



2026 REAL ESTATE OUTLOOK

UNITED STATES



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

UNITED STATES

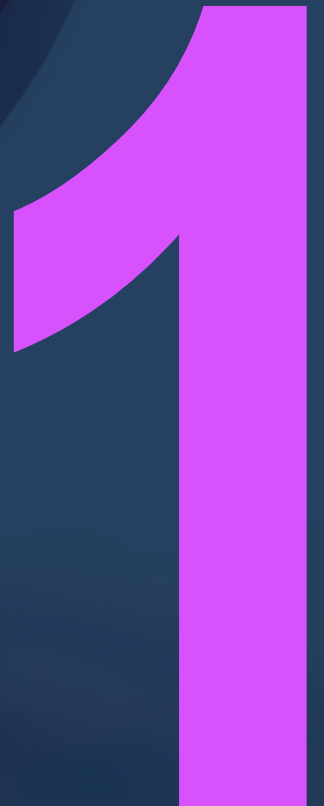
Uncertainty is prolonging, rather than reversing, the early phase of the real estate recovery cycle.

Tepid capital availability limits competition for acquisitions, development and subordinated credit.

This can improve the odds of selecting attractive assets, with mitigated downside risk and the potential for high returns.

MARKET OUTLOOK

Early-cycle investment opportunities should remain available through the year, as capital patiently re-enters real estate markets. The lack of core buyers is both a constraint and opportunity for investors.



The Recovery Phase of the Cycle Remains Intact

U.S. CycleWatch Indicators

INDICATOR	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Leading Economic Indicator										
Domestic Corporate Profits										
BAA to High Yield Spread										
Employment Trends Index										
Consumer Confidence										
Property Valuation Index										
In-Store Retail Sales										
Durable Goods/E-commerce										

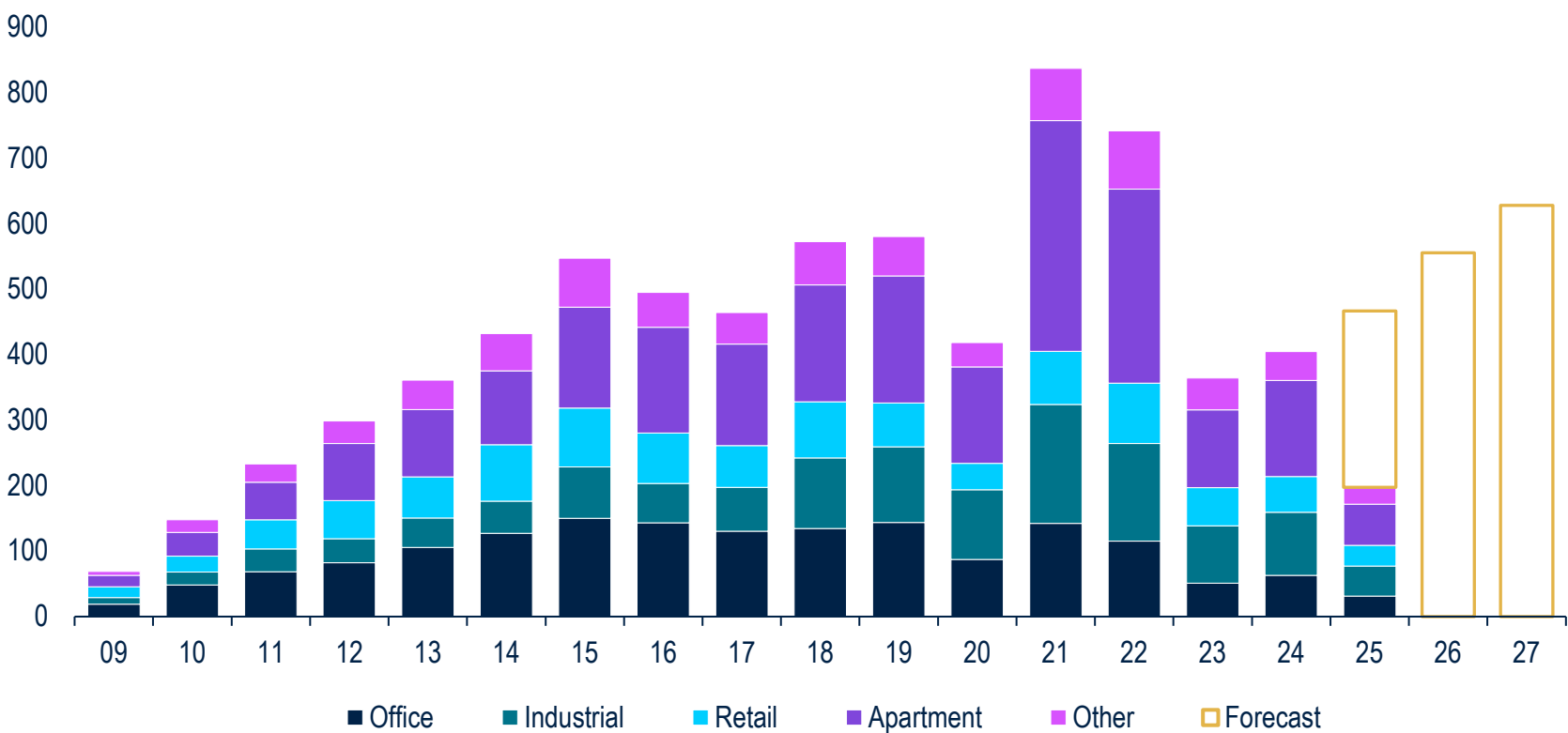
A time-tested suite of leading indicators signals that real estate values should continue to rise.

While consumers are showing some signs of strain, broader economic and capital markets indicators remain favorable for both tenant and investor real estate demand.

Sources: The Conference Board, Moody's Analytics, Bloomberg, Green Street, NCREIF, PGIM. As of November 2025.

Yet No One Is Rushing Into Real Estate . . .

United States Transaction Volume (USD\$ Billions)



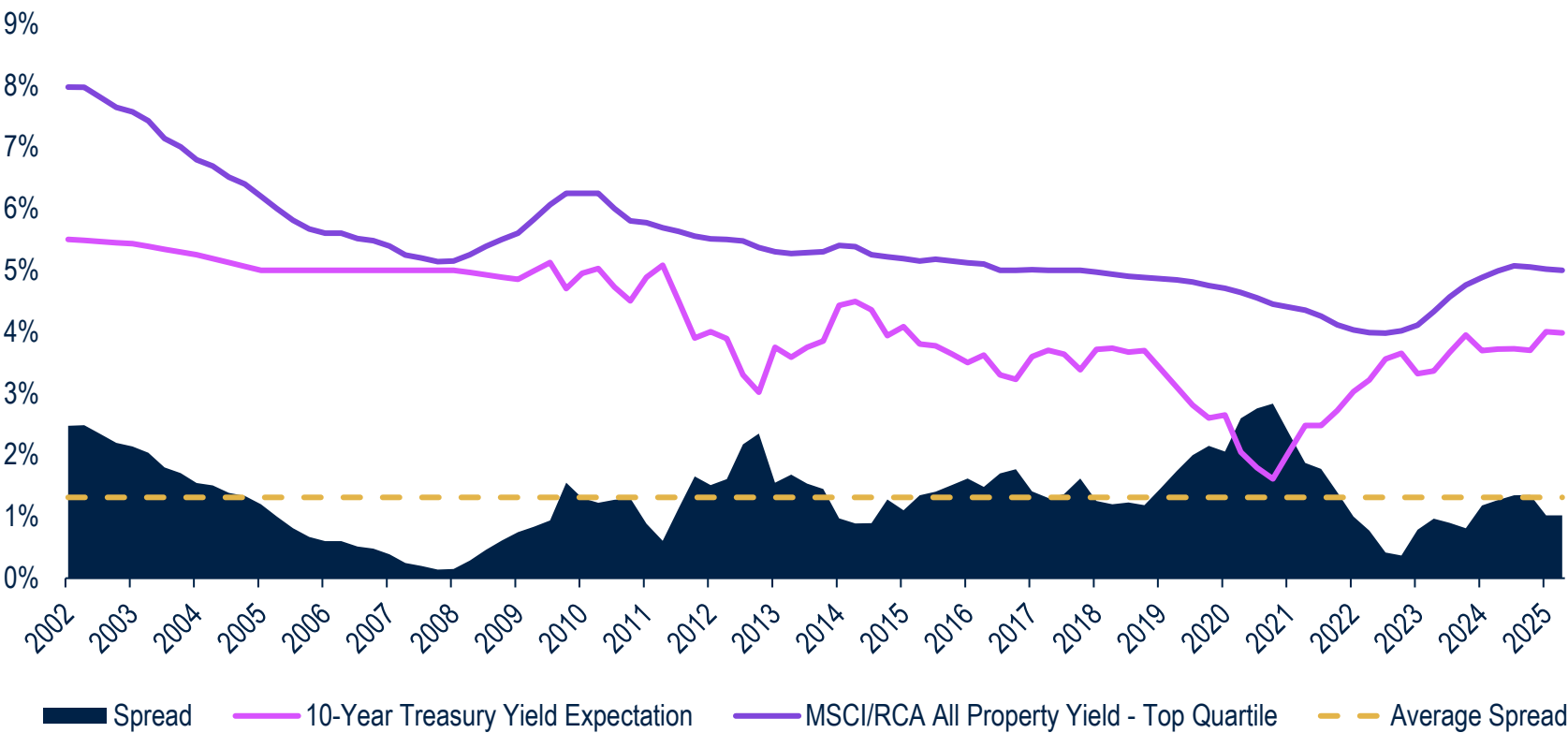
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: Real Capital Analytics, PGIM. As of November 2025.

Transactions volumes remain well below post-2020 peaks across all property types. This is due to high debt costs and patient sellers – there is very little distress.

Our forecasts for a gradual recovery in transactions volumes is based on assumptions of further decreases in interest rates, and a rekindling of interest from core buyers.

... With Real Estate Pricing Fair But Not Cheap ...

