PGIM REAL ESTATE

INVESTMENT RESEARCH

2024 GLOBAL OUTLOOK

CHANGING THE NARRATIVE

Constructing a new portfolio for the next cycle

MAY 2024

2024 GLOBAL OUTLOOK

Key Takeaways:

2024 is all about CHANGING THE NARRATIVE around global real estate and the way investment portfolios are constructed.

1. As returns turn a corner, 2024 represents a COMPELLING ENTRY POINT across the risk spectrum.

2. Investment themes are driven by ongoing STRUCTURAL trends and TACTICAL opportunities from a dislocated market.

3. When it comes to building a RESILIENT GROWTH-DRIVEN portfolio, city and local market dynamics matter.

PART I

GLOBAL OVERVIEW

PART I GLOBAL OVERVIEW

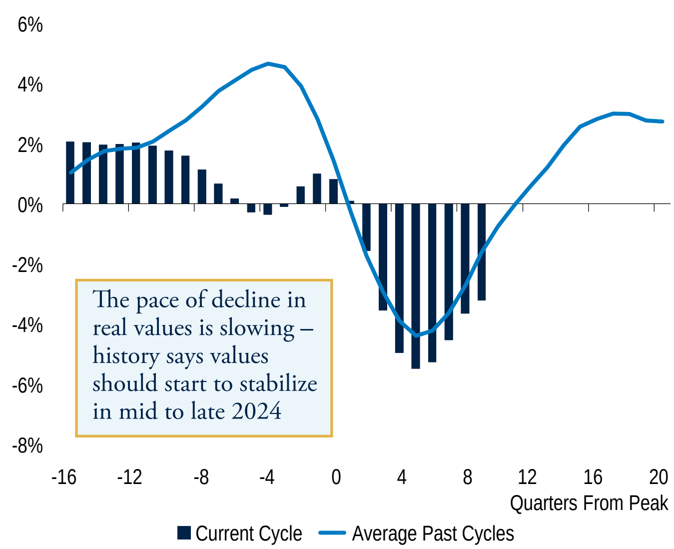
THE NARRATIVE IS CHANGING: GLOBAL MARKETS ARE AT A TURNING POINT

On the back of easing monetary conditions and improving investment market liquidity, global real estate values are reaching a turning point in 2024

Several key factors give us conviction that global real estate markets are approaching a turning point:

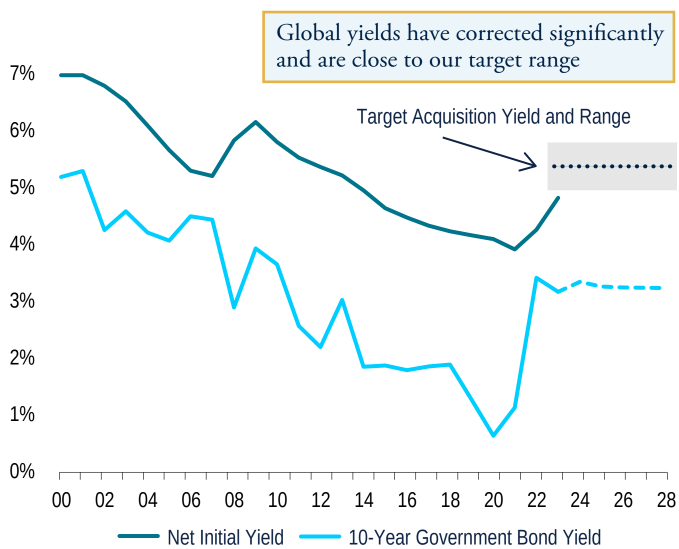
- **Looser monetary conditions.** As a capital-intensive industry, a reduction in borrowing costs via lower interest rates is set to ease the strain on investors.
- **Historical precedent.** Values have started to turn a corner – the pattern is consistent with past cycles, pointing to a stabilization this year and return to growth in 2025.
- **The repricing is nearly done.** Based on our modeling, most of the effect of past interest rate increases has now been factored in. Yields are already very close to our target acquisition range.
- **Low supply, solid occupier markets.** Despite recession risks, occupier strains have been limited by ongoing jobs growth resilience and low development activity. Rental growth remains resilient.

6-MONTH CHANGE IN REAL GLOBAL ALL PROPERTY PRIME/GRADE A CAPITAL VALUES (%)



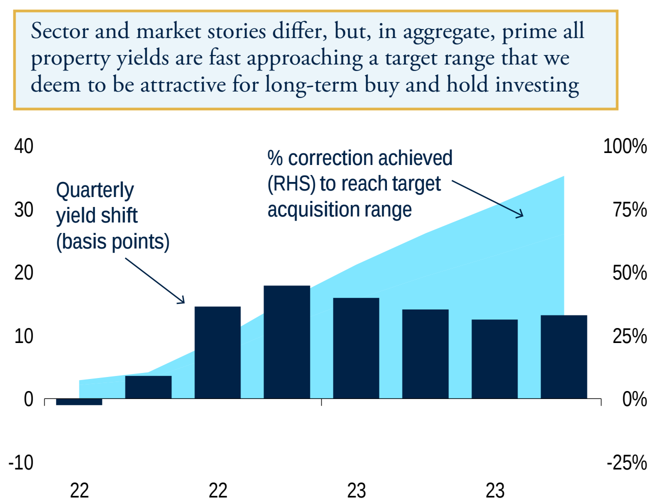
Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2024.

GLOBAL ALL PROPERTY PRIME/GRADE A NET INITIAL YIELD (%)



Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2024.

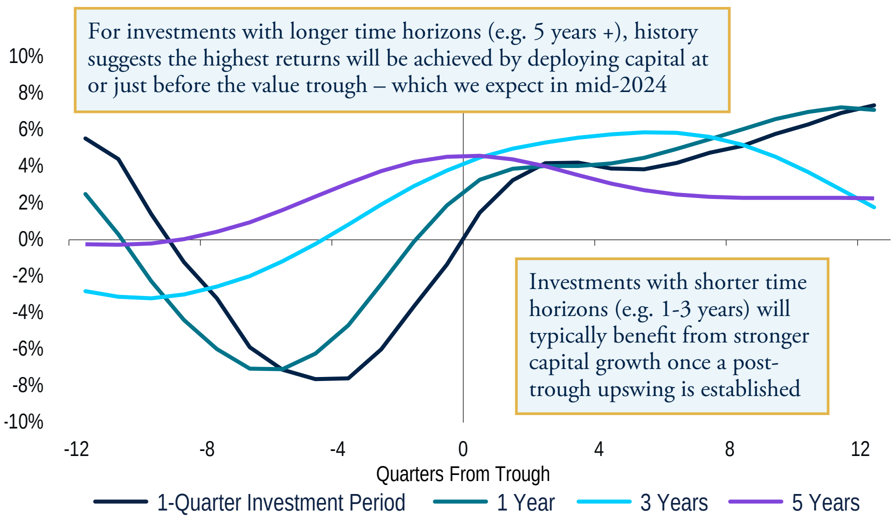
QUARTERLY GLOBAL ALL PROPERTY PRIME/GRADE A YIELD SHIFT



Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2024.

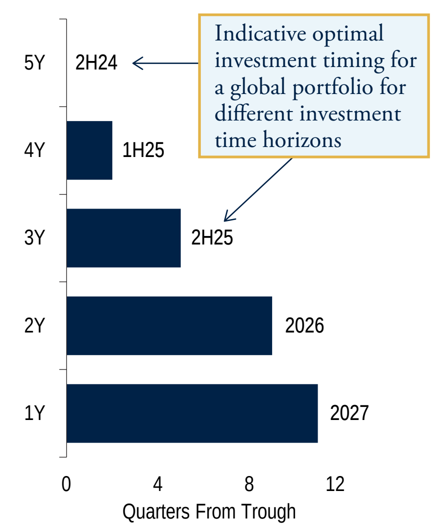
SIGNS ARE THAT 2024 & 2025 ARE GOING TO BE AN ATTRACTIVE VINTAGE

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



Source: PGIM Real Estate. As of May 2024.

AVERAGE OF PAST CYCLES: OPTIMAL DEPLOYMENT POINT BY INVESTMENT TIME HORIZON



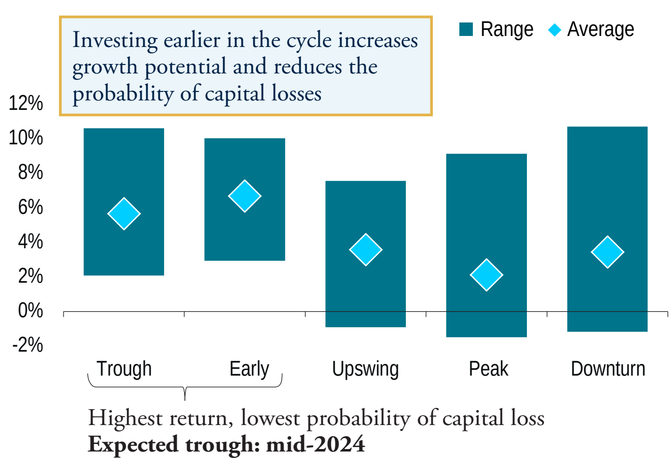
Our view is that global values will hit a trough in the middle of 2024. Using past downturns and recoveries as a guide, it is optimal for equity investors with longer-term strategies to deploy capital at or even just before the turning point, which reduces the probability of exiting investments in a future downturn.

However, the expectation that capital growth will accelerate in an upswing means that strategies with shorter time horizons can expect to deliver their cyclically highest returns between 2025 and 2027. This period will be particularly attractive for value-add strategies focused on shorter-term asset repositioning, for example.

A note of caution though: it's all about balancing risk and return. While it looks like global values are approaching a turning point, if there is another negative shock, there is a risk of lower returns from deploying today. This speaks to balancing between equity and debt exposure with the latter offering much stronger protection against these inherent timing risks.

As the trough approaches, history suggests the next few years will offer attractive investment returns

RANGE OF RECORDED 5-YEAR AHEAD CAPITAL GROWTH BY STAGE OF THE CYCLE (% P.A.)



Source: PGIM Real Estate. As of May 2024.

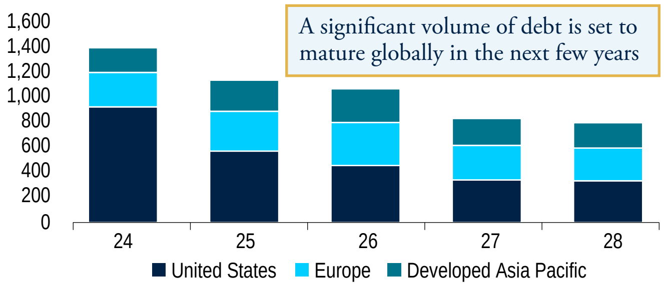
GLOBAL DEBT MARKETS ARE SET FOR TRANSFORMATION

Evolving market dynamics highlight the ongoing shift from traditional bank lenders to alternative capital sources

Key Themes

- **Regulatory pressures** on banks and challenging market conditions limit capacity for new lending.
- **Loan maturities** create refinancing needs and demands for debt capital.
- **Funding gaps** emerge across markets and sectors.
- **Interest rate reductions** will ease valuation pressures, enhancing credit and equity cushions.
- **Substantial opportunities** for alternative lenders to capitalize on an improving balance of risk-reward.

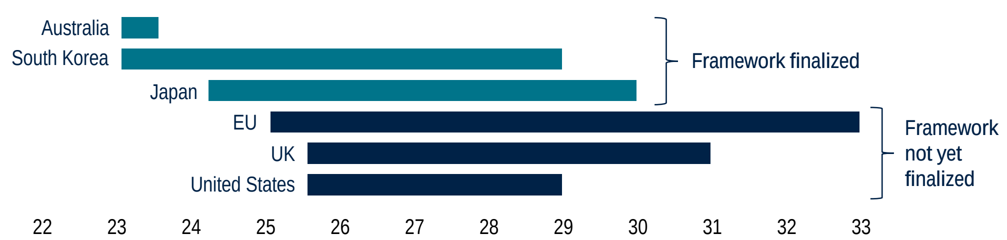
ESTIMATED REAL ESTATE LOAN MATURITIES (US$ BILLION)



Sources: Mortgage Bankers Association, AFME, ECB, Cushman & Wakefield, MSCI, Bayes Business School, IREBS, IEIF, APRA, PGIM Real Estate. As of May 2024. Estimates are not guaranteed and may not be a reliable indicator of future results.

