PGIM

2026 REAL ESTATE OUTLOOK

EUROPE

EUROPE

Total returns in Europe have risen in 2025 and are set to improve further in 2026 on the back of ongoing rental growth and the return of some modest yield compression.

Liquidity remains low but is expected to pick up due to an improving returns outlook, interest rates stabilizing at lower levels and brightening investor sentiment.

There is a broad set of investment opportunities driven by rising values from a low base, ongoing low supply and structural demand growth.

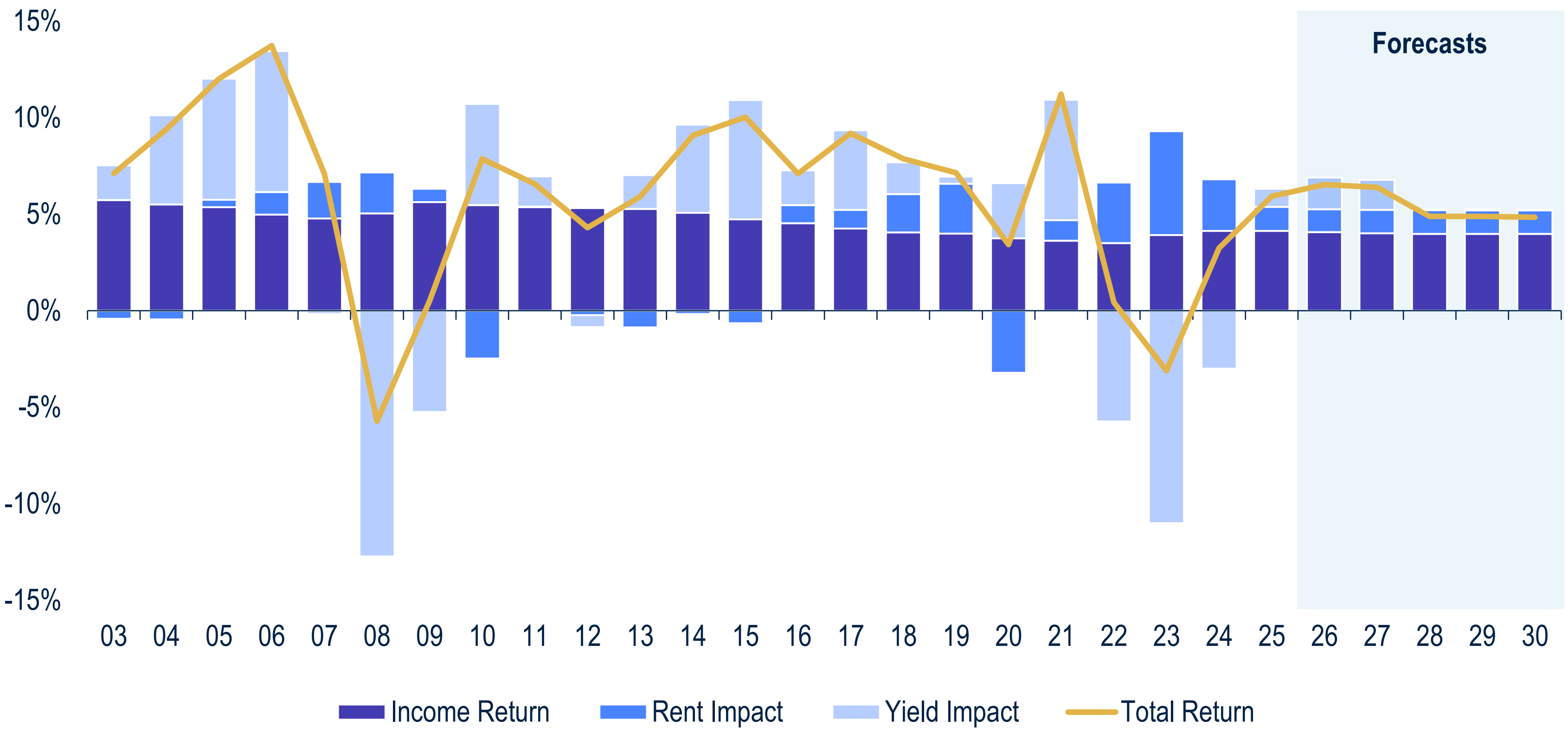
MARKET OUTLOOK

European real estate returns are rising and set to improve further in 2026. Rental growth has proved resilient against elevated uncertainty, supported by low supply. Debt is accretive as interest rates are stabilizing at lower levels and while liquidity remains low, a pick up is expected in 2026 on the back of improving investor sentiment.

1

Total Returns Are Rising

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.

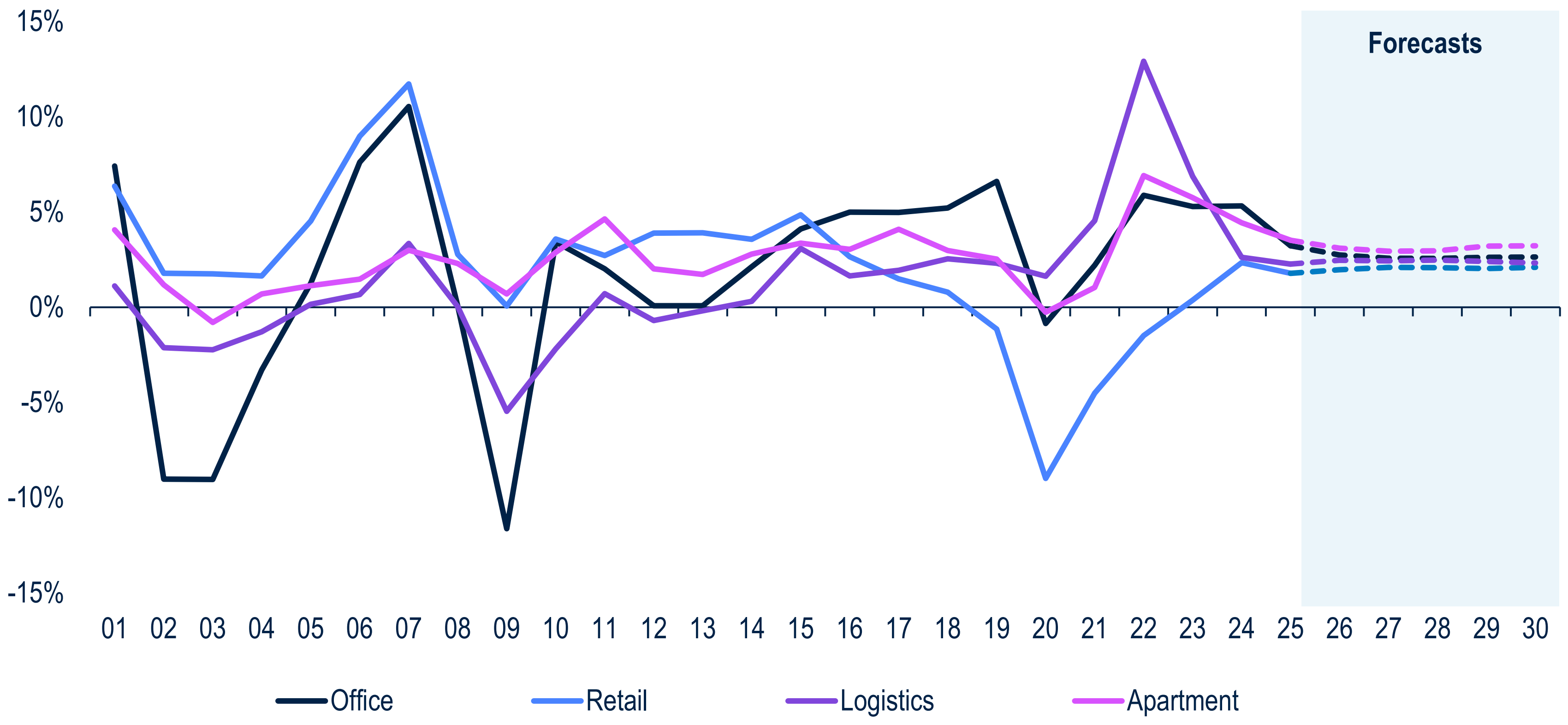
Sources: MSCI, Cushman & Wakefield, PMA, CBRE, PGIM. As of November 2025.

Headline real estate values edged upwards in 2025 on the back of stable valuation yields and steady occupier market performance despite elevated macroeconomic uncertainty.

The outlook is for returns to improve further over the next two years, supported by positive income growth and some modest yield compression.

Resilient Rental Growth Forecasted

Prime Annual Rental Growth Forecasts by Sector (%)



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Sources: PMA, PGIM. As of November 2025.

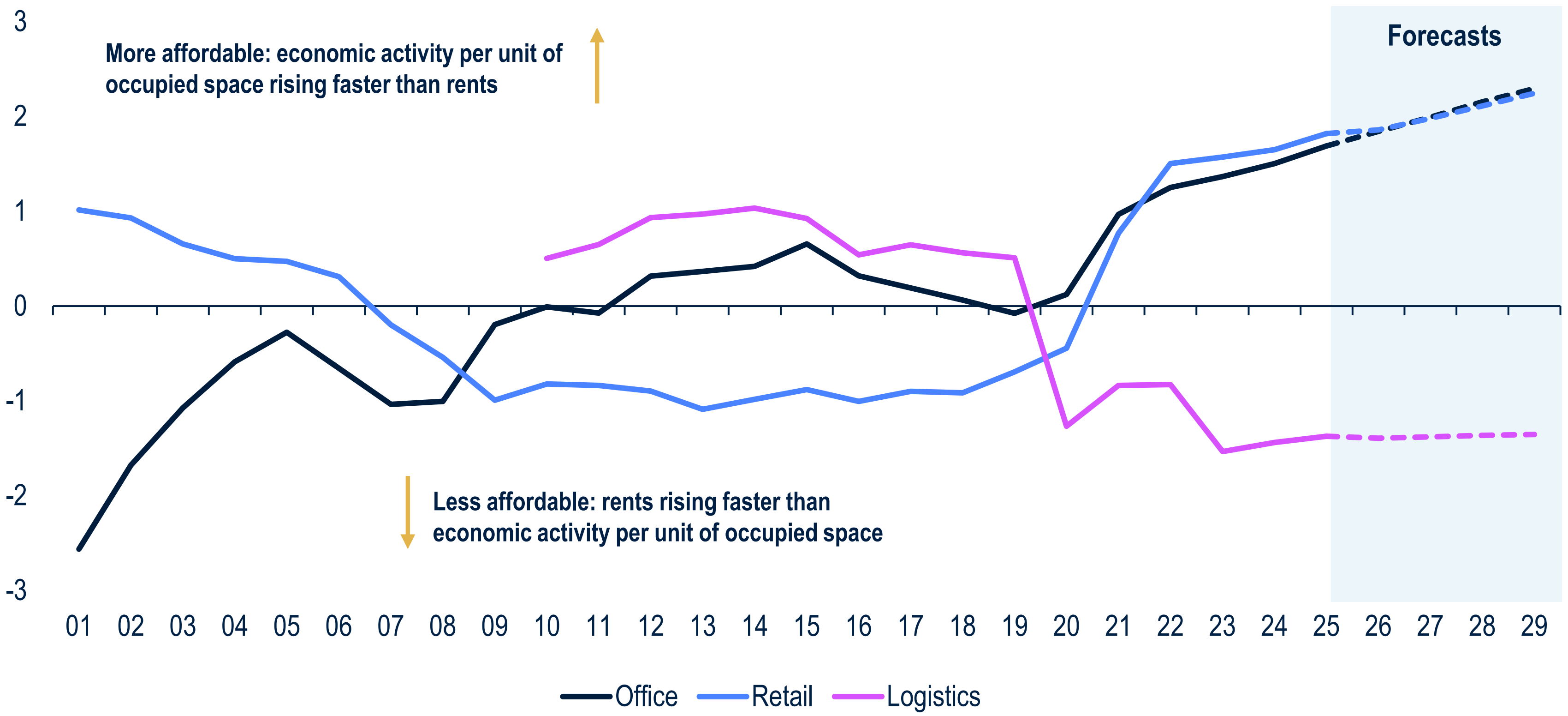
Despite elevated uncertainty impacting occupier markets across Europe, rental growth has held up well, in particular for the best assets in top locations.

Apartment rents are expected to rise in line with incomes across Europe, while the logistics story is becoming more selective.

For office and retail, the rental growth outlook is improving on the back of elevated affordability, low supply and falling vacancy.

Supported by Improved and Rising Affordability

Commercial Sector Affordability Indices – Europe (Normalized)



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Note: Affordability is calculated as the ratio of economic output (GVA) per sq m of occupied stock to headline prime rents.

