PGIM REAL ESTATE

INVESTMENT RESEARCH

2025 SPOTLIGHT ON
UNITED STATES

Generating Resilient Income Growth Amid Uncertainty

JULY 2025

UNITED STATES 2025 KEY TAKEAWAYS:

1 THE TIME IS STILL NOW.

Against an uncertain backdrop, U.S. real estate offers resilience and income growth potential supported by low supply, at an attractive entry point.

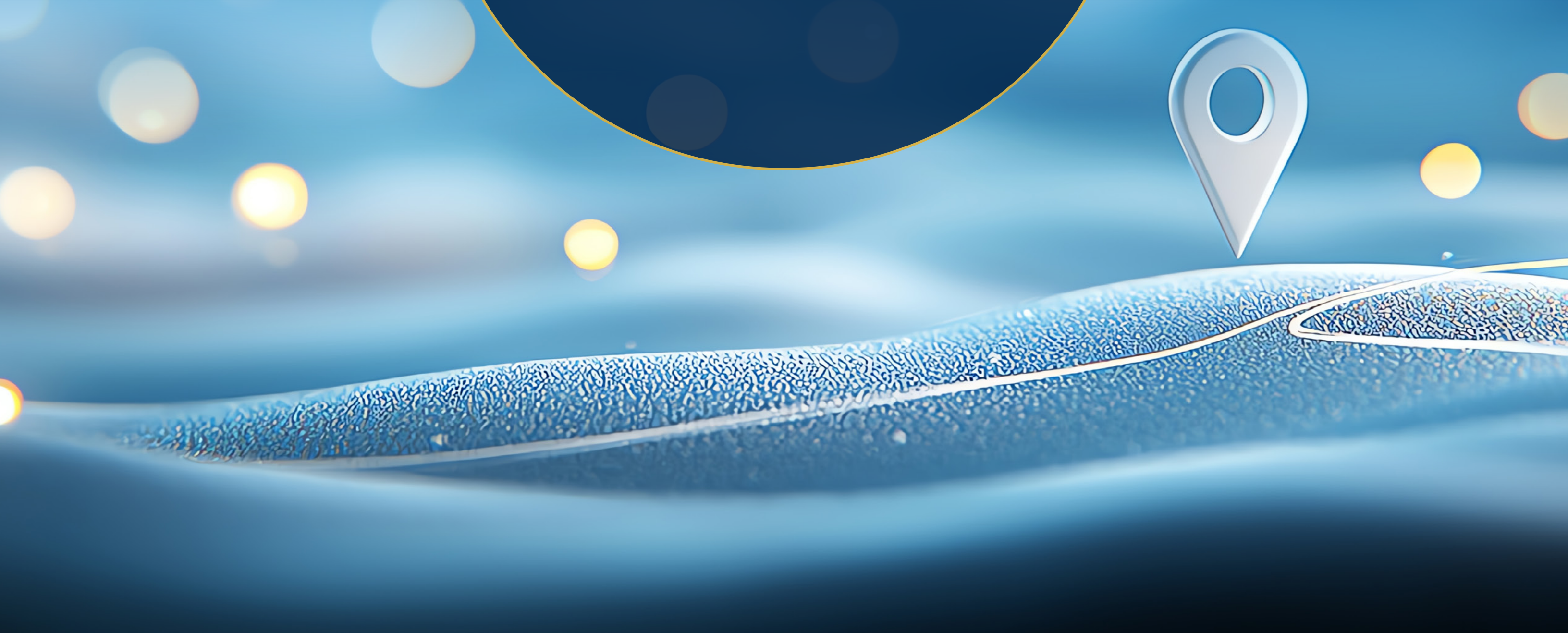
2 INCOME AND INCOME GROWTH EXPECTATIONS ARE HIGHER.

Returns are becoming more income and income growth driven, while the mainstreaming of operational real estate sectors and evolution of lender composition continues.

3 THE OUTLOOK VARIES BY GEOGRAPHY.

There are big differences in forecasts across cities and sectors – asset and market selection are key drivers of performance.

Heightened uncertainty is weighing on the near-term outlook for global real estate markets, but it has not derailed the RECOVERY and GROWTH story.



PART I

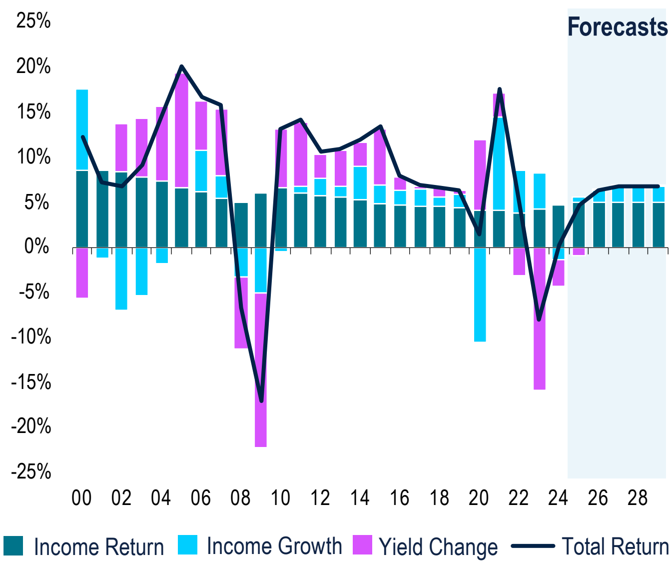
UNITED STATES OVERVIEW

Resilient Performance Amid Uncertainty

U.S. real estate is well positioned for a value recovery under many economic scenarios, after a significant value correction. But given policy uncertainty, the best opportunities remain in sectors that are least sensitive to the economic cycle.

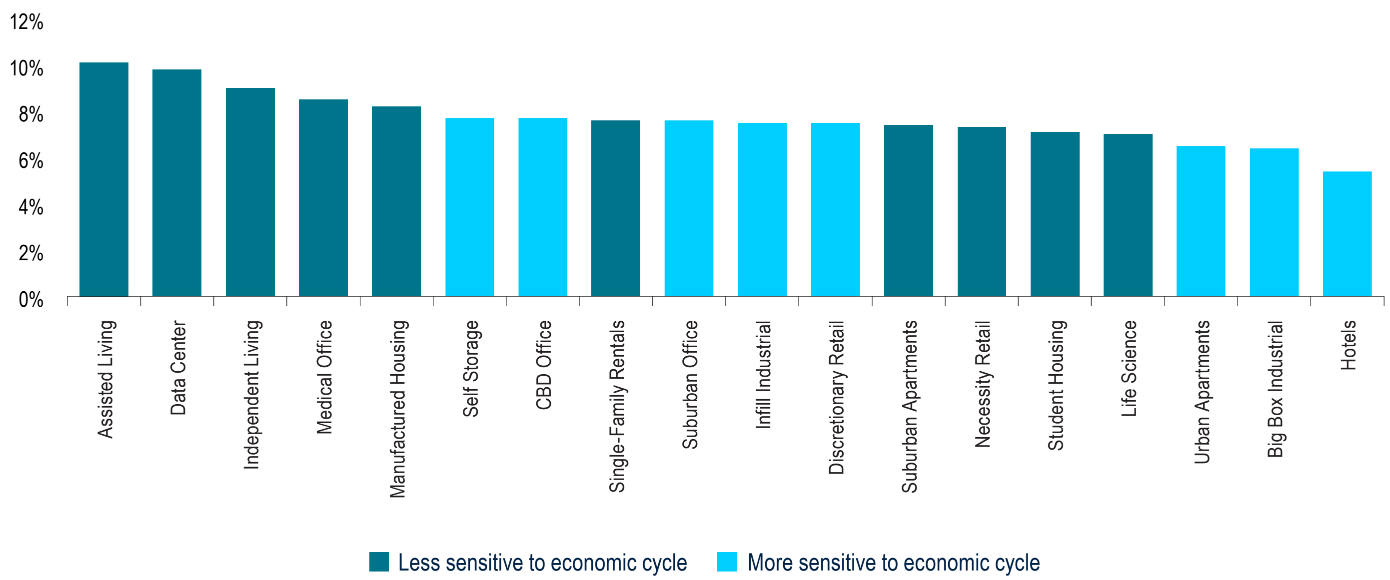
- Our base case is for unlevered property-level returns to be 6-8% through the end of the decade, with income growth strengthening after the recent supply wave is behind us. We assume little change in cap rates over the forecast period. Returns are driven by current income and income growth.
- This returns forecast supports higher returns of about 100 basis points for levered core, and an additional 300 basis points for value-add, due to the positive effects of leverage and non-core investments such as development and asset repositioning.
- Our expectations of sector returns for new stabilized property investments are tightly bunched, reflecting the orderly repricing since the middle of 2022 that has left them all fairly valued on an absolute basis.
- On a risk-adjusted basis, sectors with less economic sensitivity are best positioned. These include sectors such as senior housing that are driven by necessity, as well as data centers that will benefit from continued investment in AI regardless of the economic cycle.

ANNUAL PRIVATE ALL PROPERTY REAL ESTATE RETURNS (%)



Sources: NCREIF, PGIM Real Estate. As of June 2025.