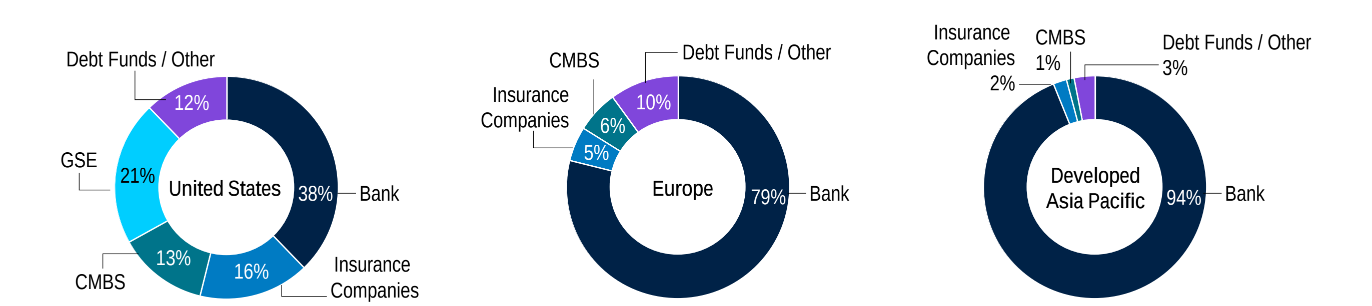
Increased regulatory pressures will have varying impacts across markets

BASEL III FINALIZATION IMPLEMENTATION TIMELINE



Regulatory changes will have different effects across markets depending on bank market share and implementation timeline of Basel III framework

COMMERCIAL REAL ESTATE DEBT MARKET COMPOSITION BY INVESTOR GROUP



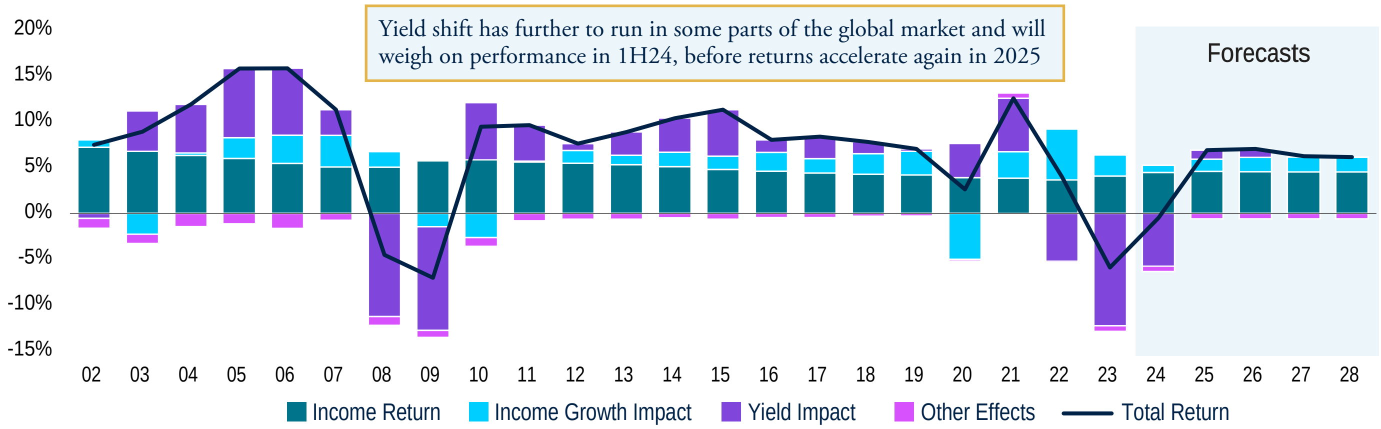
Developed Asia Pacific refers to Australia, Hong Kong, Japan, South Korea, New Zealand and Singapore. GSE refers to government sponsored agencies.
Sources: Mortgage Bankers Association, AFME, ECB, Cushman & Wakefield, MSCI, Bayes Business School, IREBS, IEIF, APRA, Fitch Ratings, PGIM Real Estate. As of May 2024.

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

GLOBAL RETURNS IMPROVING IN 2024, ACCELERATING IN 2025

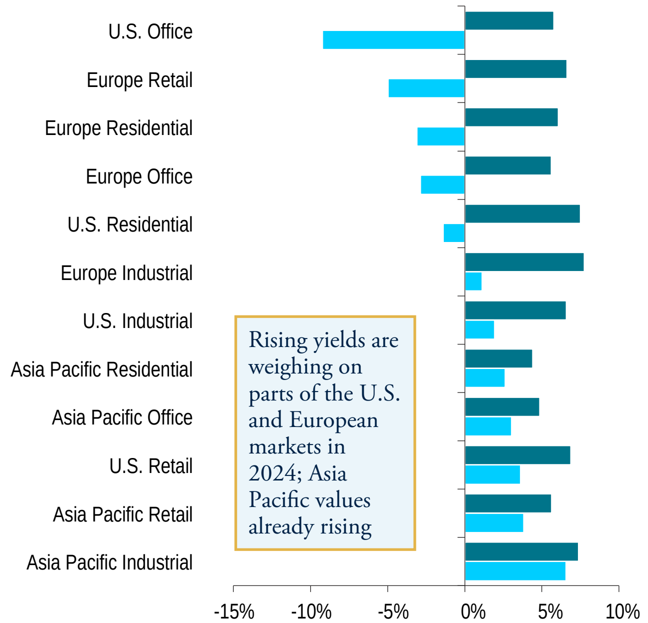
Asia Pacific is leading the recovery in 2024, along with global logistics markets, and the outlook is for stronger returns ahead across the board from 2025

MSCI GLOBAL ANNUAL PROPERTY INDEX – ALL PROPERTY TOTAL RETURN (% P.A.)



Sources: MSCI, PGIM Real Estate. As of May 2024.

MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)



Sources: MSCI, PGIM Real Estate. As of May 2024.

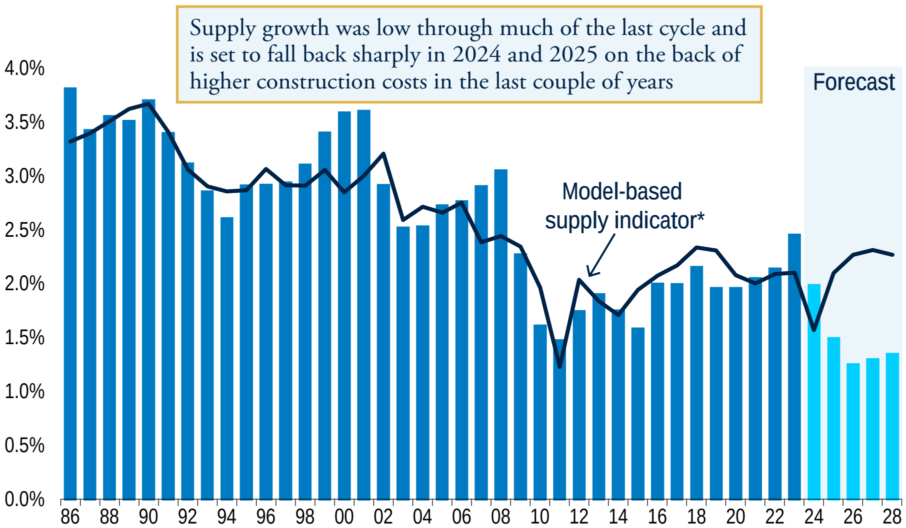
Global Forecasts: Key Takeaways

- The repricing has a little further to go in some parts of the market and this is weighing on overall 2024 returns, notably in parts of the market where uncertainty about occupier demand is high (e.g. U.S. office, European retail), where there are concerns about supply (e.g. U.S. apartment) and where yields are still very low (e.g. Europe apartment).
- Logistics and industrial markets are most of the way through their correction and are set to record positive returns in 2024 and beyond, while U.S. retail has already seen a big adjustment in relative values and is now benefiting from an improving NOI growth outlook.
- By region, Asia Pacific is leading the recovery partly because yield compression at the back end of the last cycle was more subdued but also because of its strong domestic and regional growth dynamics, which are limiting the need for significant yield adjustment.
- Overall, returns by sector and region are set to even out from 2025 onwards on the back of repricing and supply factors, so local market dynamics are set to play an important role in determining portfolio construction, moving away from the sector-driven model of the last cycle.

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

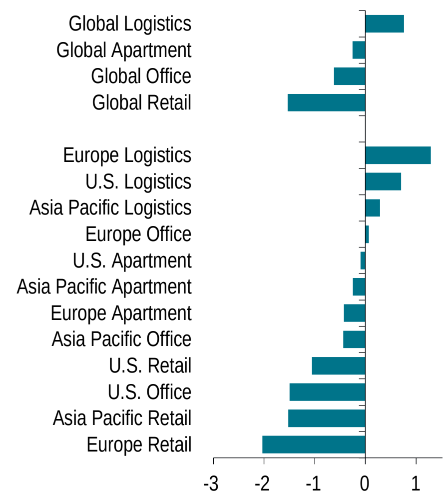
SUPPLY-DEMAND DYNAMICS SUPPORT RESILIENT INCOME GROWTH

NET ADDITIONS TO ALL PROPERTY GLOBAL SUPPLY (% P.A.)



*Note: Our model-based supply indicator is estimated using a regression that includes real global construction costs (3-year lag) and real prime global all property rents (2-year lag).
Sources: CoStar, JLL, PMA, PGIM Real Estate. As of May 2024.

FORECAST SUPPLY GROWTH BY SECTOR & REGION (2024-28, NORMALIZED VS. LAST CYCLE AVERAGE)



High construction costs, falling values and limited debt availability have dampened the supply pipeline significantly. Borrowing constraints are set to hold back deliveries for several more years, even as conditions improve.

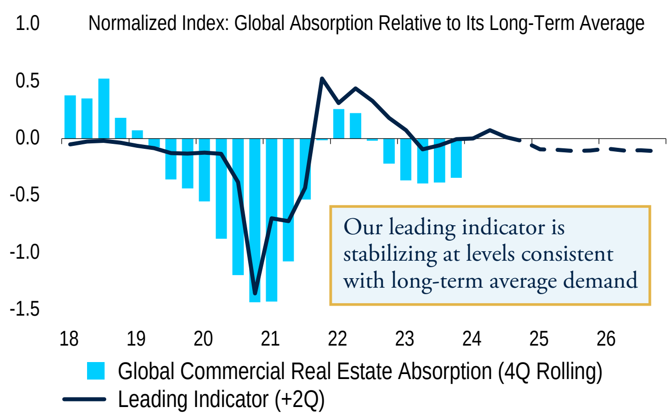
The main exception is in logistics markets where supply is still increasing in response to the rapid e-commerce-related demand expansion and rising rents. Office and retail markets are generally seeing low levels of development activity, and U.S. apartment deliveries – elevated in recent years, particularly in sunbelt markets – are slowing too.

At the same time, demand growth is holding up well, on the back of strong global labor markets – that are supporting job creation and household spending – and, recently, optimism that economic conditions are starting to improve.

All this means that real estate availability, especially of high-quality, newer space, is set to remain low. As demand stabilizes and then moves into a cyclical upswing, there is the potential for a significant acceleration in rental growth.

Supply growth is set to remain below average in the coming years

GLOBAL COMMERCIAL PROPERTY ABSORPTION AND LEADING INDICATOR



Sources: CoStar, Cushman & Wakefield, JLL, PMA, Eurostat, Manpower, Oxford Economics, PGIM Real Estate. As of May 2024.

PRODUCTIVITY-DRIVEN GROWTH MODEL IS SHIFTING CITY RENTAL DYNAMICS

Technology gains are changing the economic growth model and the future depends more on productivity, with implications for real estate investment strategy

In the last cycle, the expansion of jobs helped support economic growth. However, with an aging population and the prospect of a shrinking working-age population in most developed economies, the future depends more on productivity growth on the back of technological advances, including AI.

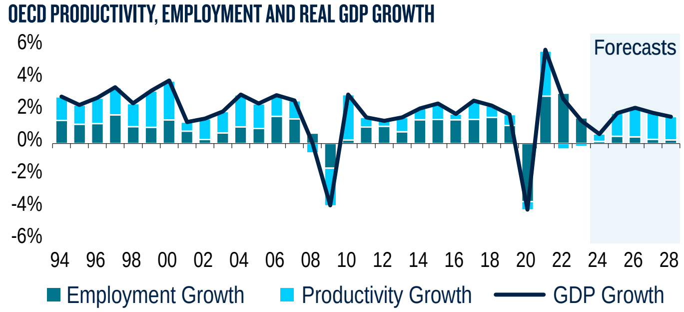
This story is playing out around the world, albeit with the United States seeing a smaller shift compared to the last cycle, due to its already large technology sector.

These forces are affecting local market dynamics, and city growth models differ.

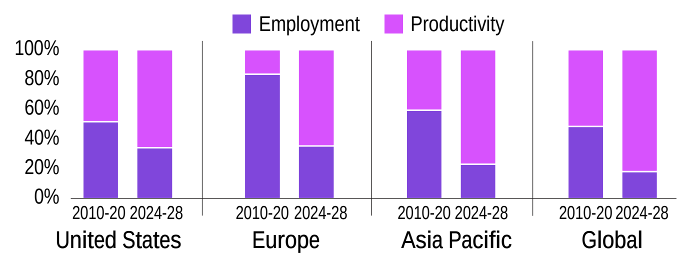
- Productivity-driven cities exhibit higher real rental growth over time, but it is less resilient and more cyclical.
- Employment-driven cities exhibit lower real rental growth over time, but it is more resilient and less cyclical.

Growth strategies should lean toward deploying capital in higher productivity cities, but core funds and credit strategies will need to balance exposure.