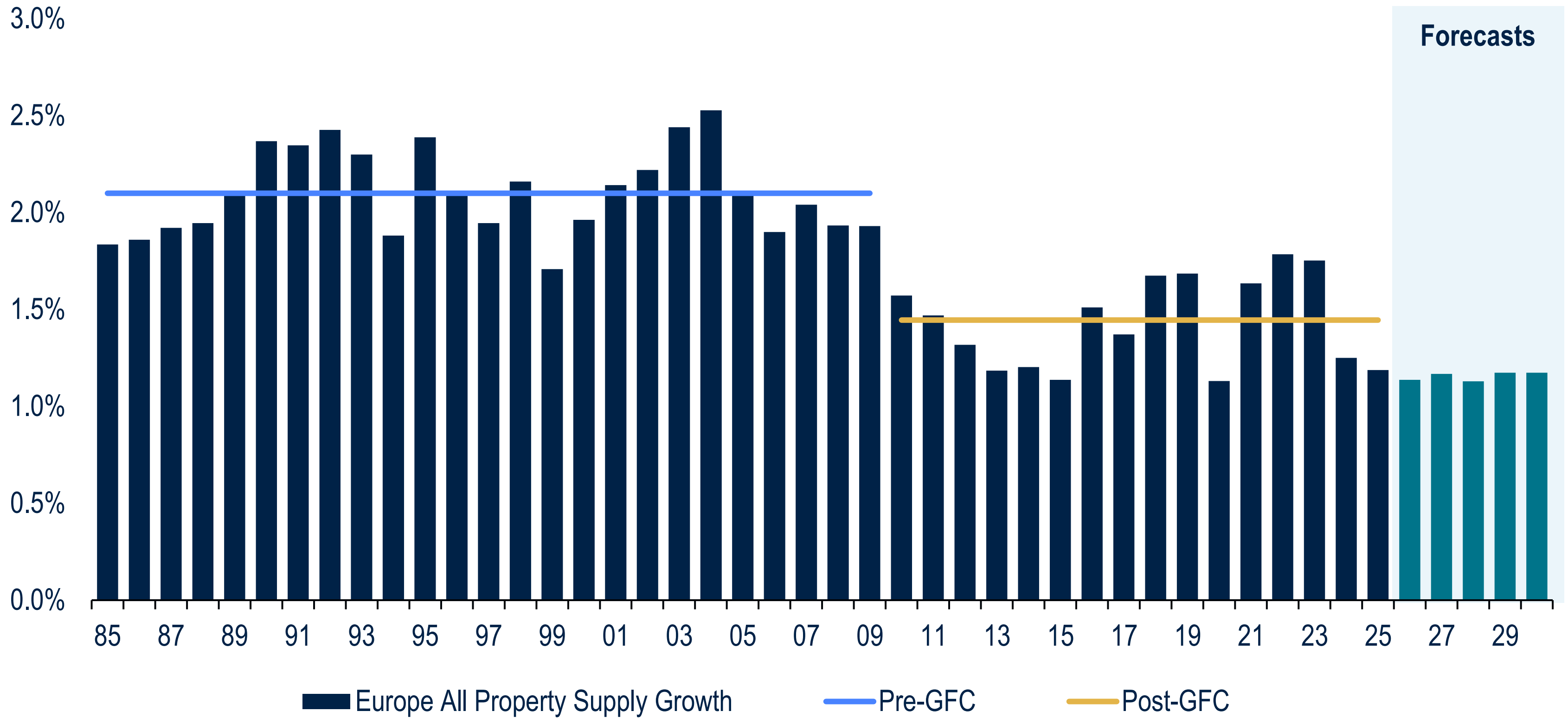
Sources: PMA, Oxford Economics, PGIM. As of November 2025.

Space affordability is elevated and forecasted to rise further compared to history in office and retail markets – this suggests rental growth could exceed current forecasts.

However, there are some concerns for logistics, where rapid rent increases in recent years have left affordability looking stretched despite the strength of underlying demand drivers.

And Underpinned by a Low Supply Pipeline

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



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Sources: PMA, PGIM. As of November 2025.

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 on the back of elevated interest rates, high construction costs and lower values.

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

As Building Costs Have Risen Steeply – Driven by Rising Construction Wages

Construction Costs, Wages and Inflation (Eurozone – Major Cities, 4Q00 = 100)

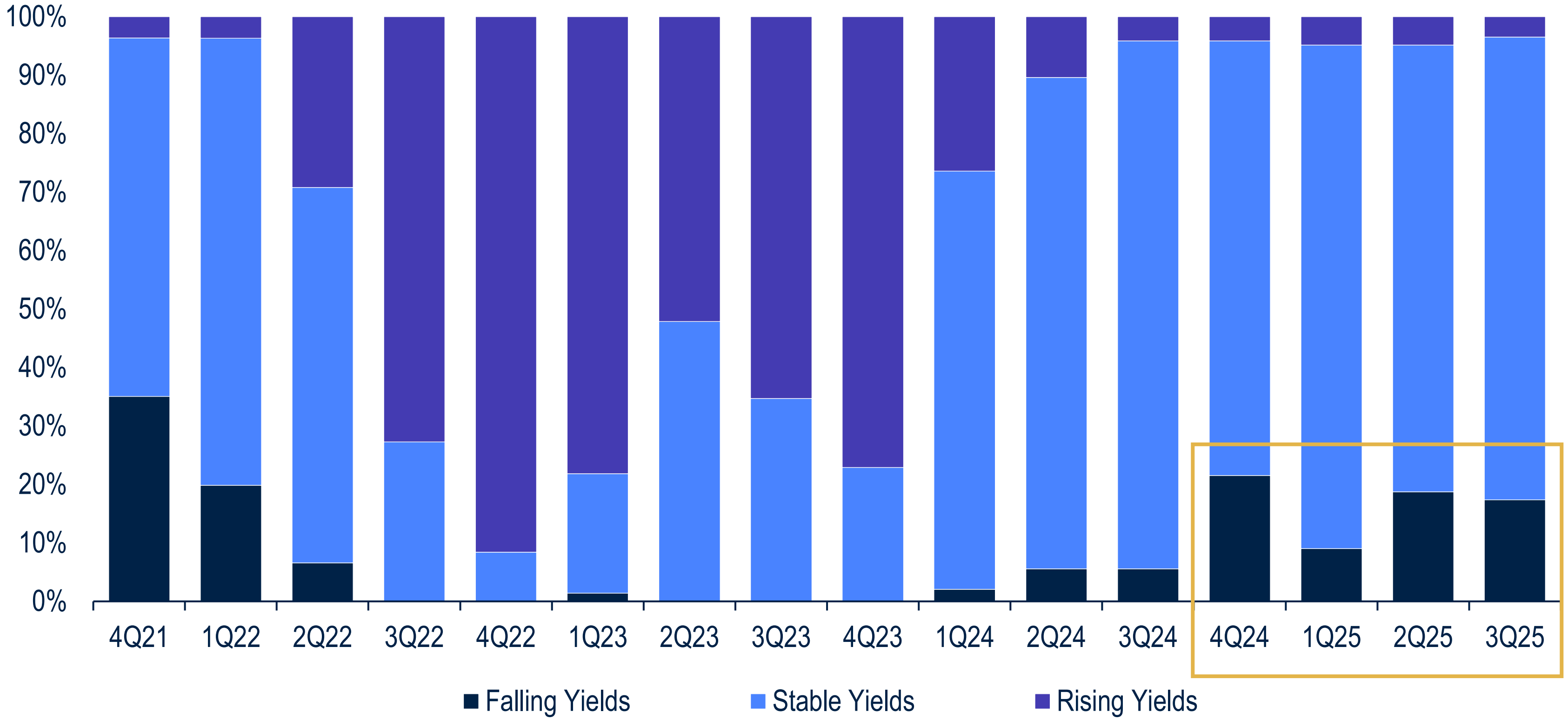
Sources: Eurostat, PGIM. As of November 2025.

Construction costs – and as such refurbishment costs – in major European markets have been rising steeply since 2021.

Rising construction wages have been a significant contributing factor. As a result, development activity remains depressed across Europe.

Signs of Pricing Momentum Returning

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



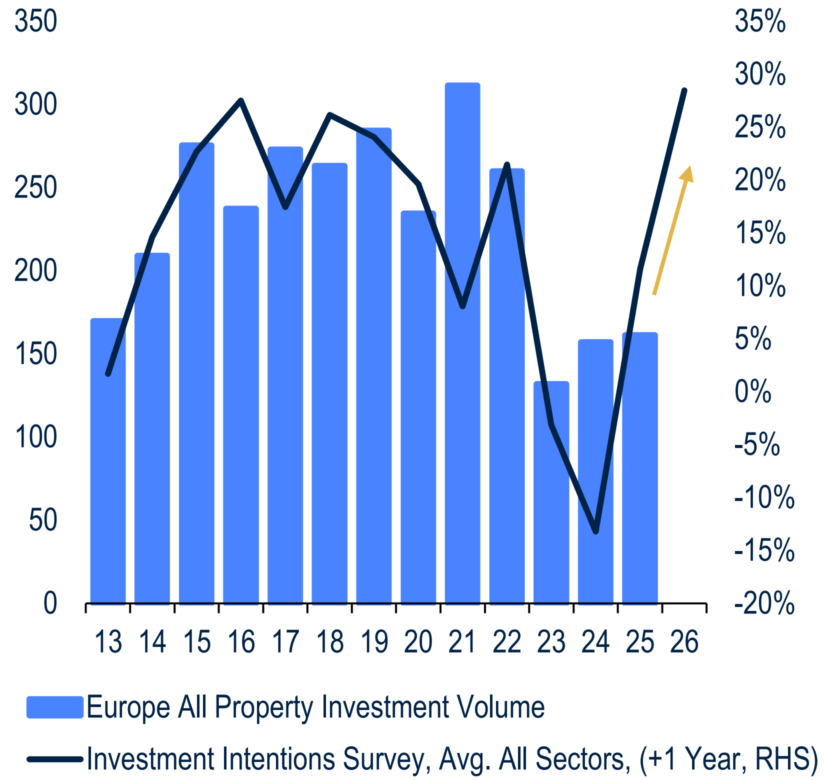
Sources: Cushman & Wakefield, PMA, CBRE, Knight Frank, PGIM. As of November 2025.

There was a small rebound in the number of markets recording yield compression in 2025.

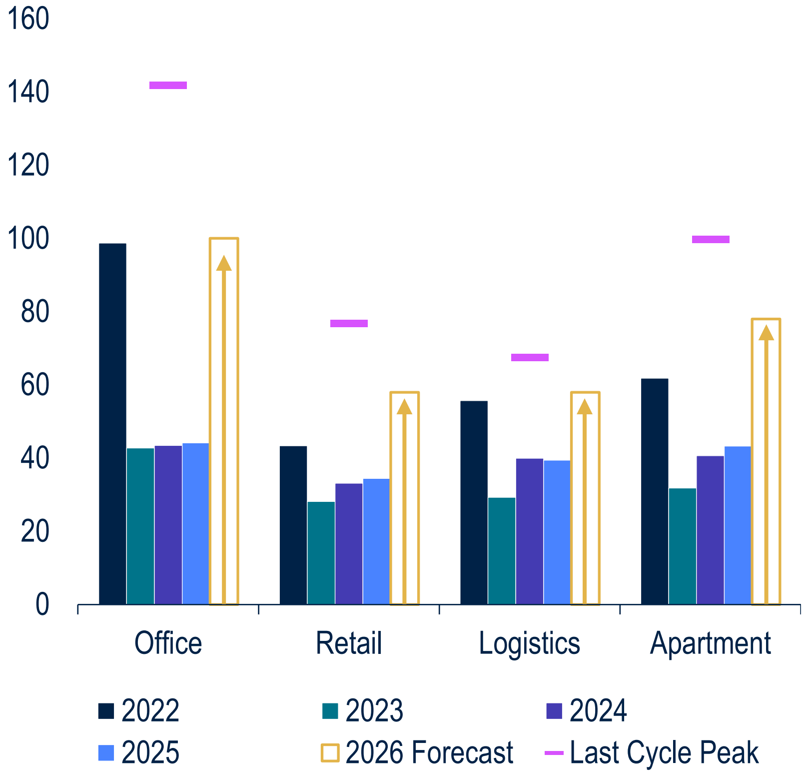
With rental growth picking up, forecasts point to some further modest yield compression in the short term, which would lift total returns.

Liquidity Is Still Very Low, but Investment Activity Is Expected to Rebound in 2026

Investor Intentions Survey (Balance) vs. Transaction Volume (€ Billions)



European Transaction Volume by Sector (€ Billions)



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

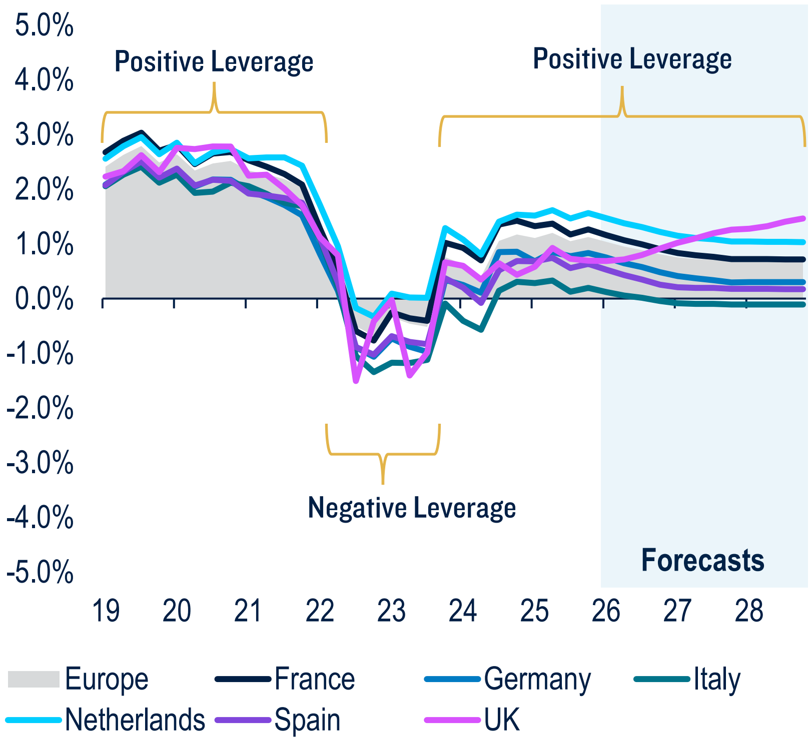
Sources: PMA, Real Capital Analytics, PGIM. As of November 2025.

Transaction activity remained subdued over the course of 2025, reflecting the spike in global economic and policy uncertainty in the first half of the year.