U.S. Average Property Yields vs. 10-Year Treasury Expectations



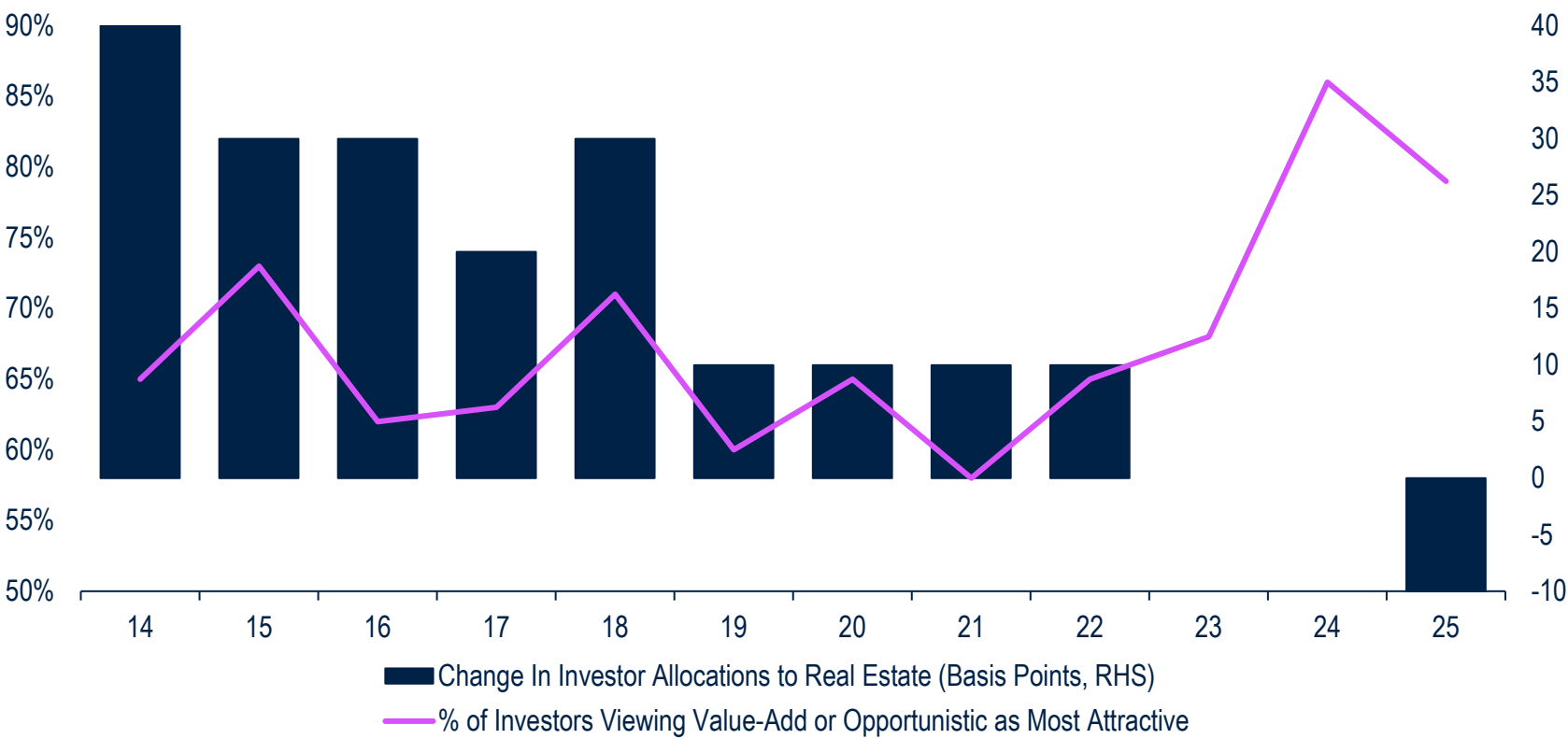
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Sources: NCREIF, Federal Reserve Bank of Philadelphia, PGIM. As of November 2025.

The spread between real estate yields and investors' expectations of 10-year Treasuries is close to average today.

That is wide enough to signal values have room to move up, but not wide enough to attract yield-oriented capital into real estate.

... And Allocations Are No Longer Rising

Investors Who View Value-Add and Opportunistic as Most Attractive (%) vs. Change in Real Estate Allocations (Basis Points)



The tailwind created by institutional investors allocating more to real estate has turned into a headwind.

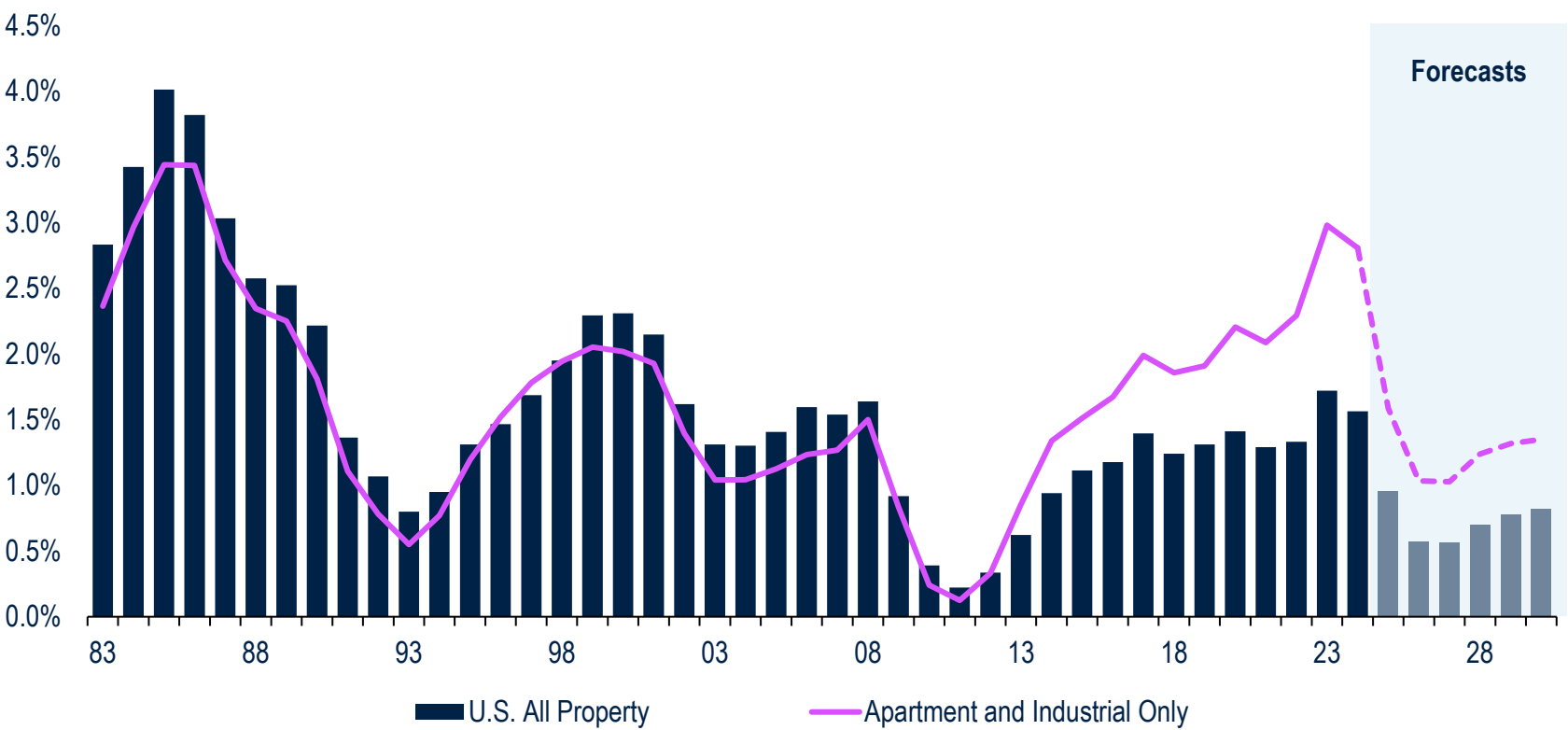
Many investors' real estate holdings are at or close to their targets. They do not need additional core real estate.

As a result, an abnormally high number of investors are targeting value-add and opportunistic returns.

Sources: PREA, Hodes Weil, PGIM. As of November 2025.

Declining Supply Should Support Rent Growth . . .

Net Additions to Supply (% of Stock)