EXPECTED BUY-AND-HOLD UNLEVERED PROPERTY-LEVEL RETURNS (% P.A.)



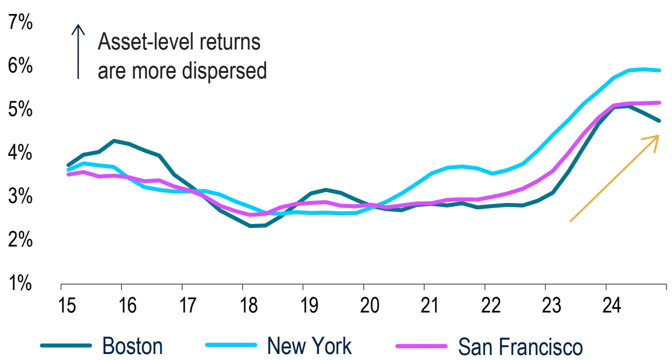
Economic sensitivity calculated as expected change in same-store NOI growth due to total employment growth.

Sources: Green Street, Oxford Economics, PGIM Real Estate. As of June 2025.

Asset and Location Selection Driving Outperformance

With limited expectations for yield compression across sectors, outperformance will be driven by asset, submarket and metro-specific factors.

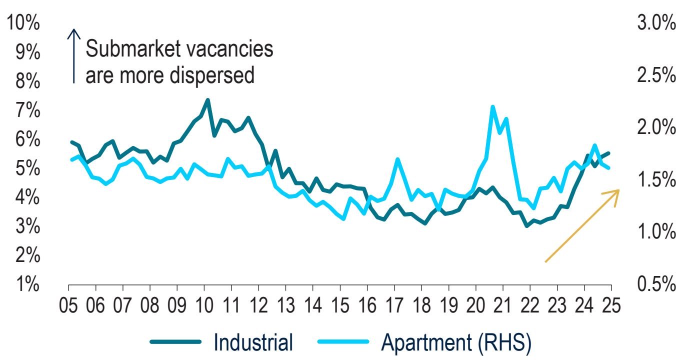
STANDARD DEVIATION OF QUARTERLY ASSET-LEVEL OFFICE RETURNS (4Q MAV)



Sources: NCREIF, PGIM Real Estate. As of June 2025.

- A wide divergence in property-level returns is most prevalent in the office sector as some buildings face obsolescence while others are in high demand.
- Operational expertise at the asset level will be a significant driver in other sectors too, notably senior housing.

APARTMENT AND INDUSTRIAL SUBMARKET VACANCY DISPERSION (%)



Sources: CoStar, PGIM Real Estate. As of June 2025.

- Dispersion in submarket conditions is rising, particularly in the apartment and industrial sectors.
- Tenants are benefiting from more choices and mostly choosing to upgrade into higher rent submarkets.

In Focus: Setting Out Our Narrative

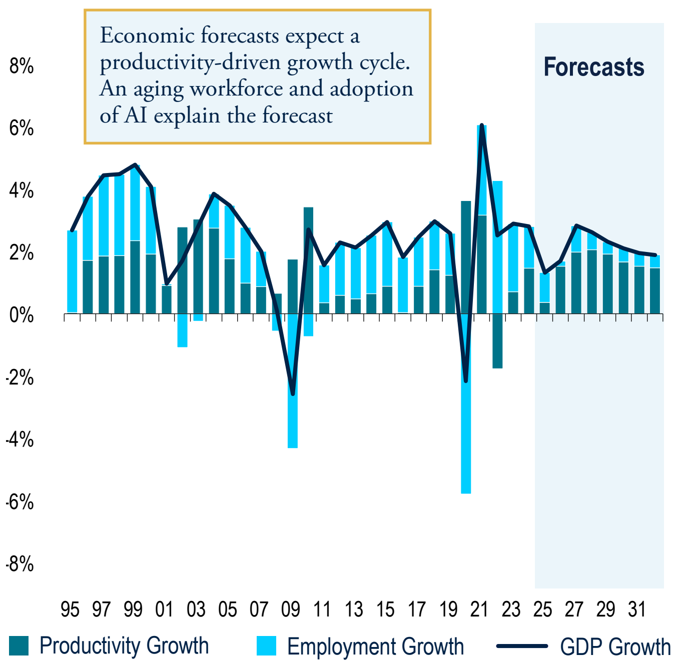
- The opening months of 2025 have been fast-moving in terms of establishing a macroeconomic outlook that acts as a backdrop for real estate investment strategy and decision making.
- Events can clearly move quickly, but **there are several factors that we can use to underpin our outlook:**
    - Policy uncertainty is high and will remain so for the foreseeable future.
    - Recession risks have risen, but our base case is for a slowdown in growth rather than an outright contraction.
    - Interest rate uncertainty has increased too, as tariffs are pushing up core inflation. The long-term interest rate outlook remains broadly unchanged.
- **There will be an impact on real estate demand,** especially in commercial sectors, as corporates will likely delay decision-making activity around investment, expansion or committing to long leases.
- Similarly, investors are delaying decisions about allocating capital and investing – real estate liquidity is set to remain lower than previously anticipated.
- The overall impact is to delay the recovery story for real estate from a low base, via slower rental and capital growth, but not completely de-rail it.
- **Some factors remain broadly unchanged in support of the real estate outlook:**
    - Values are low and a lot of bad news is already priced in. Yields are at fair value in most U.S. markets.
    - Supply growth is low, giving resilience to the occupier market outlook even if economic growth slows.
    - Real estate lenders are still active, and credit availability remains supportive of values.

Tailwinds for Productivity-Driven Markets

Shifting economic drivers are set to benefit productivity-driven metros.

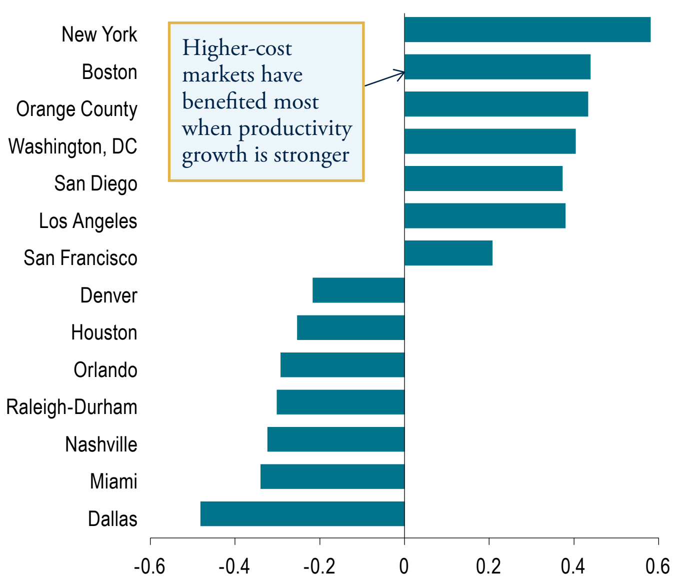
- Economic forecasts expect a productivity growth-driven cycle in 2026+. This contrasts with the employment growth-driven cycle of the 2010s and will impact relative market performance.
- This will benefit the relative performance of metros whose economies are more reliant on productivity growth – in other words, a greater share of their output growth comes from productivity growth than an expanding employment base. Historically, real estate returns in markets such as New York, Boston, Washington, DC, Los Angeles and San Francisco have done better when U.S. productivity growth is higher.
- Productivity-driven markets have higher returns longer term. They also exhibit higher beta measures relative to the overall NCREIF Property Index, making the case for productivity-driven market exposure as returns swing to positive territory.
- Rents in these metros screen as affordable across several sectors, such as apartment, office and retail, an upside risk to rental growth forecasts.
- This may appear counterintuitive given that the large productivity-driven markets have high rental rates. However, when comparing rents versus measures such as office-using GDP, retail sales and median household income, rents in these markets are affordable relative to history.

PRODUCTIVITY, EMPLOYMENT AND REAL GDP GROWTH (% P.A.)



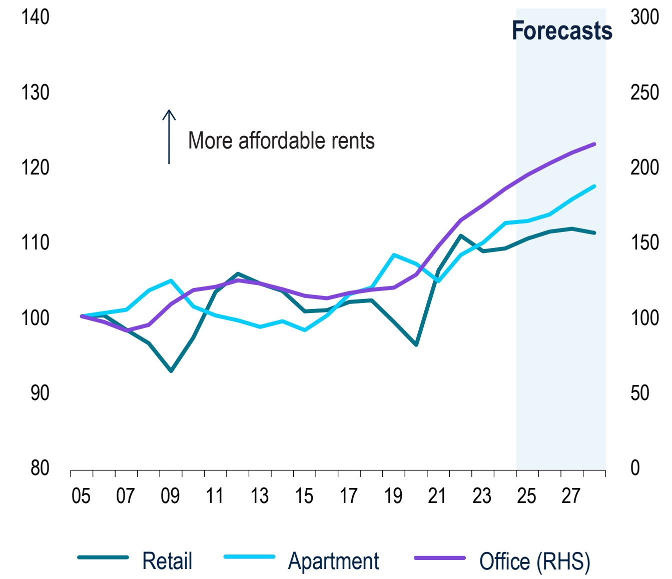
Sources: Oxford Economics, PGIM Real Estate. As of June 2025.