OECD PRODUCTIVITY, EMPLOYMENT AND REAL GDP GROWTH

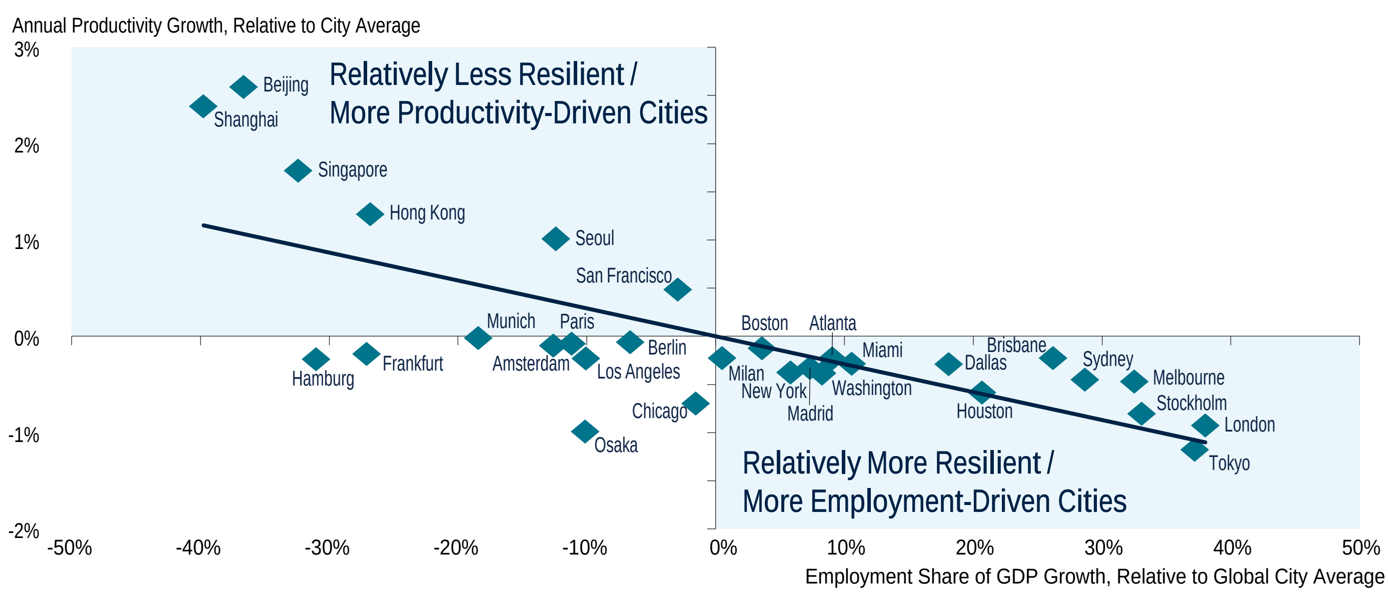


SHARE OF EMPLOYMENT AND PRODUCTIVITY GROWTH IN OVERALL GDP GROWTH



Sources: OECD, Oxford Economics, PGIM Real Estate. As of May 2024.

RELATIVE PRODUCTIVITY GROWTH VS. EMPLOYMENT SHARE – GLOBAL CITIES (2024-28)



Sources: OECD, Oxford Economics, PGIM Real Estate. As of May 2024.

GEOGRAPHY AGAIN THE DOMINANT DRIVER OF OUTPERFORMANCE

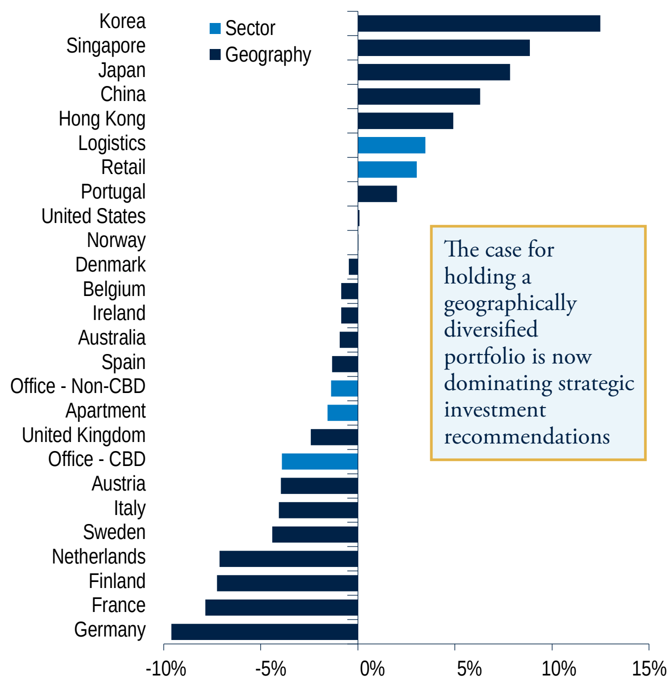
Geography is overtaking sector again as the most important driver of returns, and portfolio decision-making needs to reflect this new reality, combining themes with location decisions

- During the last cycle, geography gave way to sector as the dominant driver of relative performance on the back of the global rise of e-commerce and its associated industrial versus retail play. This accelerated during the pandemic but is now easing.
- Changing international trade patterns, along with region-specific shocks and differential regional responses to global events, are leading to diverging country and regional returns.
- A ranking of returns over time shows that outperformance can persist, e.g. U.S. industrial during the last cycle, but also that holding a diversified portfolio protects against the risk of underperformance in a given sector or region.

DRIVERS OF MODELLED INVESTMENT OUTPERFORMANCE (%)

Source: PGIM Real Estate. As of May 2024.

RELATIVE TOTAL RETURN PERFORMANCE: CITIES AND SECTORS – 2023



Source: PGIM Real Estate. As of May 2024.

RANKING OF ANNUAL MSCI SECTOR-REGION RETURNS OVER TIME (% P.A.)

Regional Key	U.S. Office	U.S. Retail	U.S. Industrial	U.S. Apartment	Europe Office	Europe Retail	Europe Industrial	Europe Apartment	Asia Pac. Office	Asia Pac. Retail	Asia Pac. Industrial	Asia Pac. Apartment

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
16.7%	18.4%	22.7%	18.1%	17.1%	2.9%	3.3%	17.6%	15.6%	11.5%	13.3%	14.8%	13.9%
11.6%	13.6%	19.5%	16.6%	15.1%	2.1%	1.6%	13.7%	14.6%	11.3%	12.5%	12.9%	13.8%
10.2%	13.3%	18.0%	15.7%	12.0%	1.9%	1.5%	12.9%	13.0%	10.9%	10.5%	11.7%	12.1%
9.9%	12.6%	15.3%	14.2%	12.0%	-0.4%	0.3%	9.8%	12.7%	10.5%	10.0%	11.6%	11.6%
9.2%	12.2%	15.1%	14.1%	11.0%	-2.5%	-0.1%	9.7%	9.4%	9.5%	9.9%	11.4%	10.9%
8.6%	11.1%	15.0%	13.4%	10.5%	-4.8%	-0.5%	9.6%	6.9%	7.5%	8.6%	10.1%	10.1%
7.8%	10.6%	14.2%	13.2%	10.0%	-5.6%	-3.9%	7.3%	6.9%	6.7%	8.0%	9.5%	9.7%
7.3%	9.0%	11.0%	12.7%	8.4%	-5.8%	-4.4%	7.0%	6.8%	6.0%	7.7%	9.5%	9.0%
6.8%	8.6%	10.1%	12.7%	8.4%	-7.6%	-13.2%	6.9%	6.7%	4.3%	6.2%	8.9%	8.8%
5.7%	7.8%	9.7%	11.9%	7.3%	-8.0%	-16.6%	6.2%	6.1%	4.3%	6.2%	8.3%	8.8%
4.3%	6.5%	8.8%	11.2%	4.5%	-9.3%	-19.0%	5.7%	6.0%	4.0%	5.6%	7.3%	8.1%
3.2%	6.1%	8.0%	7.0%	4.0%	-9.6%	-20.5%	3.8%	5.5%	3.0%	5.2%	6.5%	7.3%

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
11.6%	14.8%	14.8%	12.3%	11.0%	39.8%	15.3%	0.8%	6.6%	9.0%	8.9%	7.8%	7.4%
8.6%	12.1%	13.5%	10.7%	10.5%	27.3%	8.3%	0.6%	3.8%	8.1%	7.9%	7.6%	7.3%
8.4%	10.0%	9.1%	9.2%	7.8%	17.1%	7.0%	0.2%	3.6%	7.5%	7.5%	6.9%	6.6%
8.2%	9.7%	8.8%	9.0%	6.3%	11.5%	6.4%	-1.5%	3.0%	7.2%	7.5%	6.8%	6.5%
7.9%	8.7%	8.1%	8.1%	5.3%	11.3%	4.4%	-2.0%	2.6%	7.1%	7.3%	6.5%	6.5%
7.6%	8.0%	8.1%	8.0%	4.3%	8.4%	3.6%	-2.1%	1.9%	7.1%	7.0%	6.2%	6.3%
7.4%	8.0%	8.1%	6.8%	2.6%	7.9%	3.5%	-2.4%	1.1%	7.0%	7.0%	6.1%	6.0%
7.0%	7.1%	7.0%	6.2%	1.7%	5.8%	3.0%	-2.7%	-1.4%	5.9%	6.4%	5.8%	5.7%
7.0%	6.8%	6.2%	5.3%	1.0%	5.6%	1.8%	-4.0%	-2.9%	5.7%	5.8%	4.5%	4.8%
6.6%	6.1%	5.8%	4.3%	-0.4%	5.4%	0.9%	-6.1%	-3.1%	5.3%	5.6%	4.3%	4.7%
6.1%	5.9%	3.1%	0.2%	-4.8%	4.9%	-3.7%	-6.8%	-5.0%	4.8%	4.7%	4.2%	4.2%
5.5%	5.0%	3.0%	-0.3%	-8.2%	4.0%	-5.1%	-16.2%	-9.2%	4.8%	4.4%	4.2%	4.0%

Sources: MSCI, PGIM Real Estate. As of May 2024.

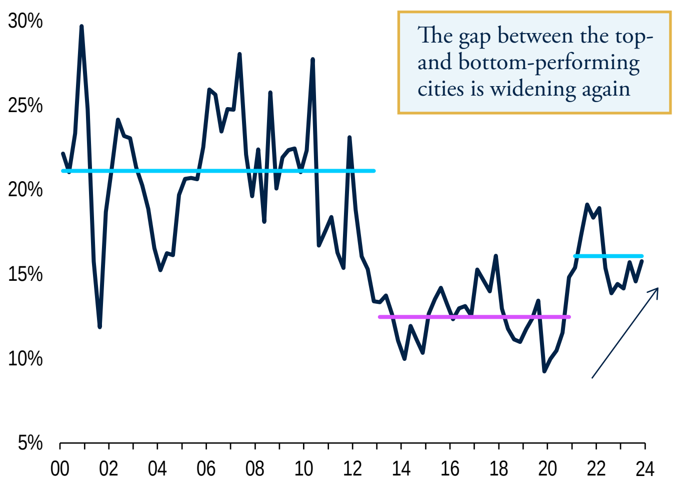
THE VARIATION IN CITY PERFORMANCE IS BROADENING

City dynamics are set to play an important role in determining investment performance in the next cycle

City Returns Analysis: Key Takeaways

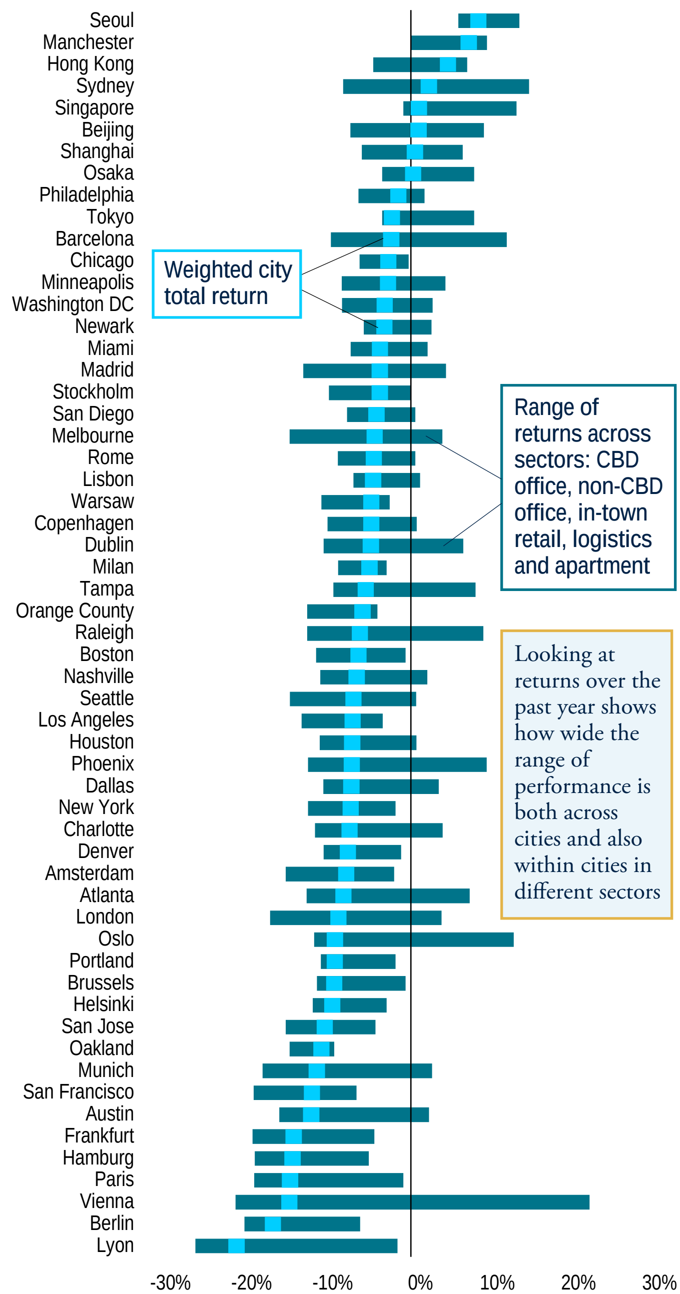
- For much of the last cycle, sector stories – and the impact of low interest rates – dominated, while the performance of individual cities became increasingly similar.
- This has already started to change with the gap between stronger and weaker locations rising significantly.
- Of course, sector stories remain important, but our view is that the next cycle will be characterized by the renewed impact of geographical differences on returns at the portfolio level.

INTERQUARTILE RANGE OF ANNUAL GLOBAL CITY RETURNS (%)



Source: PGIM Real Estate. As of May 2024.

ANNUAL GLOBAL CITY PRIME TOTAL RETURNS – 2023 (%)



Sources: CoStar JLL, PMA, PGIM Real Estate. As of May 2024.

PART II

PORTFOLIO CONSTRUCTION

GLOBAL CORE/CORE+ STRATEGIES

Summary of Key Points

For core strategies, the narrative is changing. After a significant value correction, 2024 represents an opportunity to deploy capital into a compelling investment vintage.

