

REGIONAL INSIGHTS

Recently, the focus of conversations has shifted away from being very region specific to being global.

The driver is ongoing policy uncertainty, everywhere. But it is also driven by the dilemma investors are facing given the varying outlooks around the world – do I invest into the potential upside of a real estate recovery, or do I invest for resilient income and downside protection? Diversification suggests you pursue both. The reasons for holding a globally diversified portfolio are apparent in our latest insights.

Opportunities are increasingly country, capital, sector, style and submarket specific.

In PGIM's latest Regional Insights, our real estate investment research teams focus on the following themes and opportunities:

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UNITED STATES INSIGHTS

Key Themes

- Where Are the Best Last-Mile Industrial Opportunities?
- Is There Market-level Mispricing in the Apartment Sector?

Where Are the Best Last-Mile Industrial Opportunities?

Even after a decade, e-commerce continues to be a driver of industrial net operating income (NOI) growth. E-commerce has made it increasingly important for tenants to be close to the consumer, aka “last-mile” industrial.

But where, exactly, are those optimal locations? Our site selection methodology is a good starting point.

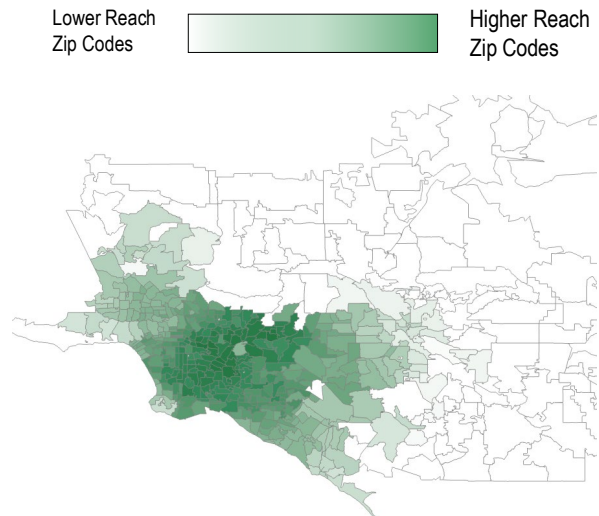
In **Exhibit 1**, we map the aggregate income reachable within a 60-minute drive of each zip code. Here, we use Southern California as an example. This method takes four key variables into account:

- **Income levels**, indicative of households’ appetite for consumption including via e-commerce;
- **Population density**, which along with income measures the buying power of households in an area;
- **Proximity**, to reduce the geographic distance from consumers; and,
- **Transportation infrastructure**, which enables e-commerce tenants to deliver efficiently even across wider distances.

In a large area such as Southern California, this approach substantially narrows down the number of locations to target last-mile investments.

Exhibit 1: Access to the Consumer Is Essential

Southern California Zip Codes, Total Household Income Reachable Within 60 Minutes



Only a small subset of the metro can reach a high share of the metro area’s total household income within an optimized delivery drive time.

Sources: American Community Survey, PGIM Real Estate. As of September 2025.

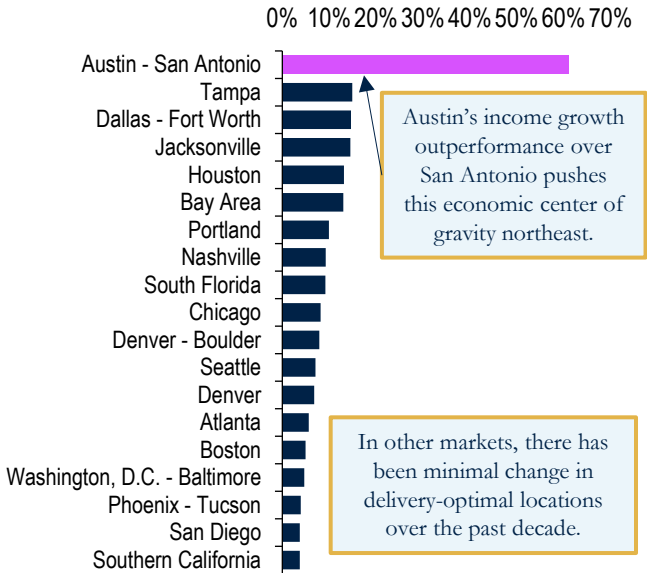
However, over time neighborhoods change, and people move and take their (high and low) incomes with them. That makes it important to consider the consistency of the location quality.

Fortunately, the optimal locations selected by our methodology rarely shift by much. **Exhibit 2** shows how many zip codes switched deciles, in terms of the aggregate income reachable within a 60-minute drive, between 2014 and 2023.

The only notable exception to the stability of optimal locations is the combined Austin and San Antonio region, driven by the strong income and population in Austin that pushed the economic center of gravity northeast.

Exhibit 2: Location Quality Is Consistent

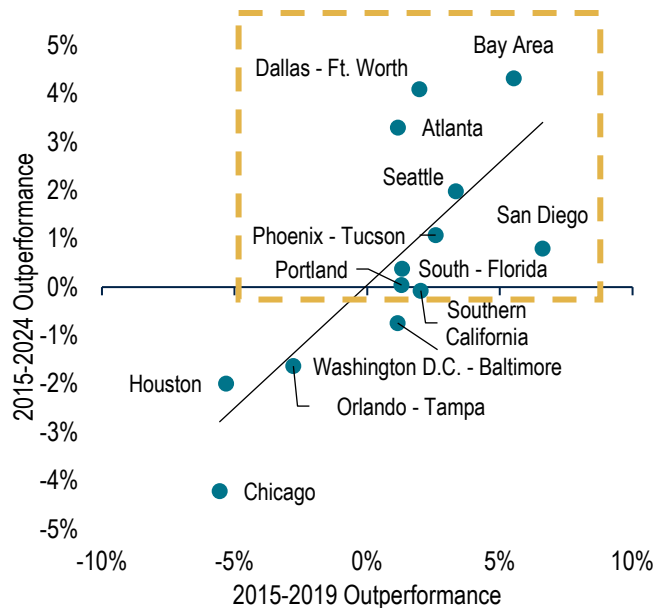
Zip Codes That Changed Deciles Between 2014 and 2023



Sources: American Community Survey, PGIM Real Estate. As of September 2025.

Exhibit 3: The Best Locations Have Higher NOI Growth

NOI Growth Outperformance of High Reach Zip Codes



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

We have seen this consistency in the best industrial locations to lead to superior NOI growth, both in the short and long term. In **Exhibit 3**, we compare the NOI growth of industrial properties in the top third of zip codes, i.e. the ones with the highest aggregate income reached within a 60-minute drive time, to those in the bottom two-thirds.

From 2015 to 2019 (which excludes the volatile 2020-2024 period), as well as the last decade, NOI grew fastest in high reach zip codes in most larger markets. This makes sense, because it takes more time to move goods across larger, more populated metros.

We believe our site-selection methodology can help identify locations that may offer relatively stronger NOI growth over the long term.

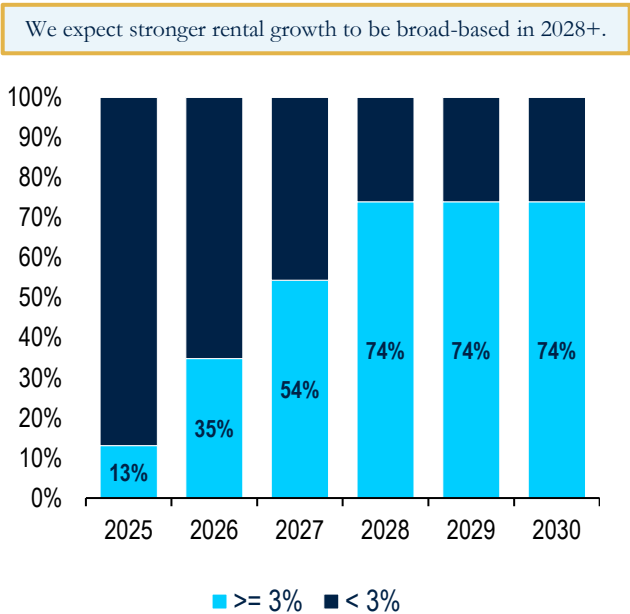
Is There Market-level Mispricing in the Apartment Sector?

With the post-2020 supply boom nearing its end, we expected apartment market conditions to turn a corner this year. Yet midway through, rental growth has decelerated further and vacancy rates still sit near historical highs, particularly in many markets across the southern U.S.

As a result, we still expect an uneven rental growth trajectory by metro over the next two years, even though supply pipelines are thinning rapidly. Are markets properly pricing these growth projections? Based on our expectations for rental growth over the next five years, we don't think so.

Exhibit 5: More Broad-Based Growth Expected

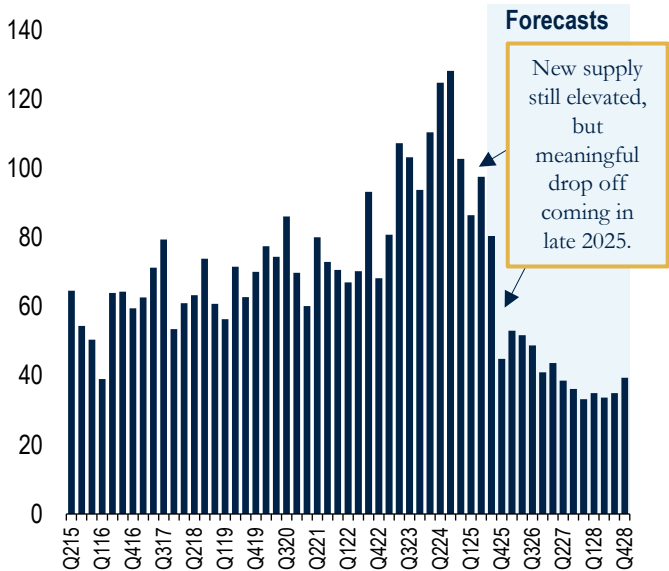
Percent of Markets with Rent Growth Above/Below 3%



Sources: CoStar, PGIM Real Estate. As of September 2025.
Forecasts are not guaranteed and may not be a reliable indicator of future results.
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Exhibit 4: Steep Falloff in Supply Coming in Late 2025