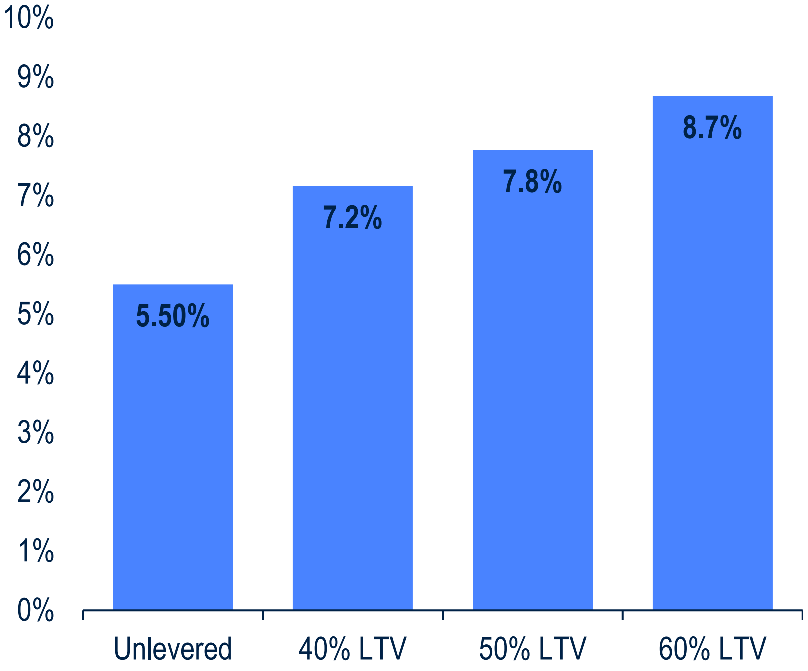
Looking ahead to 2026, our estimates – based on investment intentions surveys – point to a renewed pick up across all sectors, but especially in office and apartments.

As Leverage Is Accretive to Returns Again

Prime Office Sector Leverage (%)



MSCI Index Forecast Total Return at Various Leverage Levels (2026-30, % p.a.)



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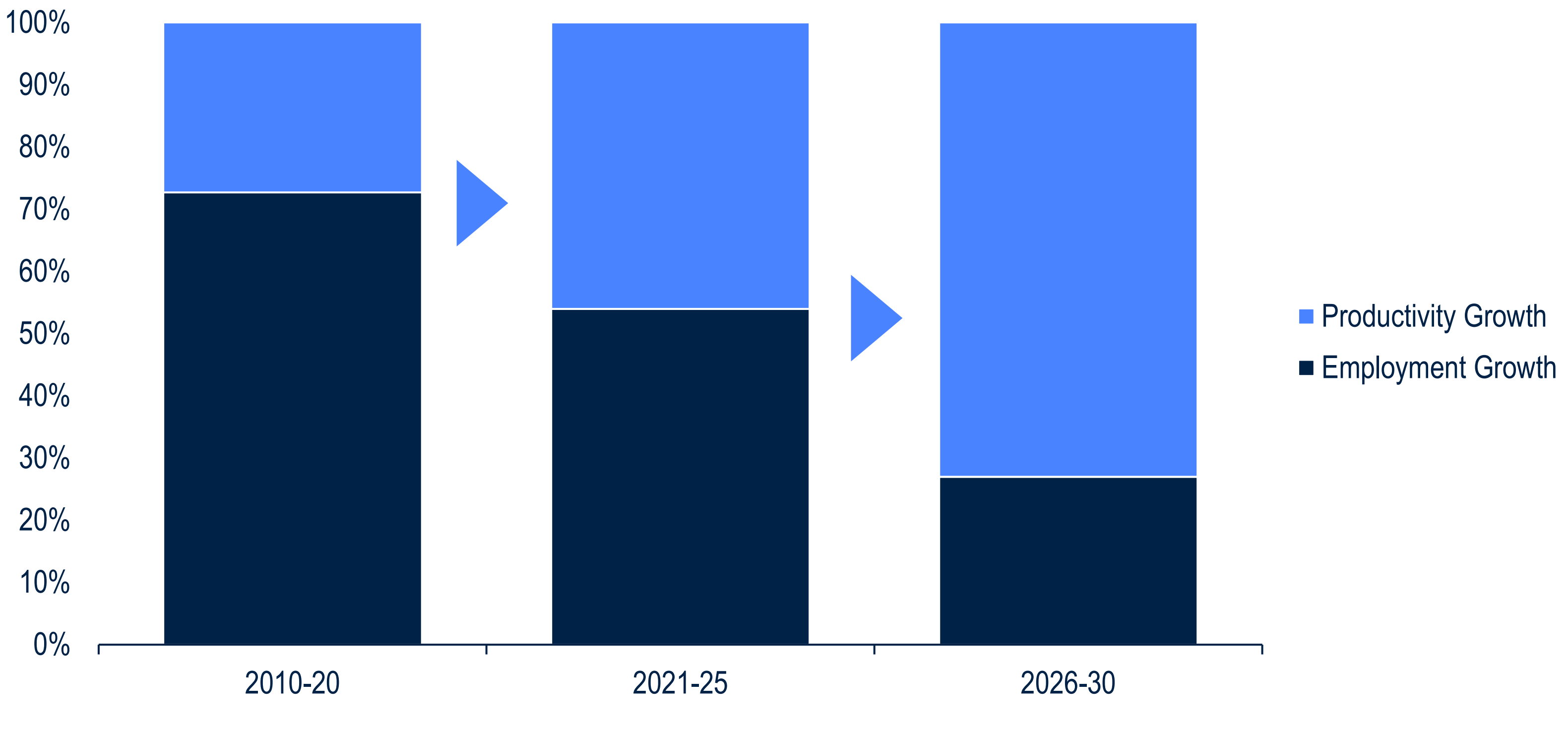
Leverage is defined as the difference between prime net initial yields and bank senior loan costs of 60% loan-to-value.
Sources: Bloomberg, PMA, Oxford Economics, Cushman & Wakefield, PGIM. As of November 2025.

On the back of easing interest rates and tight lending margins, real estate financing has turned accretive again in Europe.

Borrowing costs of around 4% would have a positive effect on total returns once leverage is factored in.

Transition to a Productivity-Driven Economy Underway

Share of European Cities GDP Growth (%)



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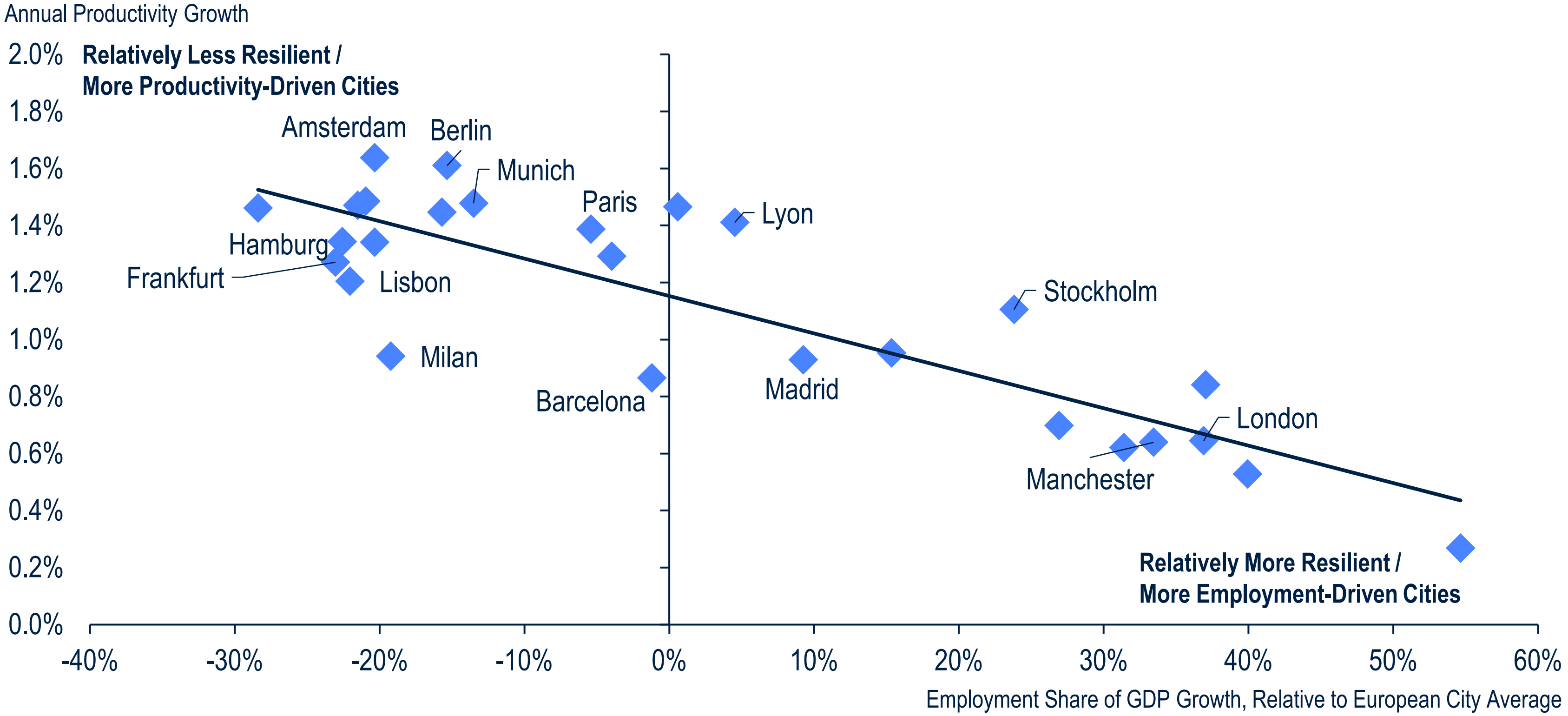
Sources: Oxford Economics, PGIM. As of November 2025.

Productivity is set to be a bigger driver of growth in the next cycle as AI and tech-related investment pick up while employment growth eases.

Productivity-Driven Cities Can Deliver Outperformance as Growth Picks Up

Relative Productivity Growth vs. Employment Share, European Cities (2026-30)



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

Sources: Oxford Economics, PGIM. As of November 2025.

Cities in Germany, France and the Netherlands bounce back quicker when economic growth, and in particular productivity, picks up.

Cities in the UK, the Nordics and Ireland are typically more employment driven and therefore more resilient during downturns.

INVESTMENT OPPORTUNITIES

2

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.

Investment Style

PGIM

CORE/CORE+ STRATEGIES

Market selection will matter in the next cycle.

VALUE-ADD STRATEGIES

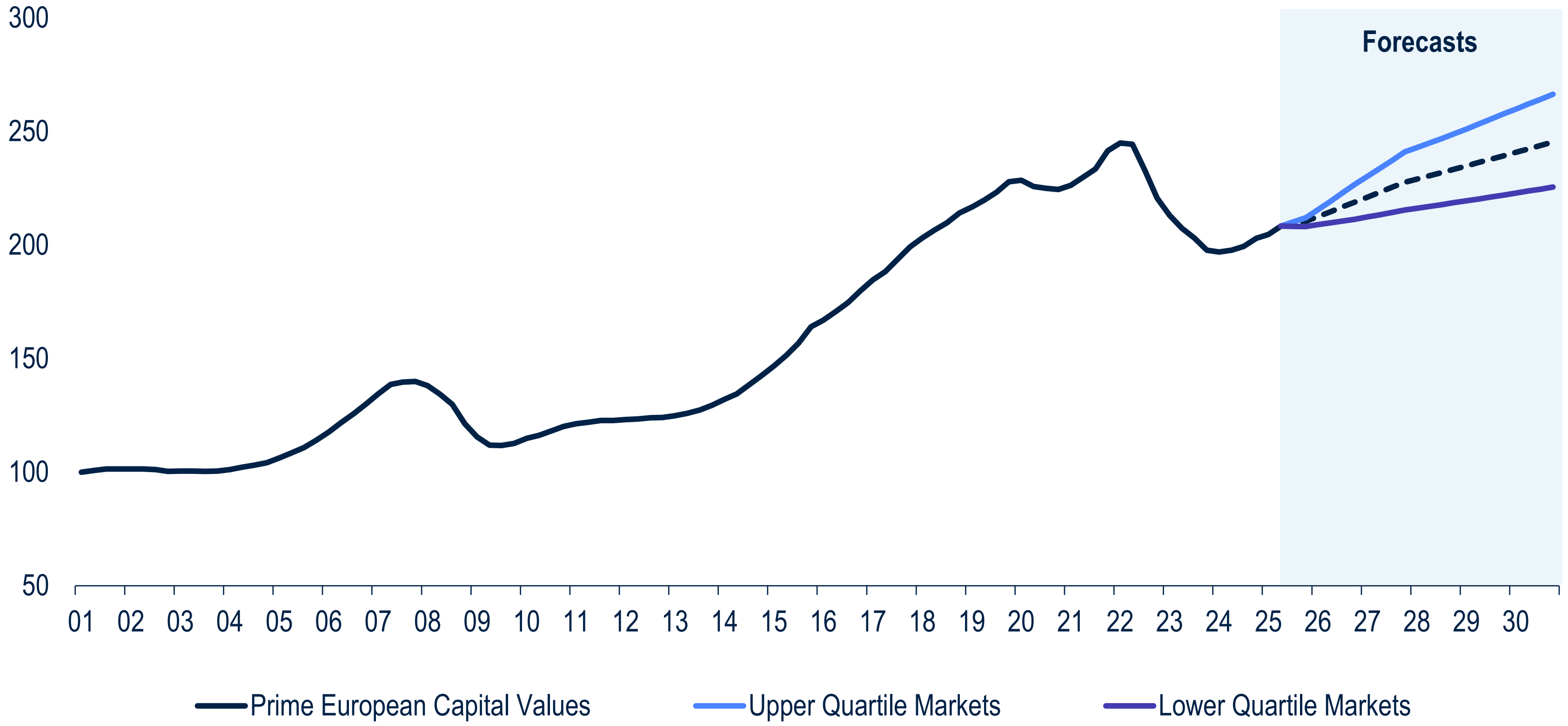
The need for capital injections into existing stock presents a compelling opportunity.

CREDIT STRATEGIES

Credit investments continue to offer attractive income returns.

Core/Core+ Strategies: The Importance of Market Selection

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



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Sources: PMA, Cushman & Wakefield, CBRE, PGIM. As of November 2025.