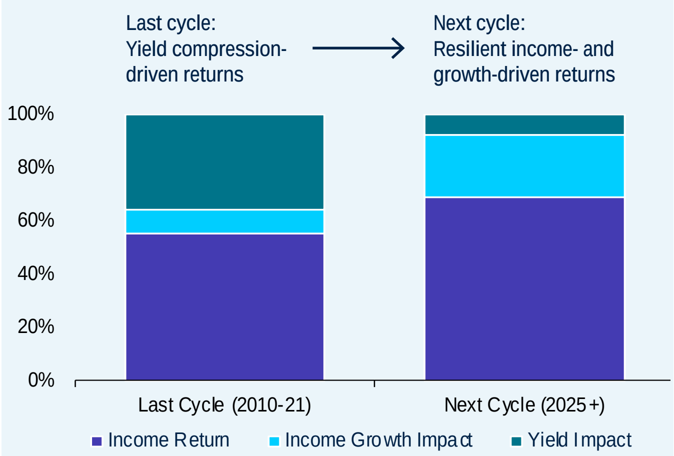
The next cycle is going to be different and a new approach to core portfolio construction is needed. Unlike last cycle when yield compression and big sector plays dominated returns, this time the picture will be more balanced. Returns are set to be mainly driven by income returns, as yields are higher, and income growth. Timing is crucial to portfolio strategy. There are still risks in the near term, so portfolio strategy should retain a more defensive slant in 2024, pivoting toward a greater balance of growth-driven strategies once the recovery is established.

Three things to focus on right now:

- Assets linked to structural themes – basic needs, living, digitalization – which have defensive income characteristics.
- Focus on high employment cities over productivity-driven markets to limit volatility and downside risk.
- Consider rebuilding some allocation to retail where higher income yields can be secured on defensive income streams.

KEY FACTOR: Focus on income growth to drive core returns through the cycle

BREAKDOWN OF MSCI GLOBAL ALL PROPERTY TOTAL RETURNS (%)



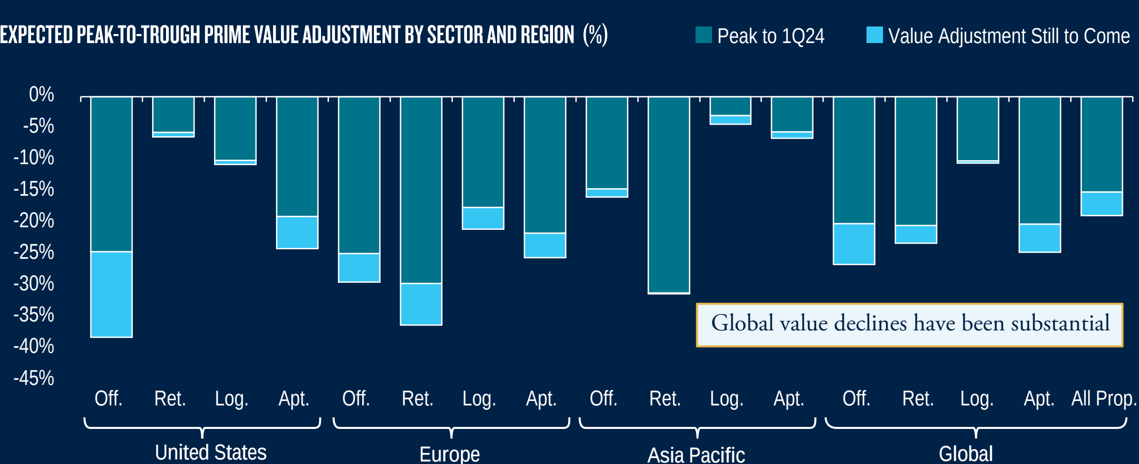
Sources: MSCI, PGIM Real Estate. As of May 2024.

WHY CORE NOW?

- The global repricing is nearly done and borrowing rates are set to ease
- Entry at a low value basis after a substantial correction
- Attractive vintage, with 2024-25 optimum for long-term investment strategies
- Higher income returns than through much of the last cycle
- Resilient income growth linked to structural trends in a low supply environment

KEY FACTOR: Attractive entry point as the correction is nearly done

EXPECTED PEAK-TO-TROUGH PRIME VALUE ADJUSTMENT BY SECTOR AND REGION (%)



Sources: CoStar, Cushman & Wakefield, JLL, PMA, MSCI, PGIM Real Estate. As of May 2024.

GLOBAL VALUE-ADD STRATEGIES

THE VALUE-ADD EQUATION TODAY

High volume of loans maturing at higher interest rates and lower values **+** Rising need for capital, e.g.

- Capex / refurbishment
- Meeting ESG requirements
- Operational budgets

= Funding gap emerges, capital structures stressed due to equity shortages

INJECT CAPITAL at an attractive basis targeting growth as global value recovery takes hold

Summary of Key Points

I. Structural: Develop and reposition assets that meet occupier needs in sectors that are benefiting from favorable structural tailwinds, i.e. that exhibit sustainably rising demand over time. Examples of key targets include:

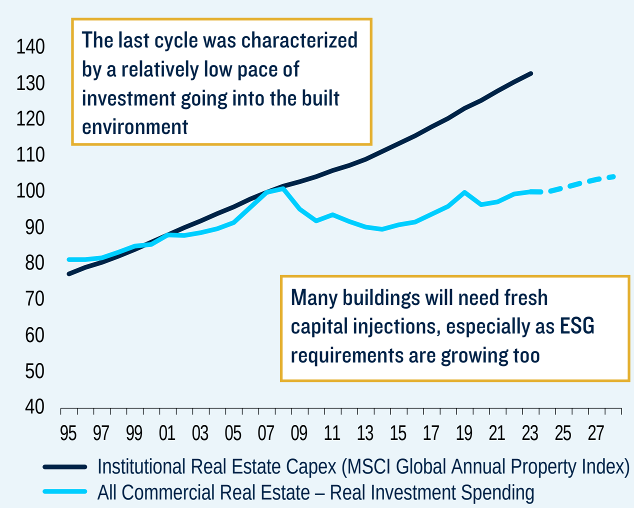
- For-rent residential due to global housing shortages and ownership affordability constraints.
- Urban logistics as online retail penetration grows further globally.
- Data centers on the back of sharply rising demand for digital storage capacity and supply constraints.
- Senior and student living linked to demographic trends and via returns-enhancing operational platforms.

II. Tactical: Investment plays to capitalize on short-term cyclical drivers, such as rising tourism demand, and also inject capital due to capex shortfalls or where a funding gap emerges. Examples of key areas of focus include:

- Hotels and in-town retail in markets where tourism demand is rising.
- Office repositioning in low vacancy CBD markets, targeting productivity-driven cities that offer cyclical growth potential.
- Assets with stressed capital structures.

KEY FACTOR: After a low investment cycle, many buildings are in need of fresh capital injections

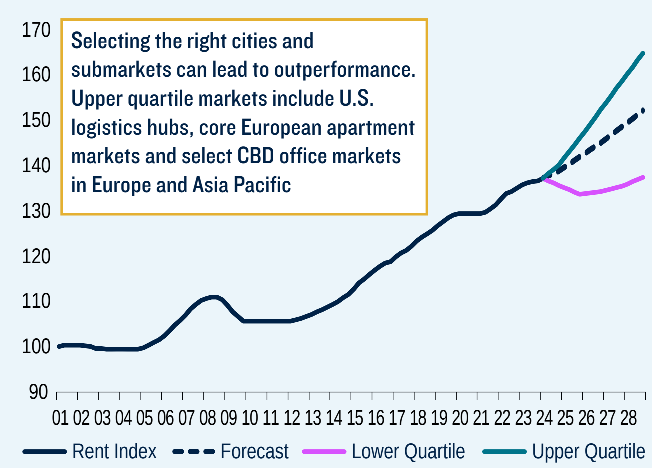
INDEX OF GLOBAL CAPEX SPENDING (%)



Sources: MSCI, OECD, Oxford Economics, PGIM Real Estate. As of May 2024.

KEY FACTOR: City and sector selection holds the key to outperforming the wider market

INDEX OF PRIME GLOBAL CITY ALL PROPERTY RENTS (1Q01=100)



Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate.

GLOBAL CREDIT STRATEGIES

DEBT RETURN DRIVERS

HIGH INTEREST INCOME

Coupons on new and floating rate debt to provide strong income returns despite expected spread tightening and lower interest rates.

LOWER ATTACHMENT POINT

Lenders will continue to implement stricter lending criteria on new loans, and debt service coverage will remain a primary leverage constraint.

COMPELLING RELATIVE VALUE

CRE debt to provide significant spread premium over comparable corporate bonds. Debt returns are expected to exceed real estate equity returns in 2024.

CORE

- Fixed-rate lending with elevated interest rates and margins.
- Build a portfolio of loans with cyclically high all-in coupon rates.
- Target assets in cities and sectors that offer a resilient income growth story.
- Positive credit migration boosts the risk-return profile over time. Further NOI growth and an expected rebound in capital values is set to lead to improved cash flow, debt coverage ratios and lower LTVs.

CORE+

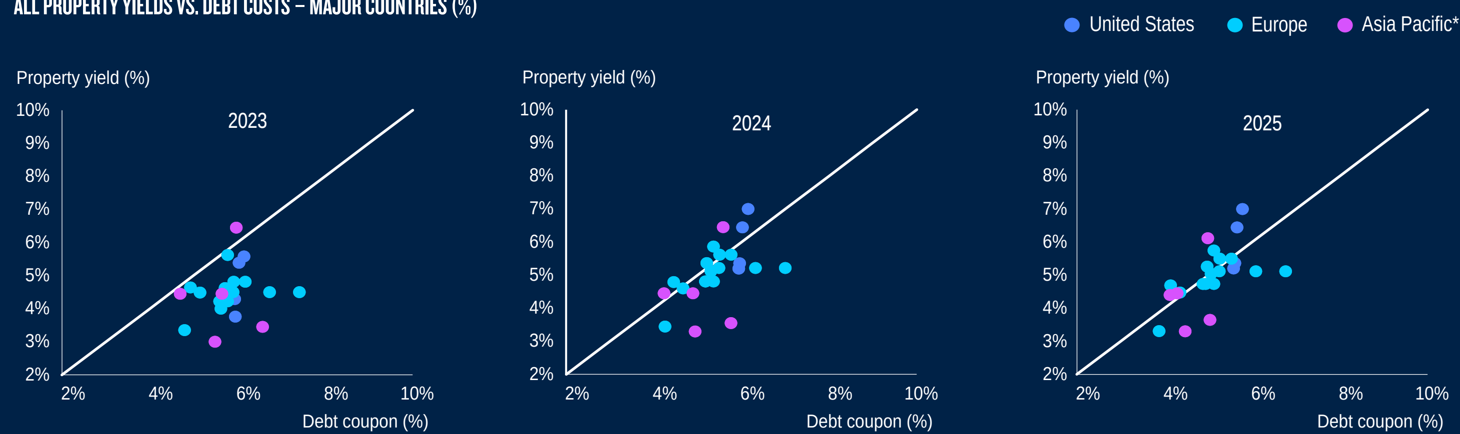
- More emphasis on floating rate loans, with some additional value upside linked to the expected rebound in real estate values.
- Benefit from improving market conditions as lower borrowing rates and margins can be offset with higher origination volume and profit participation.
- Consider refurbishment strategies linked to the low supply situation.

HIGH YIELD

- Junior and mezzanine lending.
- Lower available debt on new senior loans creates a significant funding gap, which is driving opportunities.
- Improving financial conditions will lead to cheaper leverage, boosting leveraged returns and enhancing attractiveness of debt strategies.

KEY FACTOR: As interest rates fall, debt becomes accretive to transactions again, allowing deal volume to pick up

ALL PROPERTY YIELDS VS. DEBT COSTS – MAJOR COUNTRIES (%)



*Note: Asia Pacific refers to the office sector only.
Sources: PMA, Chatham Financial, Knight Frank, Bloomberg, Oxford Economics, CREFC, Trepp, JLL, PGIM Real Estate. As of May 2024.

PART III

KEY INVESTMENT THEMES

WHAT DRIVES INVESTMENT OPPORTUNITIES AROUND THE WORLD?

SUMMARY OF GLOBAL INVESTMENT OPPORTUNITIES AND KEY VALUE DRIVERS – EQUITY AND CREDIT

	Key Value Drivers	Nature of Opportunity	Real Estate Approach
STRUCTURAL TRENDS	Age and Income Demographics	**Living needs** Opportunity drivers: age demographics, urban population growth, housing ownership affordability, lack of supply/ overcrowding, rising incomes, supply-constrained submarkets, urban density.	• Suburban apartments • Single-family housing • Senior housing • Student accommodation
STRUCTURAL TRENDS	Digitalization	**E-commerce demand and supply chain evolution** Opportunity drivers: resilient e-commerce growth, low supply, city and submarket dynamics, urban logistics demand growth, supply chain evolution.	• Urban logistics • Big box / supply chain • Border industrial
		Digital infrastructure Opportunity drivers: secular demand growth for data, the need for ongoing investment and new facilities.	• Hyperscale and colocation data centers
STRUCTURAL TRENDS	Resilient Employment	**Non-discretionary spending** Opportunity drivers: jobs-driven demand, basic needs/grocery-anchored, discount concepts, defensive cash flow profile, attractive entry values.	• Grocery-anchored retail • Discounters • Retail warehousing
TACTICAL OPPORTUNITIES	Cyclical rebound in household spending and tourism	**Discretionary spending growth** Opportunity drivers: jobs-driven income growth, tourism-driven retail spending, attractive entry values, spending per sqm/falling vacancy, cyclical upswing.	• High tourism city-center retail markets
		Opportunity drivers: rising RevPAR, limited supply, ongoing demand growth.	• Tourist-driven hotel markets
TACTICAL OPPORTUNITIES	Cyclical productivity gains	**Modern workplaces** Opportunity drivers: productivity gains driving space demand and higher rents in central locations, persistent low supply, ESG regulation and lack of suitable grade A space, attractive entry values.	• CBD offices in low supply markets
TACTICAL OPPORTUNITIES	Capital market dislocation	**Funding gap** Opportunity drivers: debt rollovers at higher interest rates, bank retrenchment due to regulations, need for fresh capital.	• Asset-specific approach • Debt rollovers • Investing in capex projects

PART III

KEY INVESTMENT THEMES

STRUCTURAL TRENDS

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

LIVING NEEDS

Living strategies generate resilient income linked to the basic need of shelter. Lack of supply and ownership affordability are driving opportunities and growth potential in multi- and single-family, while the sheer size of demand linked to age demographics continues to support the outlook for senior housing.