CORRELATION OF RETURNS WITH U.S. PRODUCTIVITY GROWTH, 1981-2019



Sources: NCREIF, Oxford Economics, PGIM Real Estate. As of June 2025.

PRODUCTIVITY-DRIVEN MARKET AFFORDABILITY INDICES (2005 = 100)



Note: The metros underlying this analysis are those identified as having the highest correlations between returns and U.S. productivity growth, including New York, Boston, Orange County, Washington, DC, San Diego, Los Angeles and San Francisco.
Sources: CoStar, Oxford Economics, PGIM Real Estate. As of June 2025.

PART II | UNITED STATES

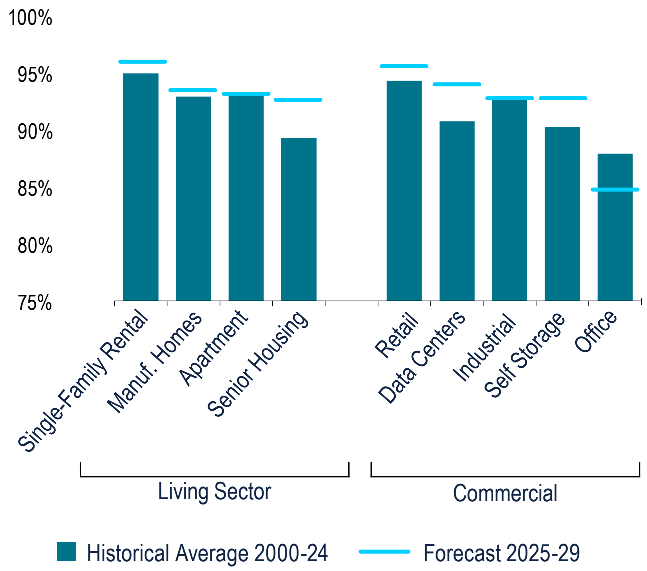
PORTFOLIO CONSTRUCTION

UNITED STATES CORE/CORE+ STRATEGIES

With valuations across almost all property types having bottomed, we see now a favorable entry point for U.S. core and core-plus investors. We expect a period of higher income returns and growing incomes bolstered by an evolving opportunity set that will offer increased diversification potential in a time of elevated uncertainty.

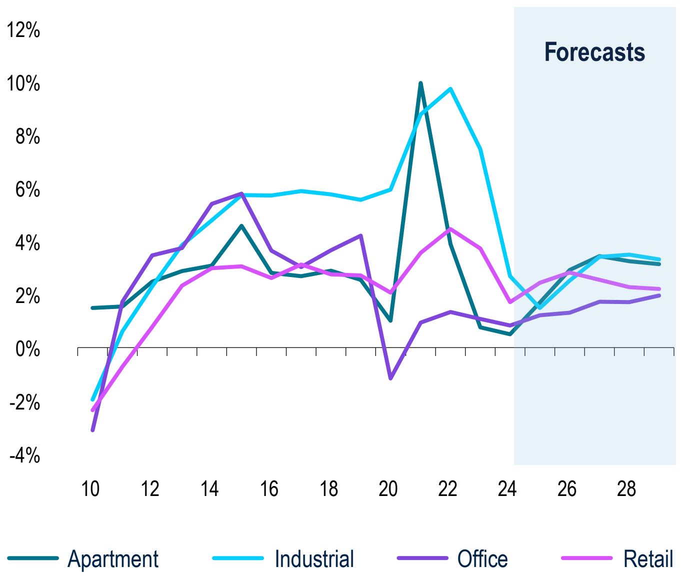
- With economic and policy uncertainty at heightened levels, the broad diversification and stable income of core real estate offers an attractive entry point to investors.
- Values have now stabilized across almost all property types. The exception is office, in which vacancies remain elevated and NOIs are still falling. More broadly, values are poised to grow from here, primarily driven by income growth.
- With limited new supply after this year, we expect occupancies to be at or above historical averages across nearly all property types. That will drive income growth higher, particularly in the apartment and industrial sectors.
- Strong relative return outlooks in several alternative property types offer core real estate portfolios additional opportunities both to boost income growth and also to increase diversification, as well as reduce exposure to economically sensitive sectors.

OCCUPANCY RATE BY PROPERTY TYPE (FORECAST VS. HISTORICAL)



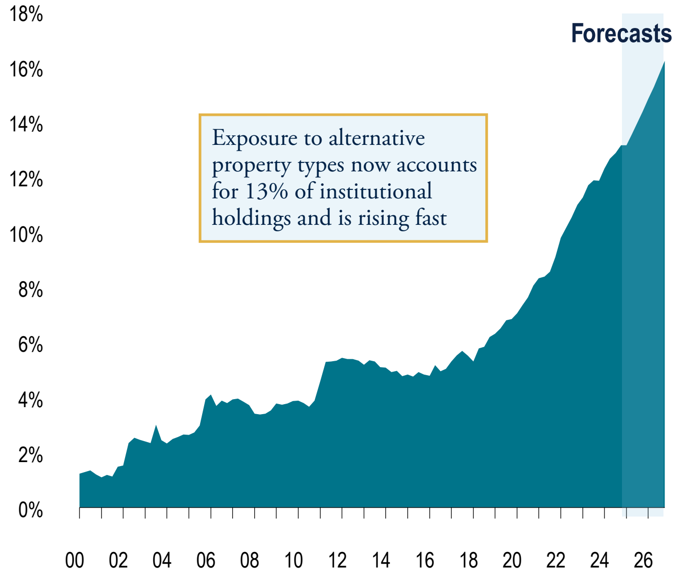
Sources: CoStar, PGIM Real Estate. As of June 2025.

ANNUAL ASKING RENT GROWTH (%)



Sources: CoStar, Green Street, PGIM Real Estate. As of June 2025.

ALTERNATIVE PROPERTY SECTORS, % OF INSTITUTIONAL REAL ESTATE (NPI+ INDEX)



Sources: NCREIF, PGIM Real Estate. As of June 2025.

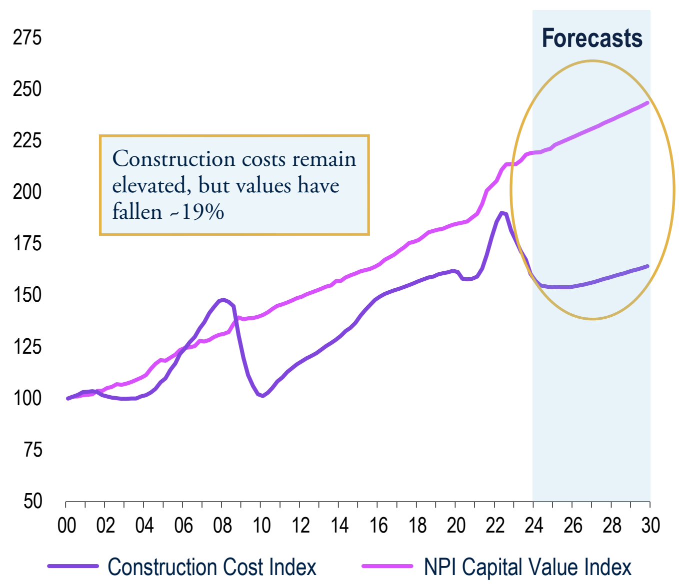
Forecasts are not guaranteed and may not be a reliable indicator of future results.

UNITED STATES VALUE-ADD STRATEGIES

Thinning supply pipelines, today's low liquidity and evolving space needs will offer value-add investors an opportunity to execute a range of strategies.

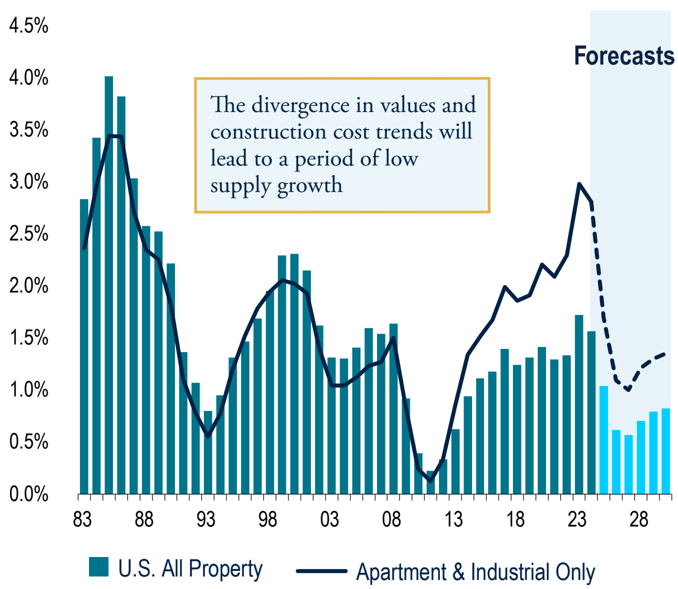
- New supply will be limited by higher construction costs and expensive development financing costs. This will impact supply deliveries for at least several years. Well-capitalized value-add investors able to execute on development projects in these conditions will benefit from a low supply environment in the coming years.
- Liquidity remains low compared to the last cycle but we expect further occupancy gains in many sectors driven by demographics and structural shifts. This provides an entry point for value-add investors to take on lease-up risk through various strategies such as active asset management, capex investment or ground-up development.
- Several alternative property types with structural tailwinds will see more investor interest this cycle owing to strong demand growth outlooks, including senior housing, single-family rentals and data centers. Value-add investors can capitalize on this expanding opportunity set by either modernizing existing stock or developing new product to meet the needs of tenants and to benefit from strong exit liquidity from investors for properties in these segments.

