE-TO-AGENCY



Loan Maturities (USD\$ Billions)

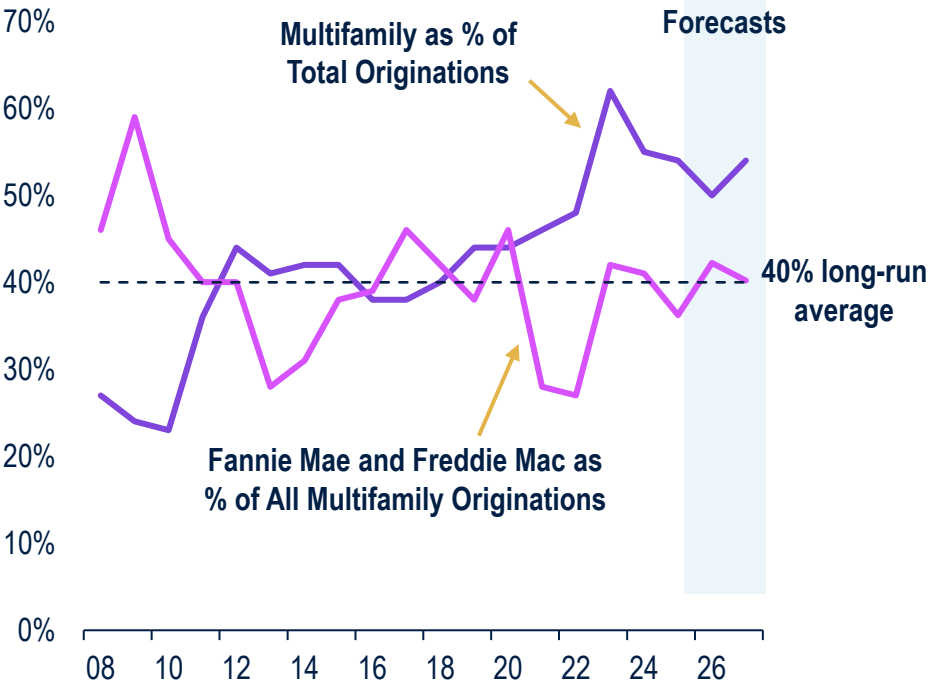


Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: Other includes hotel, healthcare and other unspecified property types.

Sources: Mortgage Bankers Association, PGIM. As of November 2025.

Multifamily, Fannie Mae and Freddie Mac Market Share (%)



At USD\$2.2 trillion, the multifamily sector represents 45% of the total USD\$4.88 trillion CRE debt market, providing significant market depth.

Loan maturities and rising multifamily origination share underscore strong demand for multifamily and near-term transitional financing for the sector.

Fannie Mae and Freddie Mac's consistent presence, averaging 40% of all multifamily originations since 2008, creates a clear exit pathway, enabling private CRE credit strategies to capture attractive spreads with lower take-out risk.



1. GAP FINANCING

Bridging shortfalls in the capital stack caused by valuation resets or leverage limits.



2. BRIDGE FINANCING

Providing flexible, short-term funding until permanent debt or equity is in place.