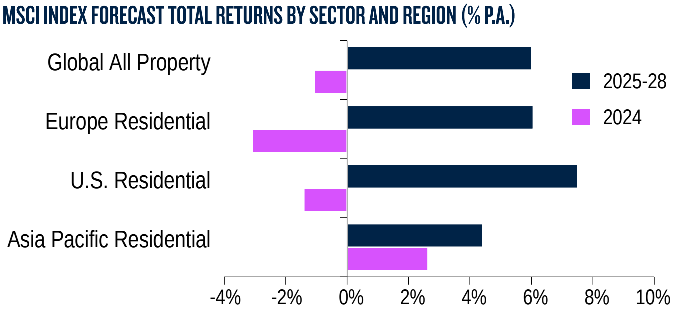
TOP INVESTMENT PICKS

- U.S. suburban apartments
- Single-family housing in the U.S. Sunbelt and the UK
- Apartments in major core European cities
- U.S. senior living

Key Points

- Linked to the basic need for shelter, as well as diversification gains from many individual tenants, residential assets offer a resilient income with growth potential linked to rising incomes.
- Income yields are lower than in other sectors, but given a need to balance growth potential and defensiveness in the current market environment, living strategies look an attractive play. Returns are currently in line with historical averages, but currently carry a lower market risk, especially where supply and availability are low.
- Shortages of high-quality housing can be linked to elevated construction costs as well as tougher planning rules that have deterred development in recent years.
- With affordability constraints limiting ownership, rents are expected to grow by 3% per year on average across global cities over the next 5 years as household incomes grow in line with expected higher wages linked to stronger productivity growth.
- One exception to this narrative is U.S. apartment markets, where there has been some oversupply, although occupancies are now stabilizing again.
- Asia Pacific, which has a small institutional residential investment sector, is set to lead returns in the short term, but opportunities will be concentrated in major U.S. markets and parts of Europe from 2025 onwards, once repricing is complete.

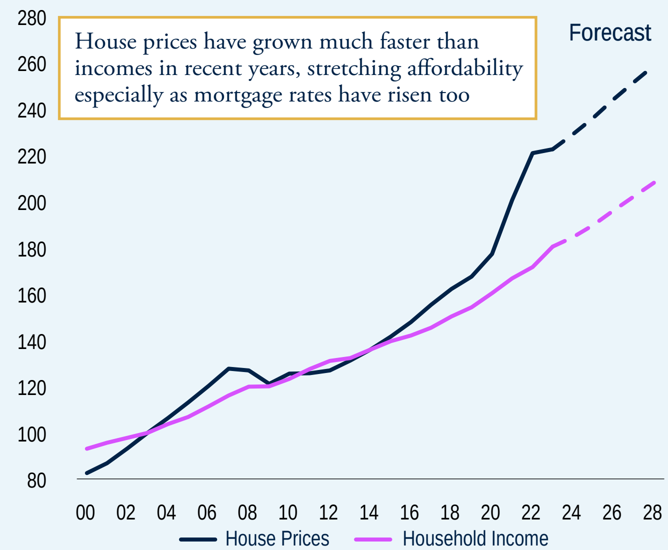
MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)



Sources: MSCI, PGIM Real Estate. As of May 2024.

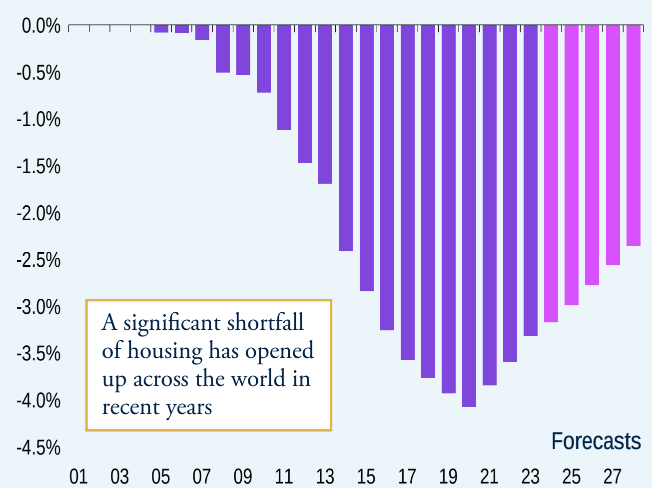
COMMON GLOBAL THEMES:
Ownership constraints and housing shortages

GLOBAL HOUSE PRICES AND HOUSEHOLD INCOME (INDEX: 2003=100)



Sources: Oxford Economics, CoStar, PMA, U.S. Census Bureau, PGIM Real Estate. As of May 2024.

ESTIMATED GLOBAL HOUSING SHORTFALL, MAJOR ECONOMIES (% TOTAL HOUSEHOLDS)



Sources: Oxford Economics, CoStar, PMA, U.S. Census Bureau, PGIM Real Estate. As of May 2024.

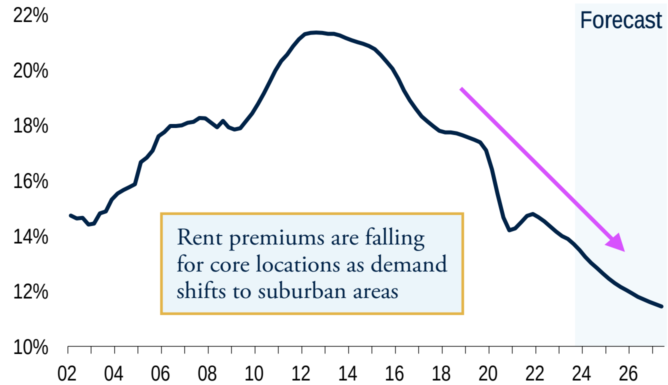
Forecasts are not guaranteed and may not be a reliable indicator of future results.

U.S. APARTMENT AND SINGLE-FAMILY

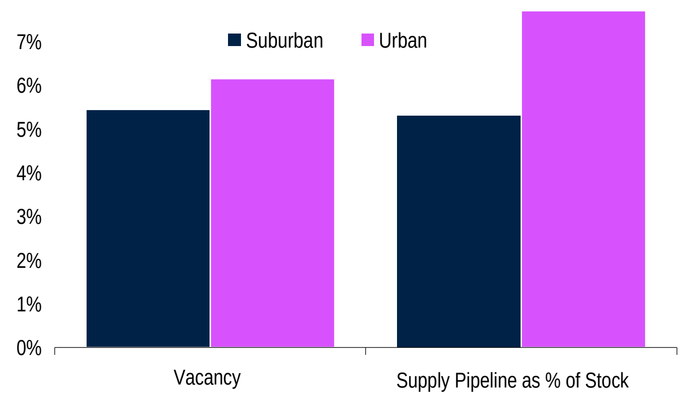
Suburban apartment opportunities are supported by demographics and supply gaps

- Demographic trends in the United States are particularly favorable to the suburban rental demand outlook, while ownership affordability remains stretched.
- There will be 5.3 million more people aged 35-50 over the next decade, an age range typically desiring larger accommodations and better schools that suburban locations can offer.
- Dispersion among submarket apartment rents widened in the 2000s as urban market growth outpaced that of lower rent locations in the suburbs. However, this trend has been reversing for some time, owing to relative supply and demographic trends.
- Across the United States, rent premiums in urban core locations continue to fall as demand shifts to suburban, albeit lower rent, locations.
- While apartment rent growth expectations for 2024 are subdued because of elevated near-term supply deliveries, we expect rent growth to accelerate above long-term growth rates by 2026. Suburban markets look set to carry the strongest growth momentum into the upswing.

AVERAGE DISPERSION (COEFFICIENT OF VARIATION) OF U.S. SUBMARKET RESIDENTIAL RENTS (%)

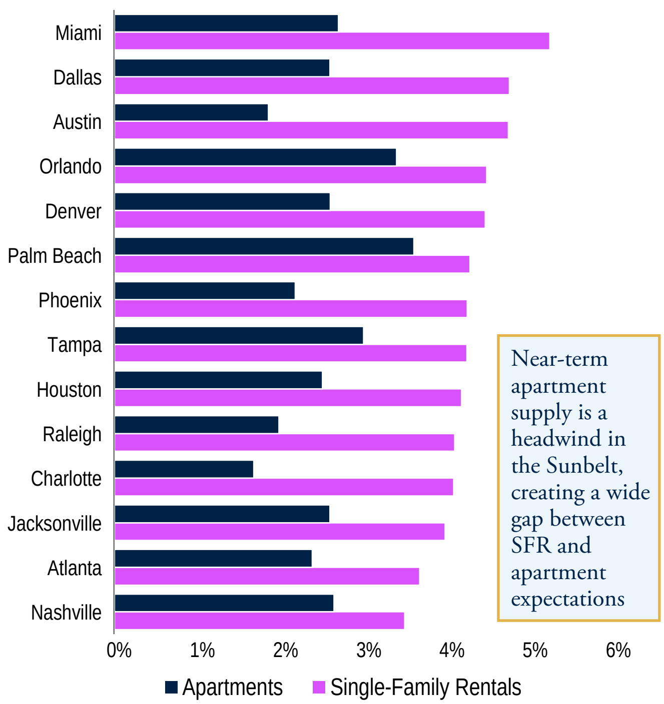


U.S. RESIDENTIAL VACANCY AND SUPPLY BY LOCATION (%)



Sources: RealPage, PGIM Real Estate. As of May 2024.

RENT GROWTH FORECAST 2024-28 (% P.A.)



Sources: CoStar, RealPage, Green Street Advisors, PGIM Real Estate.
As of May 2024.

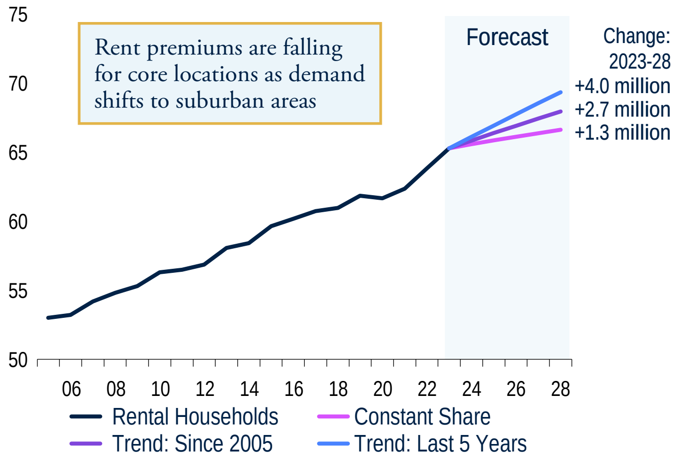
U.S. Sunbelt markets: Target single-family housing

- Single-family rentals (SFRs) – defined as non-stacked housing units with access to outdoor space and often including attached garages – are the residential segment best suited to reap the benefits of expected household growth in the 35-50 age bracket. SFRs are a more direct substitute for single-family homeownership that many families are priced out of (owing to features such as a yard and garage).
- Continued strong demand for SFRs will keep occupancies elevated, driving rental growth in excess of 4% p.a. from 2024-28, and above expectations for overall apartment rent growth despite similar going-in yields.
- Demand is particularly strong relative to multifamily in markets across the Southern United States where supply will weigh more on rental growth in 2024-25 than in other metros. As such, we believe investors can price continued strong growth for SFRs in these Southern markets while they should position for tempered near-term rent growth in Sunbelt apartment rents.

APARTMENT STRATEGIES IN EUROPE AND ASIA PACIFIC

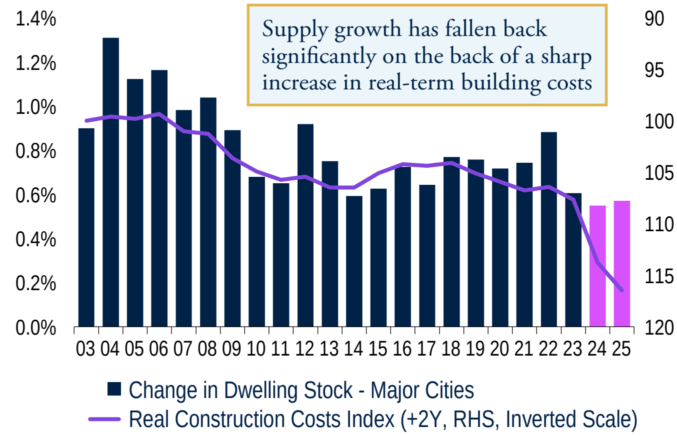
EUROPE: Rising demand and a lack of modern stock driving rental growth

NUMBER OF RENTAL HOUSEHOLDS IN MAJOR EUROPEAN COUNTRIES (MILLION UNITS)



Sources: Eurostat, PMA, PGIM Real Estate. As of May 2024.