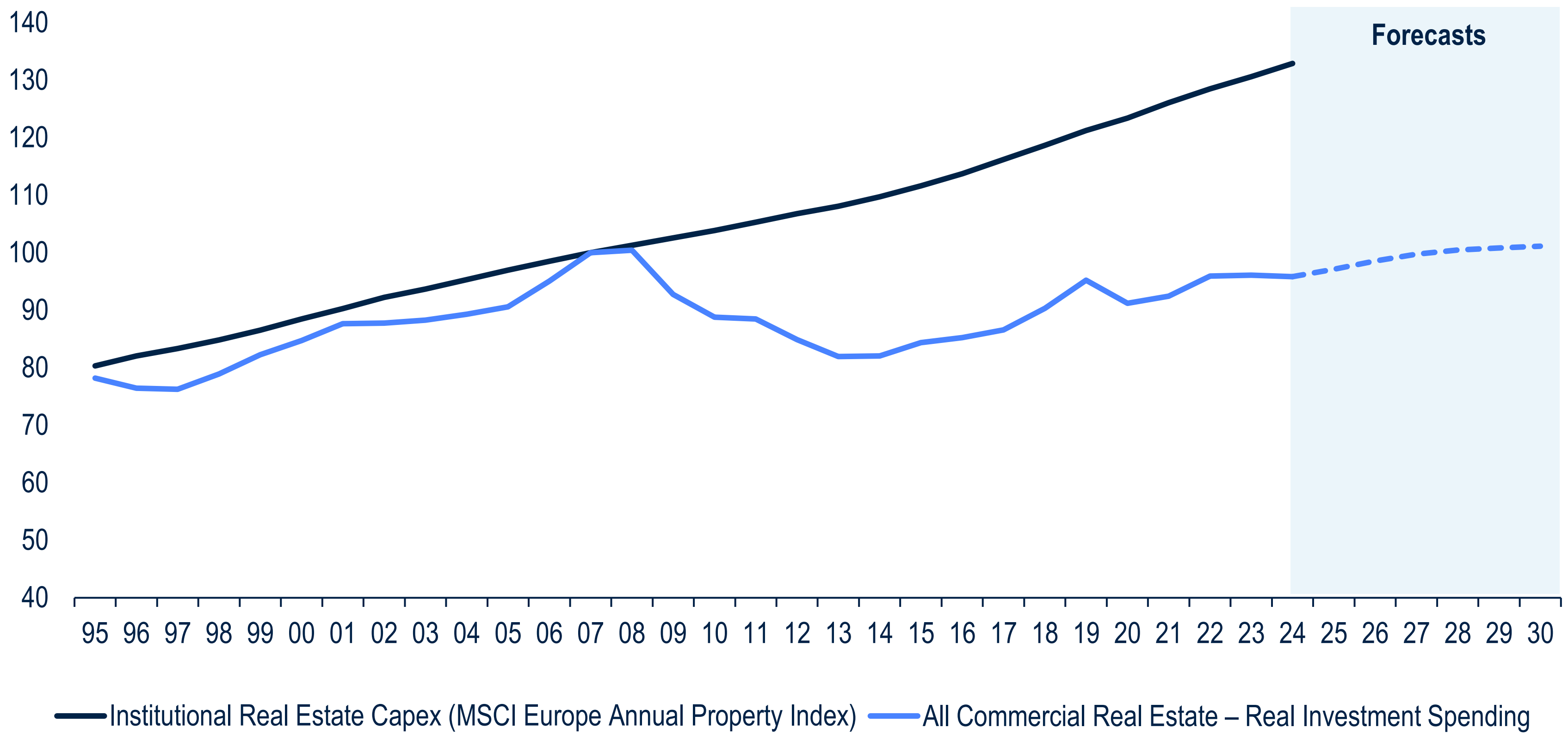
Selecting the right cities and submarkets can lead to outperformance.

The parts of Europe forecast to deliver above average capital growth in the coming years include high rental value CBD office markets in core Europe, retail in London and Paris, Italian logistics and German apartment markets.

Lower rental value office markets and smaller or oversupplied retail locations are expected to underperform.

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.

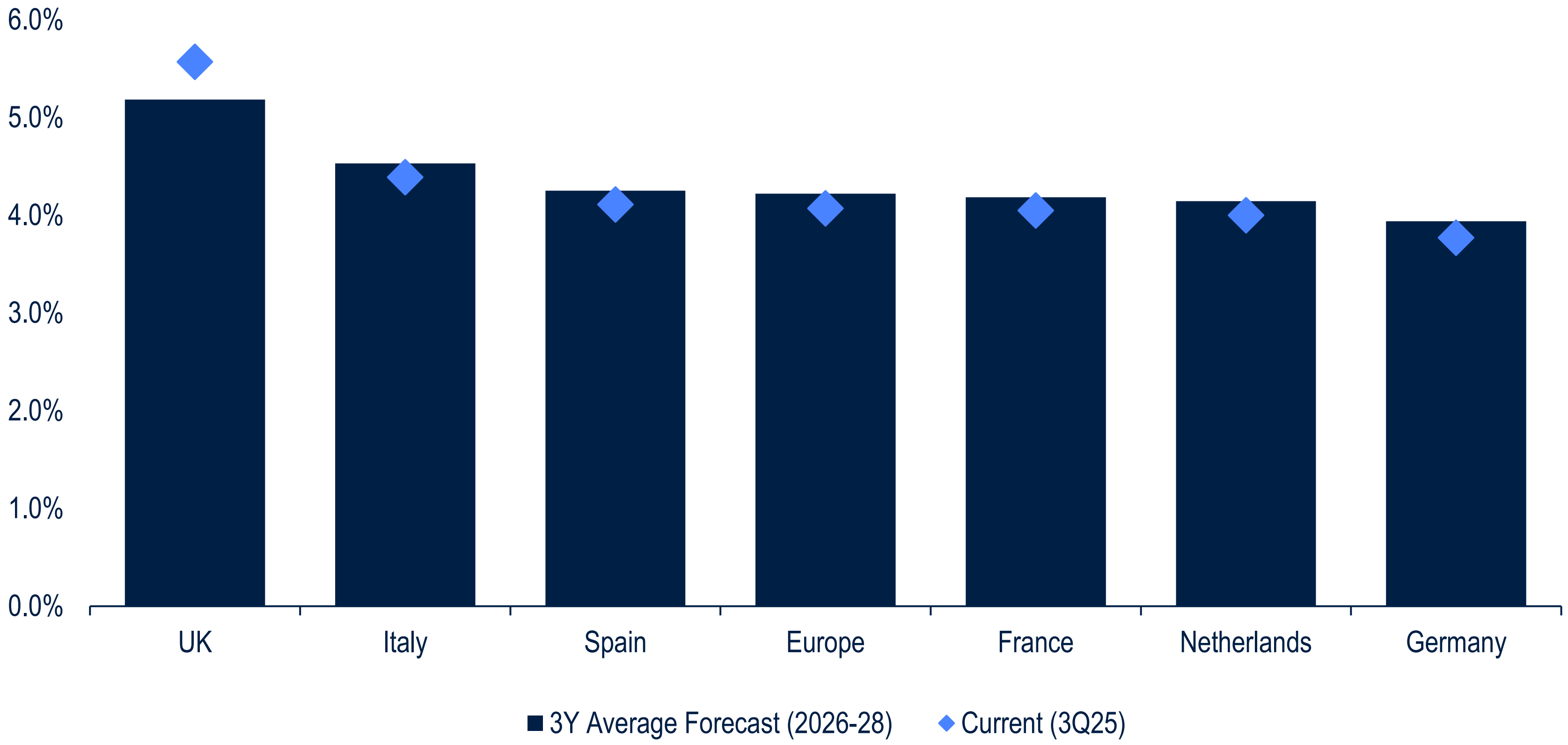
Sources: OECD, Oxford Economics, MSCI, PGIM. As of November 2025.

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 too.

Credit Strategies:
CRE Debt Continues to Offer Attractive Income

3Y Average Senior Bank Office Loan Coupon (%)



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

Sources: Bloomberg, PMA, 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 Europe forecast to remain stable.

This signals continued income resilience even as monetary policy normalizes.

Structural Investment Themes for 2026

1. LIVING

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

2. LOGISTICS

End-consumer distribution-driven properties; selective on size and focused on markets where low supply remains prevalent.

3. DATA CENTERS

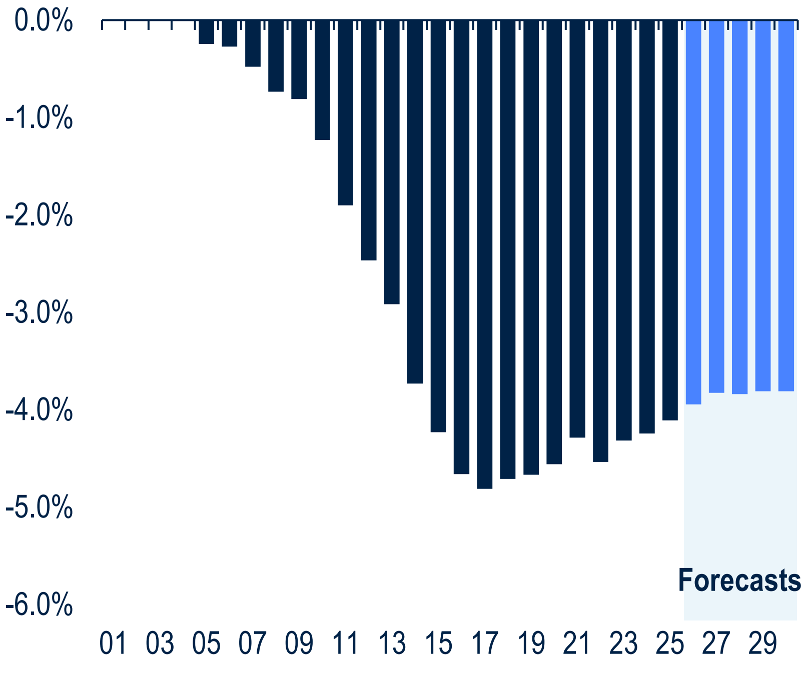
Ongoing favorable demand-supply dynamics due to essential digital infrastructure needs.

4. CREDIT

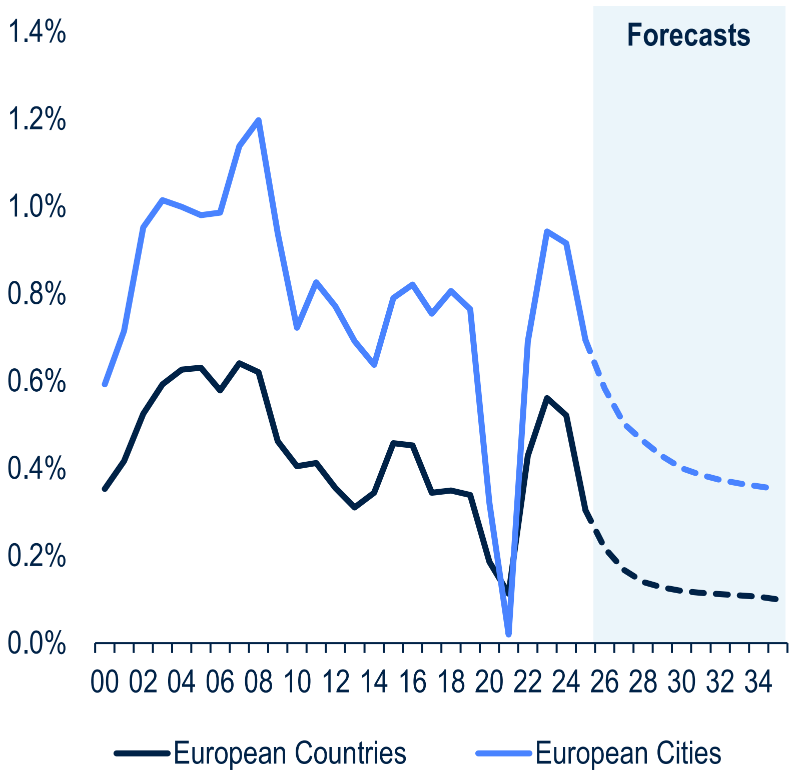
Capturing opportunities as bank financing retrenches and demand for flexible capital solutions grows.

Apartment: Persistent Housing Shortfall – City Population Growth Remains Strong

Estimated European Housing Shortfall, Major European Housing Markets (% Total Households)



European Country and City Population Growth (%)



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

Sources: Eurostat, Oxford Economics, PMA, PGIM. As of November 2025.

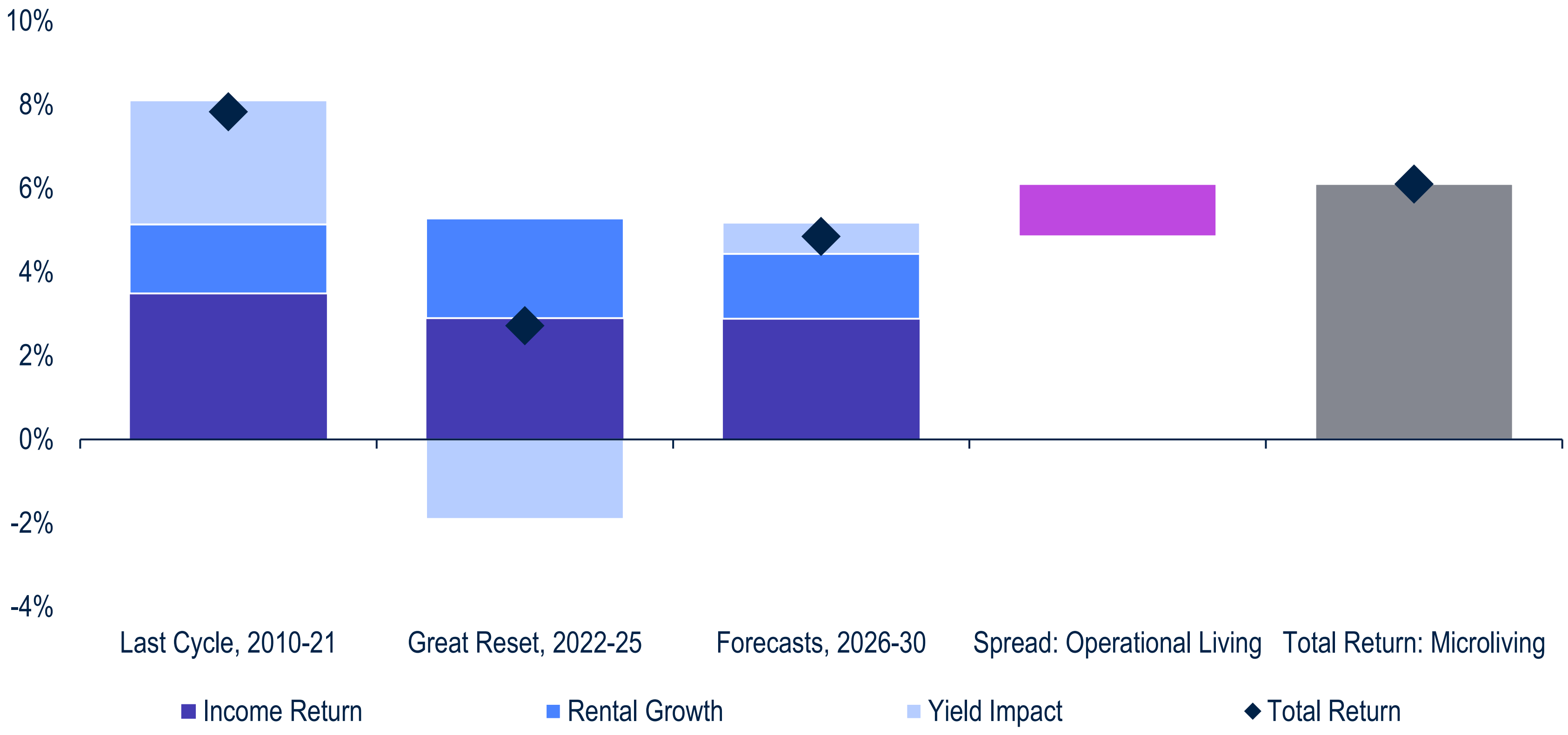
LIVING

Supply has fallen short of household formation, and a significant shortfall of housing persists in major cities.