Quarterly Net Additions to Apartment Inventory (Thousands of Units)



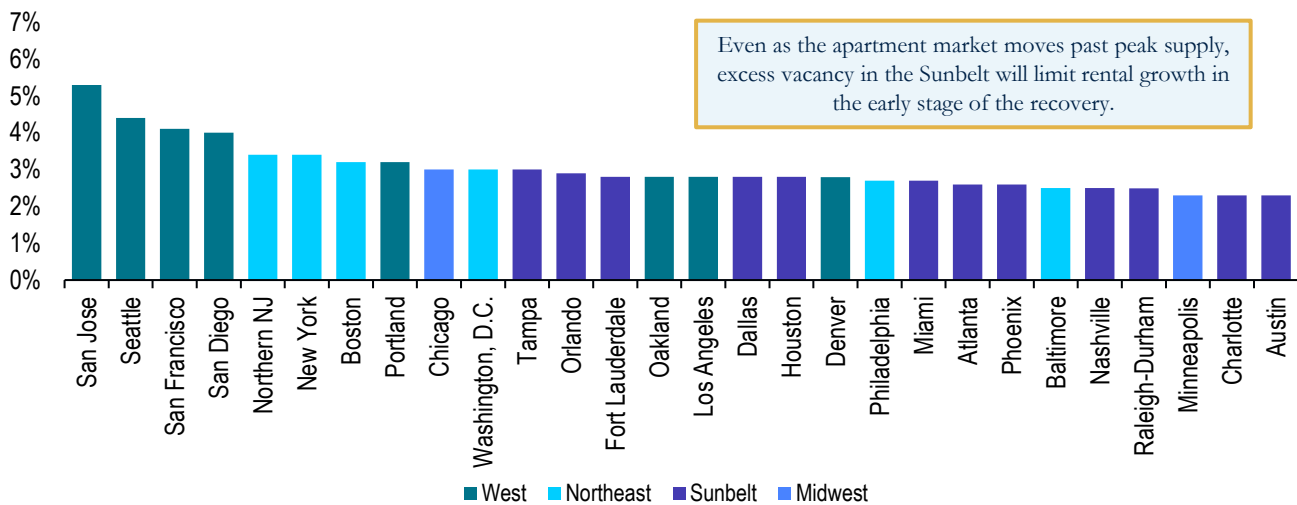
Sources: CoStar, PGIM Real Estate. As of September 2025.
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A combination of much lower supply additions and continued demand growth will allow for notable vacancy declines in 2026 across most markets. Even with deliveries off recent peaks, new supply has remained significant through mid-2025. Yet we expect a much more significant drop off in supply additions by the fourth quarter of this year (**Exhibit 4**) as the sharp decline in construction starts over the past two years begins to impact actual deliveries.

However, that does not mean rent growth will strengthen in all metros immediately (see **Exhibit 5**). Excess vacancy in the Sunbelt is substantial and will take longer to be absorbed, impacting relative rental growth into 2027. This is weighing on the relative five-year outlook for these markets (**Exhibit 6**, next page).

Exhibit 6: Strongest Outlook in West and Northeast

2026-2030 Rent Growth by Market (Annual Average)



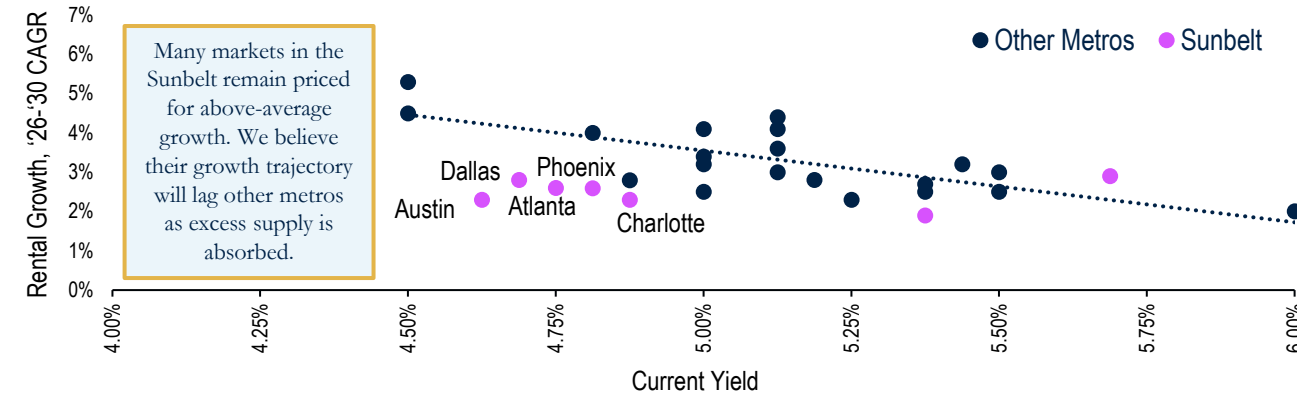
Sources: CoStar, PGIM Real Estate. As of September 2025.
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Does current market pricing properly reflect this uneven rental growth recovery story? For a handful of metros in the Sunbelt, we don't think so. In **Exhibit 7**, we show a comparison of current yields and rental growth expectations over the next five years. If market pricing was reflective of our growth projections, we would expect to see a noticeable negative correlation between yields and rental growth.

While this is the case for most markets (the dark blue dots), current yields for several markets in the Sunbelt are priced for stronger rental growth than we expect given still-high vacancy rates in these markets. As a result, we expect returns in these markets to underperform for the next couple years as yields are not suitably compensating investors for the lower near-term growth.

Exhibit 7: Sunbelt Markets Still Priced for Strong Rental Growth

Current Apartment Yields vs. 2026-2030 Rent Growth by Market (CAGR)



Sources: CBRE, CoStar, PGIM Real Estate. As of September 2025.
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EUROPE INSIGHTS

Key Themes

- Has Logistics Space Demand Fallen Too Far for Further Real Rental Growth?
- Can Rent Regulation Hold Back Rental Growth in the Residential Sector?

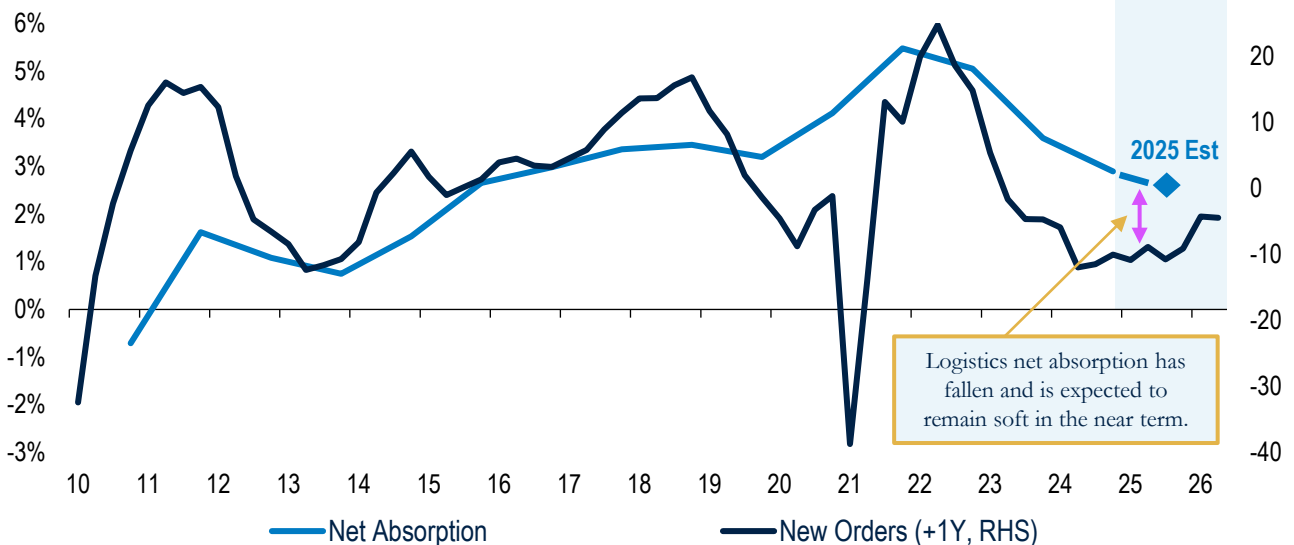
Has Logistics Space Demand Fallen Too Far for Further Real Rental Growth?

What is the outlook for logistics rental growth? That is a tough question. It's no secret that the demand for logistics space is down, and if leading indicators such as new industry orders are to be believed, the outlook for the rest of 2025 is not much better (**Exhibit 1**).

Factors such as heightened trade uncertainty, slower-than-expected consumer spending growth and low levels of industrial activity are unlikely to improve any time soon. So, are rents set to fall?

Exhibit 1: Demand Has Moderated from Elevated Levels

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



Sources: Eurostat, PMA, BNP Paribas, Oxford Economics, PMA, Cushman & Wakefield, PGIM Real Estate. As of September 2025.

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Well to us no, they're not. Three reasons help. The first is the supply side. Falling space demand and declining real capital values have curtailed development activity. We see this trend persisting, limiting new supply over the coming years (**Exhibit 2**).

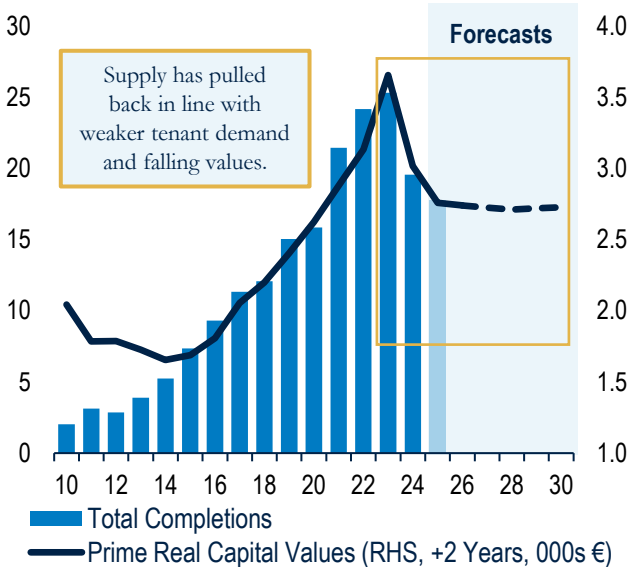
Second, and as outlined in some of our previous work, the medium-term outlook for logistics space demand remains positive. Ongoing adoption of e-commerce across European cities remains a strong tailwind.