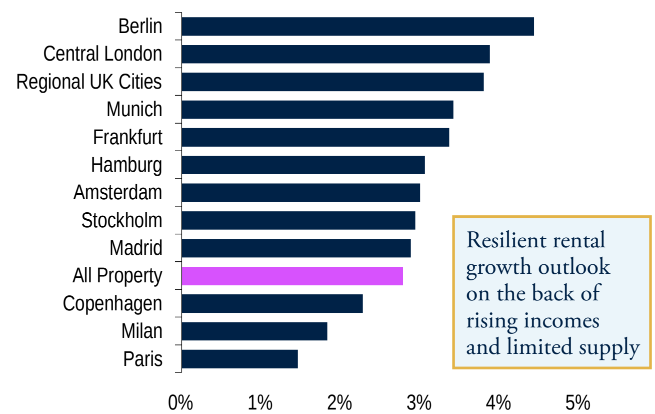
CHANGE IN DWELLING STOCK (% P.A.) AND REAL CONSTRUCTION COSTS (INDEX)



Sources: Eurostat, PMA, Oxford Economics, PGIM Real Estate. As of May 2024.

- The number of rental households in Europe has risen significantly in recent years. If the sector expands at a similar pace to over the last 5 years, there will be 4 million additional rental households by the end of 2028.
- Supply growth is being restricted by a combination of elevated building costs and higher underwritten exit yields due to the market correction.
- Housing availability is a major problem in core European cities, and landlords have pricing power to capture rental uplifts linked to household income growth.
- Most cities are set to record headline rental growth of more than 3% per year over the next 5 years.

FORECAST RESIDENTIAL RENTAL GROWTH BY MAJOR CITY (2024-28, % P.A.)

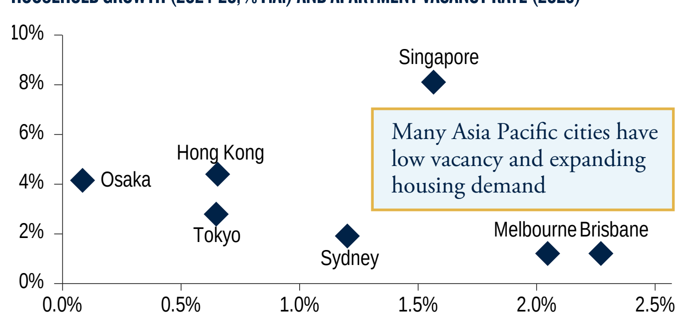


Sources: PMA, PGIM Real Estate. As of May 2024.

ASIA PACIFIC: Opportunities linked to household growth

- Residential demand and rental growth potential will be supported by household growth in major urban areas that is forecasted to grow steadily over the next 5 years while vacancy rates remain tight in the near term.
- With the exception of Japan, this segment remains in its infancy, but opportunities remain for investors to provide professional and consistent housing offerings to meet growing needs. Examples include co-living in Hong Kong and Singapore and student housing in Australia.

HOUSEHOLD GROWTH (2024-28, % P.A.) AND APARTMENT VACANCY RATE (2023)



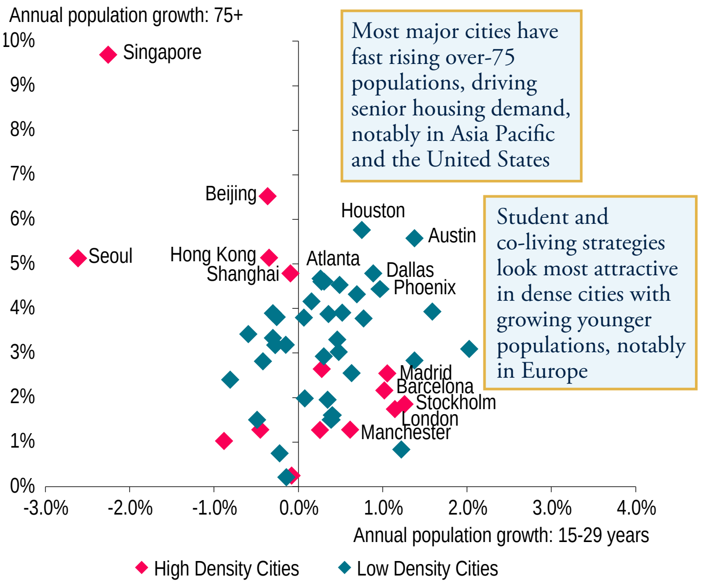
Sources: Oxford Economics, CEIC, ARES, PGIM Real Estate. As of May 2024.

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

SPECIALIST LIVING STRATEGIES

Demographics and density are key drivers of living opportunities at the city level

ANNUAL POPULATION GROWTH FORECASTS BY AGE GROUP AND DENSITY (2024-33, % P.A.)

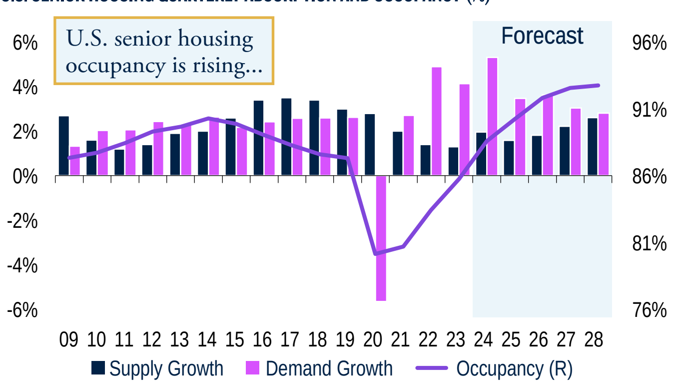


Sources: Oxford Economics, PGIM Real Estate. As of May 2024.

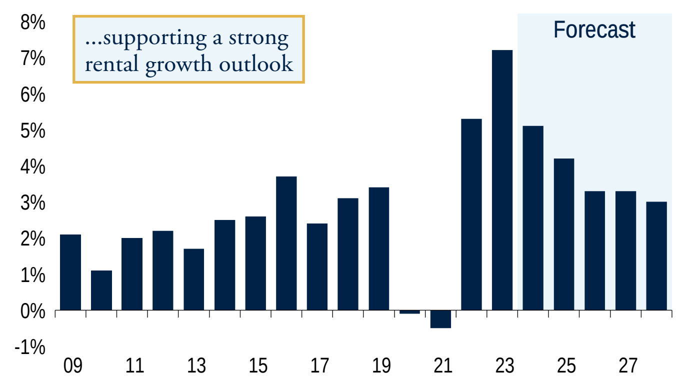
- In the United States, most major cities are expected to record significant growth in over-75s driving senior housing demand, including in Houston, Austin, Atlanta, Dallas and Phoenix.
- In Europe, senior population growth rates are a little lower although still imply a significant expansion of senior living demand over time. In Asia Pacific, major cities such as Singapore, Seoul, Beijing and Shanghai are expected to record steep increases in the number of over-75s over the next decade. Elevated house prices have boosted affordability and institutional participation is set to increase.
- When it comes to living concepts such as student accommodation or co-living (shared housing facilities, typically fully furnished with flexible lease terms), cities with high density, limited supply, affordability pressures and either a stable or growing younger population look to offer the most potential. Examples include Hong Kong and Shanghai in Asia or Madrid, Barcelona, Stockholm, London and Manchester in Europe.

U.S. senior housing

U.S. SENIOR HOUSING QUARTERLY ABSORPTION AND OCCUPANCY (%)



U.S. SENIOR HOUSING RENTAL GROWTH



Sources: National Investment Center for Senior Housing Care, Green Street Advisors, PGIM Real Estate. As of May 2024.

- In the United States, over 5 million more households are set to able to afford market-rate senior housing over the next decade, sustaining strong demand growth.
- Occupancies are rising and are expected to move past prior peak levels by the end of this year, driving ongoing rental growth.
- Rental growth forecasts are based on expectations of rapid growth in the number of households with the financial readiness to pay for senior housing.
- By 2032, middle-income households will have an inflation-adjusted average net worth of $500,000, mostly comprised of home equity – enough to pay for an average stay of about 2 years even in the most expensive markets, although most residents are significantly wealthier than the average.
- The number of households that can afford a 5-year stay in senior housing is set to rise by 90% over the next 8 years, to 11.7 million.

E-COMMERCE DEMAND AND SUPPLY CHAIN EVOLUTION

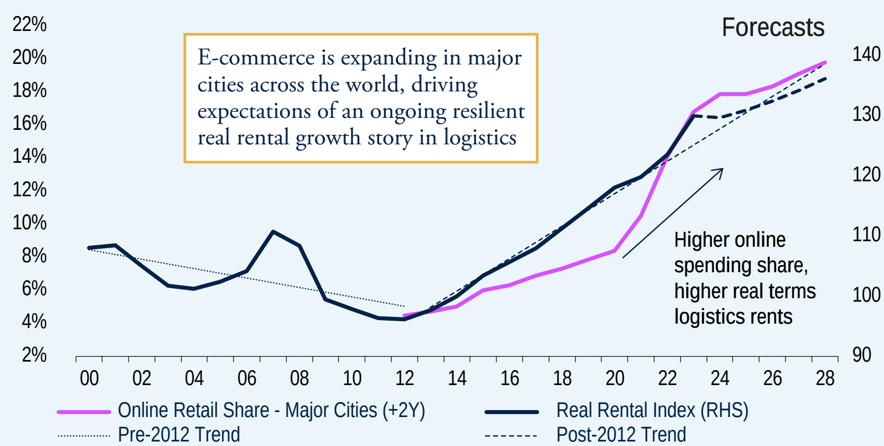
TOP INVESTMENT PICKS

- Urban logistics in high rent submarkets in lower density U.S. cities
- Last mile assets in European cities with fast online growth
- Core distribution corridors in Europe and Asia Pacific
- Mexico industrial in border areas

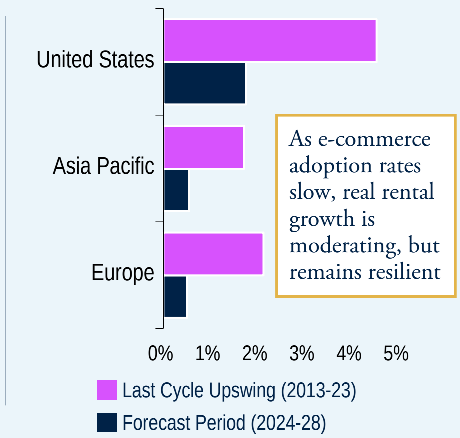
The resiliency of ongoing e-commerce growth is translating into space absorption and helps make the case for logistics as a sector that can carry on delivering real rental growth. It's not all about urban logistics either, as supply chain optimization and trade flows also drive demand.

COMMON GLOBAL THEMES: E-commerce drives real rental growth in logistics

GLOBAL ONLINE RETAIL SHARE (%) AND INDEX OF REAL LOGISTICS RENTS (2014=100)



ANNUAL LOGISTICS REAL RENTAL GROWTH BY REGION (2024-28, % P.A.)

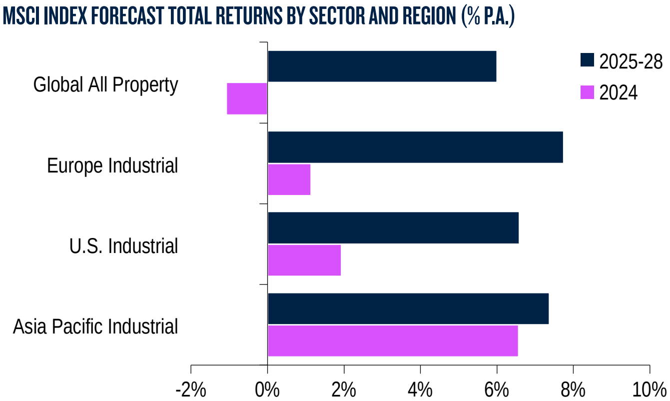


Sources: CoStar, Cushman & Wakefield, JLL, PMA, Oxford Economics, EIU, PGIM Real Estate. As of May 2024.

Key Points

- Although e-commerce adoption rates are slowing, real rental growth continues to trend structurally higher albeit with still large country differences. And then there are signs of e-commerce penetration hitting near saturation points but at different levels of penetration.

MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)



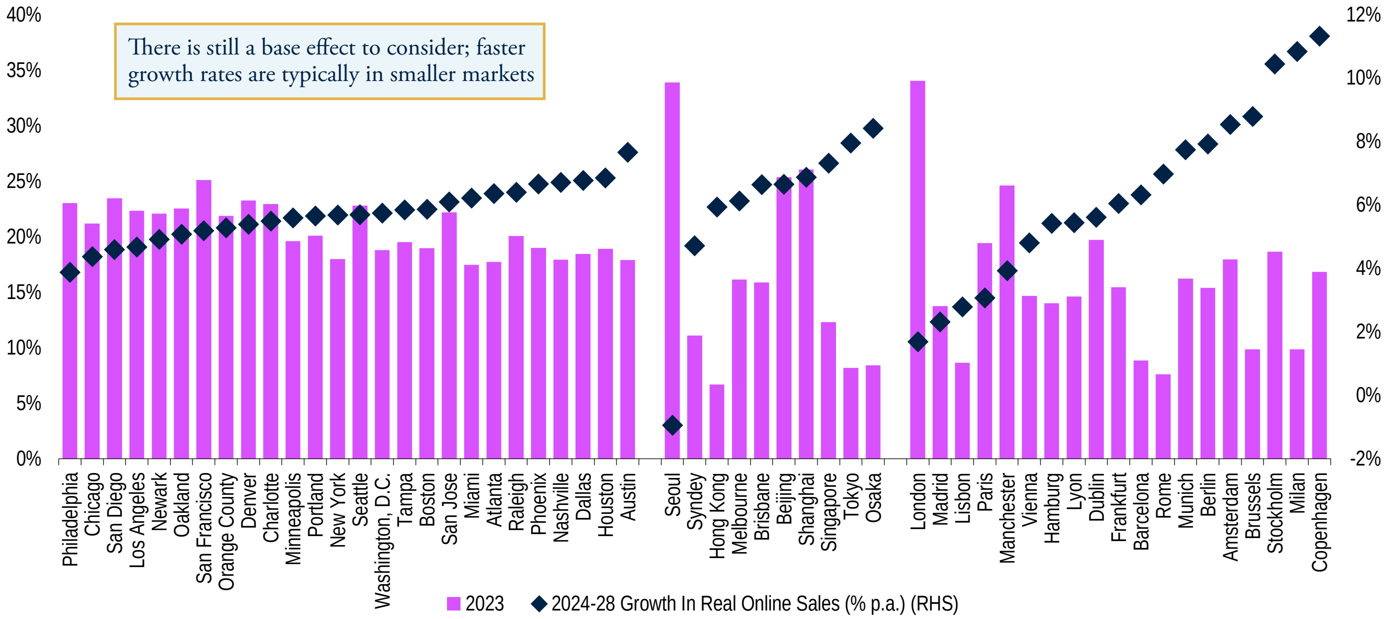
Sources: MSCI, PGIM Real Estate. As of May 2024.