Urbanization and immigration continue to drive population growth in large European cities, even though national trends are weaker – for example in large housing markets like Germany.

Microliving: Prime Total Returns Picking Up – Operational Yield Spread Supportive

Prime Total Market Returns – European Apartments / Microliving



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Sources: Cushman & Wakefield, PMA, PGIM. As of November 2025.

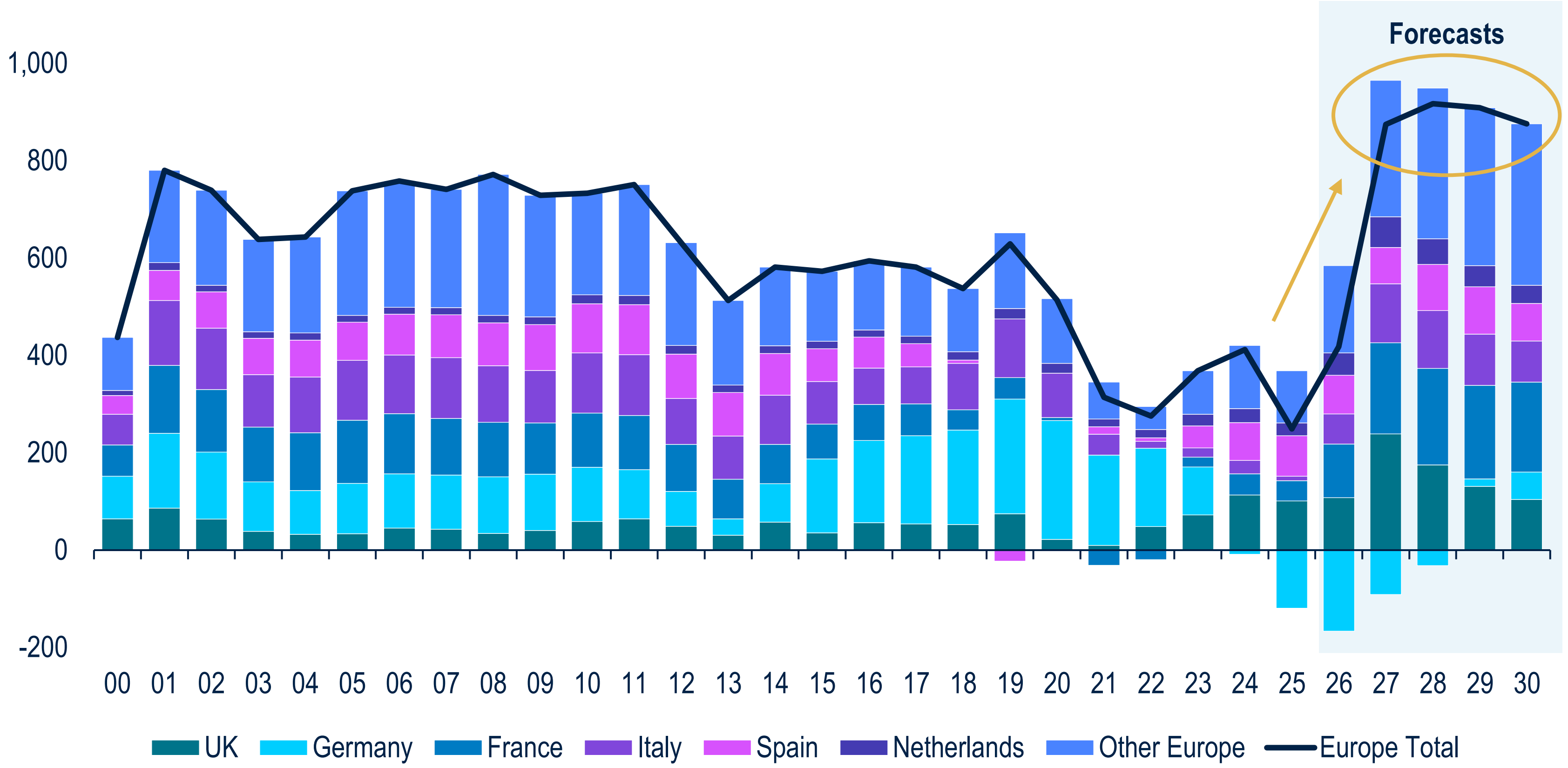
LIVING

In European living, forecast returns are driven by income return and rental growth.

Operational living assets, such as microliving formats, are boosted by an estimated 125bps yield spread on top of apartment yields – taking the example of spreads observed in Germany.

Senior Housing: 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 2025.

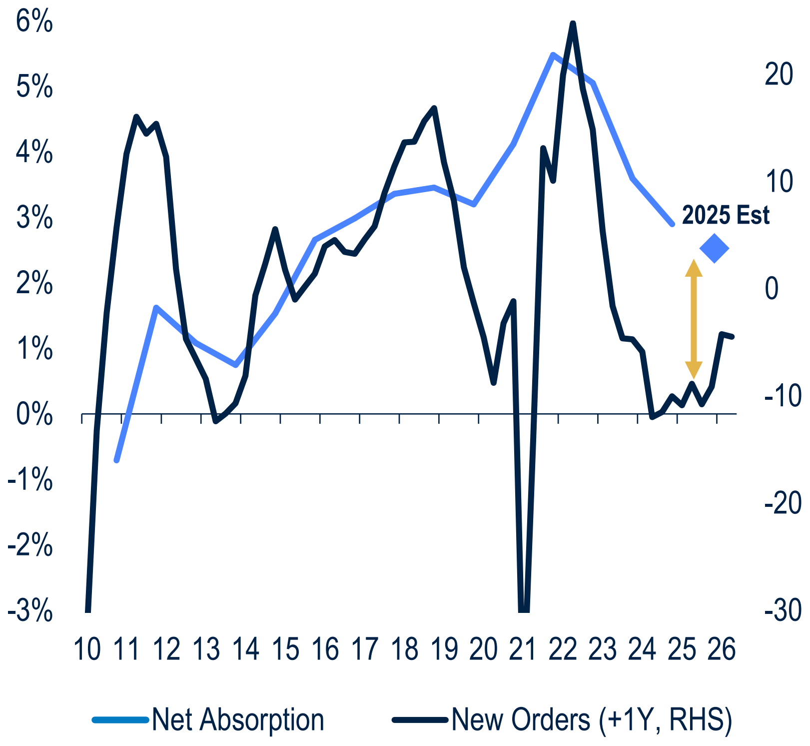
LIVING

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.

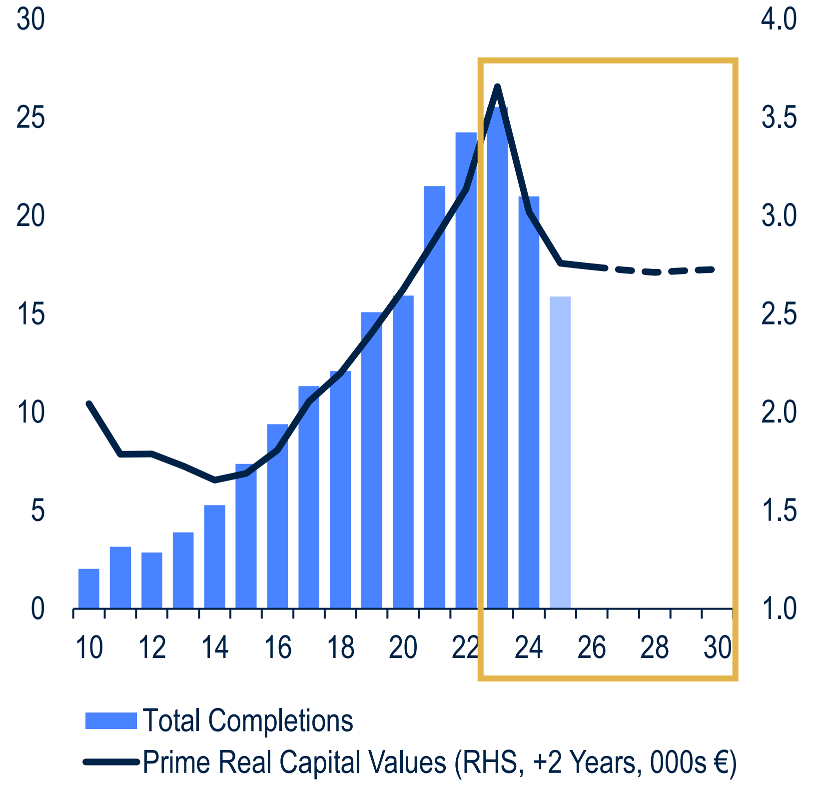
With public sector balance sheets stretched, opportunities for private sector developers and operators to provide senior living facilities are set to increase further.

Logistics: While Demand Has Moderated, Supply Is Also Down

European Logistics Net Absorption (% of Stock) and Industry New Orders (Index)



Europe Total Logistics Completions (Million SQ M) and Prime Real Capital Values (2024 Prices)



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

Sources: Eurostat, PMA, BNP Paribas, Cushman & Wakefield, PGIM. As of November 2025.

LOGISTICS

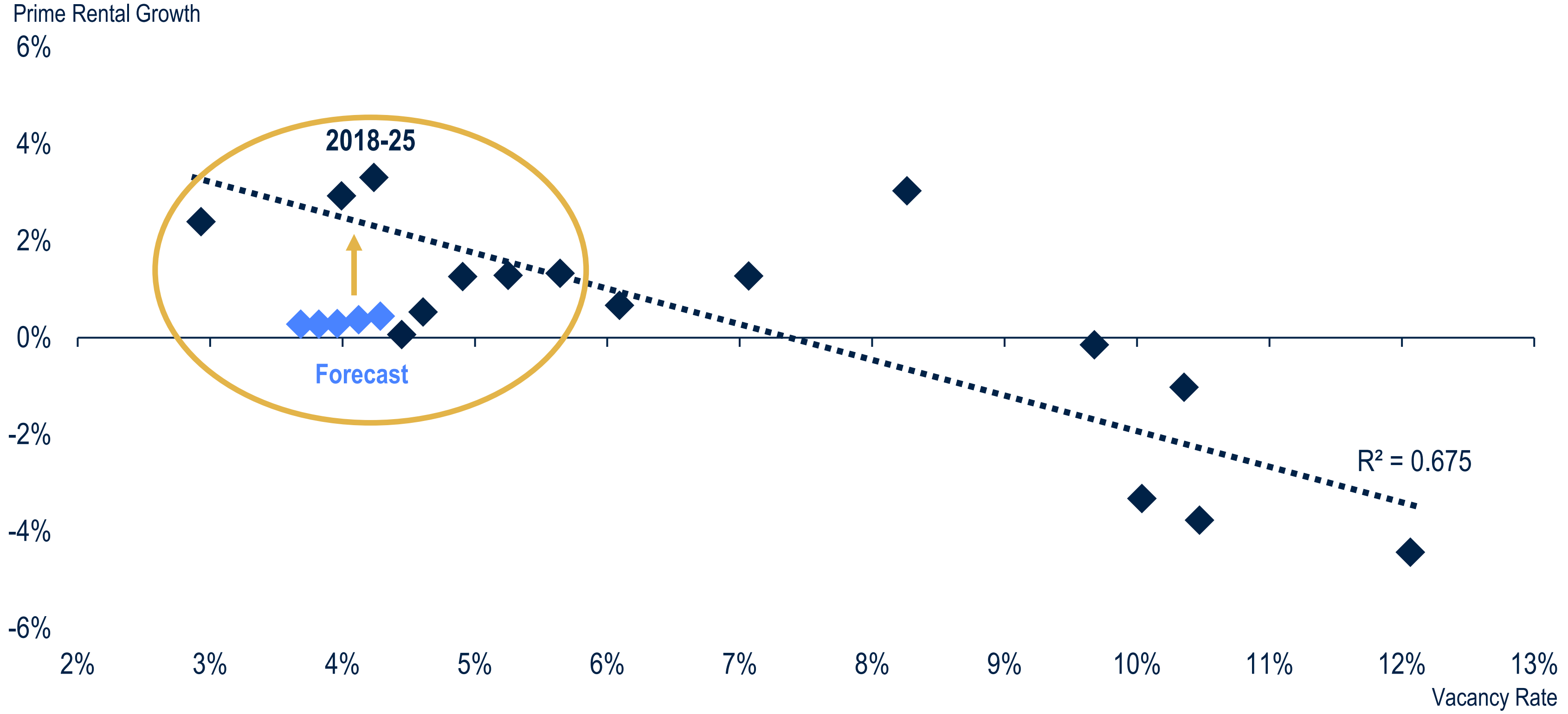
Logistics net absorption has fallen and is expected to remain soft in the near term.