CONSTRUCTION COST INDEX VS. CRE CAPITAL VALUE INDEX (1Q 2000 = 100)



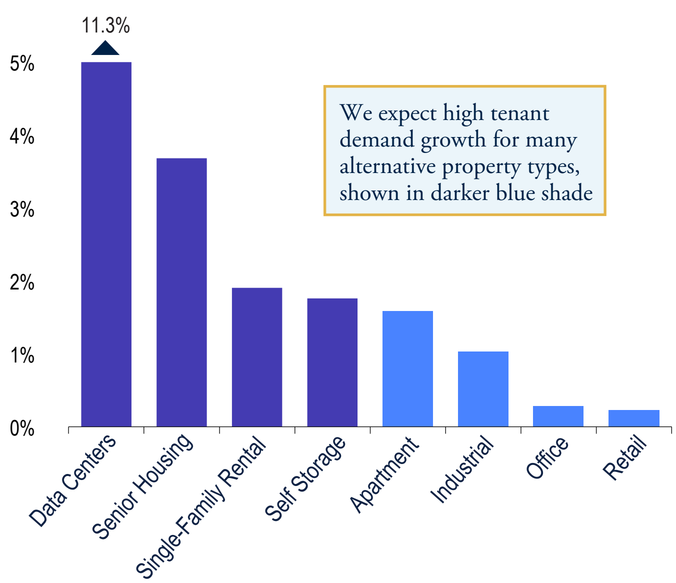
Sources: Moody's Analytics, NCREIF, PGIM Real Estate. As of June 2025.

NET ADDITIONS TO SUPPLY (% P.A.)



Sources: CoStar, PGIM Real Estate. As of June 2025.

PROJECTED DEMAND GROWTH (2025-29, % P.A.)



Sources: CoStar, Green Street, PGIM Real Estate. As of June 2025.

UNITED STATES CREDIT STRATEGIES

DEBT RETURN DRIVERS

HIGH INTEREST INCOME

New loan coupons continue to be cyclically high, benefitting from high base rates and attractive lending margins.

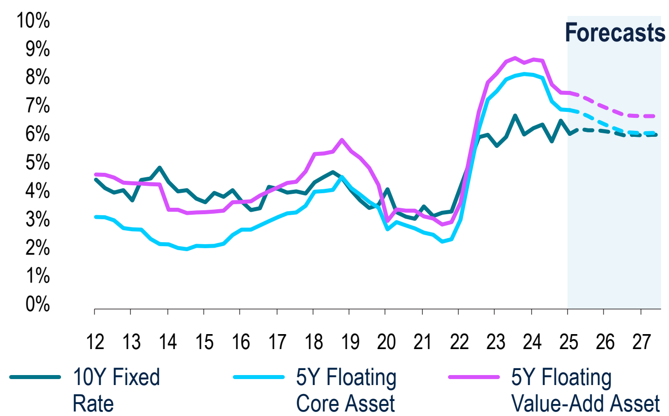
CONSERVATIVE LOAN METRICS

Due to higher interest rates, senior loan amounts will continue to be constrained by debt service coverage, keeping leverage levels modest.

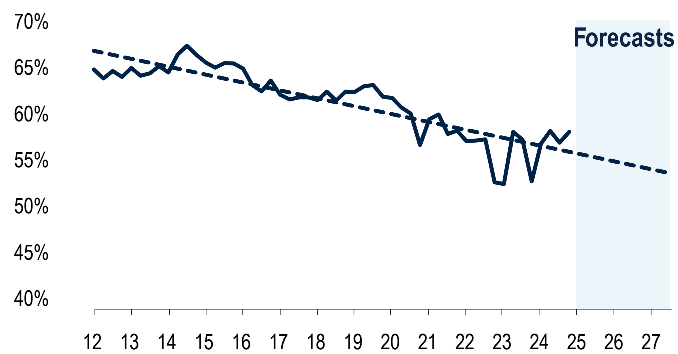
ATTRACTIVE ENTRY POINT

Elevated buy-in yields, low attachment points and expectations of improving credit profiles from growth in property NOI and values, point to the prospect of attractive debt returns.

SENIOR LOANS ALL-IN DEBT COSTS (%)



LTVS ON SENIOR LOANS (%)



Sources: Bloomberg, CREFC, Trepp Inc., Cushman & Wakefield, Real Capital Analytics, PGIM Real Estate. As of June 2025.

PRIVATE CRE CREDIT STRATEGIES

CORE

Modest leverage secured by stabilized real estate owned and operated by high quality sponsorship

- Focus on long term structural trends driving occupier and investor demand.
- High quality, stabilized assets positioned for enduring long-term relevance.
- Assets located in strong markets and micro-locations and owned and operated by strong sponsors.
- Investment grade equivalent senior loan investments with substantial borrower equity and predictable income streams.
- Contractual investor protections from covenants and controls that address liquidity and risk.

TRANSITIONAL

Loans against light transitional properties, levered and unlevered, and mostly floating rate

- Focus on well-located existing or newly built assets with in-place income.
- Assets that feature value-add and/or lease up business plans to increase property income and exit via sale or refinance.
- Levered and un-levered senior whole loans with moderate LTVs.
- Loan supporting business plans that improve income profile and property value driving positive credit migration.
- Capitalize on demand for improving existing assets, which need to be upgraded to meet future standards.

HIGH YIELD

Providing dynamic solutions across the capital stack

- Lower available debt on new senior loans creates a significant funding gap for alternative and flexible capital sources.
- Providing capital solutions for funding sustainable refurbishment and development projects.
- Bridge funding to allow for stabilization prior to sale / refinance / term out.
- Restructuring and growth capital for strong sponsors with stressed capital stacks secured by attractive real estate.
- Capitalize on under-supply of suitable stock in some markets.

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

PART III | UNITED STATES

KEY INVESTMENT THEMES

WHAT DRIVES INVESTMENT OPPORTUNITIES IN THE UNITED STATES?

Structural investment themes still hold, but some strategies are more exposed to a softening near-term demand and liquidity story. High conviction themes include strategies targeting the living sector, related urban infrastructure and data centers, along with credit strategies as the share of private lenders continues to grow.

	Theme		Rating	Real Estate Approach	United States	Mexico	Europe	Asia Pacific
STRUCTURAL TRENDS	Living	Traditional	🟢	Apartment/multifamily	✓		✓	✓
			🟢	Single-family rentals	✓		✓	
		Operational	🟢	Student/co-living			✓	✓
			🟢	Senior housing	✓		✓	✓
		Related urban infrastructure	🟢	Urban/infill logistics	✓		✓	✓
			🟡	Self storage			✓	
	Data Centers		🟢	Colocation			✓	✓
			🟡	Hyperscale	✓			✓
	Credit		🟢	Senior/whole loan	✓		✓	✓
			🟢	Subordinated	✓		✓	✓
			🟡	Development finance	✓		✓	✓
	Logistics		🔴	Big box/supply chain	✓	✓	✓	✓
			🟡	Trade-driven		✓		
			🟡	Manufacturing-related		✓		
TACTICAL OPPORTUNITIES	Cyclical / Recovery	Hospitality	🟡	Hotels			✓	✓
			🟢	Open-air accommodation			✓	
		Retail	🟡	High street/luxury				✓
			🟡	Discount formats			✓	
		Office	🔴	CBD office			✓	✓
			🟡	Medical office	✓			
		Public markets	🟢	Undervalued REITs	✓			

KEY TO RATINGS:

🟢 **HIGHEST CONVICTION THEMES,** most resilient to uncertain market conditions.

🟡 **CONTINGENT THEMES,** more caution and selective approach needed while uncertainty is elevated.

🔴 **SELECTIVE THEMES,** market uncertainty causing significant headwinds that affect execution.

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

PART III

KEY INVESTMENT THEMES

STRUCTURAL TRENDS

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

LIVING

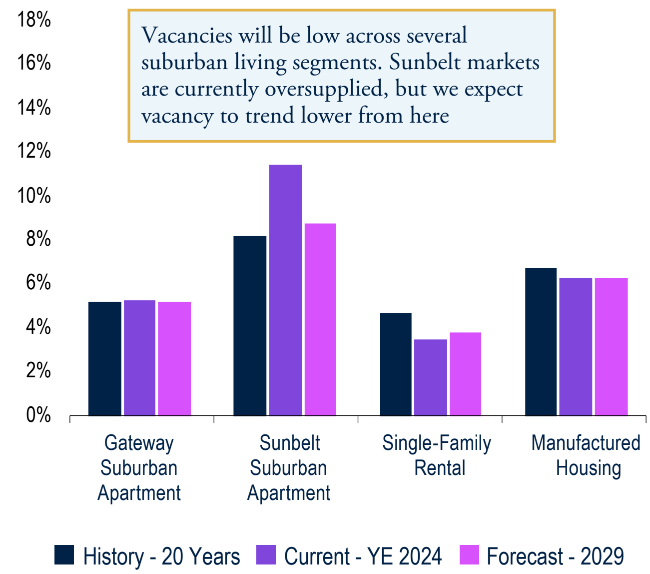
Suburban living opportunities are supported by age demographics, but we see a need for selectiveness.