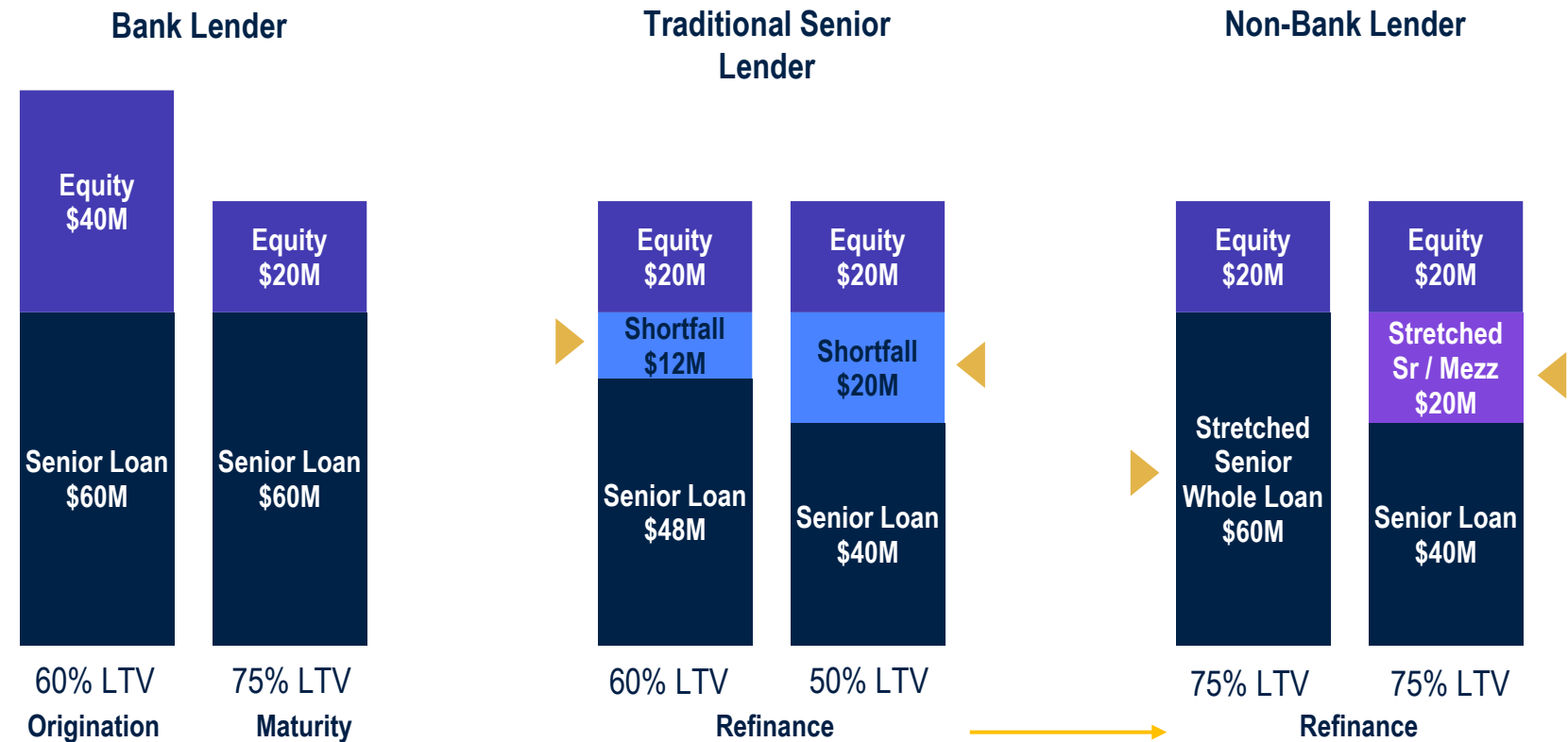


3. RISING GERMAN NPLs

Capturing market share as NPLs rise in Germany.

Gap Financing: Filling the Gap Between Equity and Senior Debt

An Illustration of the Funding Gap Driven by Lower Bank Leverage



For illustrative purposes.
Sources: INREV, PGIM. As of November 2025.

GAP FINANCING



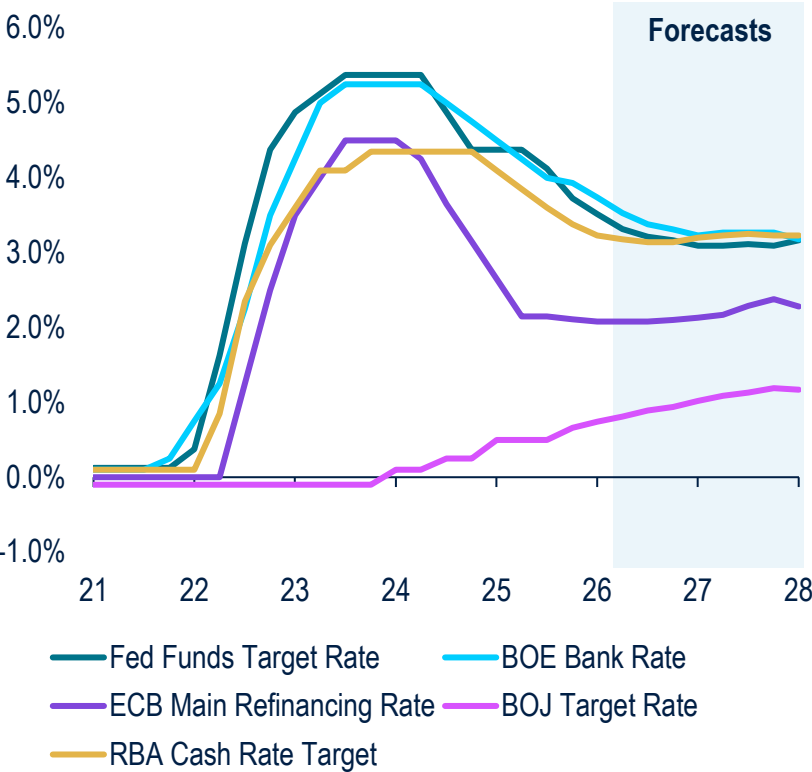
The gap between senior leverage and sponsor equity widened as interest rates rose and property values rebased.