But supply has also pulled back in line with weaker tenant demand and falling values.

Demand is expected to remain resilient in urban areas where there remains a shortage of modern distribution space set against further growth in e-commerce.

Logistics: Vacancy Has Risen but Remains Consistent With Real Rental Growth

Logistics Vacancy Rate vs. Prime Real Rental Growth



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Sources: PMA, PGIM. As of November 2025.

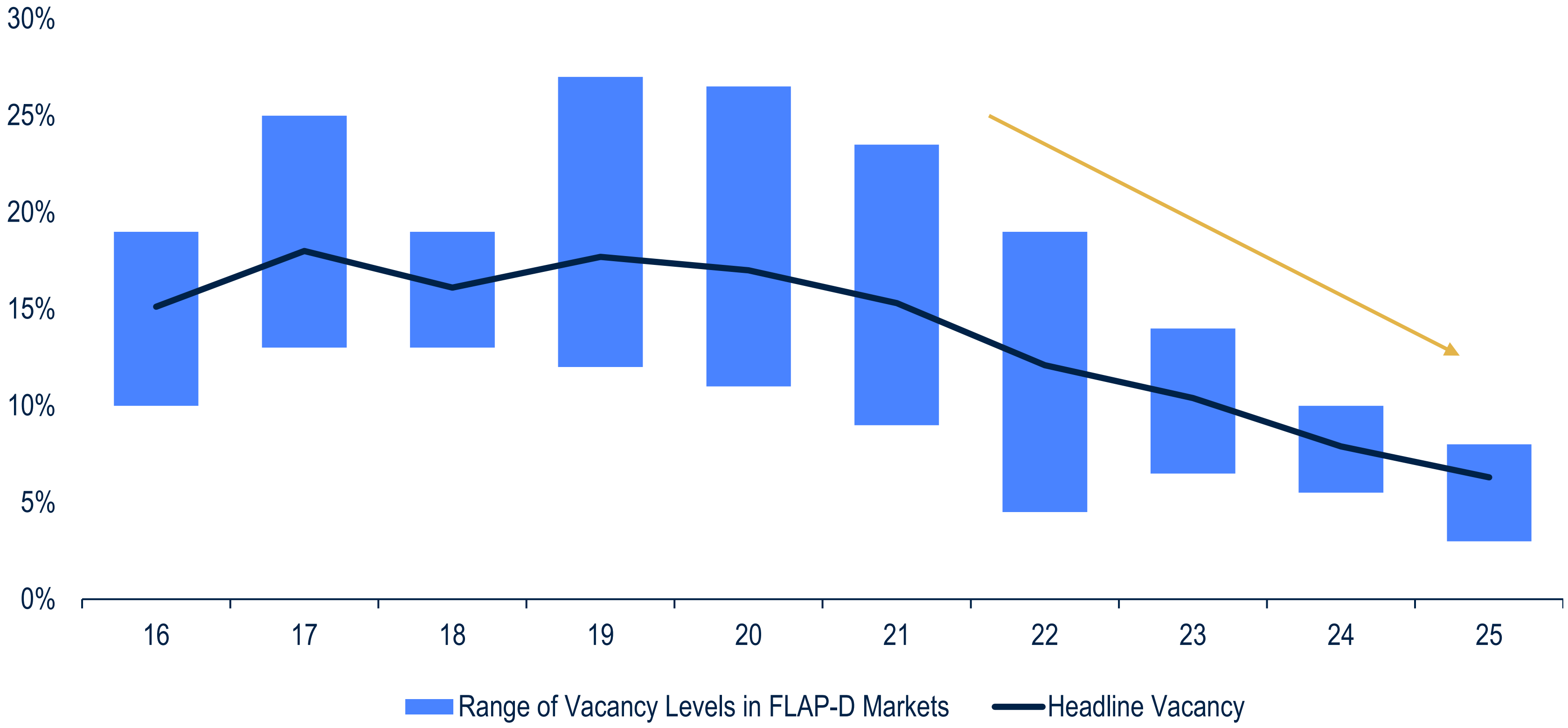
LOGISTICS

Although vacancy rates have ticked up, they remain in line with levels that are consistent with sustained real rental growth.

There are upside risks to rental growth forecasts, for example in Munich, Milan and regional UK distribution markets where vacancy remains at historic lows under 2%.

Data Centers: Intense Competition for Space Has Driven Vacancy Down

Estimated Data Center Vacancy Rates (%)



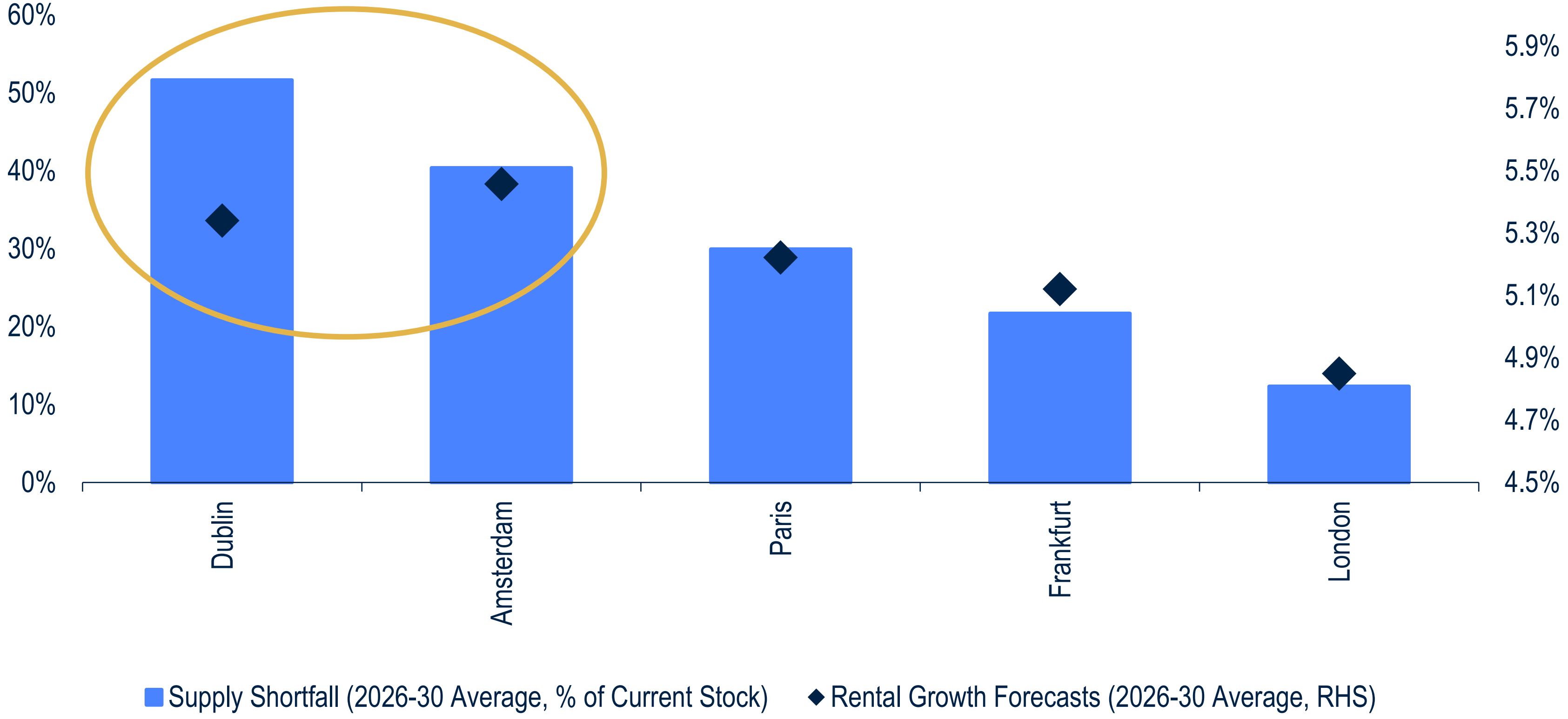
Sources: CBRE, PGIM. As of November 2025.

DATA CENTERS

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

Data Centers: Supply Shortfall Points to Strong Rental Growth Across Key Markets

Data Center Shortfall vs. Rental Growth Forecasts (% p.a.)



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

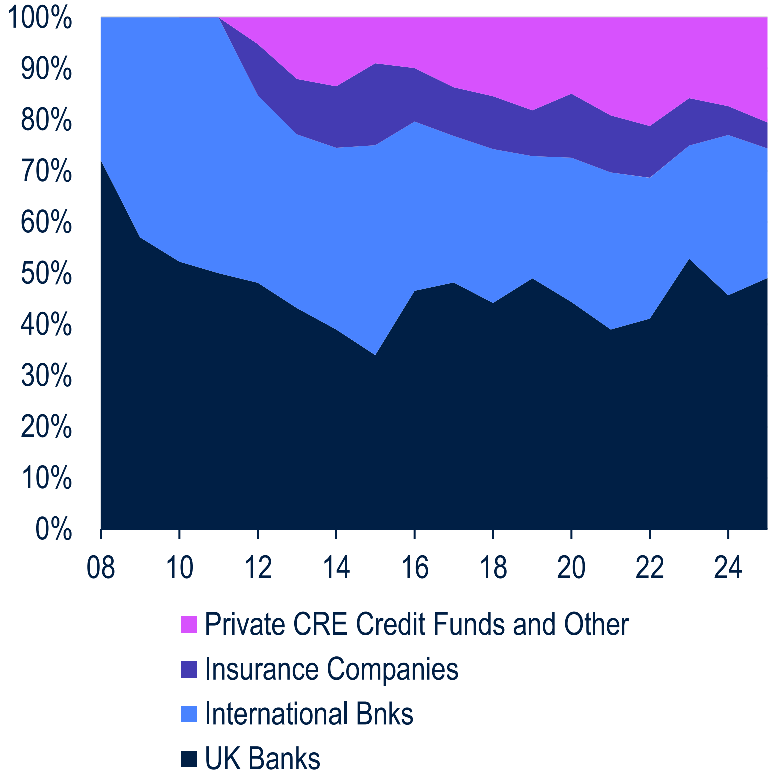
Sources: JLL, Green Street, Arthur D Little, PGIM. As of November 2025.

DATA CENTERS

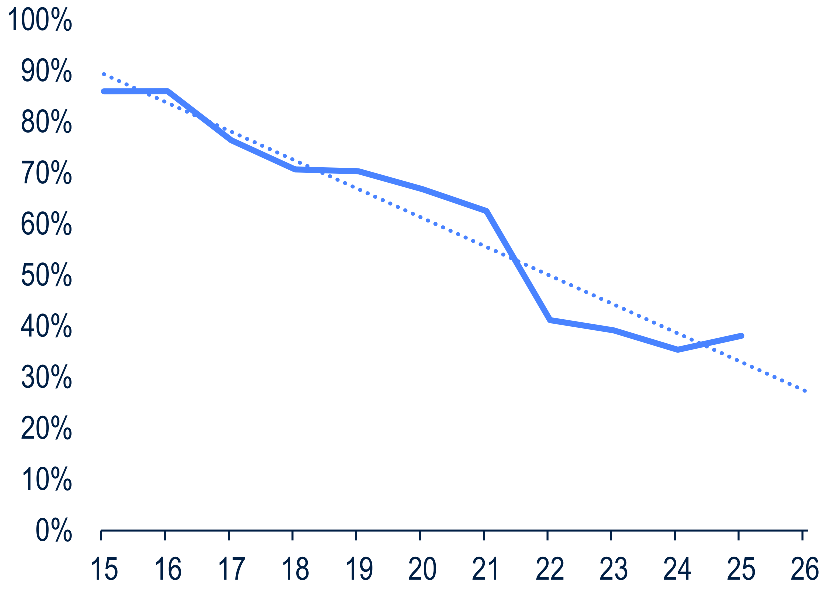
While strong rental growth is forecasted across the key FLAP-D markets, driven by supply shortfalls, Dublin and Amsterdam are expected to benefit the most from strong demand set against limited supply.

Development Financing: Declining Bank Participation

Bank Market Share of Development (%)



UK Bank Market Share of Development (%)



Source: Bayes Business School, APRA, PGIM. As of November 2025.

CREDIT

Regulatory pressures and risk-weighted capital constraints have reduced bank appetite for CRE lending, in particular development loans.

In the UK banks will continue to limit their appetite for CRE and reduce their share of overall originations. This will remain particularly pronounced in development lending, where banks market share has fallen significantly since 2015.

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

Tactical Investment Plays

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1. OFFICE

With productivity growing, target high rental value locations that are in demand among occupiers.

2. HOTEL

A strong demand backdrop is benefiting tourism markets.