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

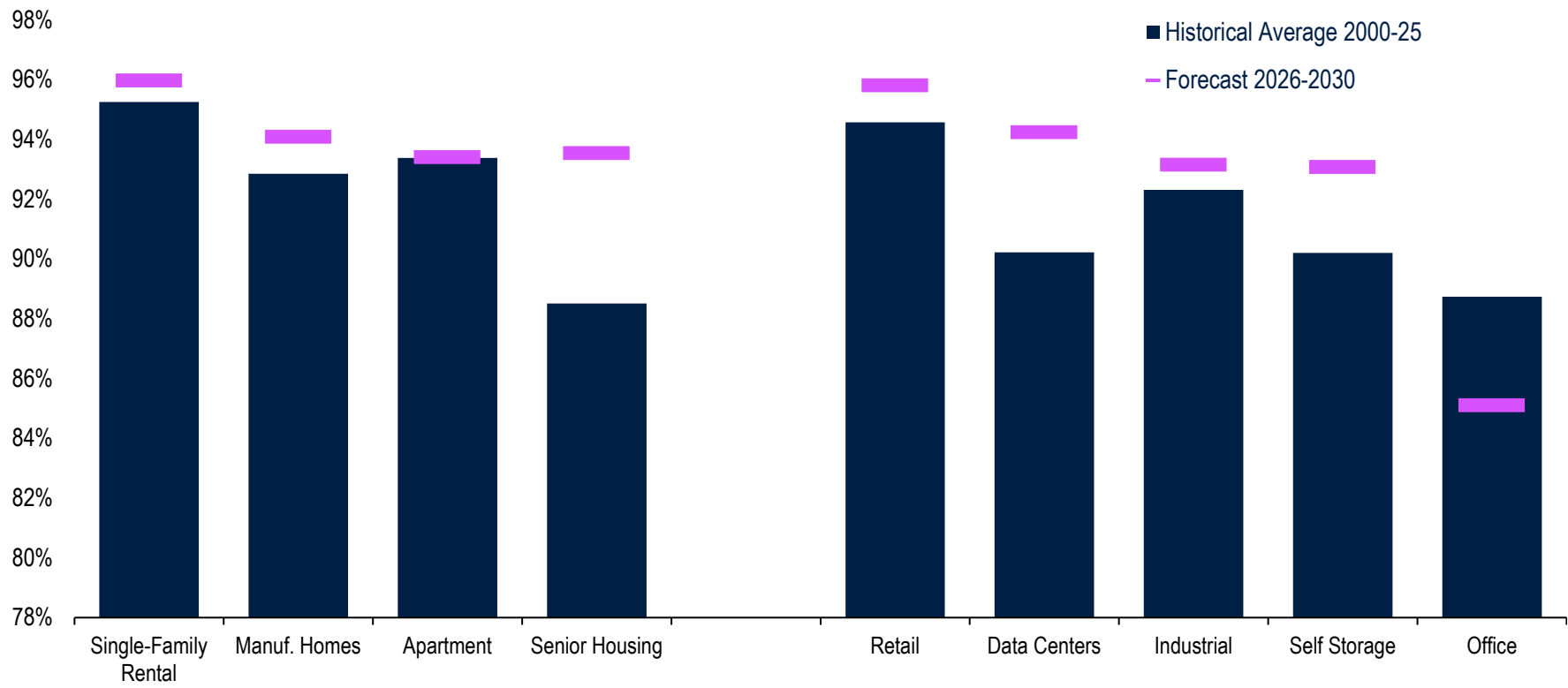
Sources: Costar, PGIM. As of November 2025.

The recent wave of new supply – particularly in the apartment and industrial sectors – is already ebbing, due to high construction costs and pockets of oversupply.

This should benefit owners of existing properties, as well as those who develop during a period of more limited competition for tenants.

... In a Period of High Occupancies ...

Occupancy Rate by Property Type (Forecast vs. Historical Average)



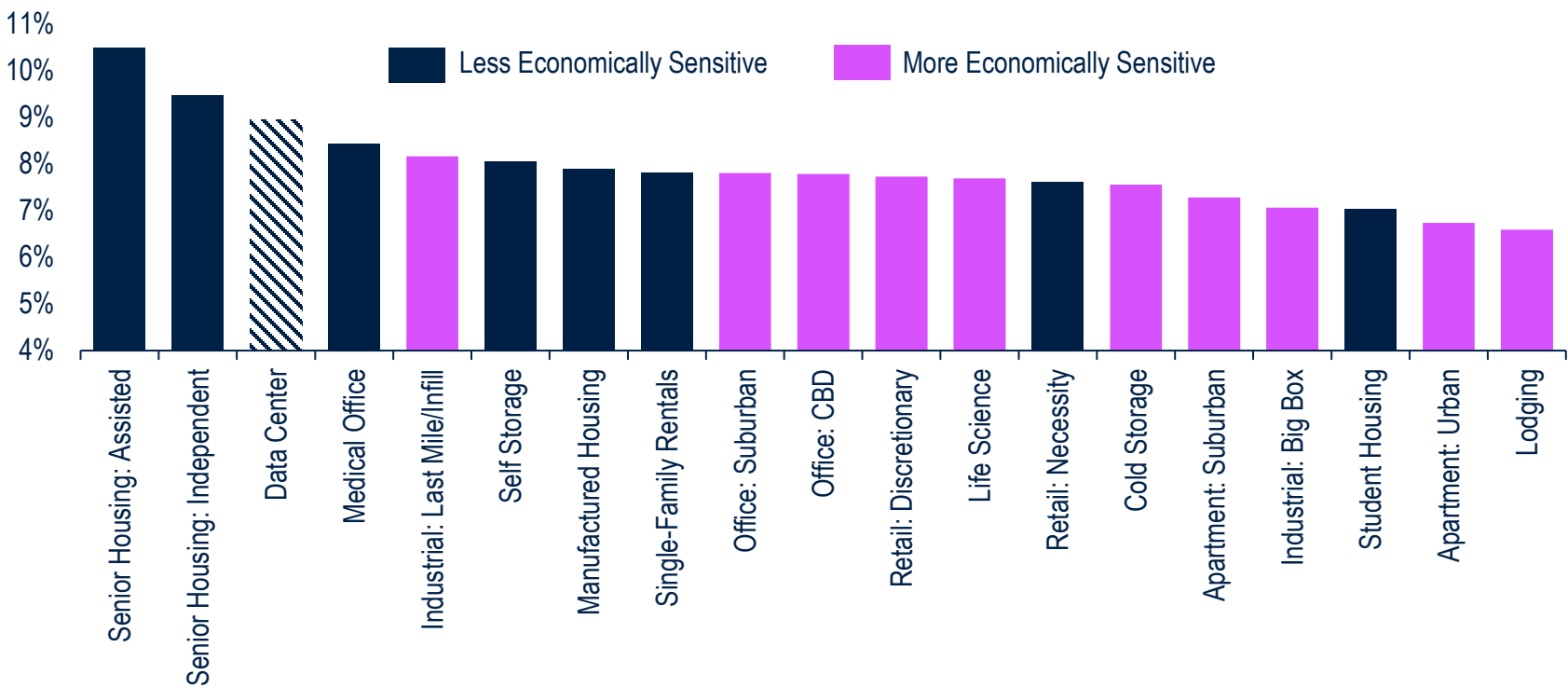
Forecasts are not guaranteed and may not be a reliable indicator of future results.
Note: Historical averages for some sectors are for different time periods due to data limitations.
Sources: CoStar, Green Street, PGIM. As of November 2025.

We expect occupancies to be above historic norms for the next five years, due to the combination of high starting occupancies and a constrained supply pipeline.

Alternative living sector property types as well as retail, data centers and self storage stand out as particularly strong.

... So New Investments Made Now Should Do Well

U.S. 10-Year Unlevered Gross Return Forecasts by Sector (2026-35, Based on Current Transaction Yields)



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

The broad reset in values leaves sectors similarly, and appropriately, priced for future growth.

While senior housing and data centers stand out as our highest conviction calls, most sectors offer attractive long-term returns.

Sectors that are less economically sensitive are also clustered at the higher end of our returns expectations, limiting downside risk.

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.



CORE/CORE+ STRATEGIES

Investing in a temporary
period of reduced
competition.

VALUE-ADD STRATEGIES

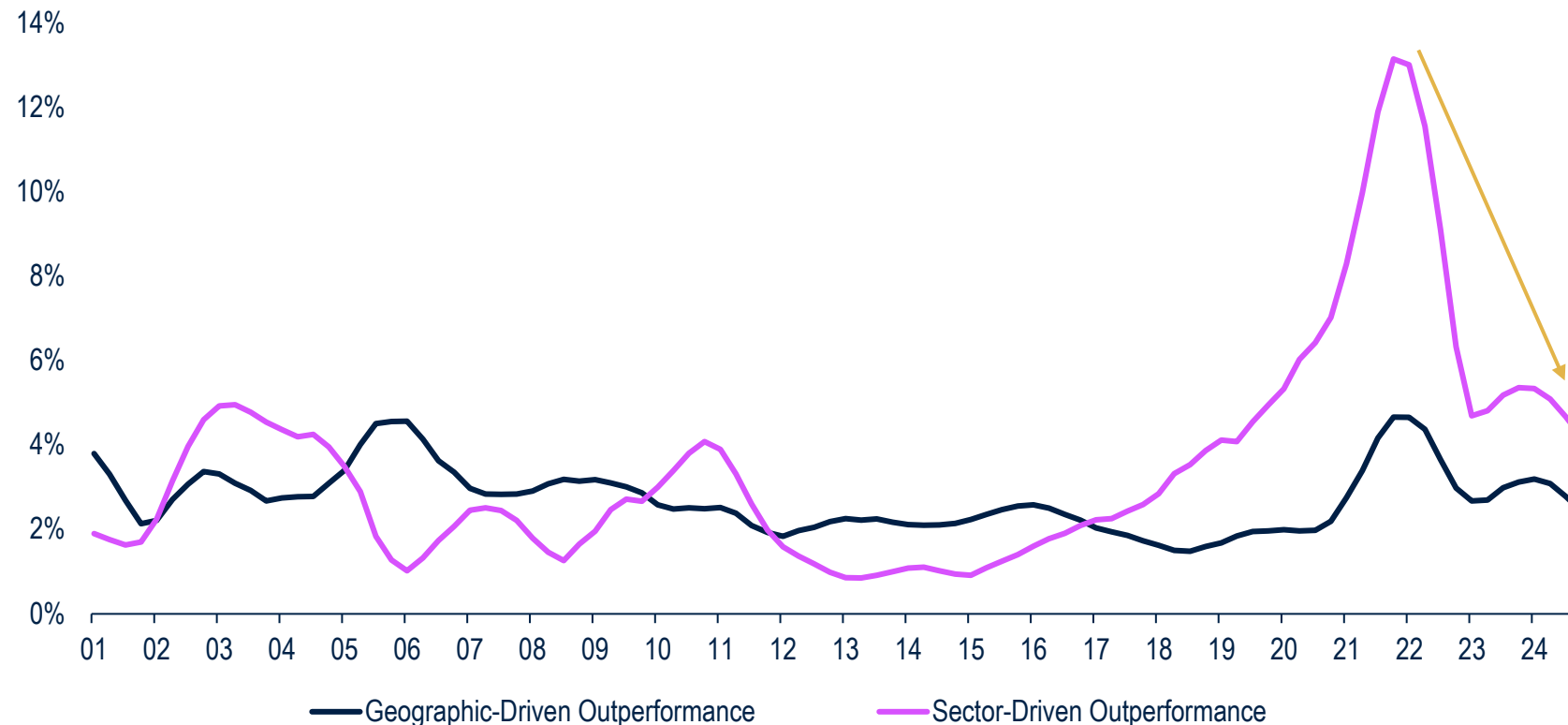
The need for capital
injections into existing
stock.