TOP INVESTMENT PICKS

- Suburban apartments
- Single-family rentals
- Senior housing

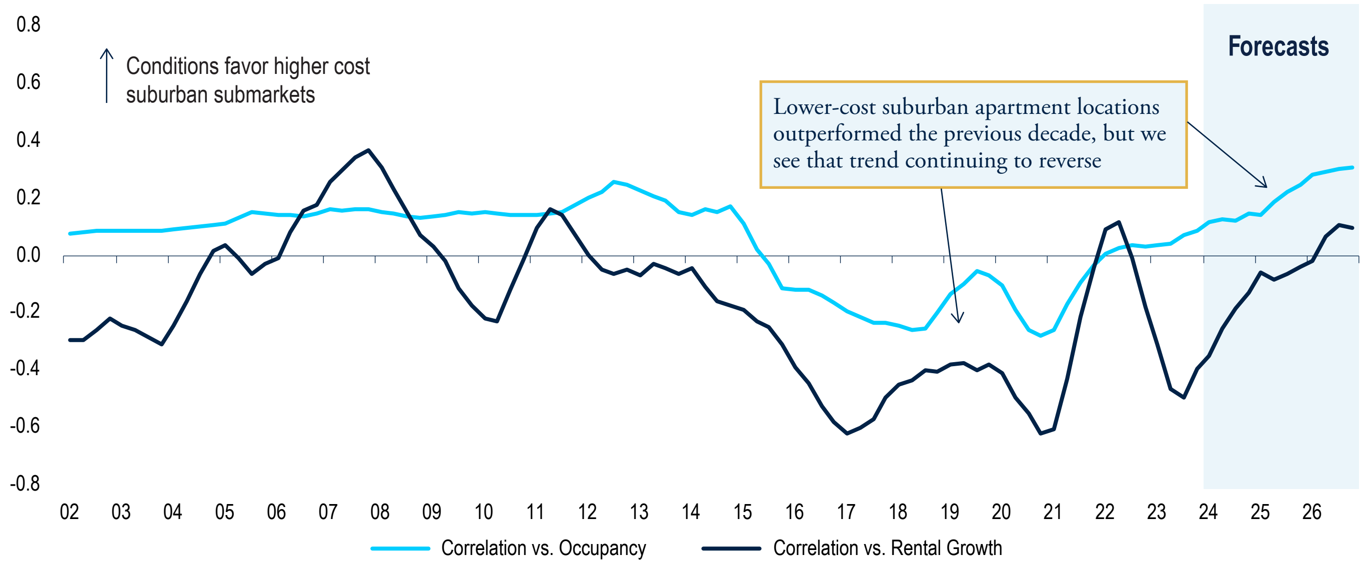
- The need to balance growth potential and defensiveness in the current market environment favors the living sectors. Today, suburban locations are best positioned to benefit from shifting demographics.
- In the apartment space, vacancy in suburban locations in the Gateway metros are 5.1% as of 1Q according to CoStar and see continued rent growth. We expect suburban vacancies in these markets to remain much tighter than many southern metros in the U.S. Sunbelt where vacancy is currently 11.4%, owing to significant supply deliveries and weighing on rental growth.
- Moreover, wage growth is now shifting in favor of higher wage earners after years of above-average gains for lower-wage earners. In turn, we see more favorable conditions among higher cost suburban locations persisting into the future.
- Demand for more living space and quality schools from the millennial cohort (now in their 30s and 40s) will support single-family rental demand.
- Housing affordability constraints, particularly among lower-wage earners, will keep demand for manufactured housing strong. Income growth in this segment is also very defensive in many different economic environments.

VACANCY RATE BY SUBURBAN LIVING SEGMENT (%)



Sources: CoStar, Green Street, PGIM Real Estate. As of June 2025.

CORRELATION OF SUBMARKET RENT LEVELS WITH OCCUPANCY AND RENT GROWTH (ALL SUBURBAN SUBMARKETS)*



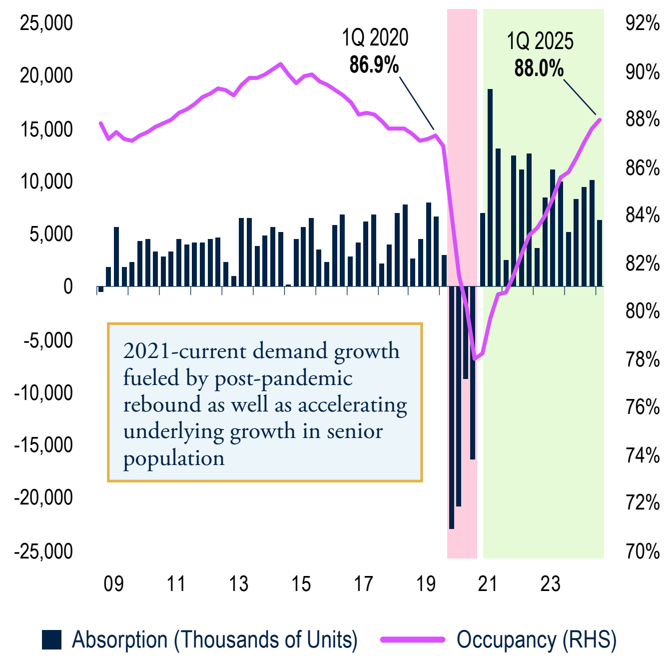
*The higher the correlation, the more rental growth and occupancies are stronger in suburban submarkets with higher rental rates.
Sources: CoStar, PGIM Real Estate. As of June 2025.

SENIOR HOUSING

Average occupancy rates are rapidly rising. Yet the distribution around that average is wide, making asset selection and operational expertise essential.

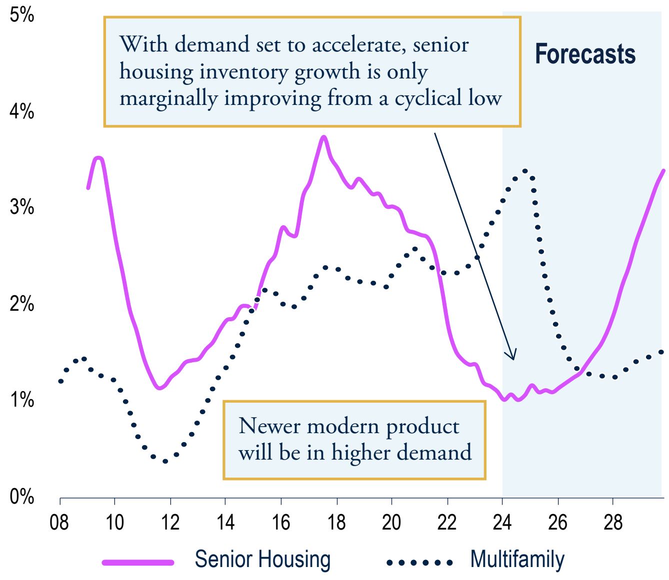
- Senior housing occupancies now are above their early 2020 levels. This rebound was initially driven by “make-up” demand from delayed move-ins, while more recently it has been fueled by the rapid growth in the 80+ year old population.
- We expect rent momentum to be sustained by a supply pipeline that has been constrained by cautious lenders that steered clear of the sector after the occupancy plunge at the start of the decade.
- The uneven recovery across the sector is evidence of the importance of operational expertise. Only half of senior housing properties in the NCREIF index have occupancies above 90%, which is a typical threshold for operating leverage to turn positive.
- While we expect further market-wide improvement in occupancies, with tight labor markets we expect the premium for the best operators to persist.

QUARTERLY SENIOR HOUSING OCCUPANCY AND ABSORPTION



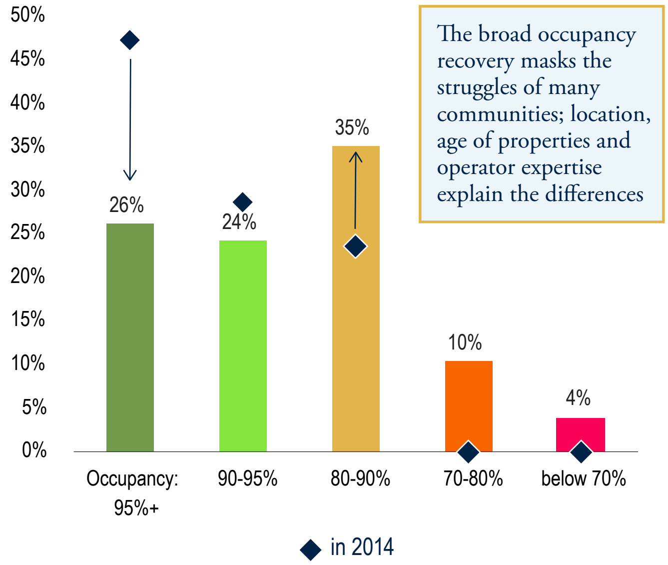
Sources: National Investment Center for Seniors Housing & Care, PGIM Real Estate. As of June 2025.