3. RETAIL

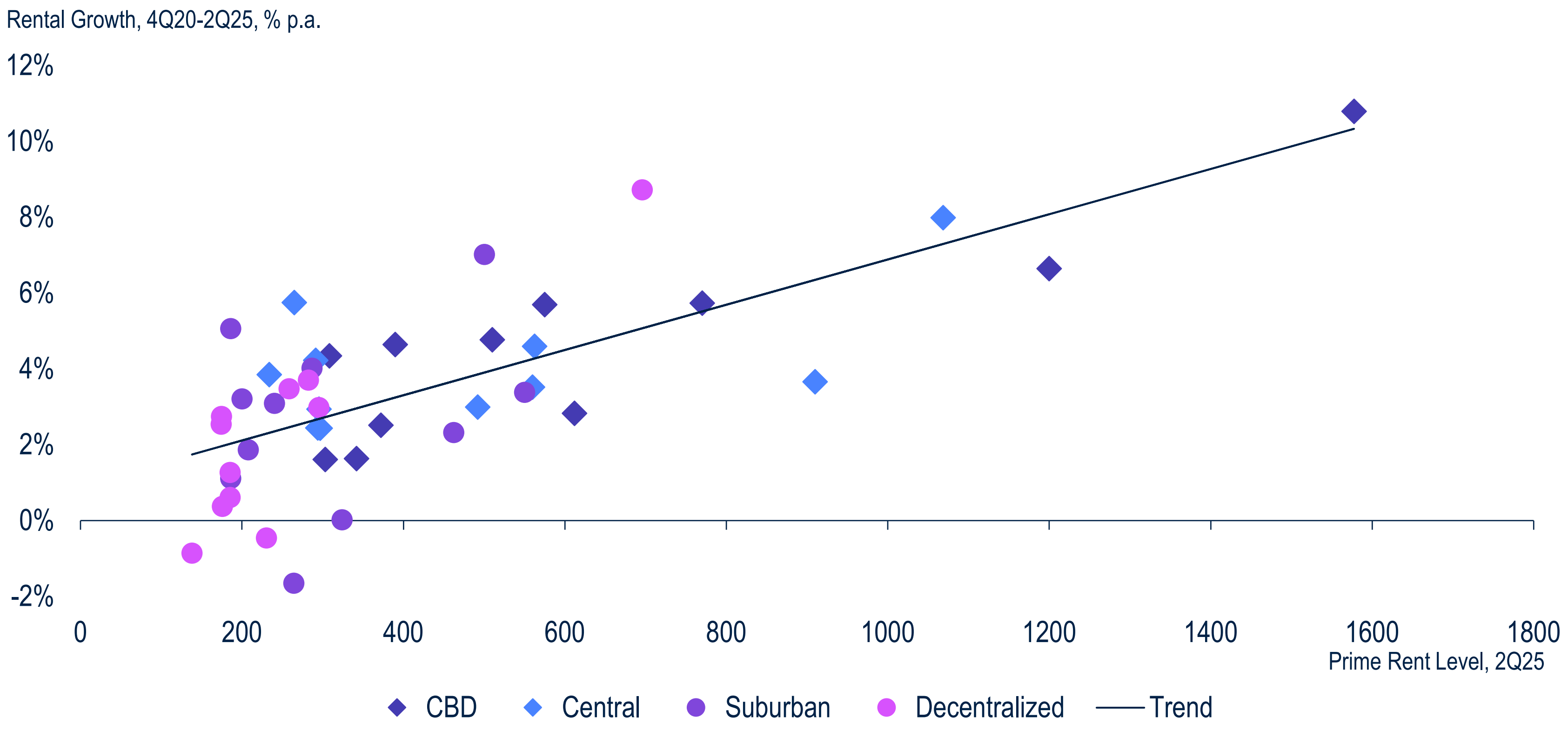
Opportunities emerging on the back of rising in-store spending as well as elevated space affordability.

4. CREDIT

Filling the gap between equity and senior bank debt. Capturing market share in Germany as NPLs rise.

Office: Higher Value Locations Outperforming

Prime Rental Growth vs. Rent Levels, Major European Cities



Sources: Cushman & Wakefield, PMA, PGIM. As of November 2025.

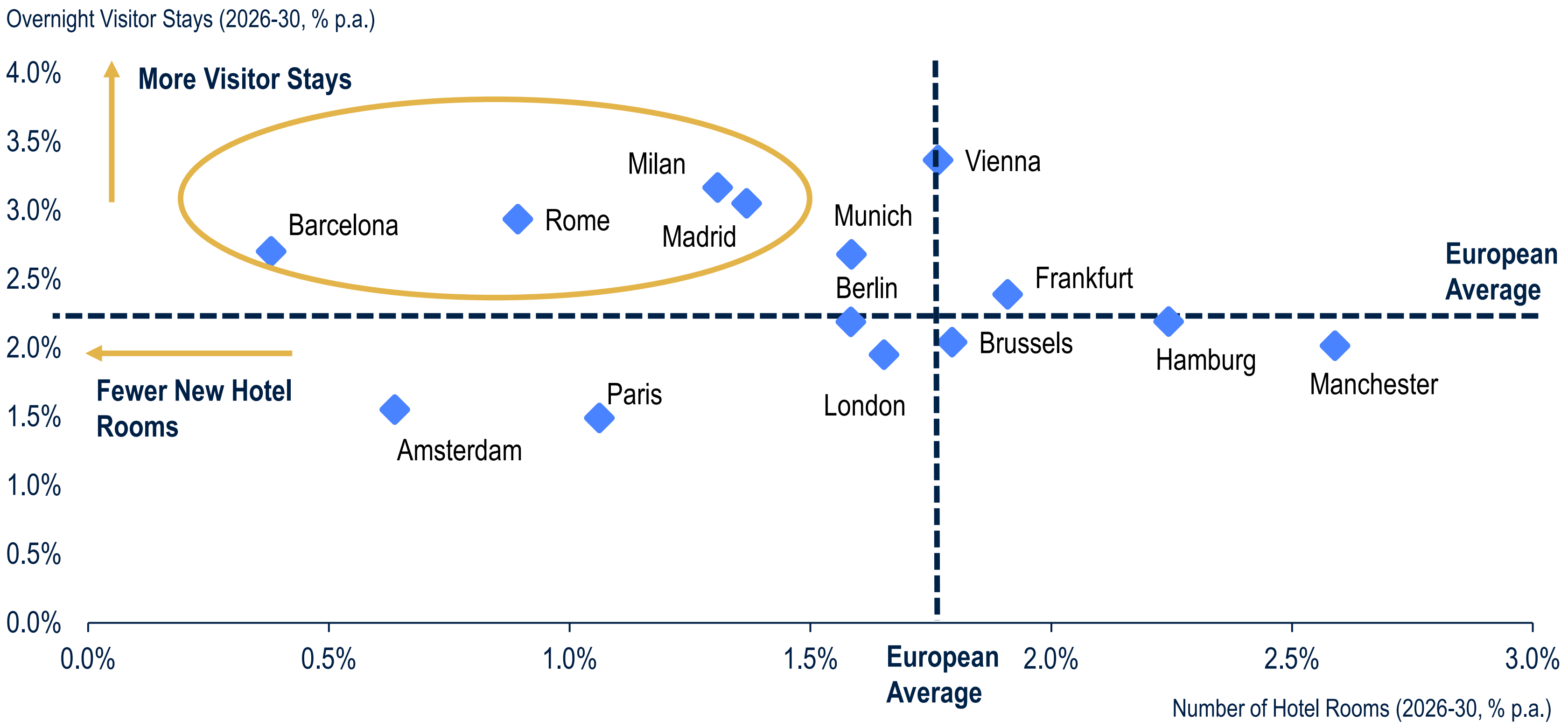
OFFICE

Office demand is still facing headwinds, but while vacancy has risen occupiers are reporting shortages of space, demonstrating how selective demand currently is.

Unlike in the last cycle, which was employment driven, firms are looking for productivity gains. Demand and rental growth are now strongest for higher quality, higher rent locations that offer agglomeration benefits.

Hospitality: Southern European Tourism Destinations Are Set to Outperform

Visitor Overnight Stays vs. Hotel Room Supply Growth Forecasts



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Sources: PMA, PGIM. As of November 2025.

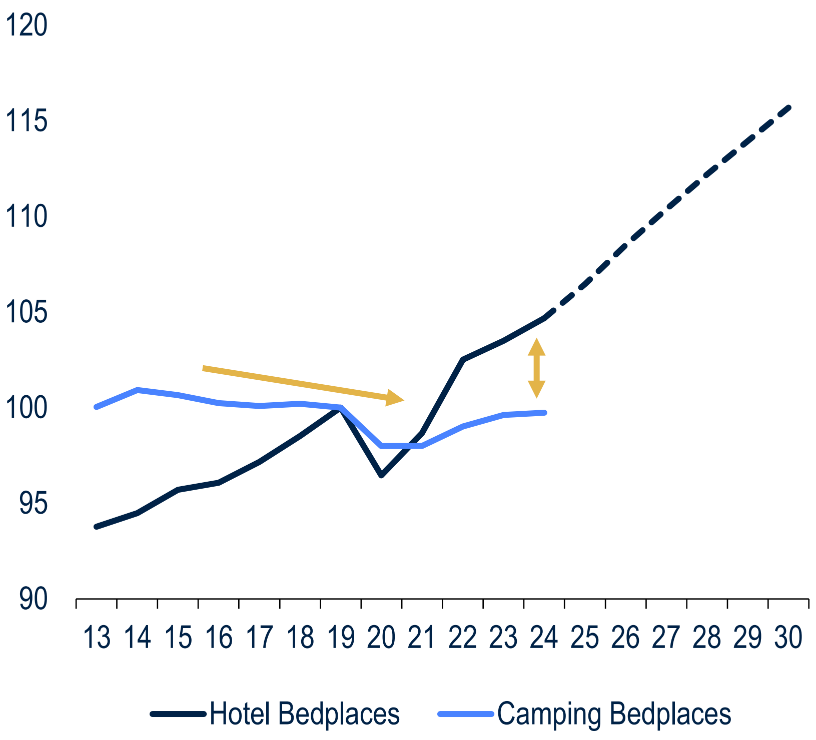
HOSPITALITY

A favorable demand-supply outlook points to attractive hospitality opportunities in selective locations.

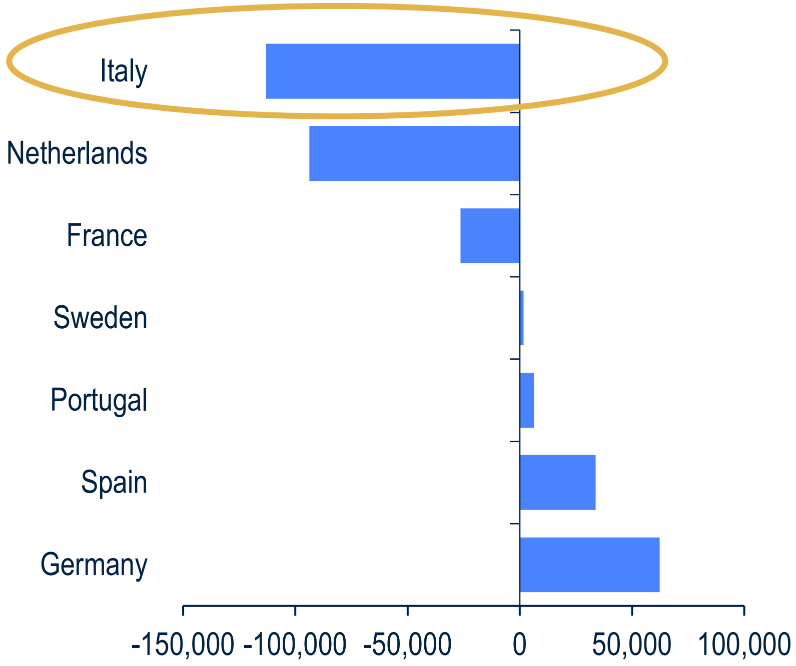
Southern European cities are set to outperform, on the back of strong momentum from visitor growth combined with a limited development pipeline.

Hospitality: Lack of Supply in Campsites Points to Development Opportunities

Hospitality Supply Forecast: Hotel vs. Camping (Index 2019=100)



Change of Camping Bedplaces Over the Last Decade



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

Sources: Oxford Economics, PMA, PGIM. As of November 2025.

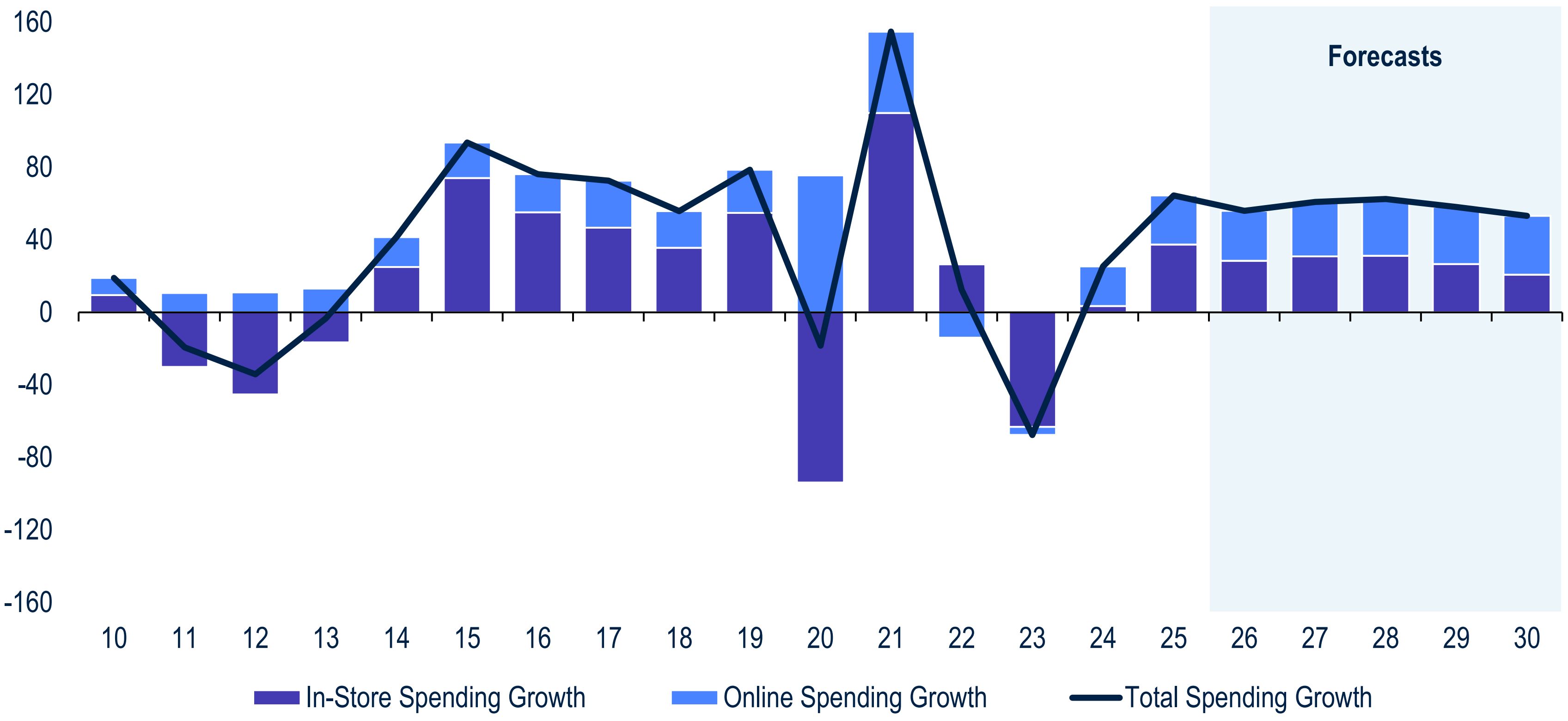
HOSPITALITY

While hotel rooms have grown over time to meet rising tourism demand in Europe, camping bedplaces have fallen over the past decade, suggesting there has been a lack of capital going into this hospitality sub-sector.