And third, despite European logistics vacancy rates having risen over the last two years, any historical analysis still points to real rental growth. Provided the pan-European vacancy rate remains below 7.5%, real rental growth is still likely.

What's more, rents might grow even faster. Forecasts have vacancy rates set to fall back – in turn pushing rents up by even more. However, that outsized momentum could be lost again if supply responds.

Exhibit 2: Supply Is Adjusting to Less Demand and Lower Real Capital Values

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

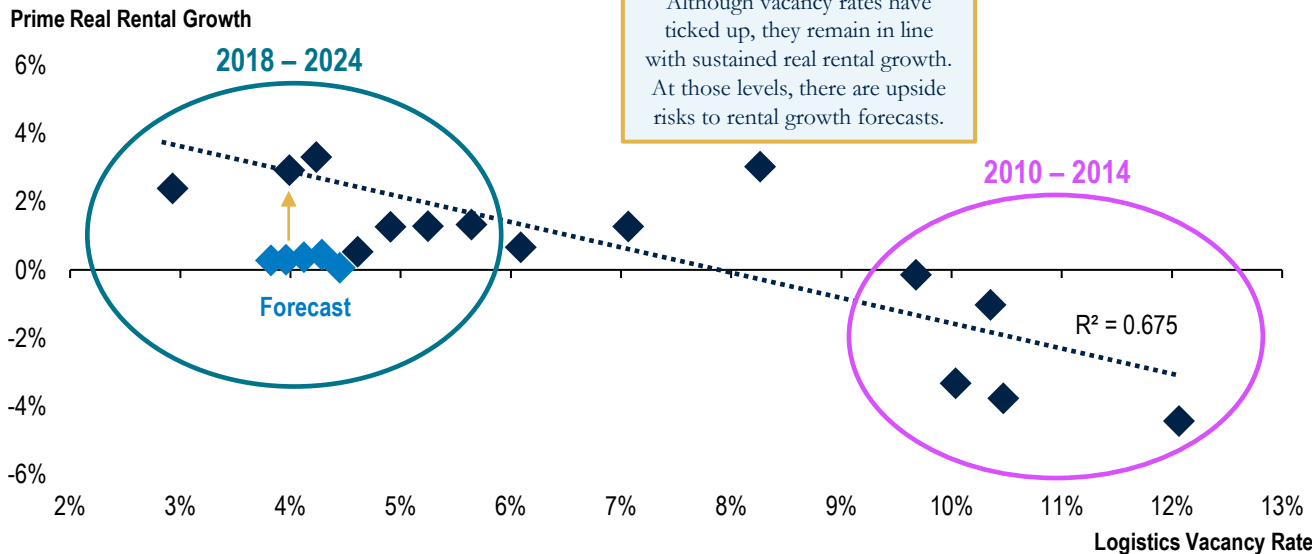


Sources: PMA, Cushman & Wakefield, PGIM Real Estate. As of September 2025.

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

Exhibit 3: Vacancy Has Risen but Remains Consistent with Real Rental Growth

Logistics Vacancy Rate vs. Prime Real Rental Growth



Sources: PMA, PGIM Real Estate. As of September 2025.

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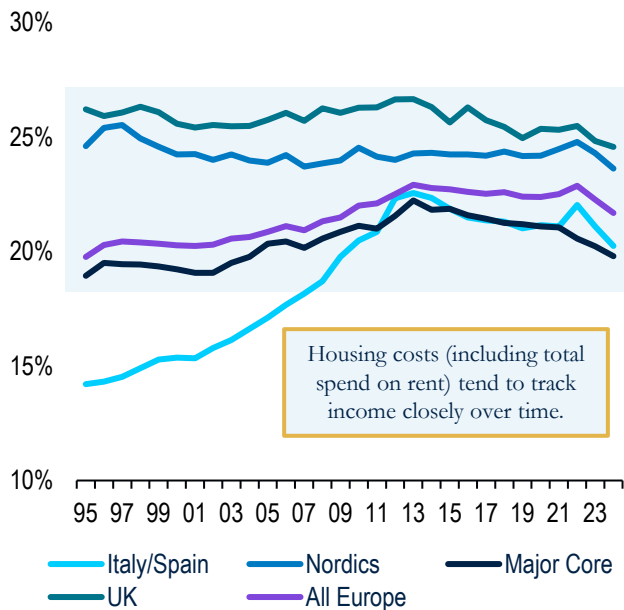
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Can Rent Regulation Hold Back Rental Growth in the Residential Sector?

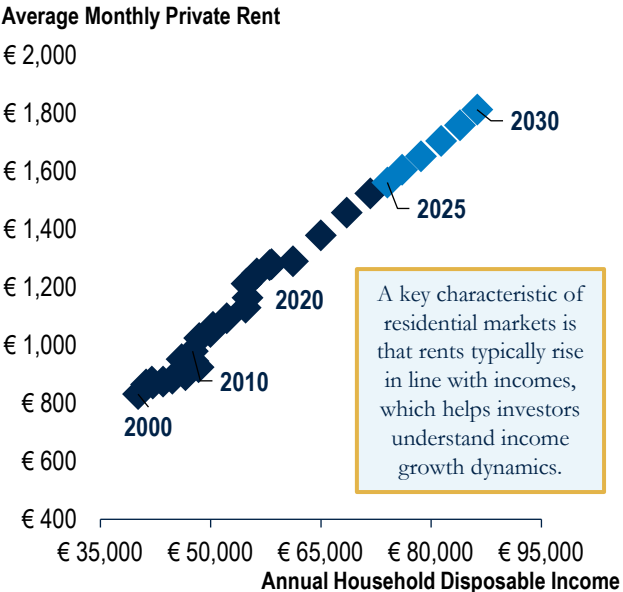
Over time housing costs tend to move with household incomes (Exhibit 4), as such it is no surprise that rental growth is similarly linked to growth in household incomes. This dynamic can contribute to relatively stable cash flows for investors – one of the key attractions of investing in residential assets.

Exhibit 4: Households Spend a Constant Share of Income on Housing

Housing Costs as a Share of Disposable Income (%)



Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000 – Major Cities (€)



Sources: Oxford Economics, PMA, PGIM Real Estate. As of September 2025.
Forecasts are not guaranteed and may not be a reliable indicator of future results.

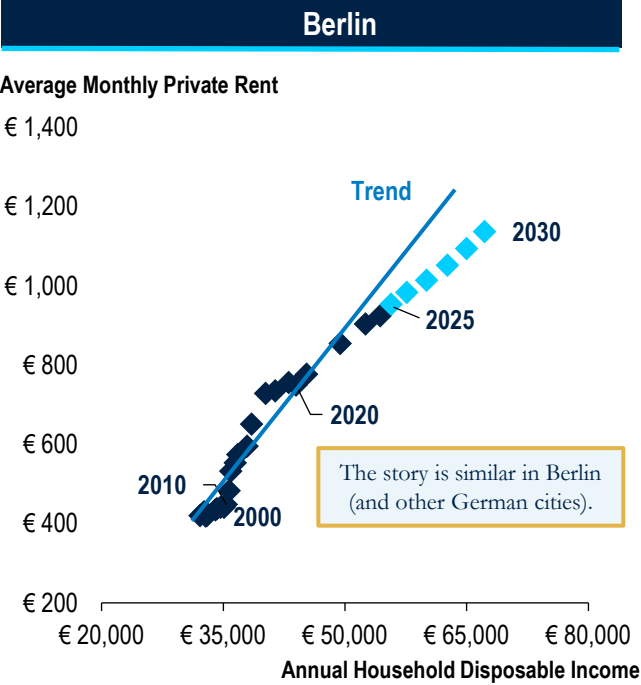
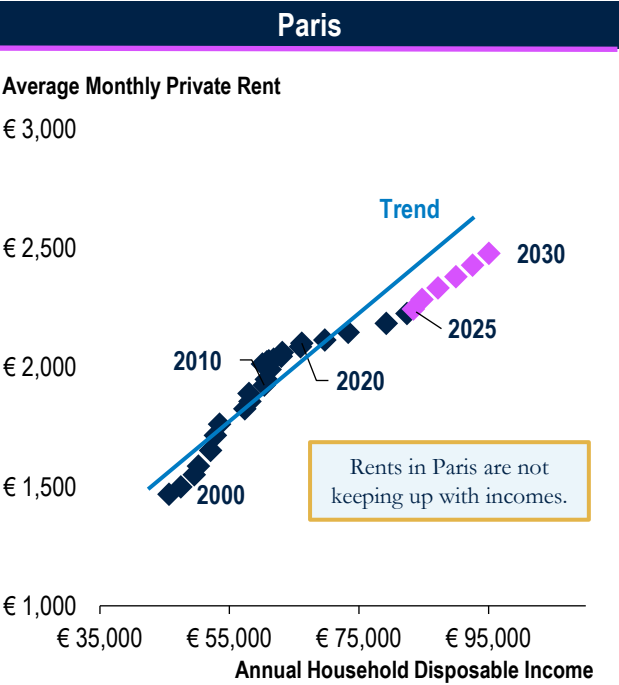
However, this pattern does not hold everywhere. At the city level for instance, variations in local factors, such as rent regulation, affect the income-rent dynamics.

Take Paris, for example. Rent regulation has clearly curbed headline rental growth. The ELAN law introduced a framework that caps both initial and renewed rents, as well as rent increases, based on a median reference rent. Since its implementation in 2018, rent levels have fallen below their long-term relationship with incomes (**Exhibit 5**).

A similar dynamic is playing out in Berlin and other German cities, where rent breaks, caps and even freezes are in effect. These measures are not only restraining current rental growth but are also weighing on future rental growth forecasts, which now point to weaker growth than would be expected in the absence of such regulation (**Exhibit 5**).