CREDIT STRATEGIES

Despite a growing base
of lenders, spreads
remain attractive.

Core/Core+ Strategies: The Return of Beneficial Diversification

Drivers of Real Estate Investment Outperformance*



*Each series is an estimate of the relative importance of either geography or sector allocation contribution to total returns in the underlying NCREIF Property Index. Diversification does not assure a profit or protect against loss in declining markets.

Sources: NCREIF, PGIM. As of November 2025.

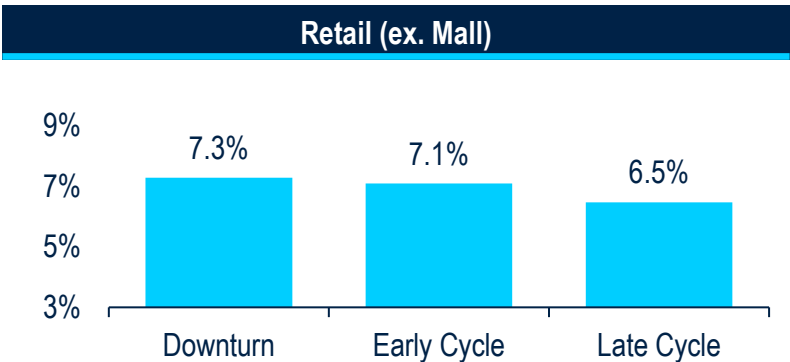
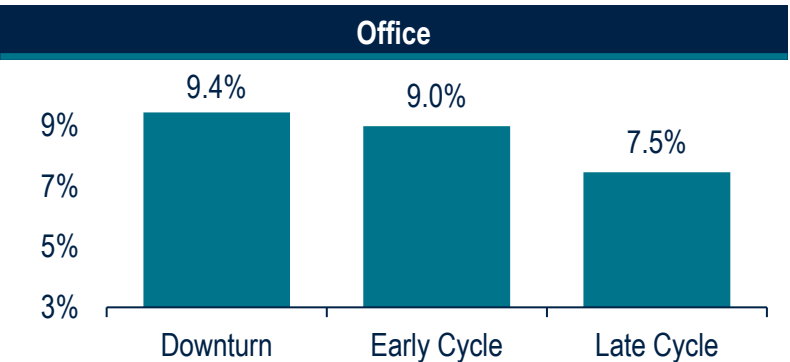
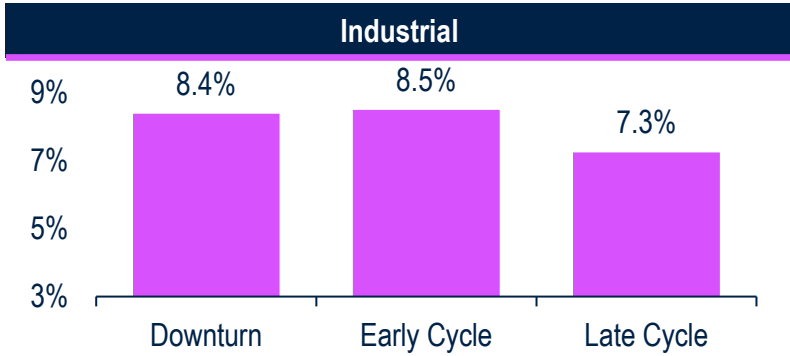
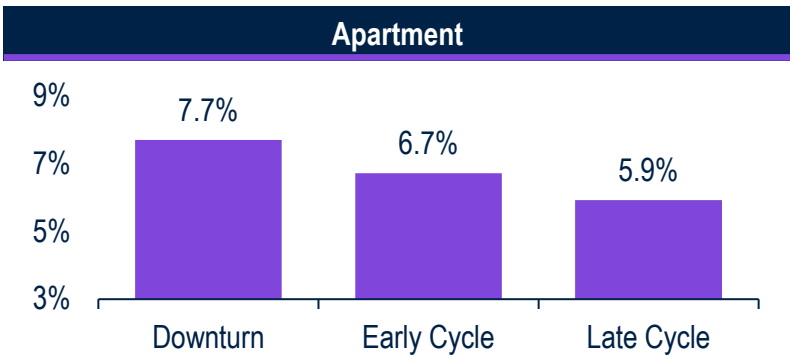
Prior to the last decade, sector selection was equally as important as geographic selection on average. There were very few periods when single sectors performed significantly better or worse than others.

The last decade was different. Sector return persistence was abnormally high.

Now that sectors have been repriced, we expect sector and geographic selection to alternate in importance, rewarding investors with diversified portfolios.

Value-Add Strategies: Limited Competition for Higher Quality Assets

Quarterly Total Return Dispersion (1990-2019)



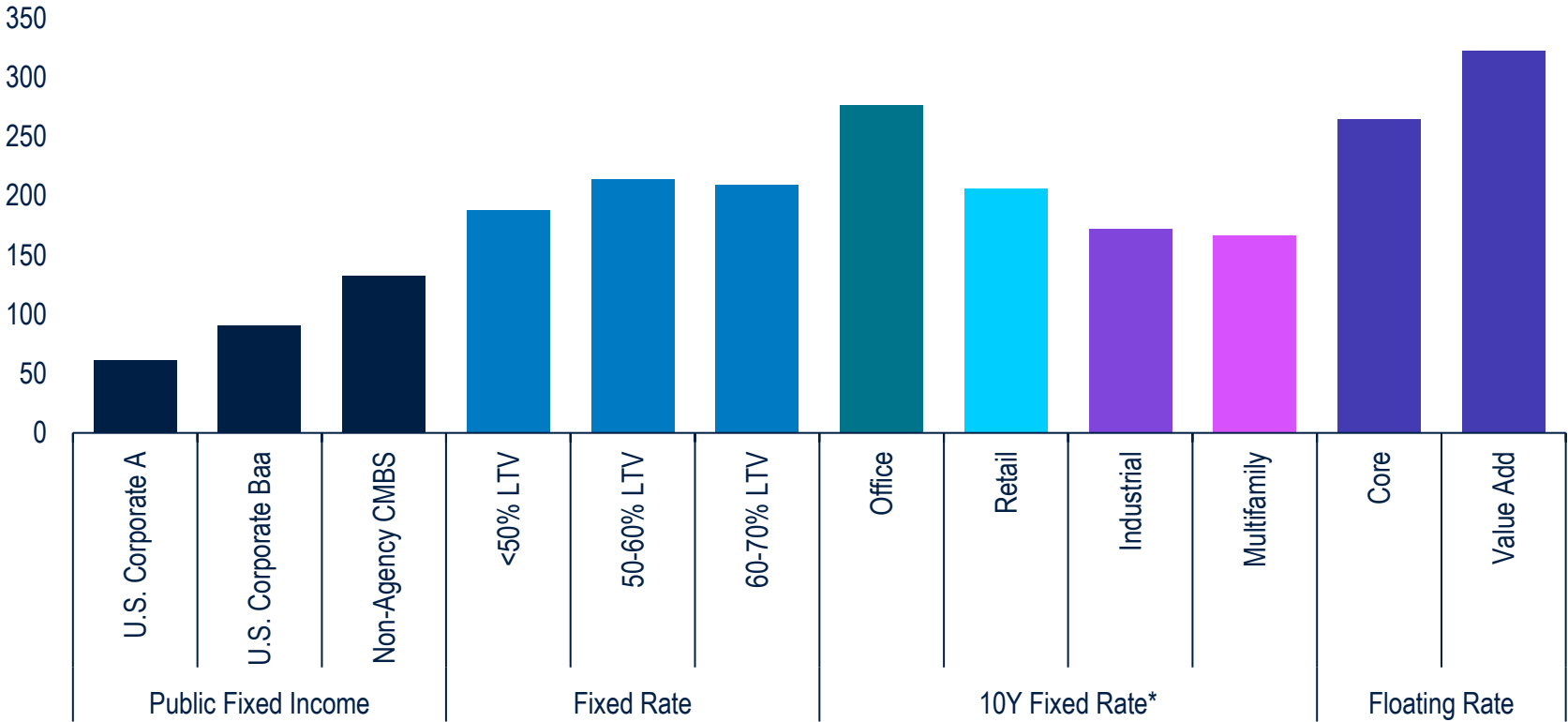
Historically, asset selection has been more beneficial early in real estate cycles than later.

We expect the current lack of investor interest in core real estate to reduce competition for better quality assets across sectors. This creates opportunities to acquire at attractive cost bases and potentially achieve above-average returns.

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

Credit Strategies: A Wide Range of CRE Spread Premiums

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.

CRE credit spreads continue to remain elevated relative to corporate bonds, with both fixed- and floating-rate CRE instruments offering a range of premiums.

This spread advantage is underpinned by conservative underwriting standards and collateral-based security structures.

The additional yield compensates for sector-specific complexity and lower liquidity, creating an attractive opportunity for those seeking higher income without extending into lower-quality credit.

Summary of U.S. Investment Opportunities

		NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
	LIVING	Demographics Low homeownership affordability High construction costs	• Senior housing • For-rent apartments • Single-family housing • Manufactured housing
	LOGISTICS	E-commerce growth Urban infill supply constraints Investment in manufacturing Cross-border logistics needs	• Infill logistics • Big box / supply chain • Southern U.S. border
	DATA CENTERS	Data demand outstripping capacity Need for new development	• Hyperscale • Colocation
	CREDIT	Rising refinancing costs Bank retrenchment Workouts	• Core originations • Transitional debt • Subordinated debt • Discounted loan purchases
	TACTICAL	Consumer spending Low supply of high-quality product Need for redevelopment	• Shopping centers • Higher-end office stock

Structural Investment Themes for 2026



1. LIVING

Needs-based real estate that meets affordability objectives, targeting growing demographic segments in preferred locations.