ANNUAL INVENTORY GROWTH (%)



Sources: National Investment Center for Seniors Housing & Care, CoStar, PGIM Real Estate. As of June 2025.

SHARE OF PROPERTIES BY OCCUPANCY BAND (%)



Sources: NCREIF, PGIM Real Estate. As of June 2025.

DATA CENTERS

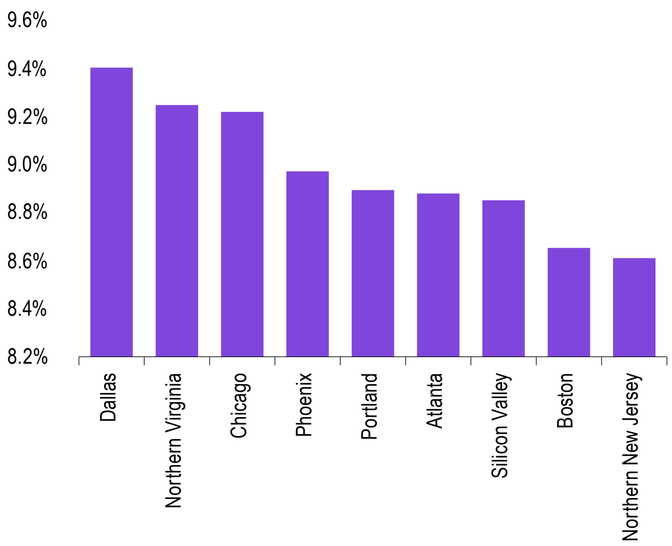
Rising tech capex spending will continue to keep vacancies low. Markets with low power costs and carbon emissions have better risk-adjusted outlooks.

TOP INVESTMENT PICKS

- Hyperscale, targeting low power cost markets
- Low latency, inference-driven assets in tier 1 markets

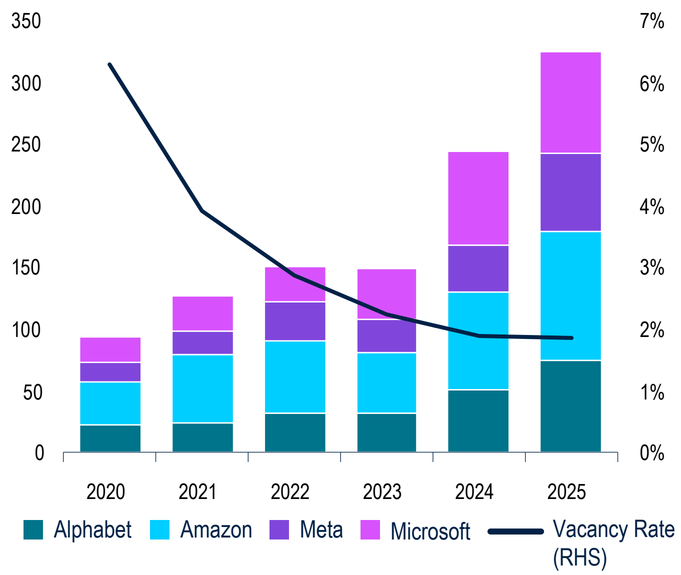
- At sub-2% rates, data center vacancy rates are already at all-time lows. Capital expenditure budgets of large tech firms continue to increase significantly, which includes data center infrastructure such as the chips and computer hardware housed in data centers and reflects future data center demand.
- Despite a large amount of construction activity, there is limited risk to vacancies in the near term given over three quarters of the pipeline is already pre-leased.
- Investors may see attractive returns across many metro areas. Forecasts call for limited return differentiation, with the best metro-level return expectations in the mid-9% range versus the worst in the mid-8% range. Significant power needs are driving leasing across a range of geographies and keeping vacancy low more broadly, which is pushing rents higher.
- Given the tight band in return performance, market selection should favor lower-cost power markets. Power is a large portion of data center expenses, and tenants factor that into their location decisions.
- Furthermore, investors with net zero and other climate-related goals can target markets with low carbon emissions.

FORECAST UNLEVERED IRR BY MAJOR DATA CENTER MARKET (%)



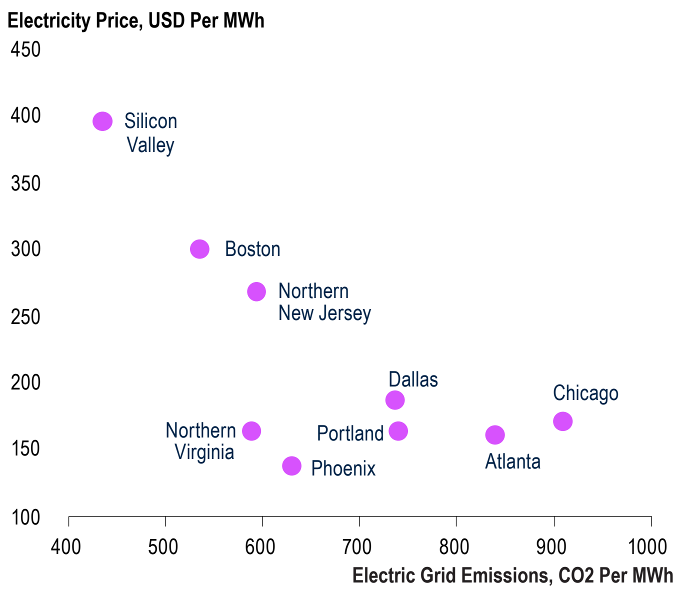
Sources: Green Street Advisors, PGIM Real Estate. As of June 2025.

BIG TECH CAPITAL EXPENDITURE SPENDING (US$ BILLIONS) AND DATA CENTER VACANCY RATE (%)



Sources: Green Street Advisors, PGIM Real Estate. As of June 2025.

POWER COST AND CO2 EMISSIONS



Sources: Moody's Analytics, EPA, PGIM Real Estate. As of June 2025.

LOGISTICS

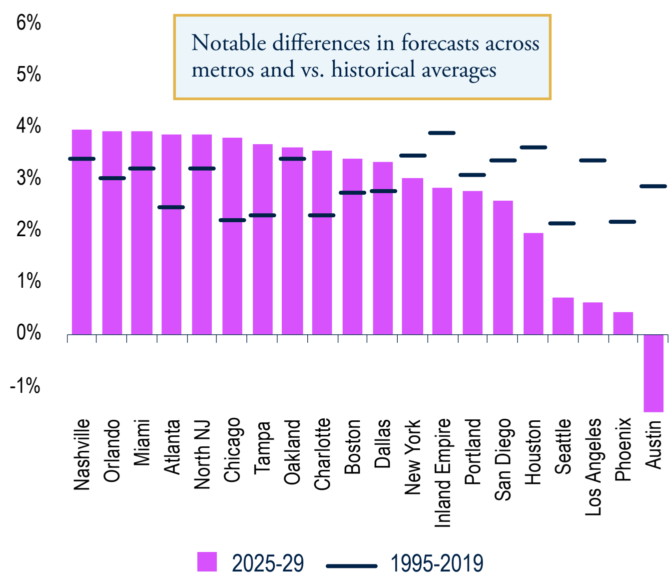
Growing demand to support rent growth, but increased focus on submarket selection is required.

TOP INVESTMENT PICKS

- Urban / infill strategies
- Big box supporting supply chain resilience

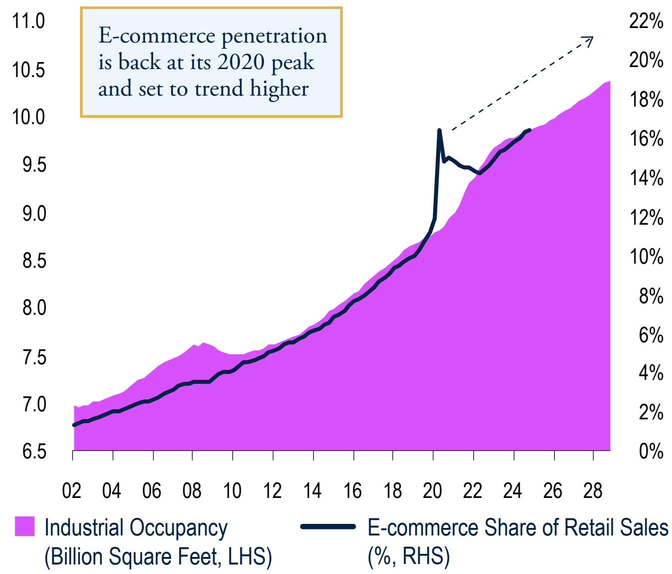
- E-commerce penetration continued its upward trend through 2024 and will move higher in the coming years. Even as inflation-adjusted retail sales have slowed, e-commerce spending continues to grow and support logistics demand. A thinning supply pipeline will also help push vacancy lower.
- Yet recent new supply has impacted some logistics markets more than others. As a result, we expect notable differences in rental growth across metros, which currently favors many Southeast markets that are facing less supply pressures and headwinds to demand growth.
- Within-metro geography will be increasingly important. Over the last decade, a scarcity of availabilities forced tenants to lease space wherever it could be found, which compressed vacancies across submarkets. By 2021, there was no difference in vacancy levels across high and low rent submarkets.
- This has changed. Tenants are being more selective in their leasing decisions – demand growth has fallen swiftly in lower-rent submarkets within metros. Meanwhile, demand growth in higher-rent submarkets is in-line with pre-COVID-19 trends.
- At the same time, supply growth is notably higher in lower-rent submarkets and will take longer to absorb.
- Conditions in high-rent submarkets – those that offer greater access to consumers or logistics infrastructure – are more favorable, which we expect to persist.