Exhibit 5: Regulation Holding Back Rent Growth in Selected Cities

Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000



Sources: PMA, Oxford Economics, PGIM Real Estate. As of September 2025.
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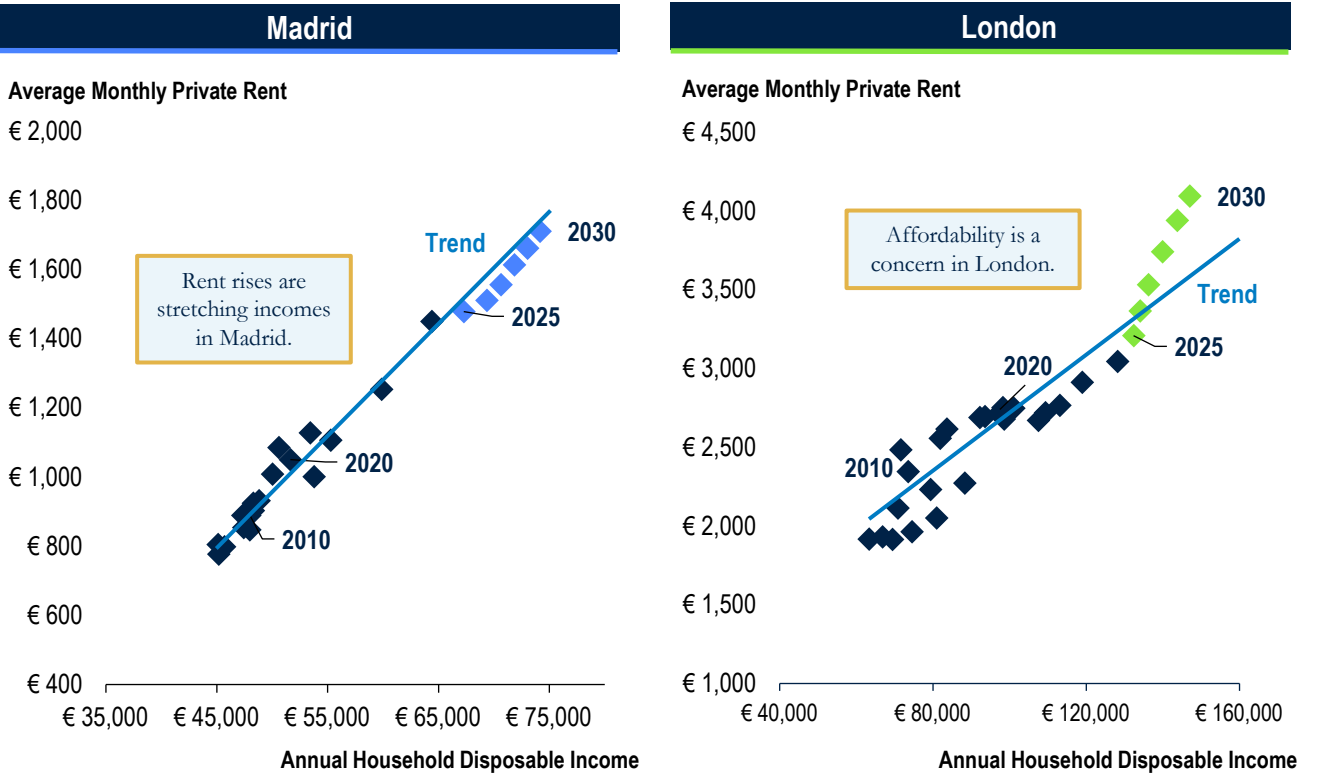
In contrast, cities without effective rent controls – such as Madrid and London – have experienced rent increases that closely track income growth (**Exhibit 6**).

Madrid illustrates how, in the absence of effective rent regulation, even quick rises in household income can lead to equally swift rent hikes. In London, where rent controls are non-existent, housing shortages are expected to drive rental growth beyond income growth, raising concerns about affordability – though that’s a separate issue.

So, what does this mean? The punchline is always know your market. But this is also a great exercise in how big picture dynamics – often those used by market players to promote the residential sector – give a misleading picture because they miss the local market details. All of this adds a level of uncertainty that is often missed when investors look at the residential market as providing a stable and predictable cash flow.

Exhibit 6: Rents Reflect Demand Supply Dynamics When Unregulated

Annual Household Disposable Income vs. Average Monthly Private Rent Since 2000



Sources: PMA, Oxford Economics, PGIM Real Estate. As of September 2025.
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ASIA PACIFIC INSIGHTS

Key Themes

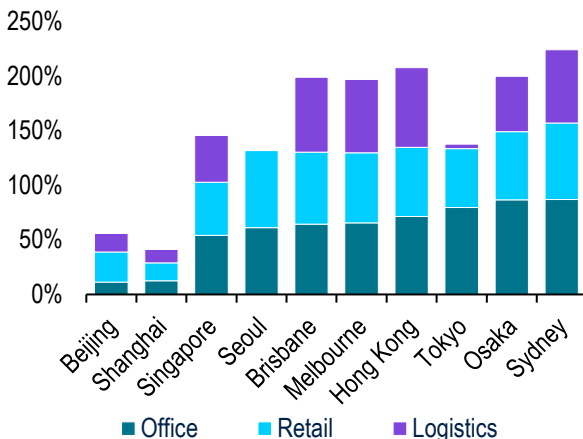
- Can Yield Spreads Help Identify Investment Opportunities in Japan?
- What Do Cash-on-Cash Returns Tell Us About the Investment Outlook?

Can Yield Spreads Help Identify Investment Opportunities in Japan?

A stand out feature of Japan's institutional office and retail real estate stock is its age. On our estimates, across Asia Pacific, Japan's stock is among the oldest (**Exhibit 1**).¹ For investors this points to opportunities for value-add investing such as refurbishment or repositioning plays. And yet age of stock is not enough in itself to generate investment returns: old stock can and often is modernized through time.

Exhibit 1: Japan Has A Lot of Old Office and Retail Stock

Estimated Cumulative Share of Institutional Commercial Real Estate Stock Greater than 20 Years of Age, Major Investment Markets



Sources: JLL, PMA, PGIM Real Estate. As of September 2025.

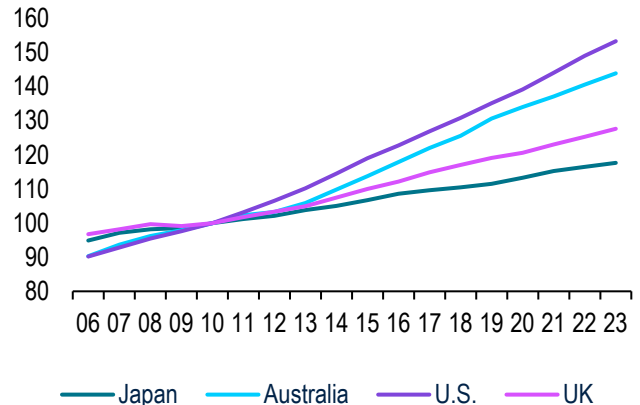
¹ See our [Asia Pacific Value-Add Investing paper](#) for more analysis on the pan-regional age of Asia Pacific stock.

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To help strengthen the case for value-add investing, we can instead lean on capital expenditure data from MSCI – data that, for instance, captures spending on building improvements on institutionally held property. For Japan, this data highlights another stand out – that Japan posts one of the weakest trends in capital spending across most all developed economies. This trend strengthens the investment case – suggesting there is a lot of relatively mismanaged or undermanaged real estate (**Exhibit 2**).

Exhibit 2: Japan Has a History of Weak Institutional Capital Expenditure

MSCI Real Estate Capital Spending, Index Values 2010=100



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

But this weak capital spending trend potentially also shows up in another way. By looking at yield spreads between prime data – data representing the hypothetical best in class for any given market – and MSCI data – data based on the valuations of existing assets – we can argue that the wider the spread the greater the gap in quality between these two real estate markets.²

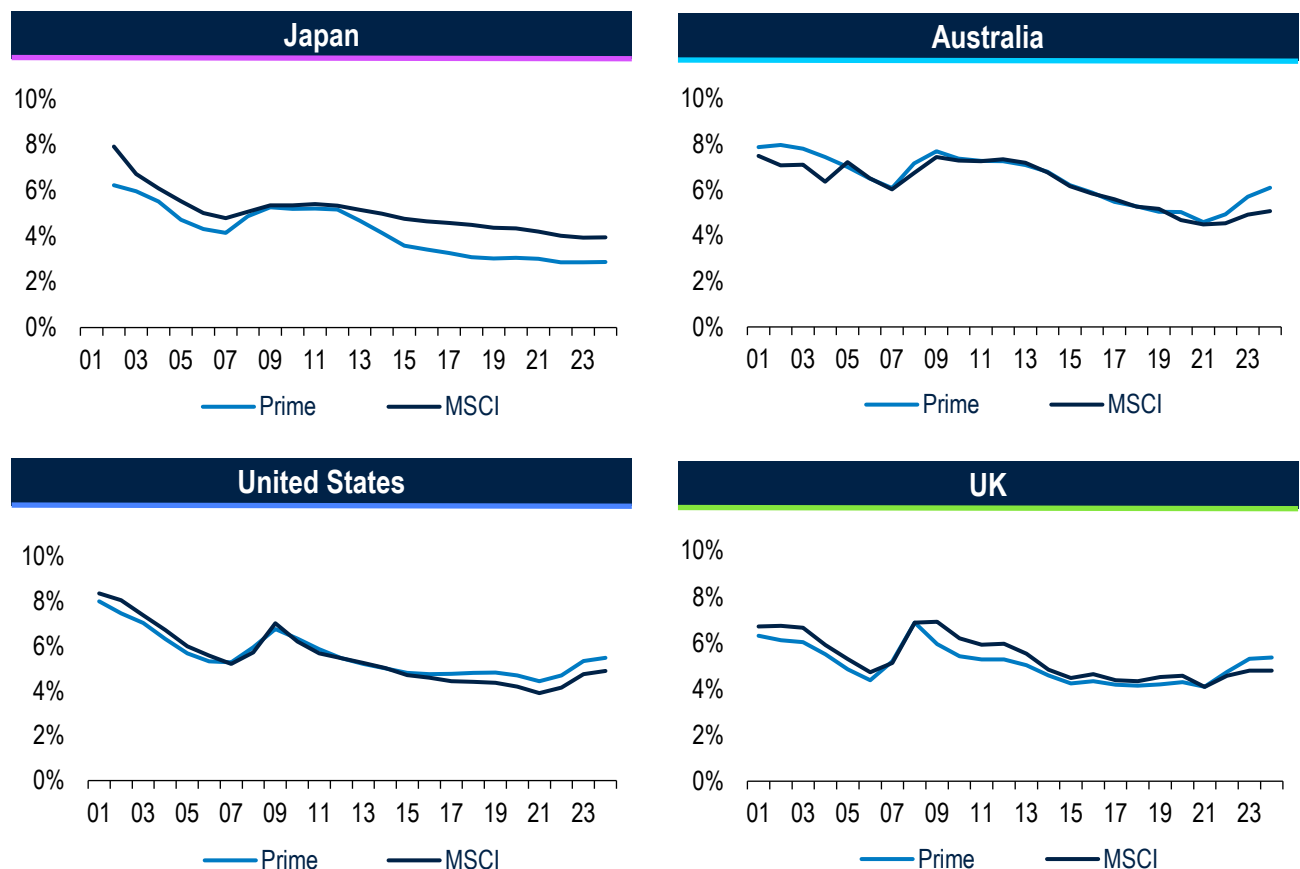
To be sure, such yield spreads don't just reflect differences in quality; other factors such as location, building age, tenant make up, etc. also matter. Moreover, MSCI reports a net operating income (NOI) yield, which is impacted by market conditions