2. LOGISTICS

Consumer, manufacturing and logistics-driven properties; selective on size and focused on shifting global trade patterns.



3. DATA CENTERS

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

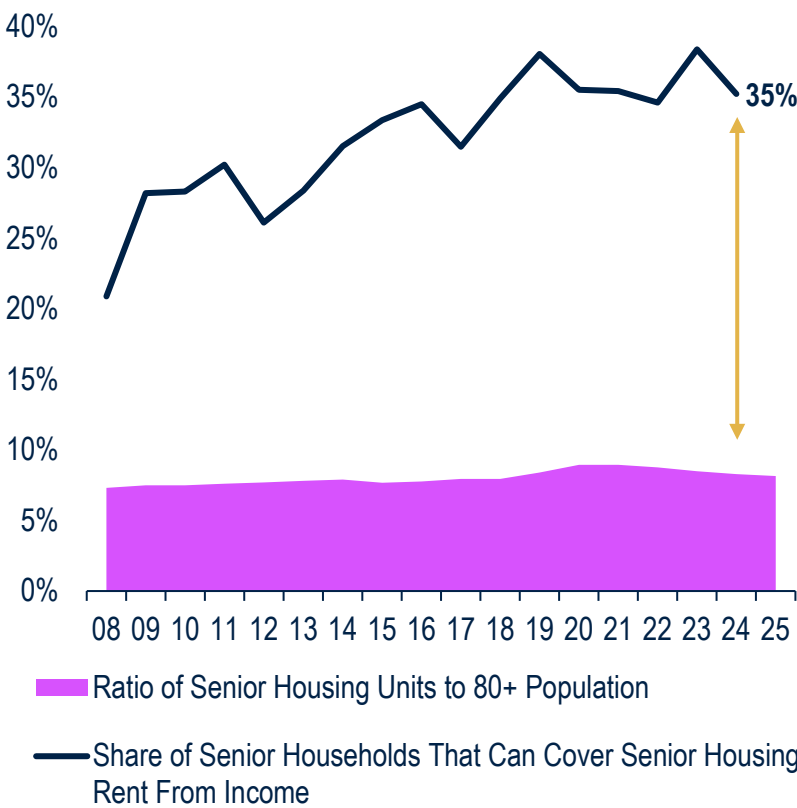


4. CREDIT

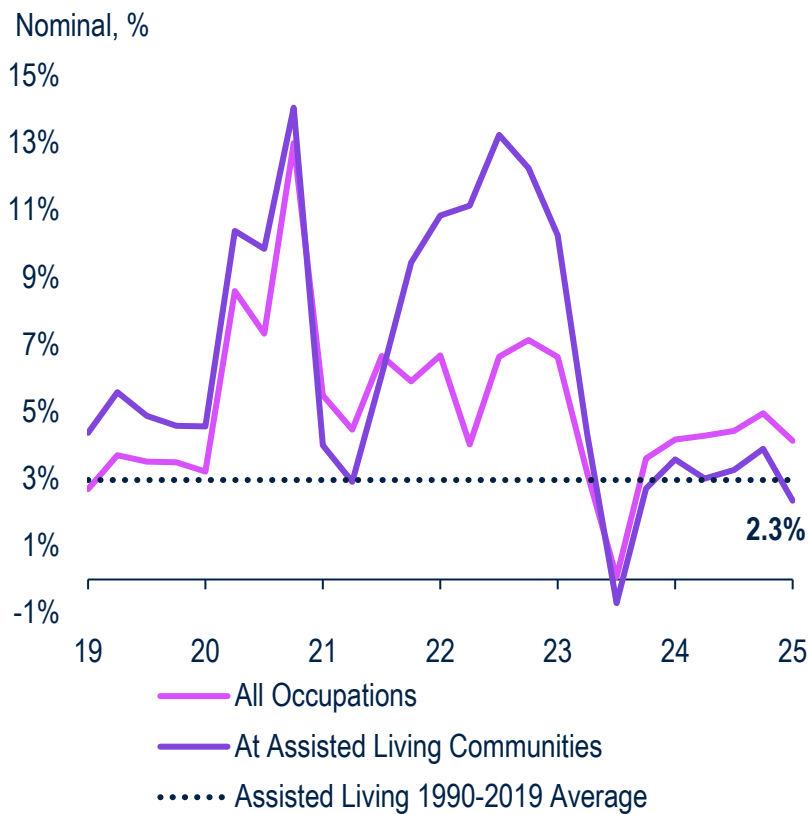
Capturing opportunities to lend as transaction volumes improve.

Senior Housing: Affordability High, Expenses Moderating

Senior Housing Penetration Rate vs. Affordability (Left) and Wage Changes (Right)



Sources: Moody's Analytics, NIC MAP, U.S. Census Bureau, Green Street, PGIM. As of November 2025.



LIVING



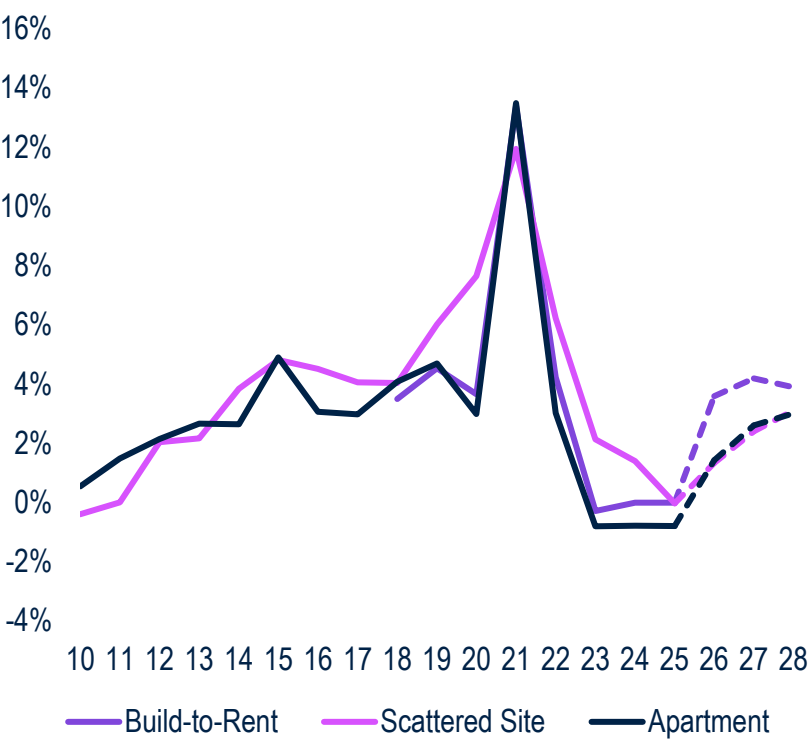
Despite increases in rents, the percent of senior households that can afford private-pay senior housing from income alone remains historically high.

Household wealth further increases senior households' affordability.

Meanwhile, wage growth at assisted living communities has moderated substantially over the past two years, easing expense pressures for owners.

Build-to-Rent: Improving Occupancies and Rent Growth

Build-to-Rent Occupancies (Left) and Rent Growth (Right)



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



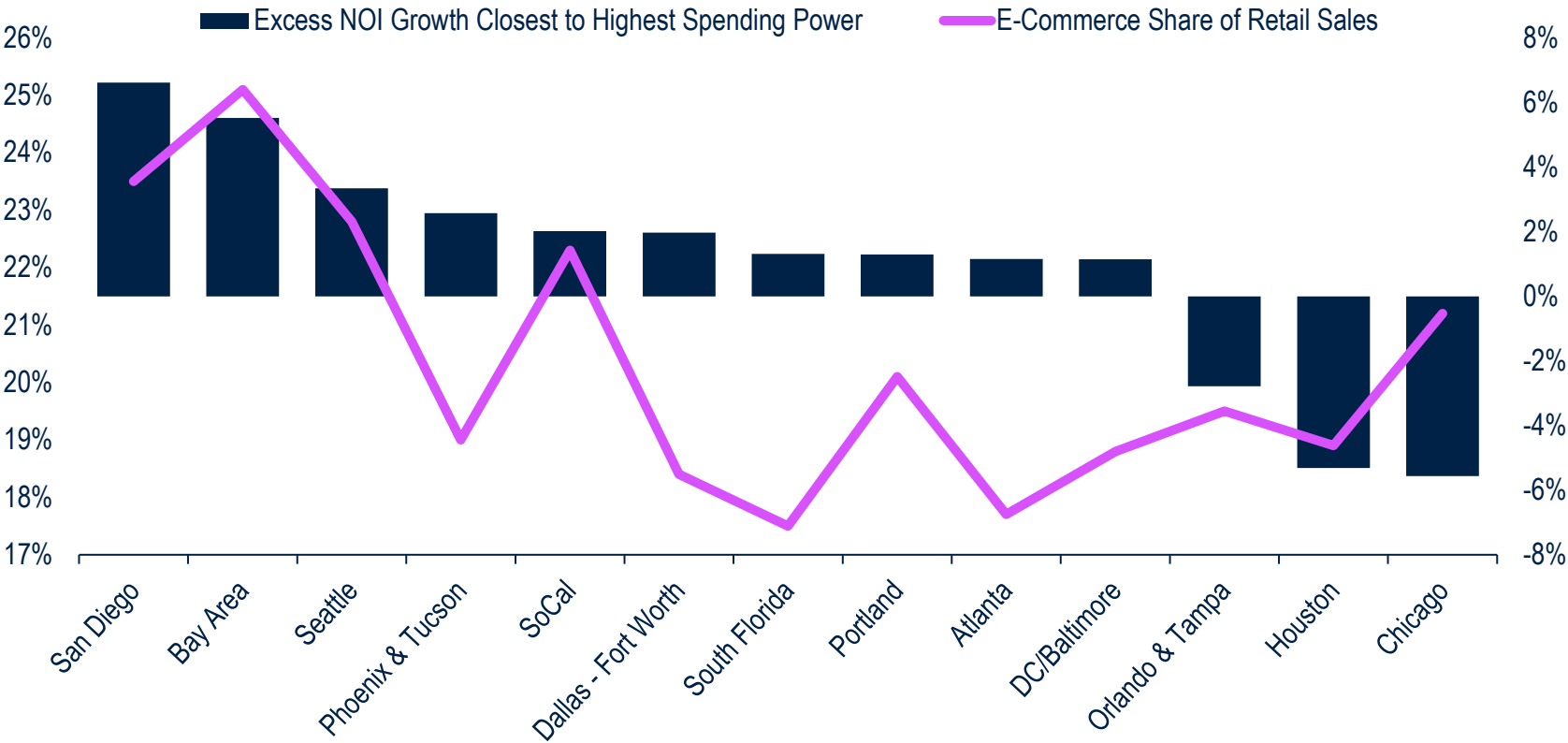
After a three-year downtrend, build-to-rent (BTR) occupancies are rising due to a slowing supply pipeline and a moderate return in renter demand.