Despite some easing, rates are not forecast to return to the ultra-low levels of the past cycle, meaning this gap is expected to persist.

This dislocation is expected to continue to create opportunities for whole loans, stretched senior structures, and subordinated tranches, which may enable investors to capture incremental yield.

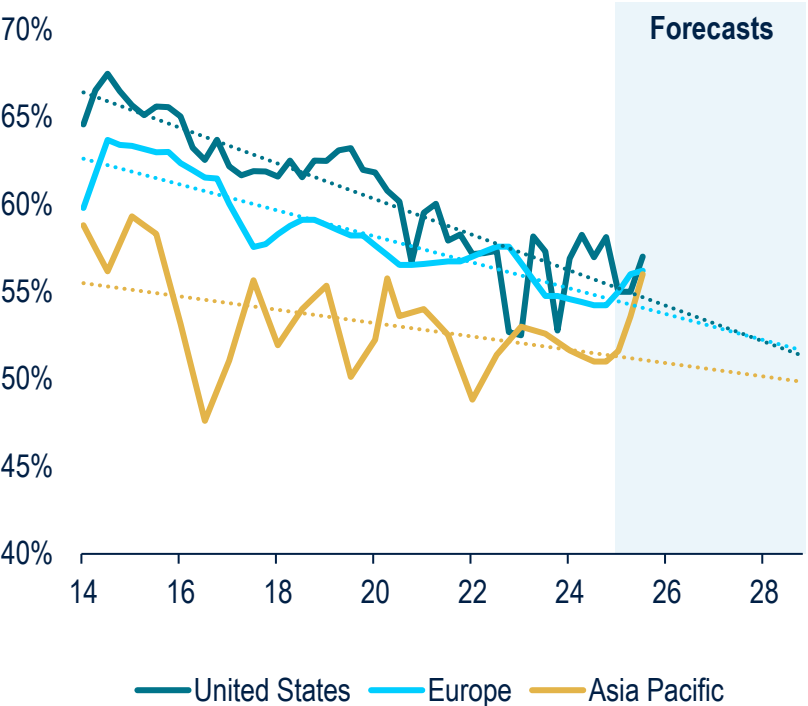
Bridge Financing: Flexibility Wins Over Commitment

Bank Policy Rates (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Bloomberg, PMA, Bayes Business School, IREBS, PGIM. As of November 2025.

Senior Bank Loan LTVs (%)



BRIDGE FINANCING



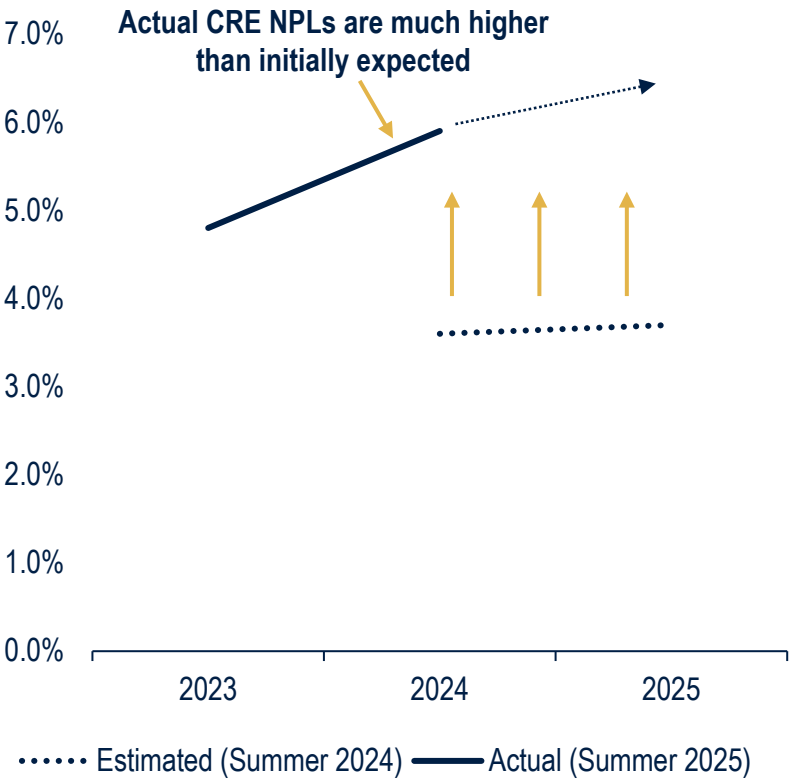
As policy rates are forecast to decline before stabilizing, borrowers are still choosing flexibility over permanent financing, especially for assets undergoing transition.