such as rising vacancy rates that will here, for instance, drive NOI lower and vice versa. Even then the mark-to-market nature of prime data means there will be times when prime yields move faster than and even above MSCI.

Nonetheless, if we run this yield spread analysis against capital spending trends for four major investment markets – the United States, UK, Australia and Japan – we can see a pattern. Australia and the United States – countries with relatively higher capital spending – have the narrowest yield spreads (**Exhibits 2 and 3**).

Exhibit 3: Yield Spreads Can Also Capture Differences in Quality of Real Estate

MSCI NOI Yield on Institutionally Held Real Estate Assets and Prime Net Initial Yield



Sources: MSCI, JLL, Cushman & Wakefield, PGIM Real Estate. As of September 2025.

² Technically, MSCI reports the NOI yield, which will be influenced by market conditions. Nonetheless, alone this does not account for the relatively large differences between the two-yield series across countries and time.

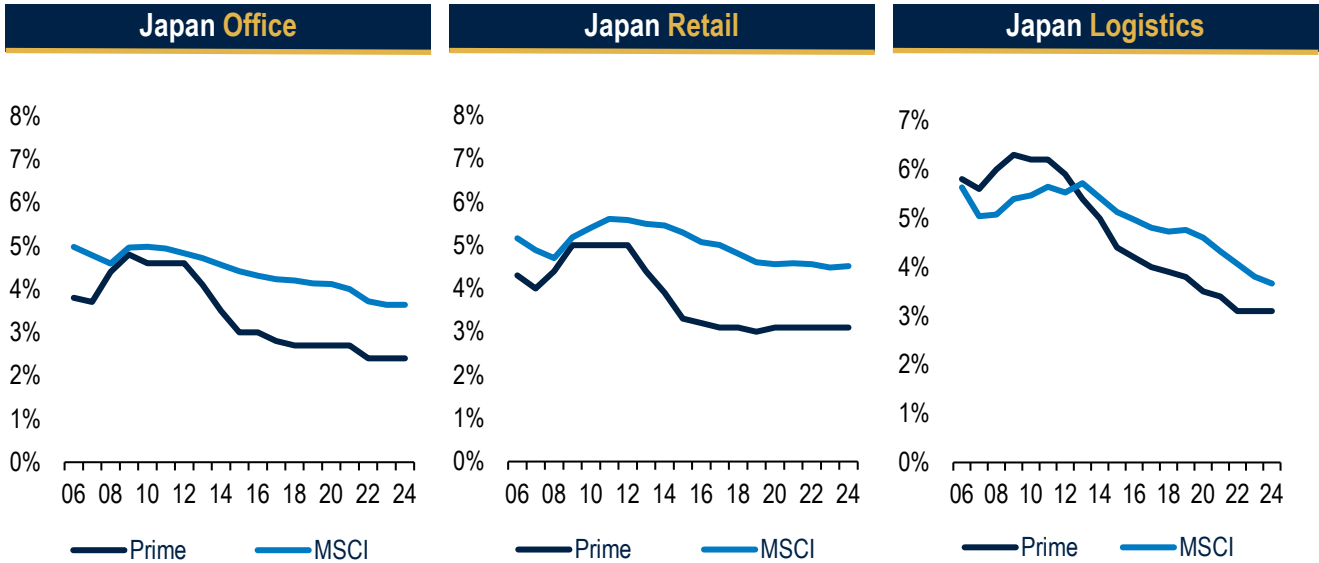
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As an exercise, the notion that these spreads could be capturing quality differences between institutionally held real estate stock and prime is interesting. But it also offers more by way of the potential value catch up an increase in capital spending could have. In Japan, closing the spread between prime and MSCI real estate implies a near 30% increase in the value of institutionally held stock.

For Japan, these spreads vary by sector (**Exhibit 4**). The spreads are higher in the office and retail sectors than in logistics. This implies investors should turn more to opportunities in the office and retail sectors first. And given what we know this makes sense. Despite its shortcomings as a method, these are also the two sectors with the oldest stock.

Exhibit 4: For Japan, the Value-Add Investment Case Looks Stronger for Office and Retail

Prime vs. MSCI Income Yields



Sources: PMA, MSCI, PGIM Real Estate. As of September 2025.

What Do Cash-on-Cash Returns Tell Us About the Investment Outlook?

The cash-on-cash (CoC) return is a tactical metric commonly used to reflect the annual cash yield on equity. With APAC’s real estate returns expected to be largely income driven over the coming years – further exacerbated by protracted rate cuts as projected by Oxford Economics – CoC provides an effective lens to identify outperformers while helping to manage downside risk through stable income that is expected to help preserve returns, even amid valuation pressures.

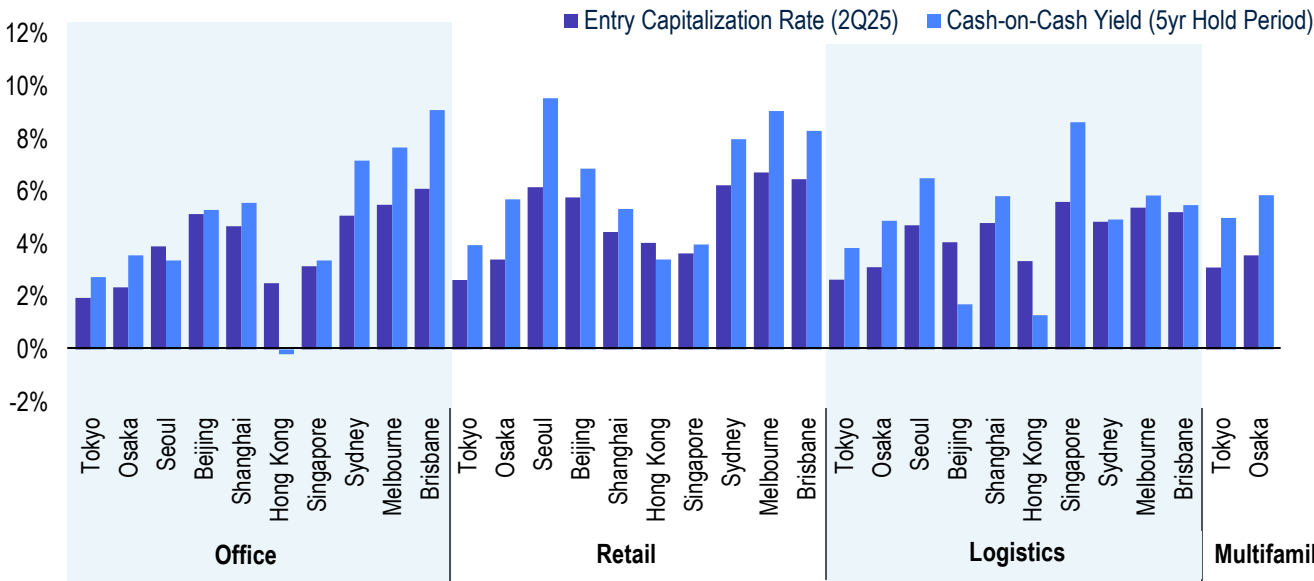
Comparing entry capitalization rates with projected CoC yields, it is observed that positive leverage is anticipated to dominate across most markets and sectors, as demonstrated by the excess of CoC yields

relative to the acquisition capitalization rates across most markets (Exhibit 5),³ highlighting the leverage-driven yield uplift potential through 2029, as interest rates and borrowing costs are expected to fall in most markets.

Japan is going against this tangent. However, the country is still expected to maintain its positive carry despite the projected benchmark interest rate hikes, while most markets in Australia and South Korea are anticipated to exhibit accretive leverage impact, reflecting the stronger financing-driven yield enhancement. By contrast, Hong Kong and Singapore⁴ remain constrained, with tight spreads between the entry yields and cost of debt, limiting the knock-on benefits of leverage.

Exhibit 5: Positive Leverage Is Anticipated to Dominate Across Most Markets and Sectors

Entry Capitalization Rate (2Q25) vs. Cash-on-Cash Yield (5yr Hold Period) (%)



Sources: Oxford Economics, JLL, PMA, PGIM Real Estate. As of September 2025.

³ Refers to CoC yields based on an investment hold period of 5 years from 3Q25 to 2Q30. The CoC yields are computed based on the projected cash flows with the following cost of debt and loan-to-value (LTV) assumptions: Japan (1.9% / 55%), South Korea (4.3% / 60%), China (3.5% / 50%), Hong Kong SAR (4.5% / 55%), Singapore (3.5% / 55%), Australia (5.4% / 50%).

⁴ Singapore logistics assets are based on a 60-year lease hold land tenure. Source: JLL.