Even more – oversupplied BTR markets (3rd quartile shown) are improving.

We expect BTR rent growth to pick up next year as a result, exceeding scattered site and apartment trends.

Logistics: Increasing Importance of Location Close to Consumers

E-Commerce Share of Retail Sales (Left) and Excess NOI Growth Closest to Highest Spending Power (Right)



Sources: CoStar, CBRE, U.S. Census Bureau, PGIM. As of November 2025.

LOGISTICS



As industrial demand moderates from its decade-long run, the increase in e-commerce is elevating the importance of intra-metro property locations.

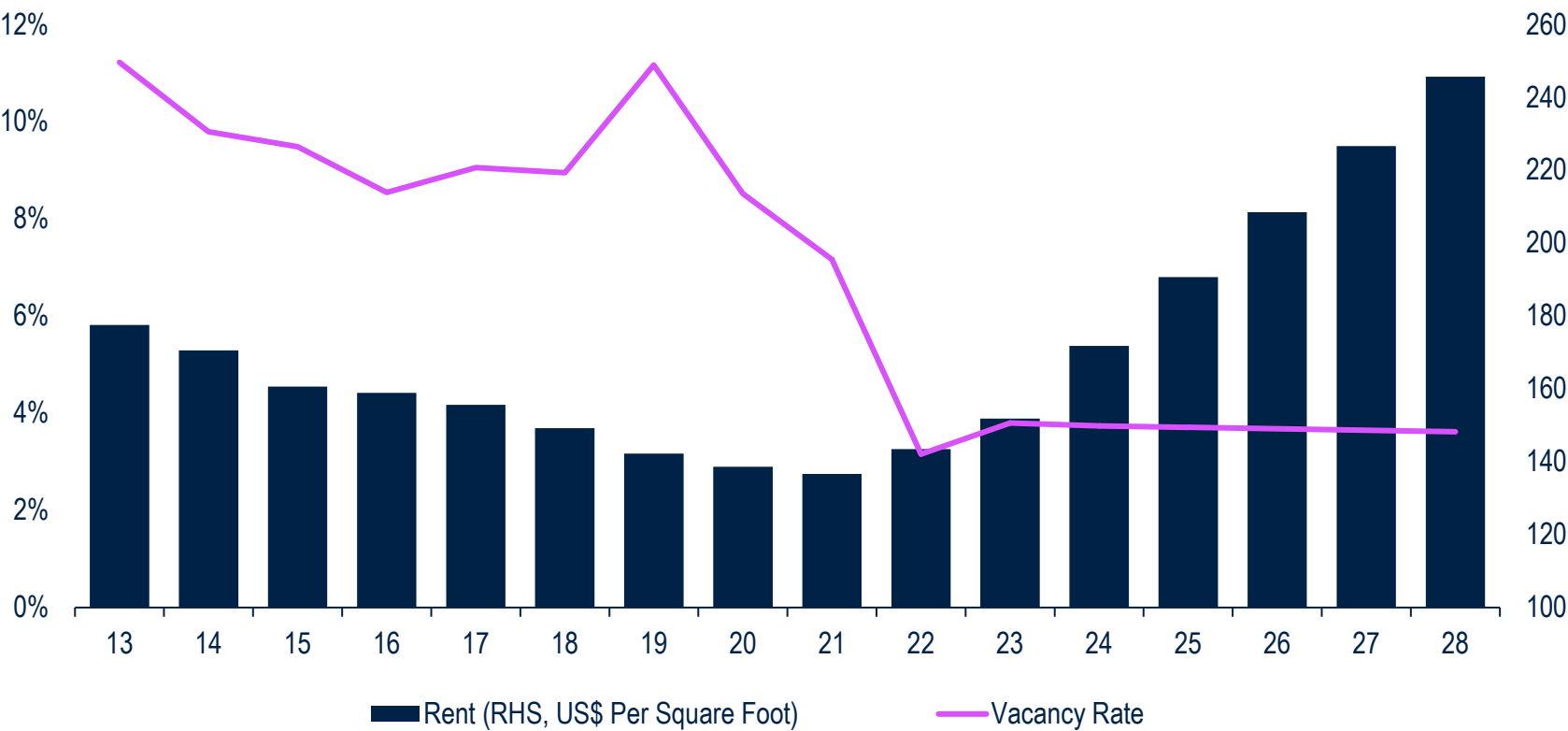
In many metro areas, particularly larger ones where transit times are long, we expect a persistence of the strong relationship between property income growth and locations closest to concentrations of affluent consumers.

Data Centers: Demand Drivers Remain Intact



DATA CENTERS

U.S. Internet Traffic Volume and Global Data Center Power Usage Effectiveness



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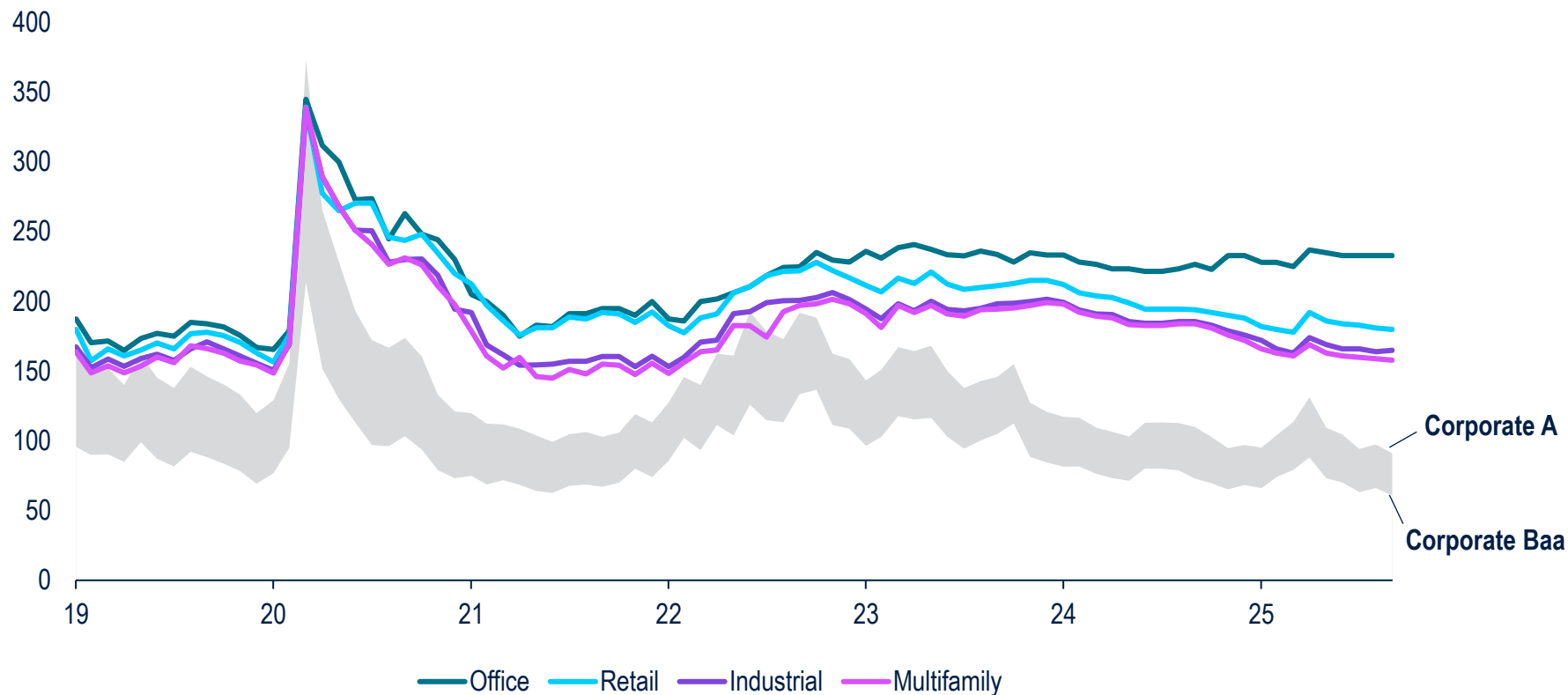
Sources: IBISWorld, Uptime Institute, PGIM. As of November 2025.

Data center vacancies remain low, with tenant demand keeping pace with accelerating supply.

Our base case rent growth assumptions remain positive and broad-based across cities.

Senior Debt: Offers 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.