- Those differences, along with the limited part yield shift now plays in driving returns, mean local occupier market dynamics matter more for returns. Nonetheless, outside of the United States and apart from the UK, China and South Korea, on our forecasts, major markets with much lower levels of online penetration offer the potential for ongoing strong real rental growth.
- Differences across countries speak to different strategic approaches. In the United States, cities face supply risk, while Asian and European cities offer more growth potential and urban development opportunities, although big bets on supply speak to risks if online spending growth softens. Forecasters' 5-year ahead penetration rates have already been downgraded from a year ago.
- Outside of urban logistics, supply chain resilience and optimization are big themes, dictating opportunities in national distribution markets, on border frontiers and in trade-driven markets around ports and airports. This is particularly the case for Hong Kong, Singapore and to a lesser extent Seoul as regional trade across Asia Pacific is set to pick up in line with a recovery in global growth. Rental growth might yet prove to be stronger.

LOGISTICS DRIVEN BY E-COMMERCE

Global city e-commerce adoption rates matter

ESTIMATED CITY ONLINE PENETRATION RATES AND FORECASTED GROWTH IN ONLINE SALES

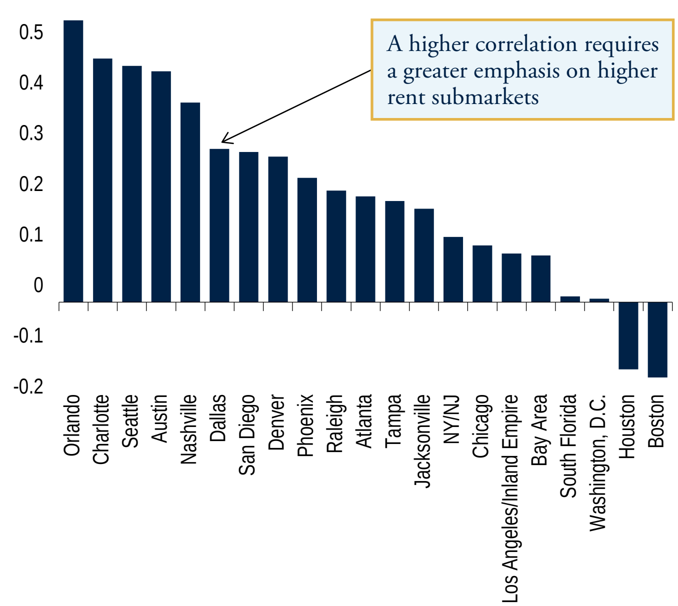


Sources: Oxford Economics, PMA, EIU, PGIM Real Estate. As of May 2024.

- Cities such as London in Europe, San Francisco in the United States and Seoul in Asia Pacific all have very high online sales penetration. Urban density is a factor in driving this, allowing delivery business models to scale and achieve profitability more quickly, whilst meeting a demand from cash-rich, time-poor households.
- Urban development remains hard to execute given such factors as planning regulations and high land prices. The need for urban logistics, notably in the bigger cities outside of the United States, remains a common theme.
- While markets with lower existing online penetration typically have stronger growth outlooks, there are risks. Forecasts suggest that some European and Asian cities – including Madrid, Milan, Singapore and Sydney – simply won't follow the pattern in the United States and the UK. The risks of oversupply and unutilized capacity are higher in these markets.
- In the United States, a feature of lower density, non-coastal markets (including Charlotte, Austin, Nashville and Dallas) is that higher rent submarkets – typically found close to the main population centers – tend to perform better.
- At the same time, construction has often been higher in lower rent submarkets, resulting in higher vacancies. In these markets the scope for outperformance through submarket selection is higher than in larger gateway markets where submarket performance is more consistent.

In the United States, submarket dynamics are important

CORRELATION OF SUBMARKET OCCUPANCY RATE AND RENT LEVEL BY U.S. METRO AREA



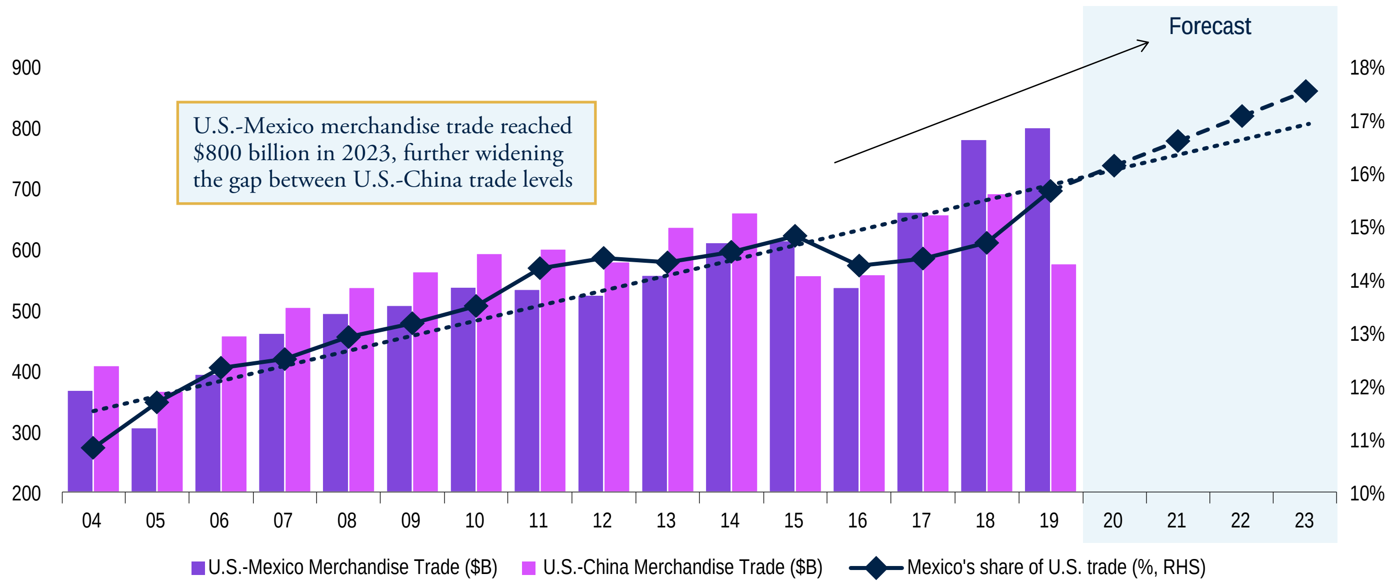
Sources: CoStar, PGIM Real Estate. As of May 2024.

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

SUPPLY CHAIN EVOLUTION IN MEXICO

Trade between the United States and Mexico is trending higher

U.S. MERCHANDISE TRADE WITH MEXICO AND CHINA (US$ BILLIONS)



Sources: U.S. Department of Transportation, U.S. Census Bureau, PGIM Real Estate. As of May 2024.

- Global trade patterns are recovering and evolving and that is leading to a broader set of opportunities in logistics and industrial.
- The shifting U.S.-China relationship has allowed Mexico to capitalize by increasing its trade volumes with the United States.
- Mexico's share of trade with its leading trade partner, the United States, has climbed from 11% in 2008 to 16% in 2023, supported by its long-standing strength in production of cars and trucks, medical instruments, appliances and computers. Demand for Mexican industrial real estate has increased in line, driving vacancy to historical lows.
- Growth in Mexican industrial demand and rents creates attractive investment opportunities, particularly in manufacturing hubs like Monterrey, Tijuana and Juarez. As manufacturers expand and deepen their local presence in these markets, we expect rent growth will continue over the next 5 years and beyond.
- Border regions in Mexico that are set to benefit include:
  – Baja California (Transport equipment, IT/Electronics)
  – Sonora (Transport equipment, Minerals/Metals)
  – Chihuahua (Transport equipment, IT/Electronics)
  – Coahuila (Transport equipment, Minerals/Metals)
  – Nuevo Leo Baja (Transport equipment, Electric power)
  – Tamaulipas (Transport equipment, IT/Electronics)

Vacancy is low and industrial rents are surging

MEXICO INDUSTRIAL VACANCY VS. RENT GROWTH

Sources: CBRE, Green Street Advisors, PGIM Real Estate. As of May 2024.

DIGITAL INFRASTRUCTURE

A lack of modern data centers in key markets is set against a secular demand growth story. The market is moving toward a strong rental growth outlook. Development of energy-efficient data centers is the best route into the market.

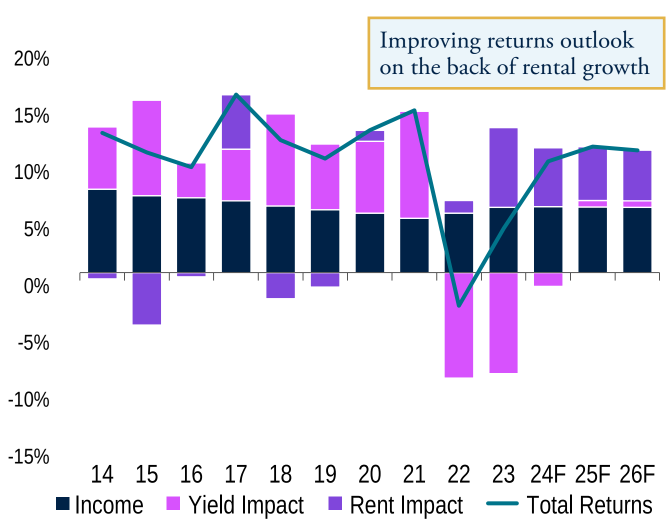
TOP INVESTMENT PICKS

- Hyperscale data centers
- Colocation data centers serving urban areas with supply constraints

Key Points

- Ongoing technological transformation, including new developments in AI and the continuous adoption of cloud computing, are expected to underpin the demand outlook for data centers in key global data center markets.
- However, supply has so far lagged behind demand due to high barriers in obtaining planning permissions and securing power, especially renewable energy. A shortfall of data centers is set to emerge across Europe, with Amsterdam forecasted to have the biggest undersupply due to past policy restrictions that have limited the development pipeline.
- The operational nature of data centers also offers a wide risk-return spectrum for investors to participate at different levels, ranging from relatively more stable rental income generation akin to traditional real estate leases to higher risk profit sharing from the operational business. At the moment, the most interesting route into the market is development in combination with an operating partner.

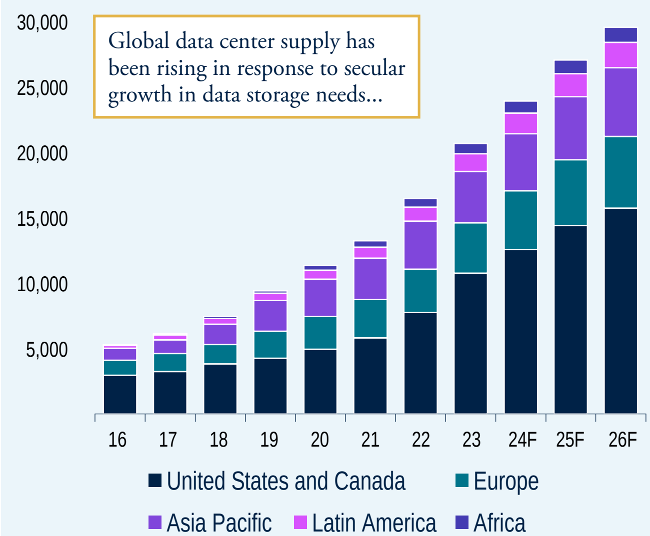
ESTIMATED ANNUAL GLOBAL DATA CENTER TOTAL RETURNS (UNLEVERED, POWERED SHELL AND CORE ASSETS)



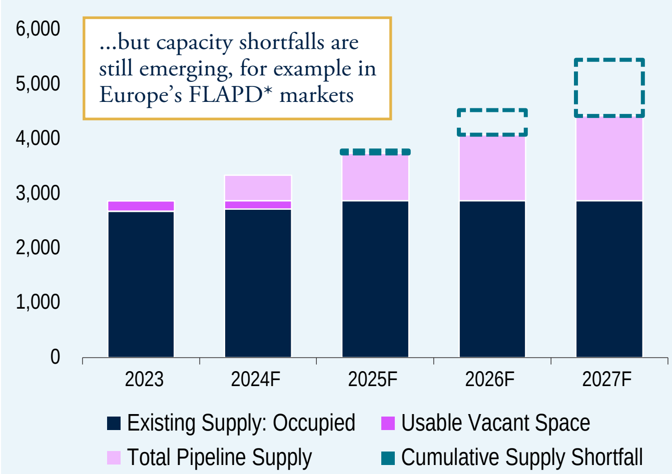
Sources: Green Street Advisors, CBRE, Structured Research, JLL, PGIM Real Estate. As of May 2024.