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However, country-level trends mask significant divergence across city-sectors. Overlaying anticipated capitalization rate movements with projected CoC yields highlights strategies combining higher income yields with potential capitalization rate compression – most evident in Australian city-sectors and select logistics markets such as Singapore and Seoul (Exhibit 6), which is expected to provide some downside resilience in the current climate.

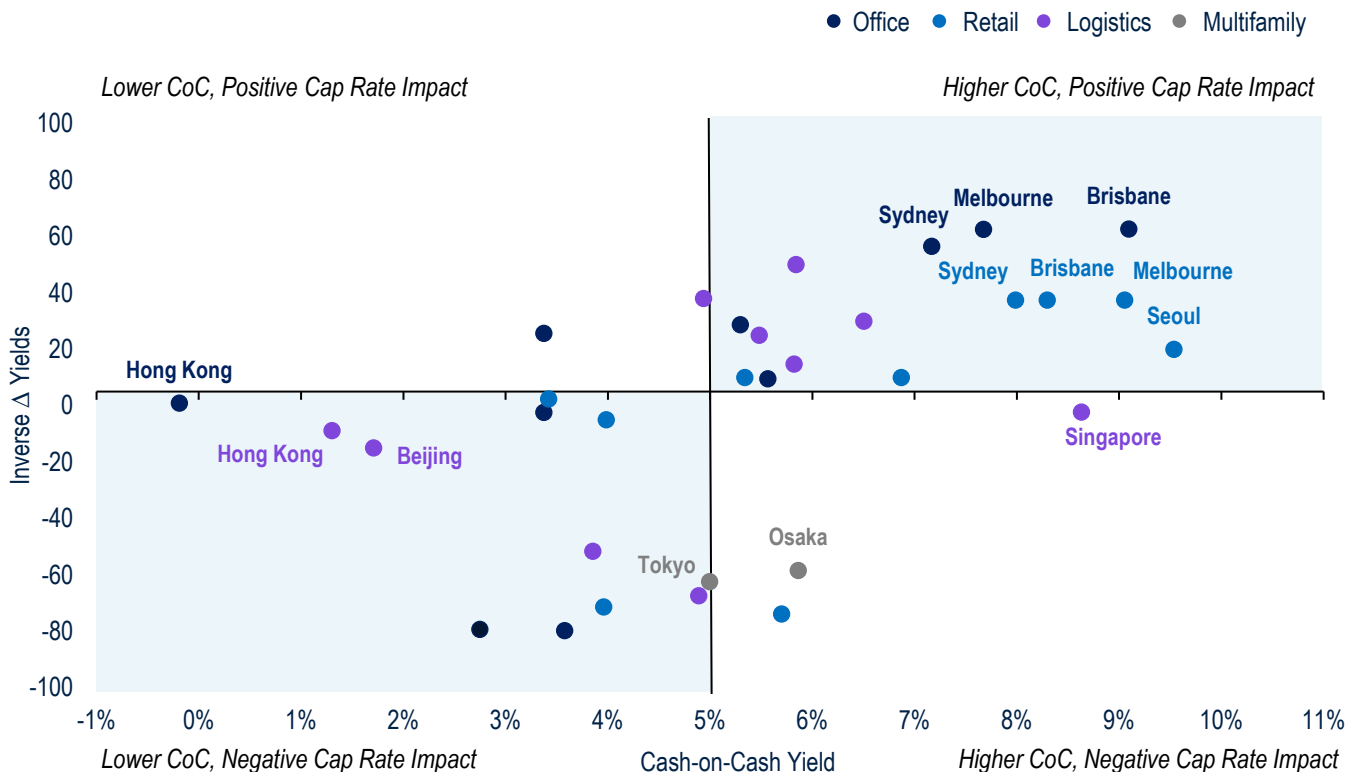
Retail stands out with the strongest CoC returns with marginal compression upside, underpinned by the higher entry capitalization rate and, consequently, the wider yield spread over borrowing cost. Additionally, the sector is expecting a stronger rental uplift driven

by improving consumer sentiment and spending in the coming years. However, the performance of office and logistics remains mixed, dependent on micro market fundamentals and structural trends such as return-to-office and e-commerce penetration.

Projections by JLL and PMA indicate that values are now under further pressure to fall in select markets like China and Japan, although China's outlook is stabilizing compared to Japan's upward yield shifts. Nevertheless, multifamily opportunities are still a viable strategy in Tokyo and Osaka, though asset selection remains key.

Exhibit 6: Cash-on-Cash Yields Highlight Strategies Combining Higher Income Yields With Potential Capitalization Rate Compression

Cash-on-Cash Yield (5yr Hold Period) (%) vs. Capitalization Rate Movements (bps)



Sources: Oxford Economics, JLL, PMA, PGIM Real Estate. As of September 2025.

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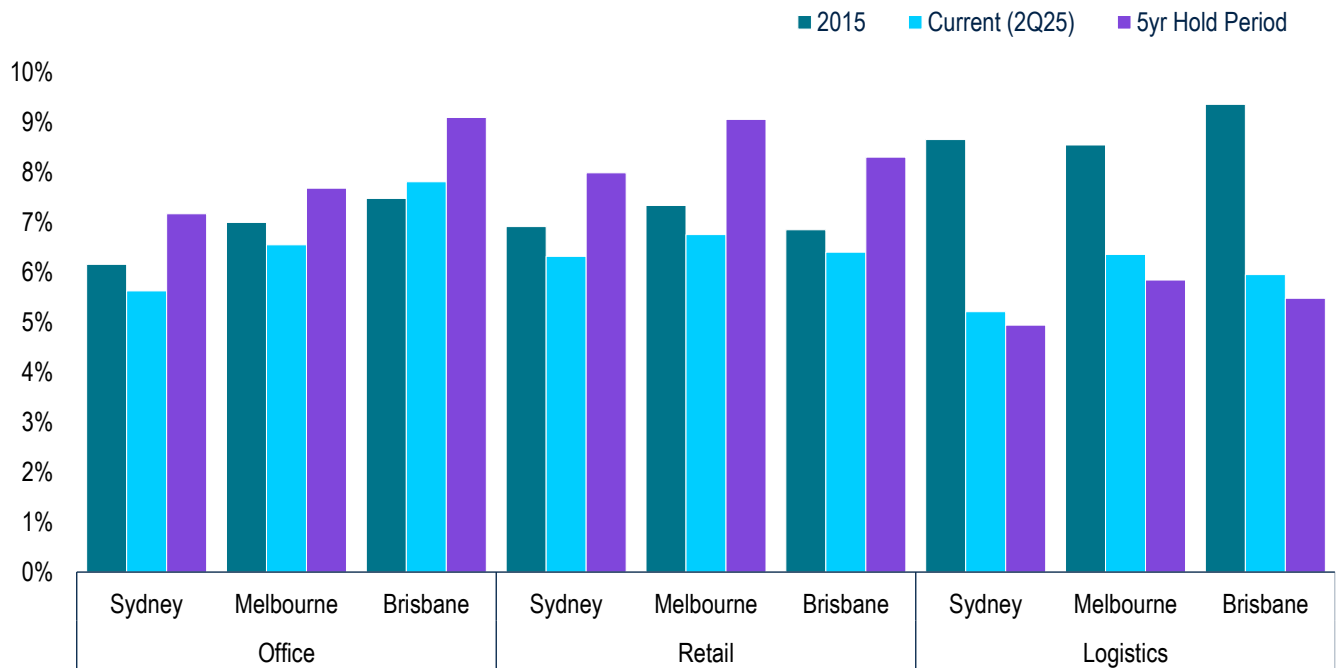
Looking ahead, CoC yields are expected to reaccelerate for the office and retail sectors amid the ongoing cyclical recovery to exceed decade-ago levels, though logistics CoC yields have materially compressed following its structural re-pricing over the past few years (**Exhibit 7**).

Using Brisbane’s office market as an illustration, expected CoC yields now sit in the high single digits – approximately 150 bps above levels a decade ago, highlighting the enhanced return profile from leverage amid a gradually easing funding environment.

Overall, the APAC real estate landscape continues to present itself as a nuanced but favorable environment for institutional investors. With global tariffs and protracted rate cuts keeping risk premiums wide, the current window for attractive entry pricing is still open, especially in markets where fundamentals and financing spreads align.

Exhibit 7: In Australia, CoC Yields Are Expected to Accelerate for the Office and Retail Sectors

Cash-on-Cash Yield (2015 vs Current 2Q25 vs. 5-yr Hold Period) (%)



Sources: Oxford Economics, JLL, PMA, PGIM Real Estate. As of September 2025.

MEXICO INSIGHTS

Key Themes

- Is Mexico Gaining Share of Advanced Manufacturing?
- Are Industrial Tenants Looking Past Uncertainty?

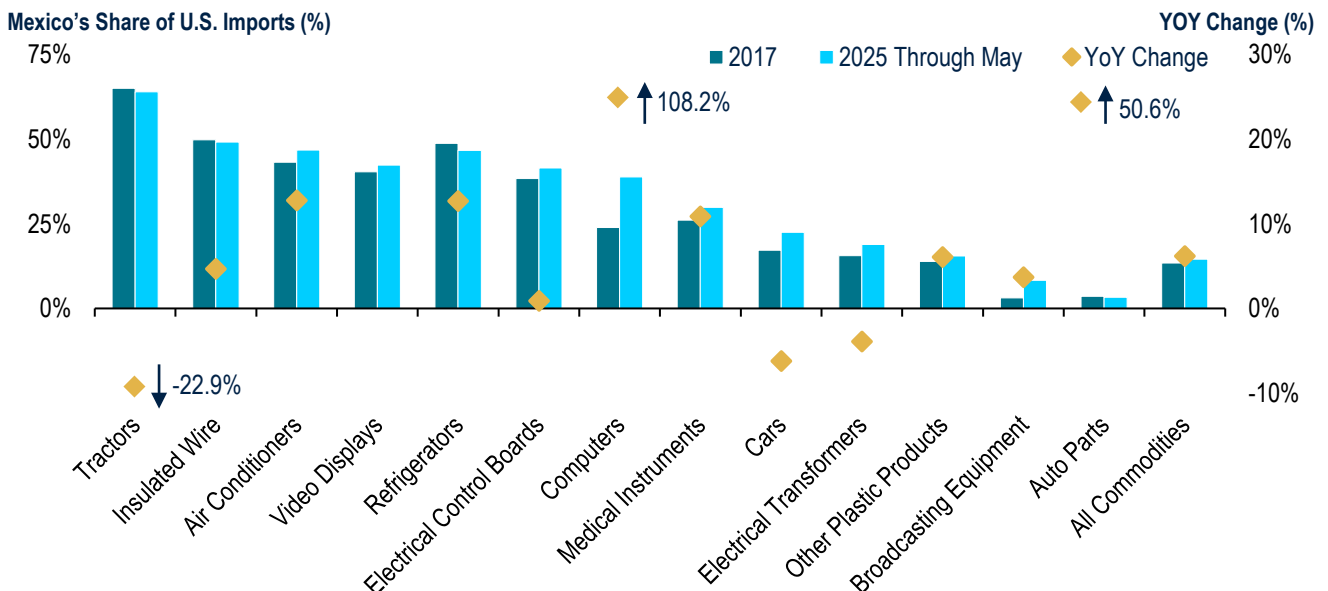
Is Mexico Gaining Share of Advanced Manufacturing?