CREDIT



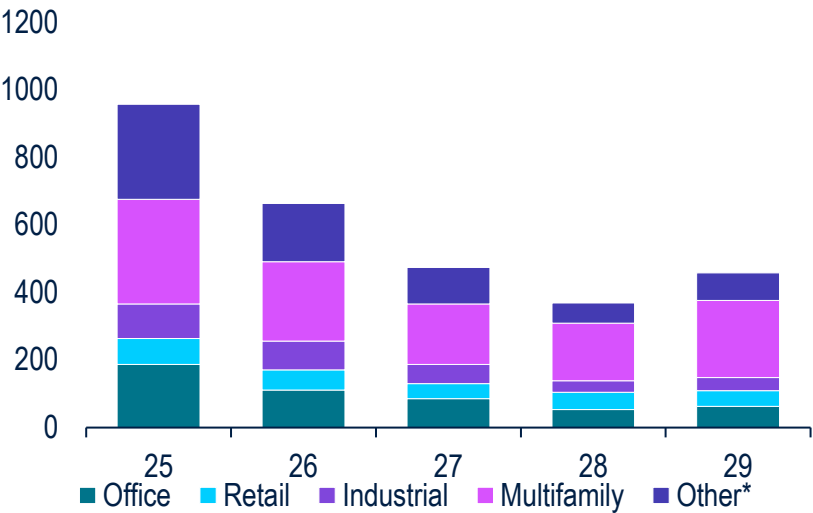
Senior CRE debt continues to offer an attractive yield advantage versus corporate credit, supported by conservative LTVs and structural protections.

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.

Bridge-to-Agency: Multifamily Dominance and Agency Depth



Loan Maturities (USD\$ Billions)

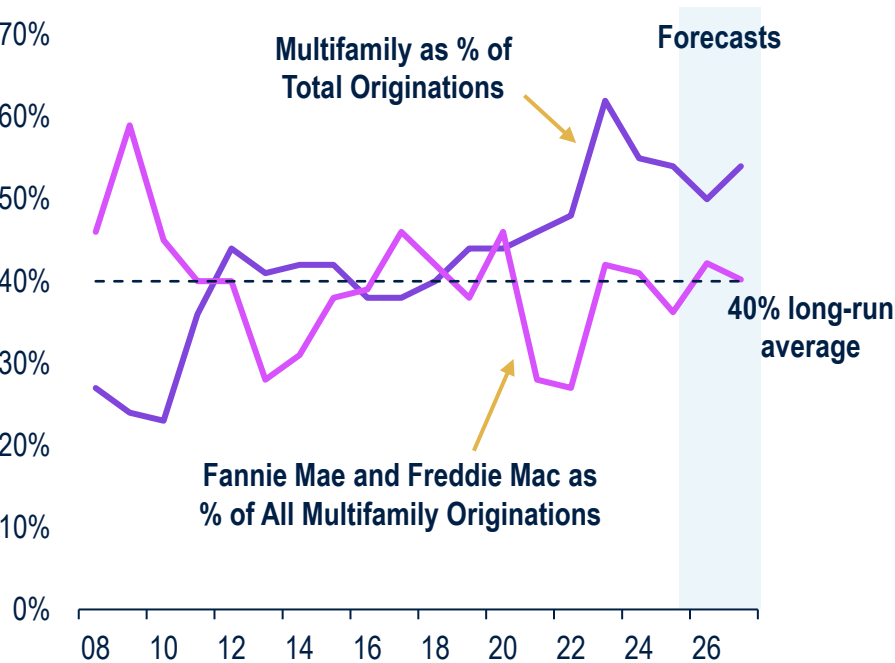


Forecasts are not guaranteed and may not be a reliable indicator of future results.

*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 (%)



CREDIT



At US\$2.2 trillion the multifamily sector represents 45% of the total US\$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.

Tactical Investment Plays



1. RETAIL

Shopping center formats offering necessity goods and services.



2. OFFICE

Office space improvements to meet modern tenant demand requirements.



3. CREDIT

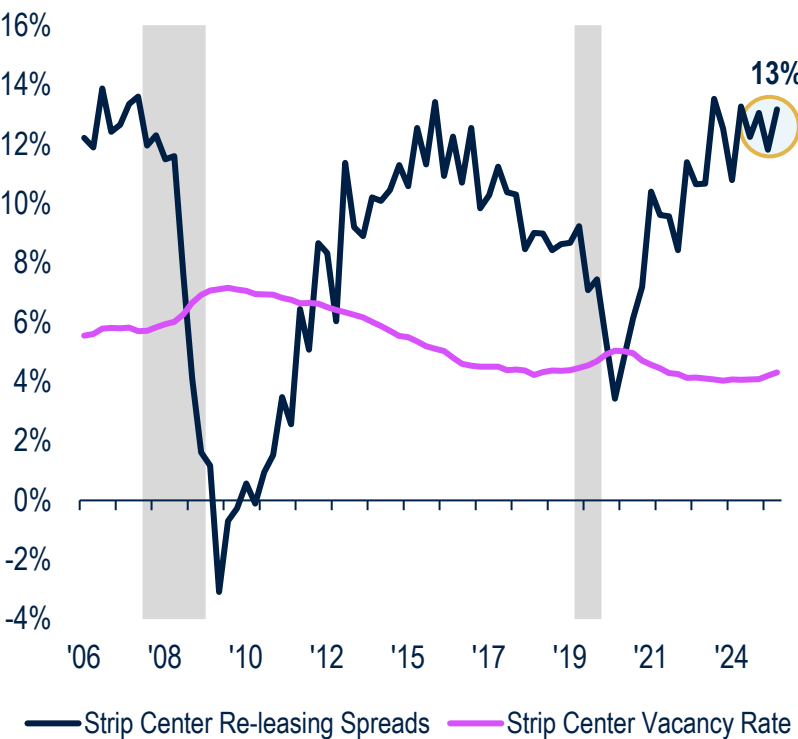
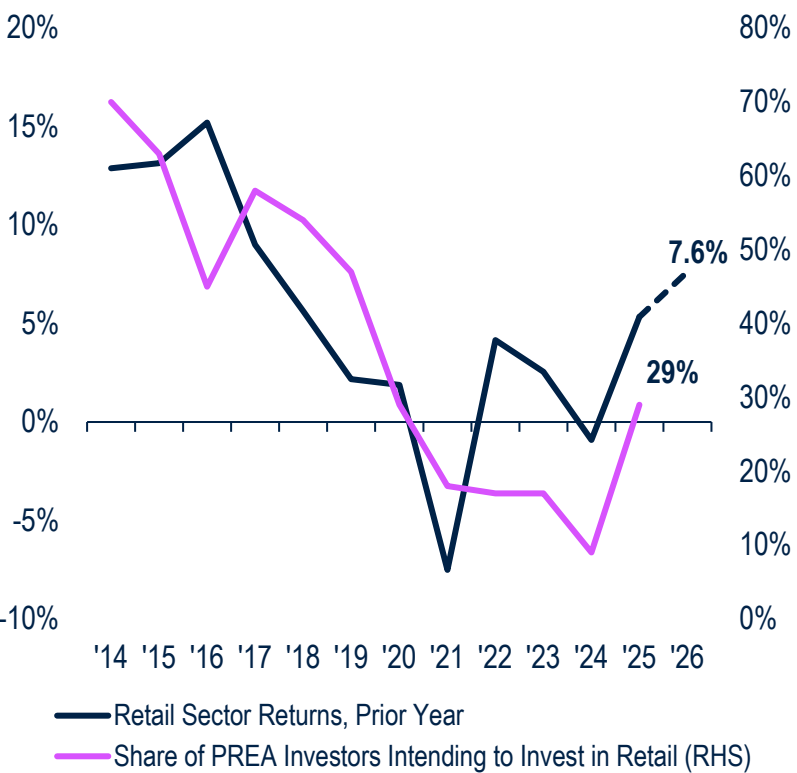
Serving the needs of borrowers with maturing loans that do not meet core underwriting standards.

Retail: Getting Ahead of New Investor Demand



RETAIL

Retail Returns vs. Investor Intentions (Left) and Average Spread of In-Place to Market Rents (Right)



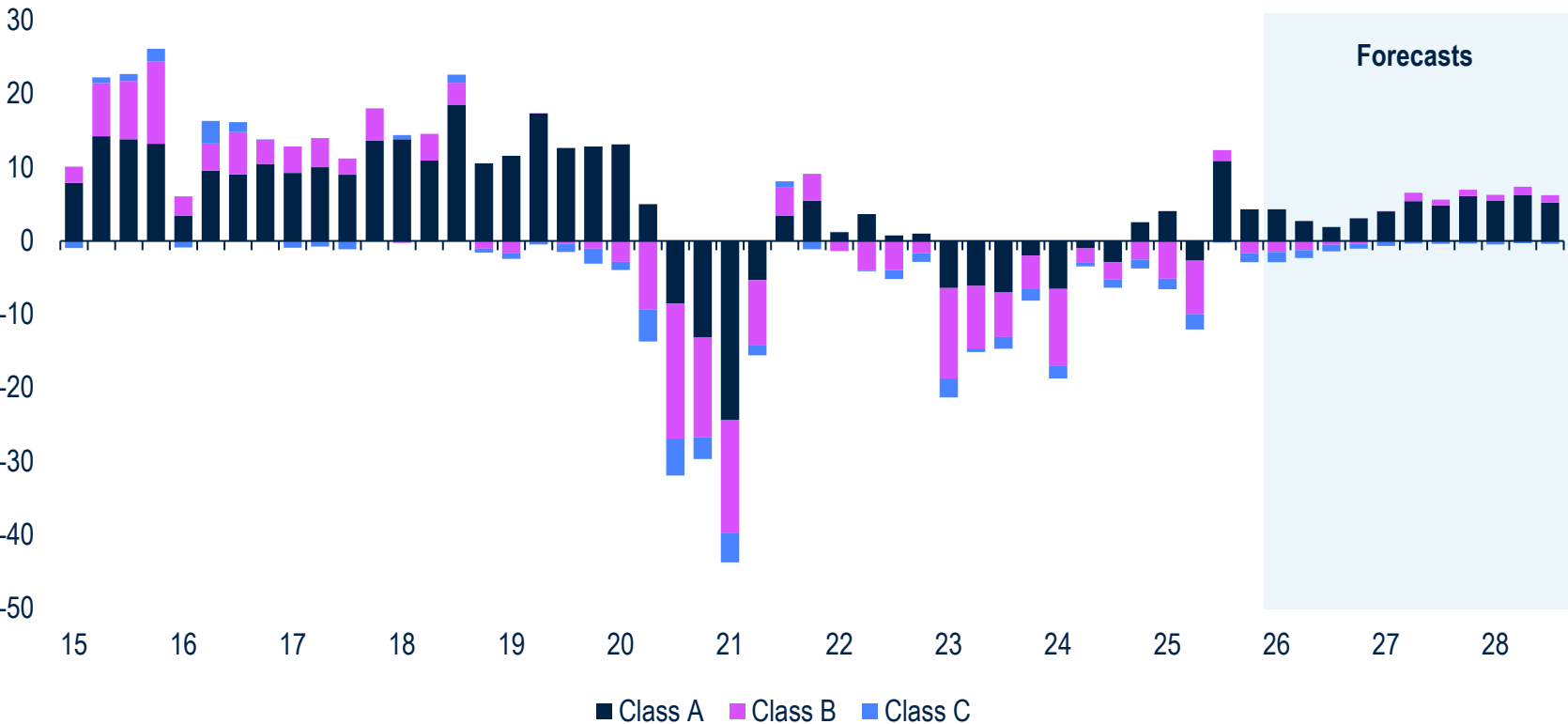
After languishing for most of the last decade, retail returns are rebounding. Investors are just beginning to notice.