Italy stands out as the market that has experienced the biggest fall in camping supply, pointing to opportunities for new developments or expansions.

Retail: Environment for Physical Retailers Turning Increasingly Positive

Retail Spending Growth - Europe (Real, 2025 Prices, € Billions)



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Sources: PMA, Oxford Economics, PGIM. As of November 2025.

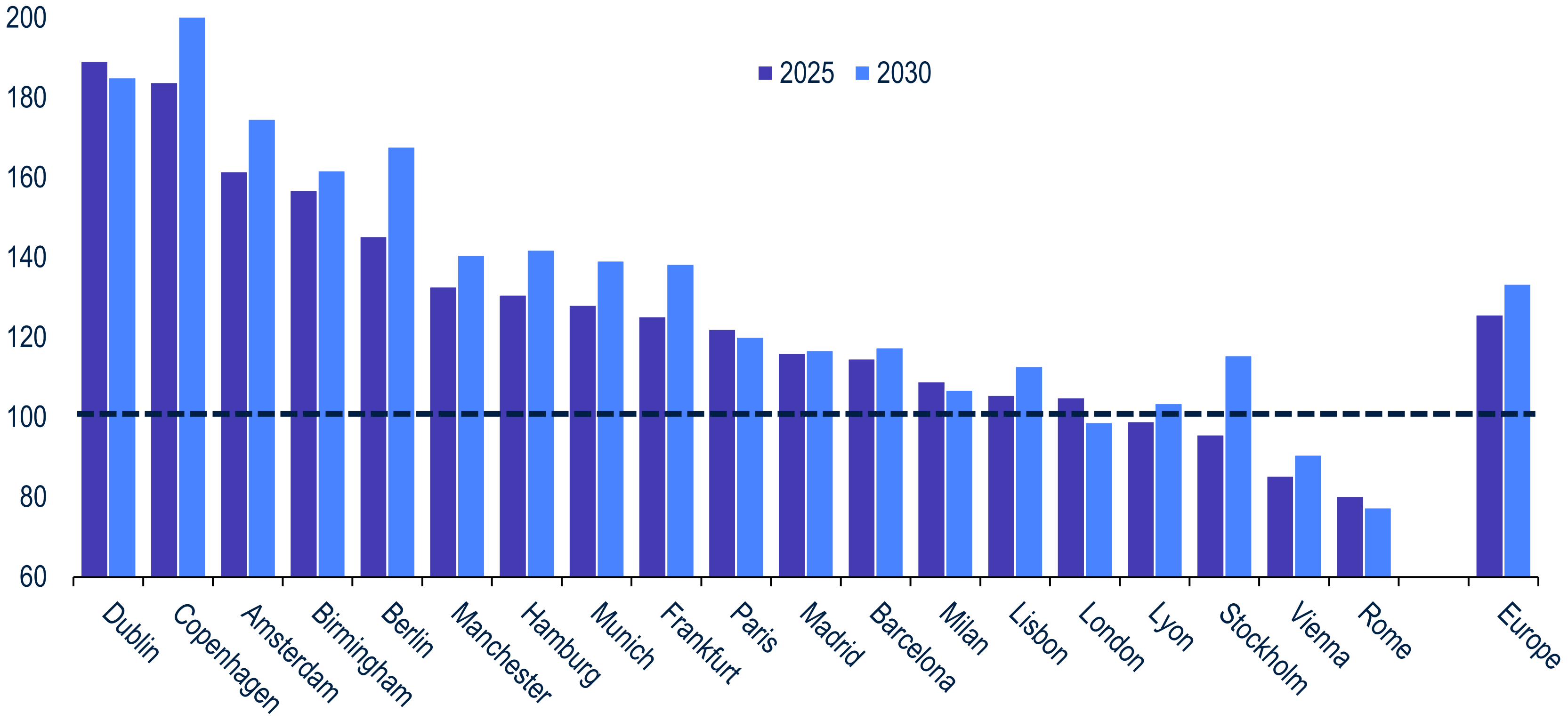
RETAIL

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.

Retail: Elevated Affordability Points to Upside Risks to Rental Growth

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



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Note: Affordability is calculated as the ratio of economic output (GVA) per sq m of occupied stock to headline prime rents.

Sources: PMA, Oxford Economics, PGIM. As of November 2025.

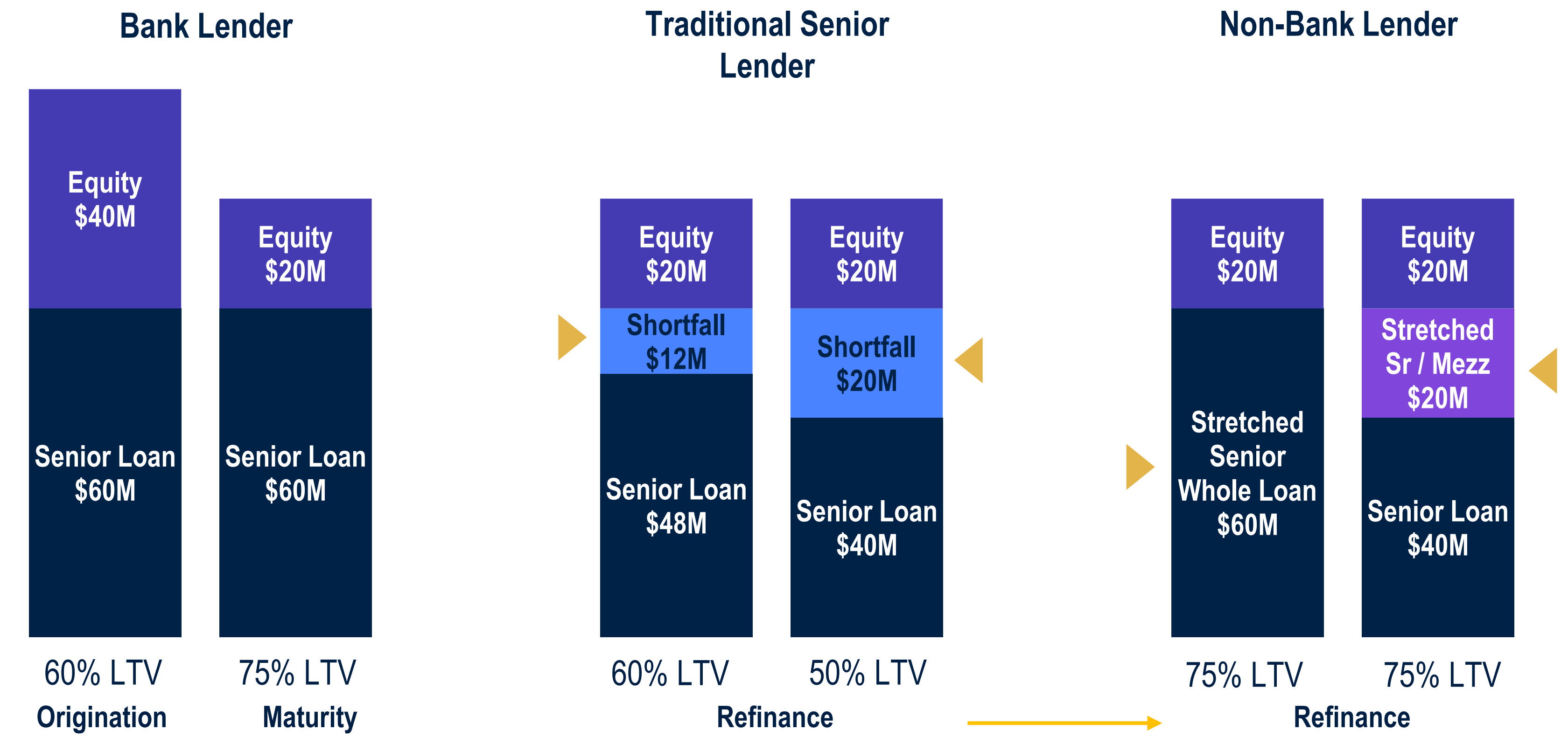
RETAIL

Taking into account how much retail gross value added is created per square meter of physical store space across European cities, renting retail space has become very affordable and is forecasted to improve further.

This is supporting expectations of a recovery in rental growth in most European markets.

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.

CREDIT

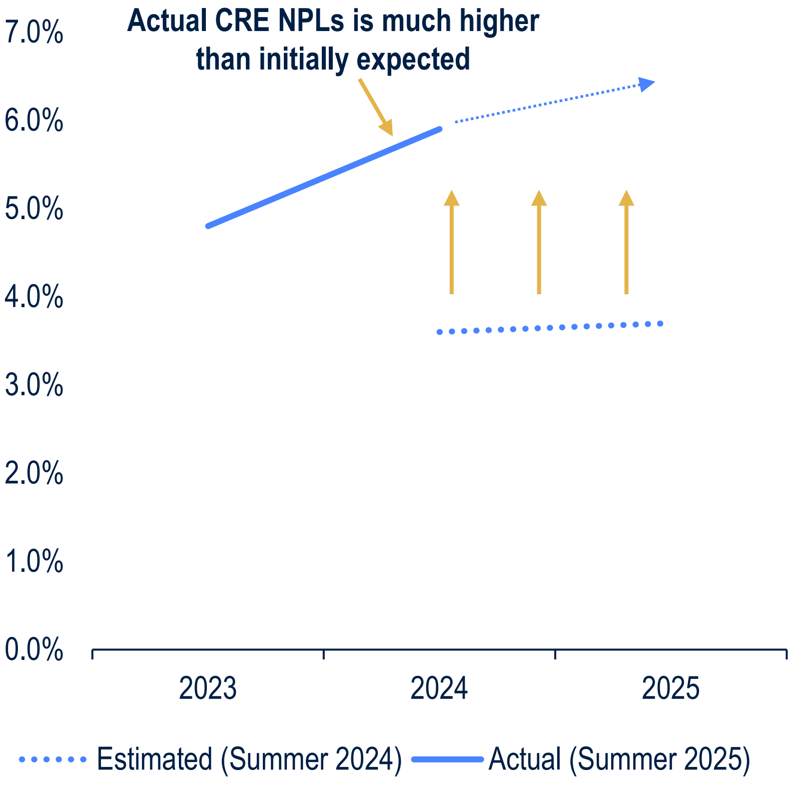
The gap between senior leverage and sponsor equity widened as interest rates rose and property values rebased.

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

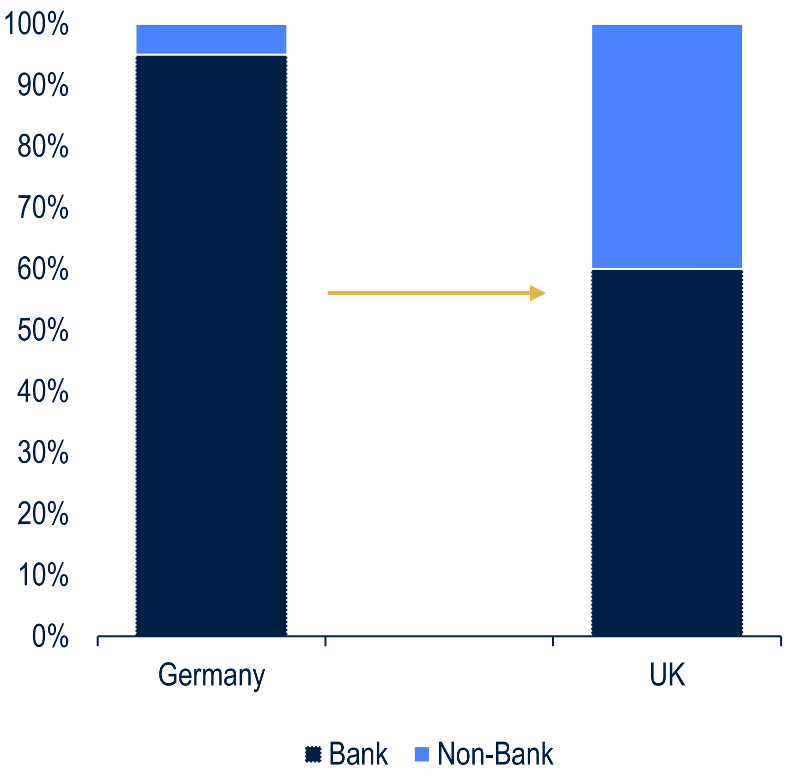
This dislocation will likely continue to create opportunities for whole loans, stretched senior structures, and subordinated tranches, enabling investors to capture incremental yield.

Rising German NPLs: Capturing Market Share as NPLs Rise

Germany CRE NPL Ratio (%)



Potential Market Shift (% Debt Outstanding)



Sources: BKS, Bayes Business School, PGIM. As of November 2025.

CREDIT

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 a unique opportunity to expand meaningfully, with potential to follow the structural evolution seen in the UK.

Summary of European Investment Opportunities

	NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
LIVING	Demographics High construction costs and supply shortfall Low homeownership affordability	• For-rent apartments • Microliving • Purpose-built student accommodation • Senior housing
LOGISTICS	E-commerce growth Urban infill supply constraints	• Infill logistics
DATA CENTERS	Data demand outstripping capacity Need for new development	• Hyperscale • Colocation
CREDIT	Bank retrenchment Gap financing NPLs in Germany	• Core originations • Transitional debt • Subordinated debt
TACTICAL	Prime office demand outperformance Tourism demand expansion In-store consumer spending	• CBD and central office • Hotels • High street retail

Source: PGIM. As of November 2025.

PGIM

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