In parallel, senior loan LTVs continue to be low compared to history, limiting proceeds and preventing sponsors from achieving full leverage at acquisition or recapitalization.

This combination of timing uncertainty and reduced bank advance rates drives demand for flexible bridge capital, before locking in permanent debt or equity.

Rising German NPLs: Capturing Market Share as NPLs Rise

Germany CRE NPL Ratio (%)



Potential Market Shift (% Debt Outstanding)



ISING MARKET SHARE IN GERMANY



Rising non-performing loan pressures in Germany are prompting banks to tighten credit and prioritize balance-sheet repair.

This environment increases reliance on alternative lenders capable of underwriting complexity and providing flexible capital solutions.

As Germany navigates this adjustment, non-bank financing has an opportunity to expand meaningfully, with potential to follow the structural evolution seen in the UK.



www.pgim.com/realestateoutlooks

Important Information

For Professional and Institutional Investors only. All investments involve risk, including the possible loss of capital. Past performance and target returns are not a guarantee and may not be a reliable indicator of future results.

PGIM is the principal asset management business of Prudential Financial, Inc. (PFI), and a trading name of PGIM, Inc. and its global subsidiaries and affiliates. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (the "SEC"). Registration with the SEC does not imply a certain level of skill or training. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. Prudential, PGIM, their respective logos and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide. For more information, please visit pgim.com.

GENERAL/CONFLICTS OF INTEREST

These materials represent the views, opinions and recommendations of the author(s) regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of the contents hereof, without prior consent of PGIM is prohibited. Certain information contained herein has been obtained from sources that PGIM believes to be reliable as of the date presented; however, PGIM cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. PGIM has no obligation to update any or all of such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors.

These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. Past performance is no guarantee or

reliable indicator of future results. No liability whatsoever is accepted for any loss (whether direct, indirect, or consequential) that may arise from any use of the information contained in or derived from this report. PGIM and its subsidiaries and affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM or its subsidiaries and affiliates.

The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, the recipient(s) of this report must make its own independent decisions.

Conflicts of Interest: Key research team staff may be participating voting members of certain PGIM fund and/or product investment committees with respect to decisions made on underlying investments or transactions. In addition, research personnel may receive incentive compensation based upon the overall performance of the organization itself and certain investment funds or products. At the date of issue, PGIM and/or subsidiaries and affiliates may be buying, selling, or holding significant positions in real estate, including publicly traded real estate securities. PGIM subsidiaries and affiliates may develop and publish research that is independent of, and different than, the recommendations contained herein. PGIM personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM's clients or prospects or proprietary investment ideas that differ from the views expressed herein. Additional information regarding actual and potential conflicts of interest is available in Part 2 of PGIM's Form ADV.

INFORMATIONAL PURPOSES

These materials are for informational or educational purposes. In providing these materials, PGIM (i) is not acting as your fiduciary and is not giving advice in a fiduciary capacity and (ii) is not undertaking to provide impartial investment advice as PGIM will receive compensation for its investment management services.

These materials do not take into account the investment objectives or financial situation of any client or prospective clients. Clients seeking information regarding their particular investment needs should contact their financial professional.

The information contained herein is provided on the basis and subject to the explanations, caveats and warnings set out in this notice and elsewhere herein. Any discussion of risk management is intended to describe PGIM's efforts to monitor and manage risk but does not imply low risk.

These materials do not purport to provide any legal, tax or accounting advice. These materials are not intended for distribution to or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation.

RISK FACTORS

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.