Core / Core + Strategies

Optimism toward core still holds given that low values imply an attractive entry point, but while uncertainty is high, investors should pivot toward basic needs demand, focusing on living sectors.

- There are some common themes around the world, most notably that core assets offer an attractive entry point after going through a significant value correction, with income returns set to be higher than during much of the last cycle.
- With typically long leases, low leverage and a buy-and-hold investment approach, core investors can look through current volatility – although the same logic also supports a wait-and-see approach given the risk values fall further.
- Low liquidity will hold back value growth on existing assets and portfolios, but is likely to generate attractive acquisition opportunities.
- In the current environment, living sector assets look to offer the best risk-return profile, notably in Europe where housing shortages are acute and the supply pipeline remains low.
- In the United States, the push into non-traditional real estate sectors continues as core investors look to boost income growth potential and improve diversification.
- The story around offices is once again more challenging as occupiers will be wary of committing to long leases in the current uncertain environment.
- Identifying markets with low vacancy, or low effective vacancy where there is obsolescence, will be key to deploying capital effectively in current conditions.

WHY CORE NOW?

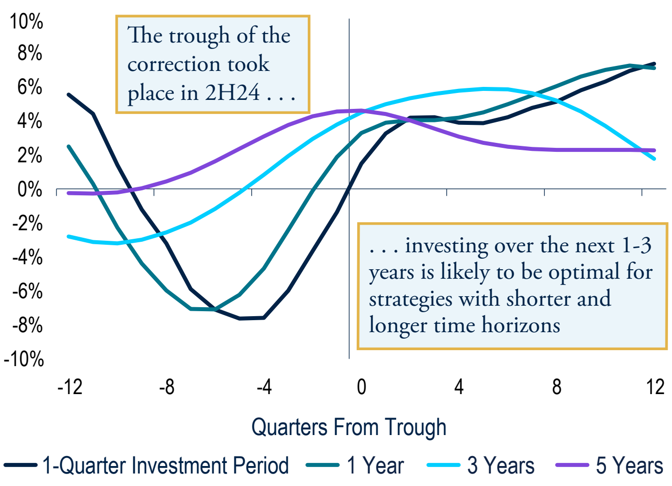
What hasn't changed?

- Attractive entry point after a big correction, values have now stabilized in most markets.
- Higher income returns than in the last cycle.
- Opportunity to invest into supply constrained markets to drive income growth over time.
- Support from long-term demand drivers linked to basic needs, living and digitalization.
- Expanding opportunity set, reflecting a broadening of sector and geographical choice.

What has changed?

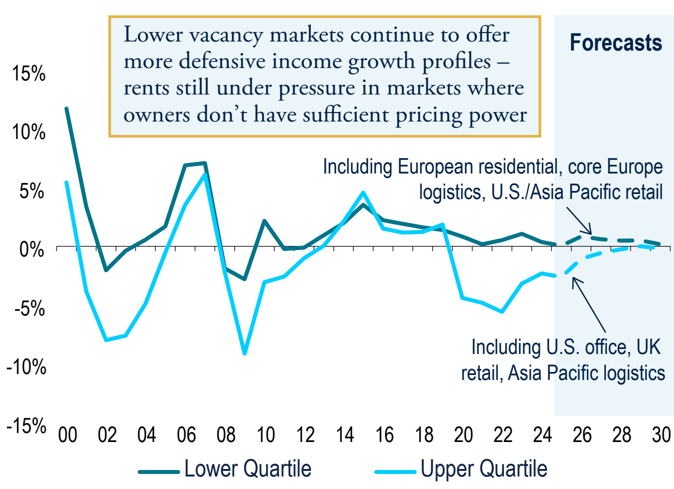
- Risks are now higher, while short-term returns forecasts have edged lower.
- Weaker demand story impacts execution of strategies in higher risk or cyclical strategies – the return of office and retail plays are on hold.
- The cost of capital has moved higher or at least is falling less quickly.
- Low liquidity, less capital inflows.

ANNUALIZED FORWARD-LOOKING GLOBAL ALL PROPERTY PRIME REAL CAPITAL VALUE GROWTH BY INVESTMENT TIME HORIZON – AVERAGE OF PAST CYCLES (%)



Source: PGIM Real Estate. As of May 2025.

REAL RENTAL GROWTH BY GLOBAL MARKET VACANCY QUARTILE (%)



Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2025.

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

Value-Add Strategies

The uncertain environment means appetite for value-add is being scaled back, but there are still compelling opportunities on a longer-term basis, with target strategies and approaches differing by geography. Five common themes emerge.

1 VALUE REBOUND

There is plenty of potential for upside as the next real estate cycle gets underway, most notably in **Australia**, **Europe** and the **United States** where value declines were significant. Market and sector divergence continues with apartments, data centers and alternative living well placed for growth **(Exhibit A)**.

2 NEED FOR CAPITAL

Capex requirements are rising due to low new supply and, in some markets, toughening ESG standards. Real estate that is not institutionally managed can be profitably upgraded, for example in **European** storage and hospitality. An aging stock profile in **Asia Pacific** and shifting relative values in the **United States** also offer opportunities (**Exhibit B**).

3 SUPPLY SLOWDOWN

Supply growth is historically low around the world, including in previously fast-expanding **U.S.** apartment and logistics markets, and in **Mexico** and **Asia Pacific**. Where occupancies are elevated, such as in **Europe**, there is an opportunity to drive rental growth in existing or renovated properties.