If your image of Mexico's exports to the United States is clothing and building materials, it needs updating. Mexico's manufacturers continue to upgrade their capacity to produce higher value-add goods, and they need more space to produce them.

Exhibit 1 compares Mexico's share of U.S. imports across products. There are three important things to note:

1. As compared with 2017, Mexico has mostly gained market share of imports to the United States in multiple categories. This demonstrates that the nearshoring thesis for Mexico industrial remains intact.

Exhibit 1: Advanced Goods Are Increasingly Important Exports



Sources: U.S. Census Bureau, Federal Reserve Board of Dallas, PGIM Real Estate. As of September 2025.

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- 2. However, the categories where Mexico has barely maintained or lost market share are mostly lower-value, such as insulated wire, plastics, refrigerators and commodities. The biggest gains have been in segments that require advanced manufacturing, including computers, medical instruments and, most importantly, cars.
- 3. The past year has been more of a mixed bag, with demand for household goods such as refrigerators and air conditioners rising, whereas the tough car sales environment has taken its toll. This is consistent with U.S. consumers waiting on bigger purchases while job growth slows.

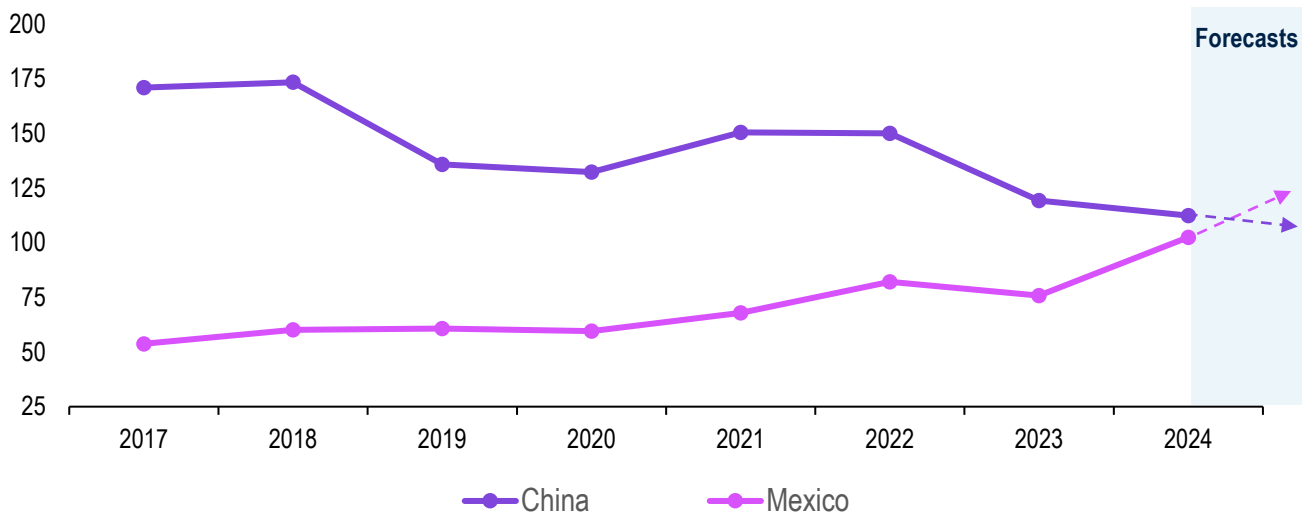
This adds up to a “yes, *and*” picture of Mexico’s industrial tenant demand. Mexico retains its edge in producing lower value-add products. Even in categories where Mexico’s market share is down slightly over the past eight years, on an absolute basis export volumes are still growing.

And, over the longer term, Mexico continues to increase its share of higher value exports, which generally require larger and more complex supply chains. Those supply chains require inputs from specialist manufacturers, which creates additional demand for real estate.

As further evidence of Mexico’s increased capacity, look to its exports of advanced technology products relative to China, another country that continues to significantly upskill its manufacturing sector. As shown in **Exhibit 2**, as recently as 2017 China accounted for more than three times the advanced technology exports to the United States versus Mexico. They have nearly converged, with a shift in position likely as soon as this year.

Exhibit 2: The Advanced Technology Gap Has Closed

U.S. Imports of Advanced Technology Products (US\$ Billion)



Sources: Oxford Economics, INEGI World Bank, PGIM Real Estate. As of September 2025.

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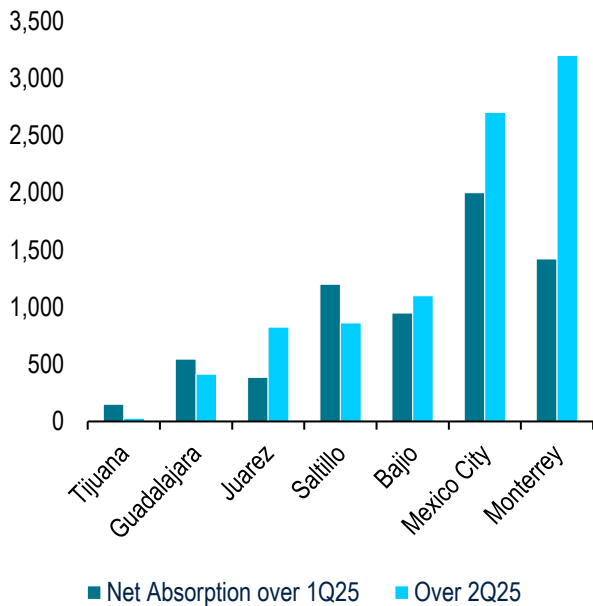
Are Industrial Tenants Looking Past Uncertainty?

After three years of rent spikes and near-zero vacancies, industrial demand slowed dramatically beginning at the start of this year. Trade policy uncertainty is a convenient explanation for the shift. However, based on what happened in the second quarter, it appears there are plenty of tenants willing to look past that uncertainty to make leasing decisions.

After stalling in the first quarter, net absorption picked up in most markets, notably including the large Monterrey market, as shown in **Exhibit 3**. Given the “Liberation Day” announcement of U.S. tariffs three days into the quarter, that might seem surprising.

Exhibit 3: Despite Tariff Noise, Demand Has Picked Up

Net Industrial Absorption (000 Sq Ft)



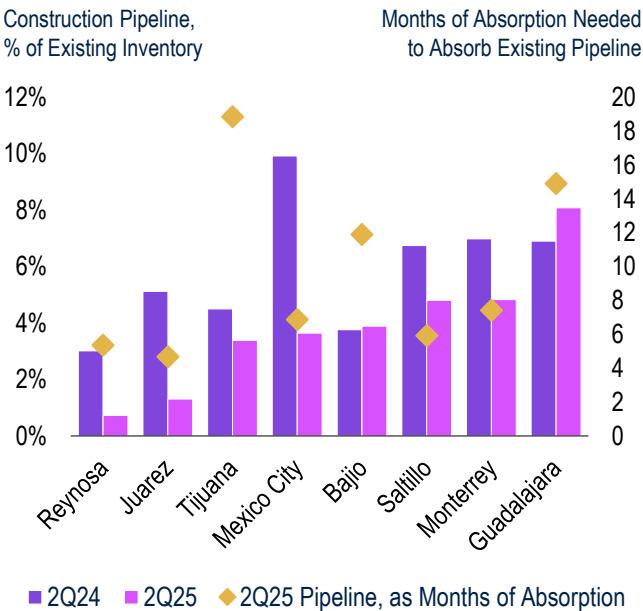
Sources: CBRE, PGIM Real Estate. As of September 2025.

The fine print in Liberation Day provides some context. While Mexican exports were subject to the same 10% minimum tariff as the rest of the world, goods covered under the United States-Mexico-Canada (USMCA) agreement were exempted. We estimate that 55% of exports are already shipped tariff-free to the United States under the USMCA, and another 37% could be reclassified as covered.

This gives Mexico, at least as long as the USMCA remains in effect, a distinct advantage over other countries not named Canada.

That advantage also comes at a good time for property owners, given the pause in demand at the beginning of the year succeeded a supply spike last year. That supply pipeline has already shrunk, as shown in **Exhibit 4**, leaving most markets a year or less away from absorbing the space that’s currently being built.

Exhibit 4: Supply Pipelines Are Thinning



Sources: CBRE, PGIM Real Estate. As of September 2025.

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

Note that our estimates of absorption needed to fill the space underway are based on the average pace of the last two years. That may be too conservative of an estimate. Why?