RENTAL GROWTH BY METRO, FORECAST VS. HISTORICAL



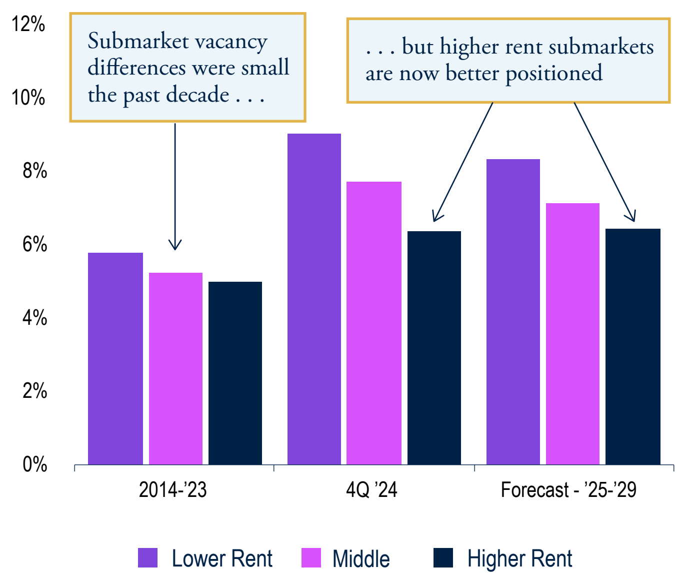
Sources: CoStar, PGIM Real Estate. As of June 2025.

U.S. LOGISTICS DEMAND AND U.S. E-COMMERCE MARKET SHARE (%)



Sources: CoStar, U.S. Census Bureau, PGIM Real Estate. As of June 2025.

LOGISTICS VACANCY RATE BY RENT LEVEL TIER (%)



Note: Submarket tier is determined by splitting submarkets in each metro into three groups determined by rent level, then aggregating across metros.

Sources: CoStar, PGIM Real Estate. As of June 2025.

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

CREDIT

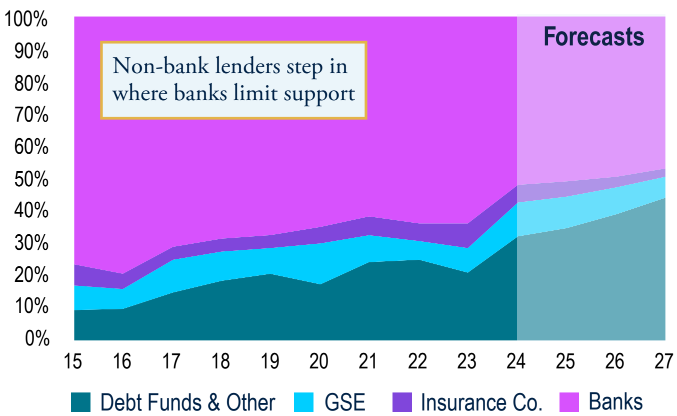
As senior lenders retreat from higher-risk lending, private credit is poised to expand its market share by providing flexible, higher-leverage financing solutions.

TOP INVESTMENT PICKS

- Gap financing
- Transitional financing
- Senior development loans

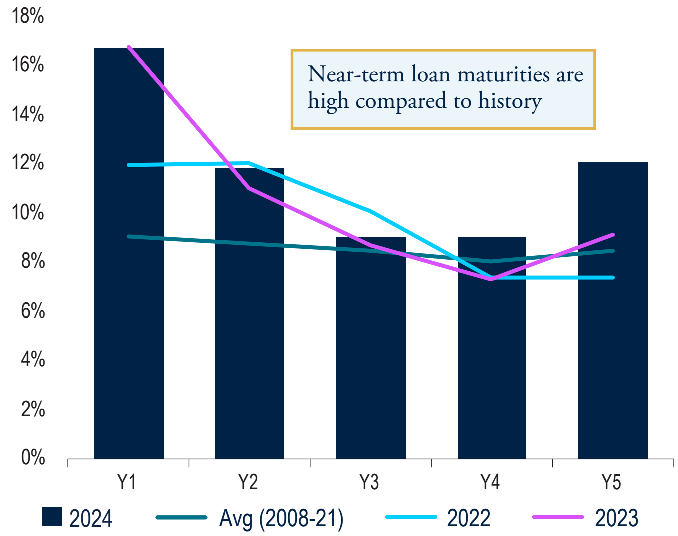
- Filling the funding gap left by traditional banks that have selective appetites for higher-risk lending, and remain debt service constrained, has led to structurally lower senior advance rates.
- There is a need for higher leverage whole loans and subordinate financing solutions to bridge the gap between senior lending levels and sponsors' financing needs.
- There is growing demand for debt financing to support value-add strategies, asset repositioning and institutional upgrades, especially across undersupplied asset classes. This includes development loans, an area where bank support is limited.[2]
- Near-term loan maturities remain high compared to the historical average, and are mostly bank-held, which is driving demand for creative, transitional capital solutions across the capital stack.
- With Basel III Endgame revisions yet to be finalized and timing uncertain, banks are strategically approaching the market, targeting top-tier sponsors and financial intermediaries. While direct lending is more focused on low risk, relationship-driven transactions, leaving more complex deals to non-bank lenders.

U.S CONSTRUCTION LENDER COMPOSITION (%)



Sources: MSCI, PGIM Real Estate. As of June 2025.

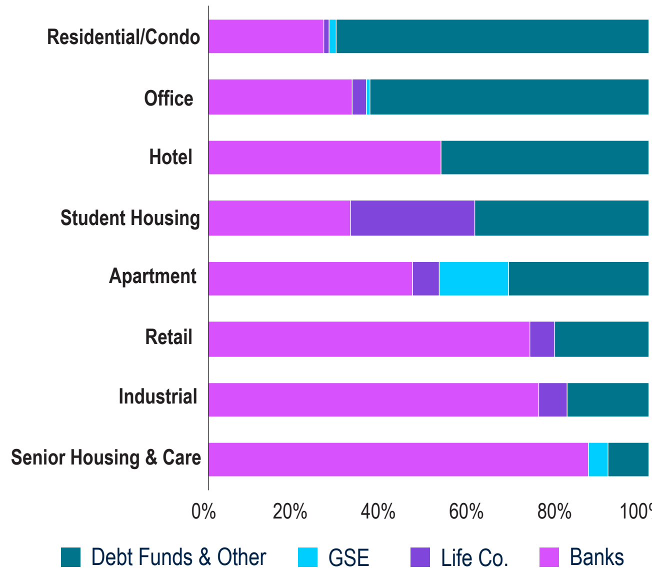
SHARE OF OF OUTSTANDING BALANCE OF COMMERCIAL & MULTIFAMILY LOANS (%)



Loan maturities do not include bank-held loans, due to a lack of historical data for comparison.

Sources: Mortgage Bankers Association, PGIM Real Estate. As of June 2025.

U.S. CONSTRUCTION LENDER COMPOSITION BY ASSET CLASS (%)



Note: Composition by asset class are over 2024.

Sources: MSCI, PGIM Real Estate. As of June 2025.

[2]PGIM Real Estate, *The Expanding Opportunity for Private U.S. Real Estate Credit*, April 2025.

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PART III

KEY INVESTMENT THEMES

TACTICAL OPPORTUNITIES

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

MEDICAL OFFICE

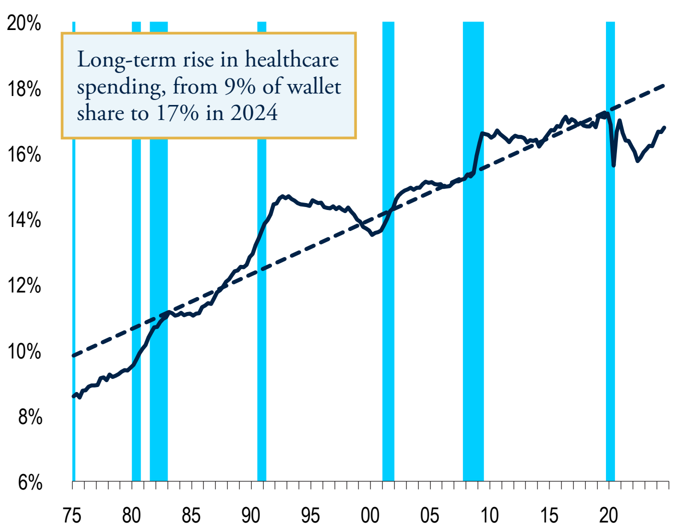
Needs-based tenancy minimizes cash flow volatility, with returns supported by growing health care demand.