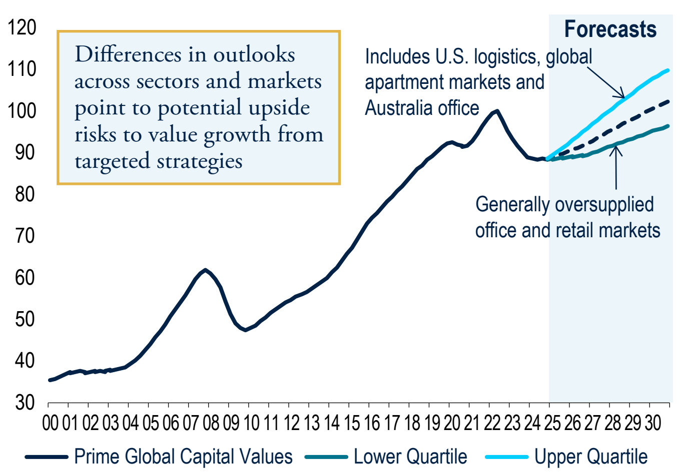
4 ATTRACTIVE ENTRY POINT

Debt and equity liquidity remains low compared to the last cycle. This makes for an attractive entry point to acquire assets below valuation with the potential to capture immediate upside.

5 EXPANDING OPPORTUNITY SET

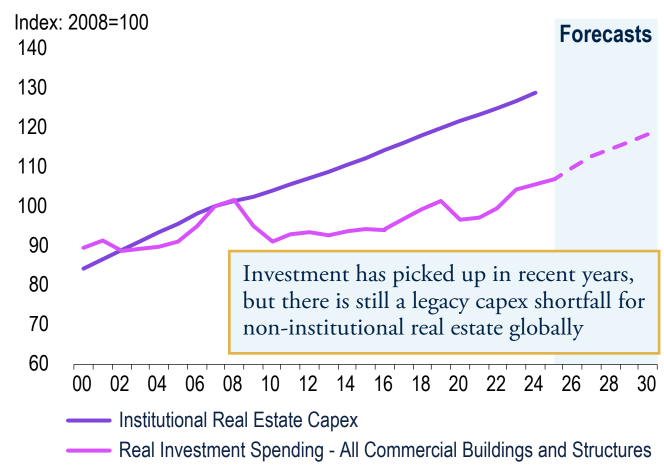
There are two principal routes by which we expect the value-add opportunity set to expand. First is via a shift toward non-traditional, more operational sectors. Second is by geography, as institutionalization plays out in underinvested markets.

EXHIBIT A: INDEX OF PRIME GLOBAL CAPITAL VALUES (2022=100)



Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2025.

EXHIBIT B: INDEX OF GLOBAL CAPEX SPENDING (%)



Sources: MSCI, OECD, Oxford Economics, PGIM Real Estate. As of May 2025.

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.

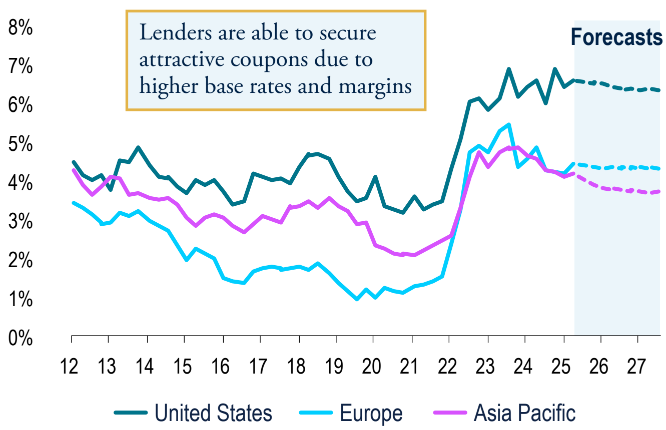
CONSERVATIVE LOAN METRICS

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

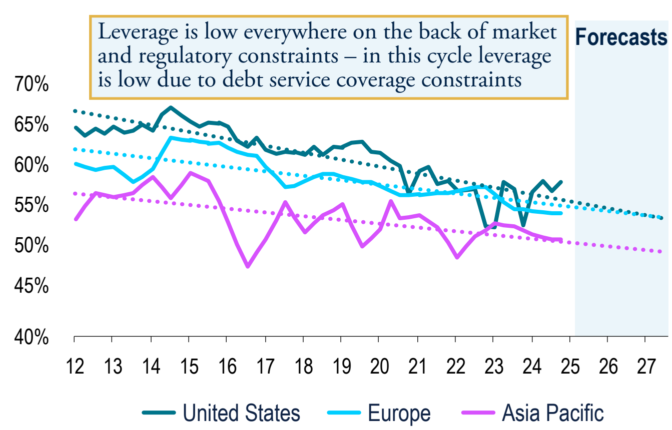
ATTRACTIVE ENTRY POINT

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 BANK LOANS ON OFFICE ALL-IN DEBT COSTS (%)



LTVS ON SENIOR LOANS (%)



Sources: PMA, Bloomberg, Oxford Economics, Bayes Business School, IREBS, MSCI/Real Capital Analytics, PGIM Real Estate. As of May 2025.

PRIVATE 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.