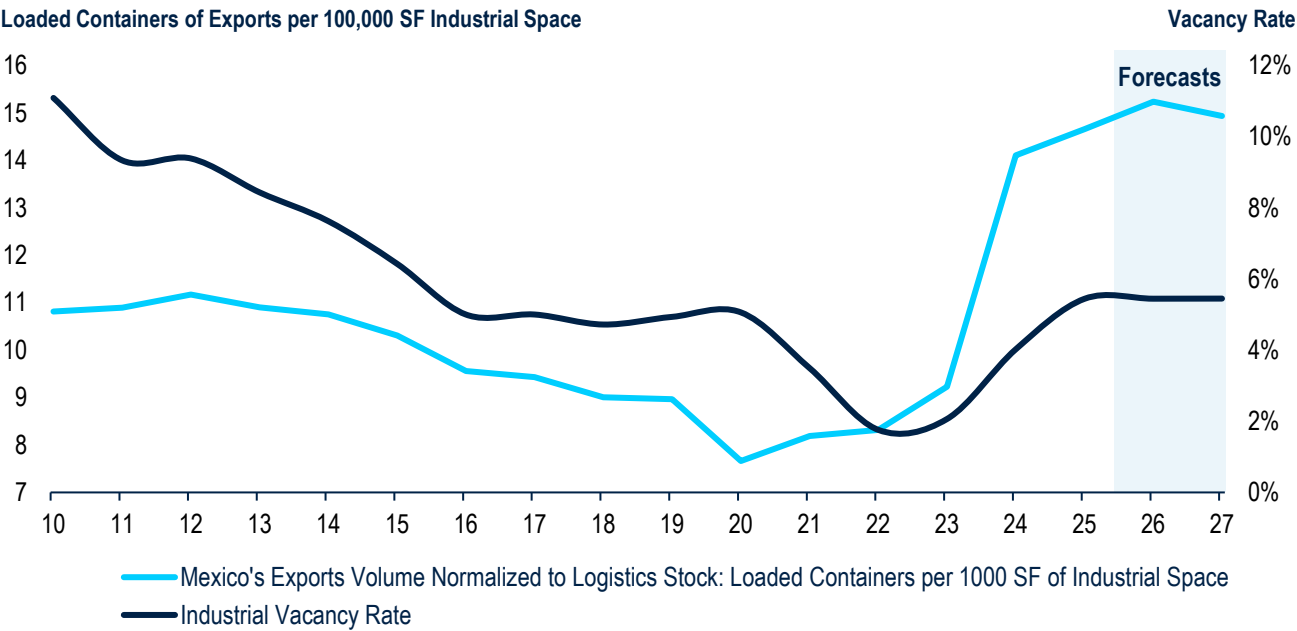
Consider **Exhibit 5**, which shows loaded containers for exports per 100,000 square feet of industrial space. Exporters are using their space more efficiently than they have in the past. Earlier in the decade, 100,000 square feet of industrial space produced seven or eight loaded containers of exports. That has nearly doubled since, given the boom in exports from Mexico and a period when there simply wasn't much new space to lease.

Assuming exports from Mexico continue growing, we expect exporters will need more space to manufacture them. The ratio of loaded containers to industrial space should not be able to keep growing indefinitely.

In this sense, the elevated vacancy rate versus the 2020-2023 period is beneficial, since it indicates there will be space available for these exporters to lease. And our near-term forecast of national vacancy rates between 5% and 6% is still below pre-2020 norms, which should allow owners to raise rents.

Tariff policy should continue to evolve, and surprises are more likely than a continuation of the status quo. Nevertheless, industrial tenants in Mexico are already looking past this uncertainty, which we expect to add leasing momentum in the remainder of this year and beyond.

Exhibit 5: Pent-Up Demand Is Building



Sources: CBRE, INEGI, U.S. Census Bureau, PGIM Real Estate. As of September 2025.

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PRIVATE CREDIT INSIGHTS

Key Themes

- How Will Lender Competition Shape the Private CRE Credit Landscape?
- Does Germany's Rising NPLs Signal an Opportunity for Investors?

How Will Lender Competition Shape the Private CRE Credit Landscape?

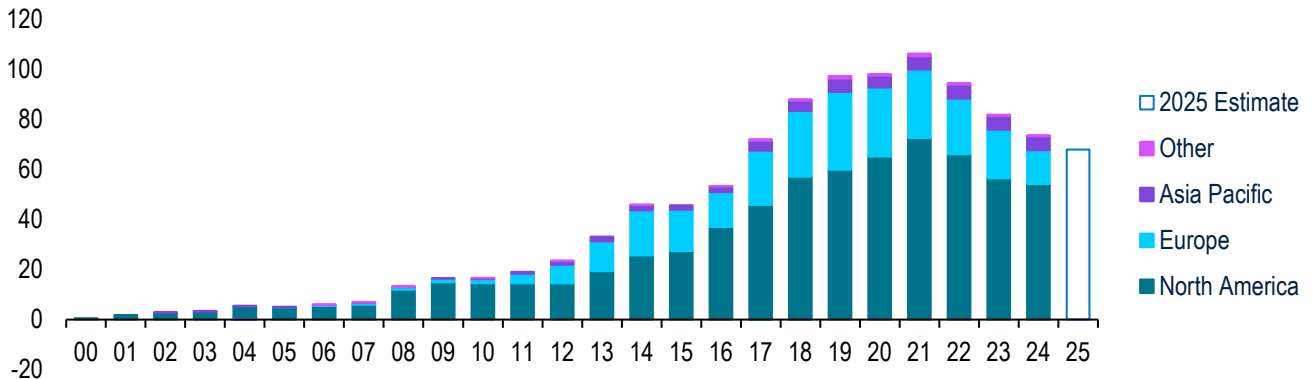
With commercial real estate (CRE) transaction volumes still subdued, lender competition has emerged as the defining feature of today's private CRE credit markets. A limited pipeline of deals is being met with significant capital deployment pressure, particularly from alternative lenders seeking to capture market share (**Exhibit 1**). This imbalance is driving spreads tighter and compressing returns, even as broader economic uncertainty persists.

The heightened competition is encouraging increasingly borrower-friendly terms. While senior lenders remain bound by conservative leverage and debt service constraints, junior and alternative debt providers are offering greater flexibility to meet borrower needs, creating a more dynamic lending environment, particularly for refinancing transactions and recapitalizations, where demand continues to build.

Although tighter spreads reduce headline yields, they are also reinforcing liquidity in CRE debt markets. The availability of capital is helping to stabilize pricing expectations and support deal execution, laying the groundwork for a rebound in transaction activity.

Exhibit 1: Capital Deployment Pressure

Global Real Estate Debt Fund Dry Powder (\$US Billions)



Dry powder refers predominantly to closed-end funds. "Other" refers to globally diversified funds and other unspecified funds.

Sources: Preqin, PGIM Real Estate. As of September 2025.

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

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While lender competition fosters a more borrower-centric and liquid market, the resulting spread compression and flexible terms may help stabilize valuations and support deal execution, potentially laying the foundation for a recovery in transaction volumes. This could result in stronger liquidity, enhanced refinancing capacity and a more resilient market that may be better positioned for long-term growth.

Does Germany’s Rising NPLs Signal an Opportunity for Investors?

Germany’s non-performing loans (NPLs) rose from €38 billion in 2023 to €46.6 billion in 2024, with volumes projected to exceed €50 billion by 2025 and €60 billion by 2026. The increase is most acute in CRE, where the NPL ratio has climbed from 4.8% to 5.9%, reflecting valuation declines, refinancing challenges and shifting demand in office and retail.¹

While rising defaults highlight stress within the system, they also unlock a deeper investment opportunity. Regulatory measures, including the EBA’s NPL backstop and Germany’s new secondary loan market

law, are encouraging banks to accelerate portfolio clean-ups.²

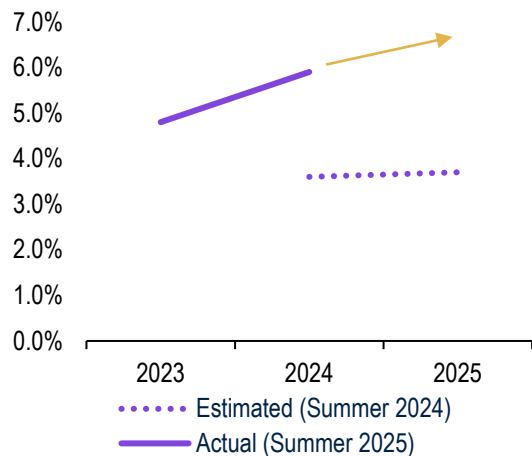
With traditional restructuring tools constrained, banks are turning to disposals and structured solutions. Instead of large portfolio sales, they increasingly favor deal-by-deal transactions, creating direct access points for alternative lenders and opportunistic capital.

For investors, this could translate into acquire distressed CRE debt at discounted prices as banks prioritize capital preservation and de-risking balance sheets. Furthermore, stabilizing valuations and a maturing secondary market may provide greater visibility on downside risk.

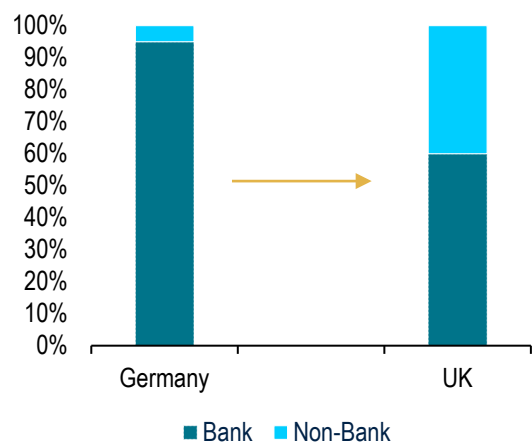
Today, Germany’s CRE market remains bank-dominated, with lenders holding a 95% share.³ However, rising NPL pressures may accelerate a structural shift toward non-bank financing, potentially mirroring the UK, where banks account for only 60% of the lending market (**Exhibit 2**). In this context, the rise in NPLs is less a warning sign than a catalyst, unlocking access to CRE debt and opening the way for broader capital market involvement.

Exhibit 2: Rising NPL Pressures May Accelerate a Structural Shift Toward Non-Bank Financing

Germany CRE NPL Ratio (%)



Estimation of CRE Debt Outstanding (%)



Sources: BKS, Bayes Business School, PGIM Real Estate. As of September 2025.

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¹NPL-Barometer Frühjahr 2025. Source: BKS (Bundesvereinigung Kreditankauf und Servicing).

²The German Secondary Credit Market Act (Kreditzweitmarktgesetz – KrZwMG) came into force on December 30, 2023. The law sets out new rules for the sale of non-performing loans. Source: [Bafin](#), Federal Financial Supervisory Authority.

³European CRE lending, H1 2025. Source: Bayes Business School.

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