TOP INVESTMENT PICKS

- Hospital clusters
- Smaller, high-occupancy submarkets

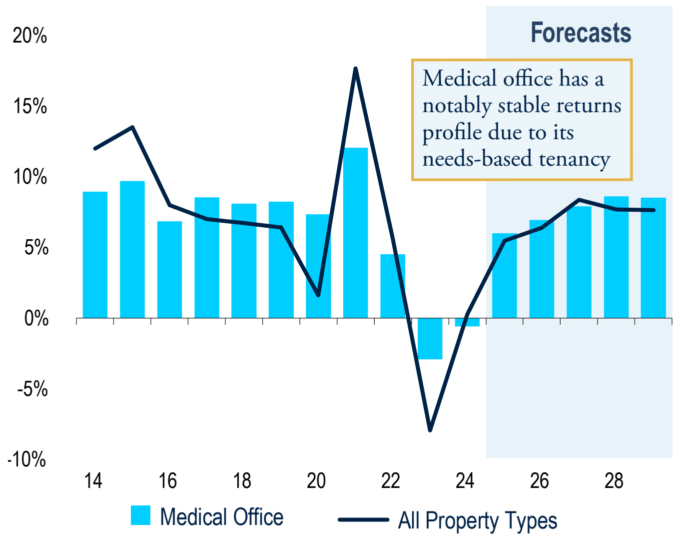
- Medical office has delivered more stable returns than the average property type, with lower peaks and shallower valleys. This is due to the needs-based tenancy of physicians and other patient-serving uses.
- While the initial lease-up of medical office can be prolonged because of the higher number of tenants per floor as compared with traditional office, once properties lease up they have stable cash flows due to high occupancy and sticky rents. Occupancy historically has tracked much closer to apartments, the most stable major property type, than office.
- The long-term increase in healthcare spending supports medical office demand growth. Further, as shown by the grey bars in the chart on the bottom left, patients prioritize healthcare spending during recessions, which insulates medical office tenants from the economic cycle.
- Investors can benefit from exposure to smaller medical office markets, which have high occupancies. Major markets have many medical office nodes, often clustered around different hospitals, which incentivizes construction. By contrast, supply is more limited in smaller metropolitan areas, with steady tenant demand keeping buildings full.

HEALTHCARE SERVICES, SHARE OF TOTAL PERSONAL CONSUMPTION EXPENDITURES (%)



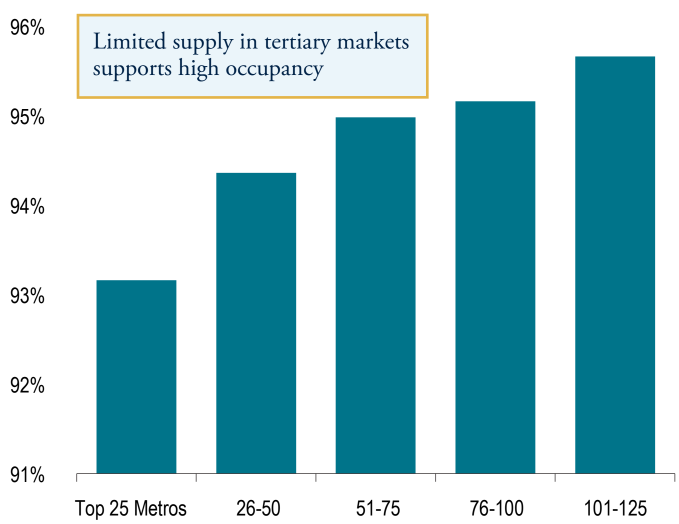
Sources: US Bureau of Labor Statistics, PGIM Real Estate. As of June 2025.

PRIVATE REAL ESTATE TOTAL RETURNS, UNLEVERED



Sources: NCREIF, PGIM Real Estate. As of June 2025.

MEDICAL OFFICE OCCUPANCY RATE BY MARKET SIZE RANKING (%)



Sources: ReVista, PGIM Real Estate. As of June 2025.

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PUBLIC MARKETS

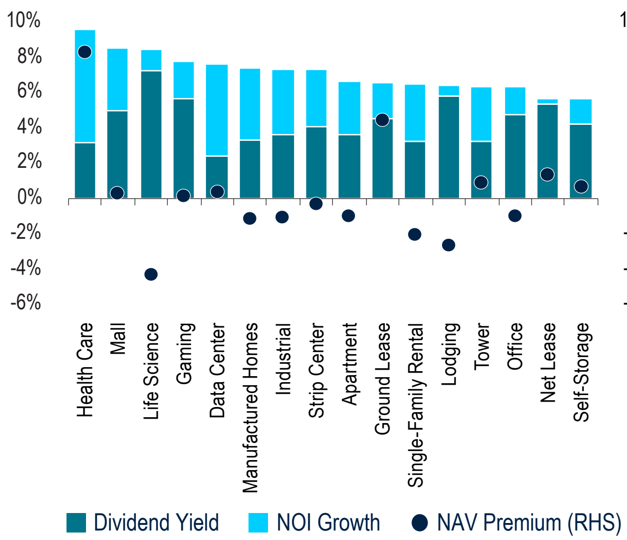
REITs offer cyclically high dividend yields and healthy NOI growth. Pricing is also favorable relative to other public equities.

TOP INVESTMENT PICKS

- **Undervalued REITs trading at significant NAV discounts**

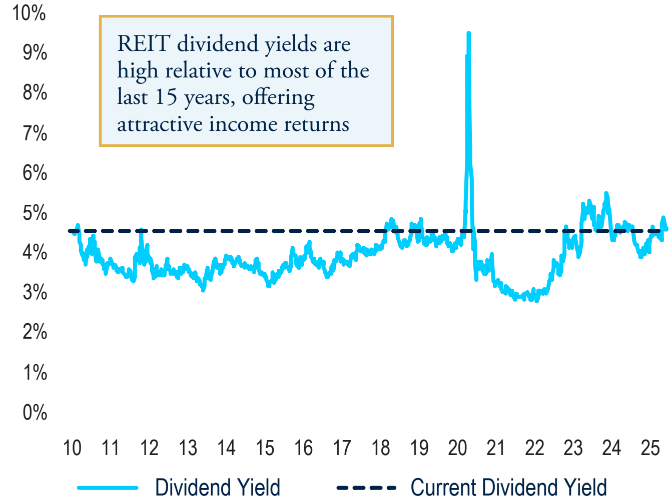
- Though with substantial volatility in between, REIT share prices have been flat since late 2019. Yet property net operating incomes continued to grow. As a result, REITs now offer higher dividend yields than most of the last 15 years.
- In addition to a dividend yield, NOI growth positions REITs to potentially offer high single-digit total returns. Downside risk may be limited by many REIT sectors trading at a discount to NAV, despite the significant market value declines of the underlying real estate over the last two years.
- The suburban residential sector has upside, with strong demand drivers discussed earlier along with share prices trading at a discount to NAV. These include apartments, manufactured housing and single-family rental.
- REITs are also attractively priced relative to other public equities. The spread between REIT implied cap rates and the earnings yield of the S&P 500 is at 15-year highs. REIT income comes at a significant discount relative to other stocks, letting investors participate in any economic upside in the form of NOI growth while also having lower pricing risk.

REIT RETURN OUTLOOK (2025-28) AND NAV PREMIUM



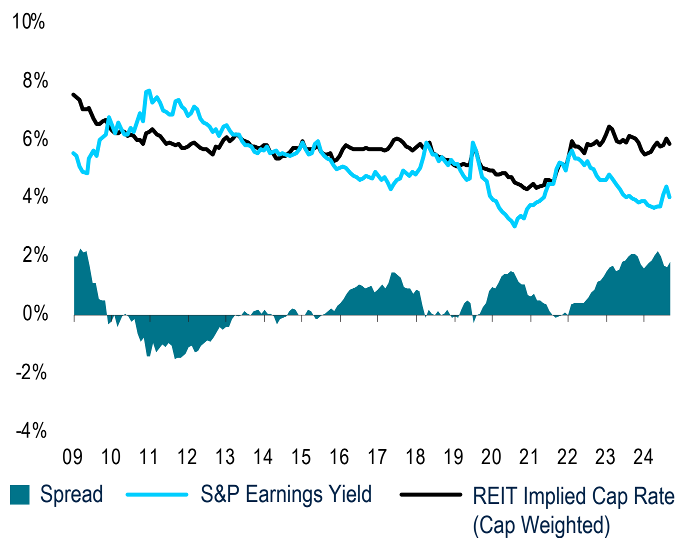
Sources: Green Street, PGIM Real Estate. As of June 2025.

REIT DIVIDEND YIELD (%)



Sources: Green Street, PGIM Real Estate. As of June 2025.

REIT IMPLIED CAP RATE VS. S&P EARNINGS YIELD (%)



Sources: Green Street, Bloomberg, PGIM Real Estate. As of June 2025.

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PGIM REAL ESTATE

INVESTMENT RESEARCH

2025 GLOBAL OUTLOOK

Generating Resilient Income Growth Amid Uncertainty

MAY 2025

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