In addition to positive market rent growth, most in-place leases are at below-market rents. High occupancies limit tenants' relocation options. That provides owners with the ability to raise rents on renewals or expirations.

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

Office: Past the Demand Inflection Point for Class A

Office Net Absorption by Class (Million SF)



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

OFFICE

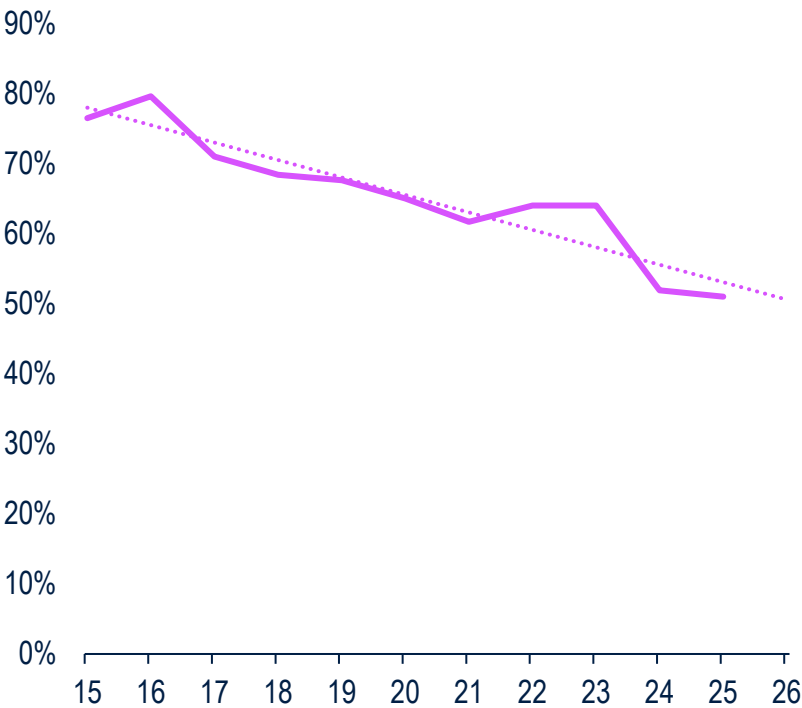


Though overall office sector conditions remain mixed, demand for Class A office has turned positive.

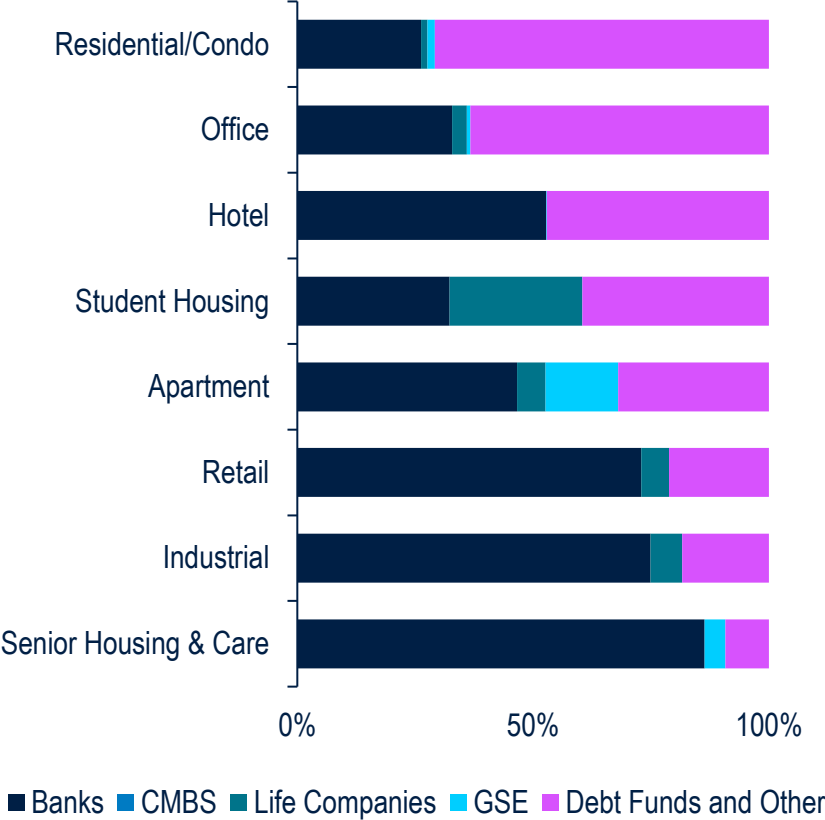
In addition to providing owners of Class A offices leverage to raise rents, there is an opportunity to upgrade older buildings to compete with recently built ones and meet future tenant demand for modern space.

Development Financing: Declining Bank Participation

Bank Market Share of Development (%)



Construction Lender Composition (%)



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

CREDIT



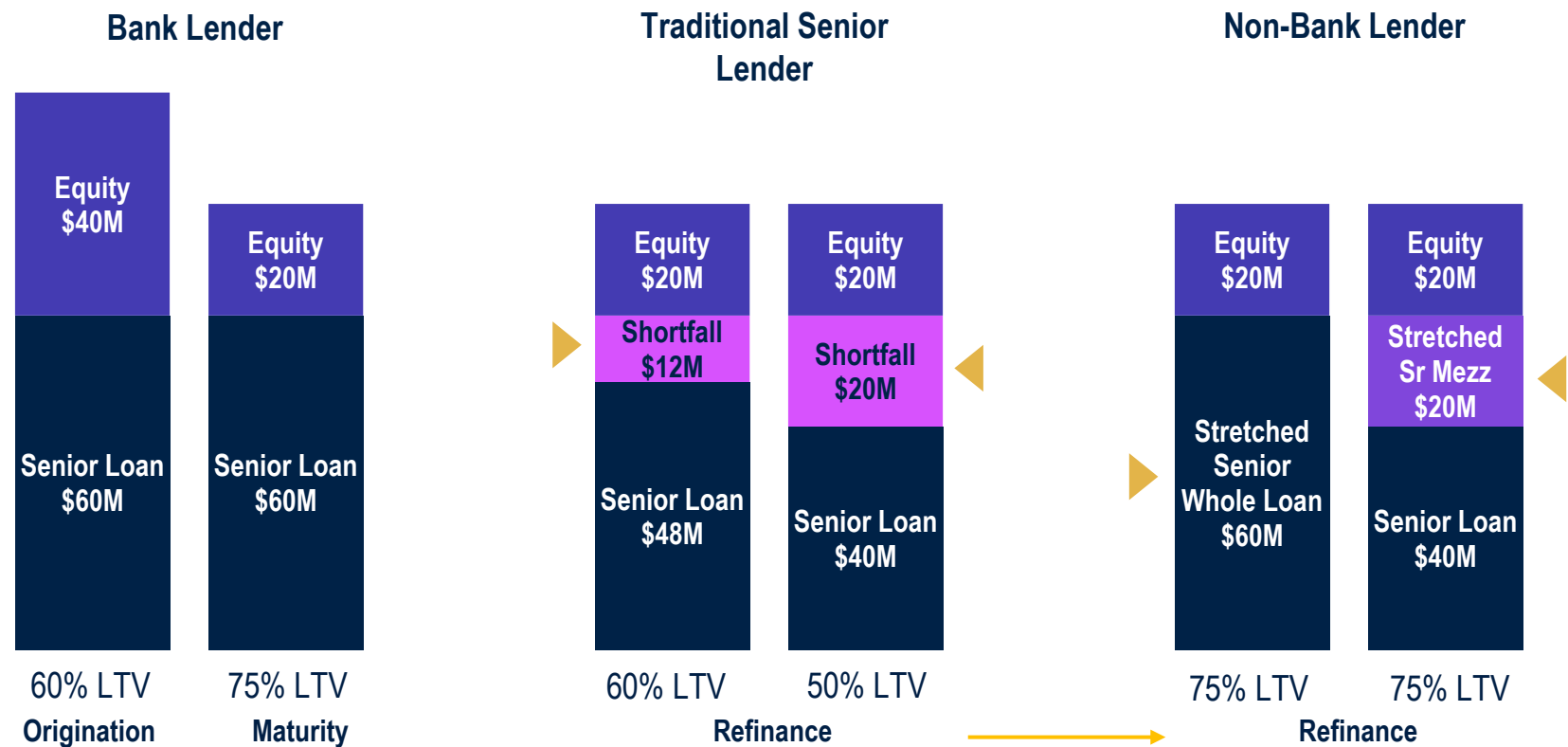
Regulatory pressures and risk-weighted capital constraints have reduced bank appetite for development loans.

In the United States, banks likely will continue to reduce their share of development lending. This has been more pronounced in some sectors than others, particularly residential, office and hotel.

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

Gap Financing: Filling the Gap Between Equity and Senior Debt

An Illustration of the Funding Gap Driven 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 can continue to create opportunities for whole loans, stretched senior structures, and subordinated tranches, enabling investors to capture incremental yield.



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