COMMON GLOBAL THEME:
Secular demand growth is coming up against supply limitations

GLOBAL DATA CENTER SUPPLY – COMMISSIONED POWER (MEGAWATTS)



EUROPE: DATA CENTER SUPPLY SHORTFALL – FLAPD* (MEGAWATTS)



*FLAPD refers to Frankfurt, London, Amsterdam, Paris and Dublin.

Sources: datacenterHawk, Structured Research, CBRE Data Centre Solutions, African Data Centre Association, Xalam Analytics, Company Reports, DC Byte, Green Street Advisors, PGIM Real Estate. As of May 2024.

NON-DISCRETIONARY SPENDING

Necessity-based retail offers defensive income streams supported by elevated employment and attractive entry prices after a steep downturn. There are headwinds from online spending, but retail parks, strip centers and discounter-driven units offer resilience.

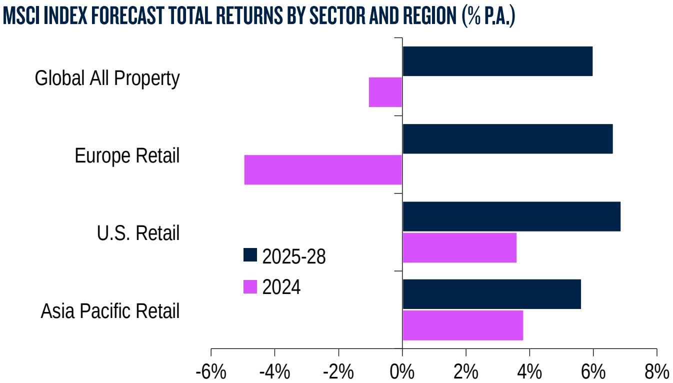
TOP INVESTMENT PICKS

- Strip centers and big box retail in the United States
- Core Continental Europe and UK retail parks
- Discount retail in Germany and France
- Neighborhood retail in Asia Pacific markets like Singapore and Australia

Key Points

- Necessity-based retail captures defensive retail spending especially around groceries and discounted goods where online competition is muted and real household income is being stretched. The legacy of high jobs growth and little development for a number of years is helpful in terms of generating broad-based demand.
- This segment of the market offers a resilient income-driven returns story – and at attractive valuations given the decline in liquidity and values in the retail sector.
- In the United States, strip malls, dominated by both convenient neighborhood retail as well as big box discounters, remain attractive. Occupancies continue to rise, offering rental gains.
- In Europe, opportunities remain focused on discounter-oriented retail parks and grocery-anchored schemes that offer attractive entry yields and a stable-looking rental outlook. Core European markets look most resilient, although the UK's substantial rent and yield correction means it starts from a low value basis.
- In Asia, opportunities in the convenient neighborhood retail market center on those in which occupier affordability has improved in contrast to prime units, notably Brisbane, Sydney and Singapore.

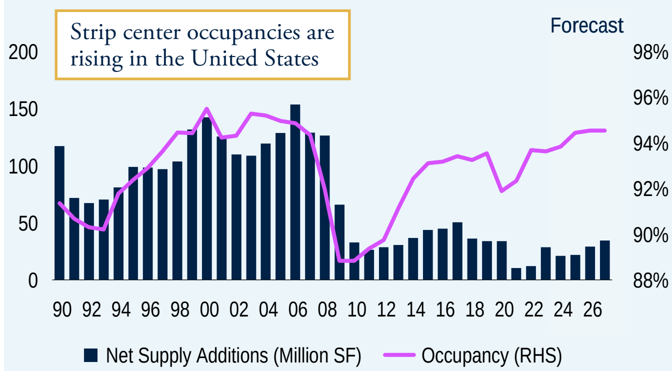
MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)



Sources: MSCI, PGIM Real Estate. As of May 2024.

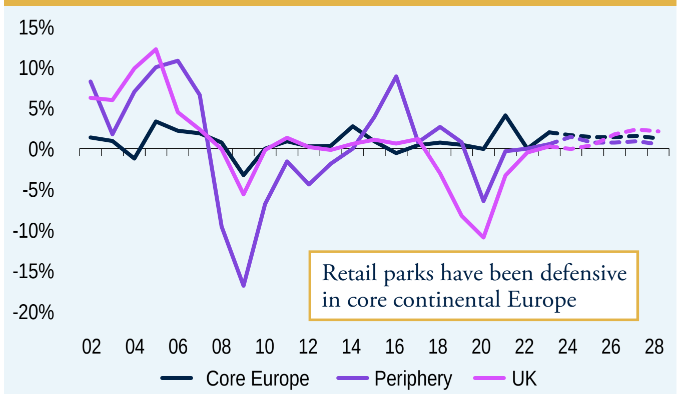
COMMON GLOBAL THEMES:
Ongoing cost of living pressures and limited development

UNITED STATES: NET RETAIL SUPPLY ADDITIONS VS. STRIP CENTER OCCUPANCY



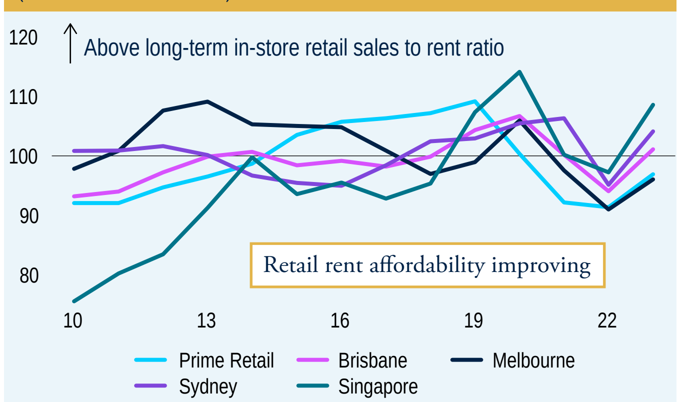
Sources: Green Street, NCREIF, CoStar, PGIM Real Estate. As of May 2024.

EUROPEAN PRIME RETAIL PARKS RENTAL GROWTH (%)



Sources: PMA, PGIM Real Estate. As of May 2024.

ASIA PACIFIC SUBURBAN RETAIL RENT AFFORDABILITY INDEX (LONG-TERM AVGERAGE = 100)



Source: PGIM Real Estate. As of May 2024.

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

PART III

KEY INVESTMENT THEMES

TACTICAL OPPORTUNITIES

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

DISCRETIONARY SPENDING REBOUND

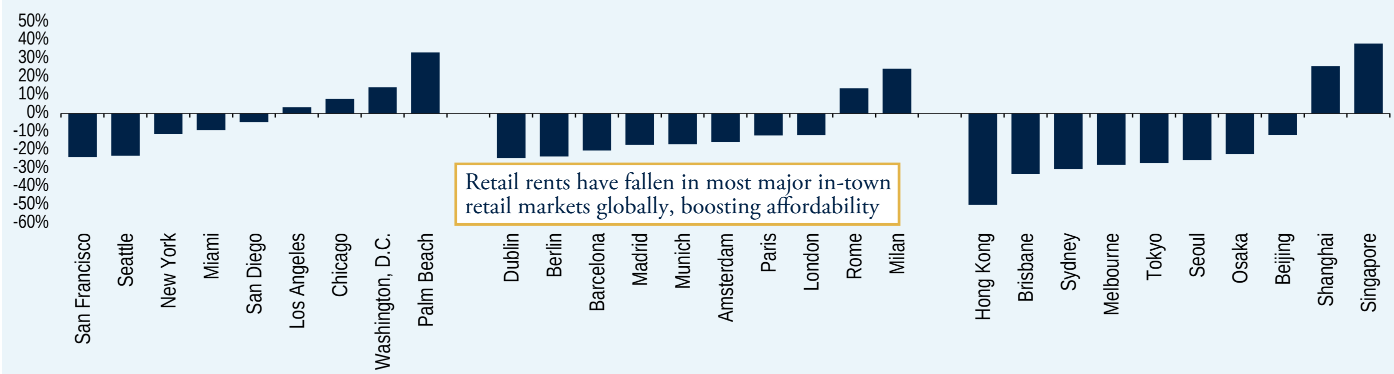
TOP INVESTMENT PICKS

- City center retail in high tourism markets
- Retail in high employment growth U.S. markets
- Hotels in tourism-driven markets in Asia Pacific and Europe

Low rents, limited new supply and improving affordability mean that global retail markets have a platform to grow from rising incomes on the back of a productivity boost to spending power. In tourist-driven cities, retail and hospitality opportunities are emerging on the back of this trend.

COMMON GLOBAL THEME:
Prime, in-town retail rents are low (almost) everywhere

PRIME HEADLINE HIGH STREET RETAIL RENTS, END 2023 LEVEL VS. END 2019 LEVEL (%)

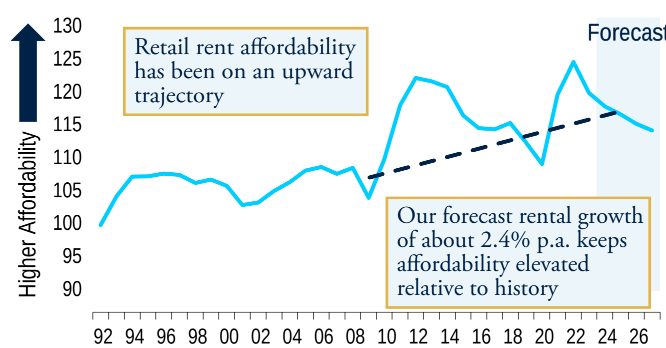


Sources: Cushman & Wakefield, PGIM Real Estate. As of May 2024.

Key Points

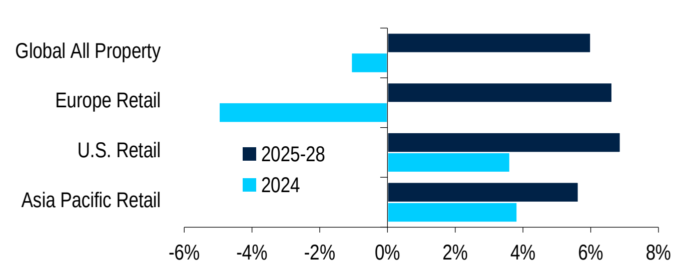
- Retail is starting from a low base everywhere. Rents are down across most major retail formats and the correction in values, via higher yields, has been significant, starting well before the current global value downturn got underway.
- At the same time, supply growth has been very low and older space has been removed from the market. Vacancy has risen across the board, but this adjustment is slowing and rents are starting to look affordable again.
- Across many major global retail markets, forecasts are being revised upwards. In the United States, prospects for rental growth have been boosted by a strong improvement in tenant affordability in recent years.
- While the retail sector in Asia Pacific and the United States has started to recover, European markets are at an earlier stage in their adjustment process. The outlook is improving, but near-term return prospects for higher quality retail assets are being held back by weak spending growth and high vacancy rates.

UNITED STATES: RETAIL RENT AFFORDABILITY INDEX*



* The retail rent affordability index is calculated using the volume of in-store retail sales per unit of retail space.
Sources: CoStar, Oxford Economics, PGIM Real Estate. As of May 2024.

MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)



Sources: MSCI, PGIM Real Estate. As of May 2024.

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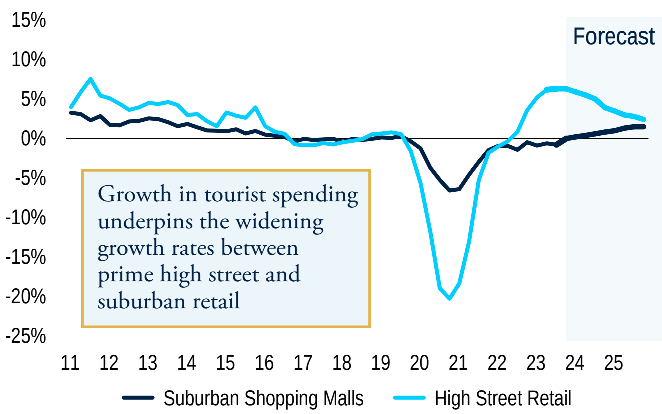
RETAIL AND HOTELS

Asia Pacific: Tourism rebound underpinning rental growth forecasts for prime high street locations

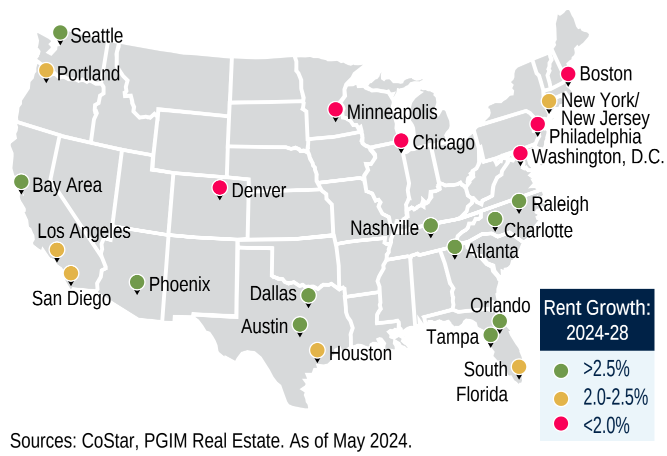
RETAIL RENTAL GROWTH BY SEGMENT (% P.A.)



Sources: JLL, PGIM Real Estate. As of May 2024.

United States: Retail favors high-employment markets in the South

RENT GROWTH BY MARKET (CAGR, 2024-28)

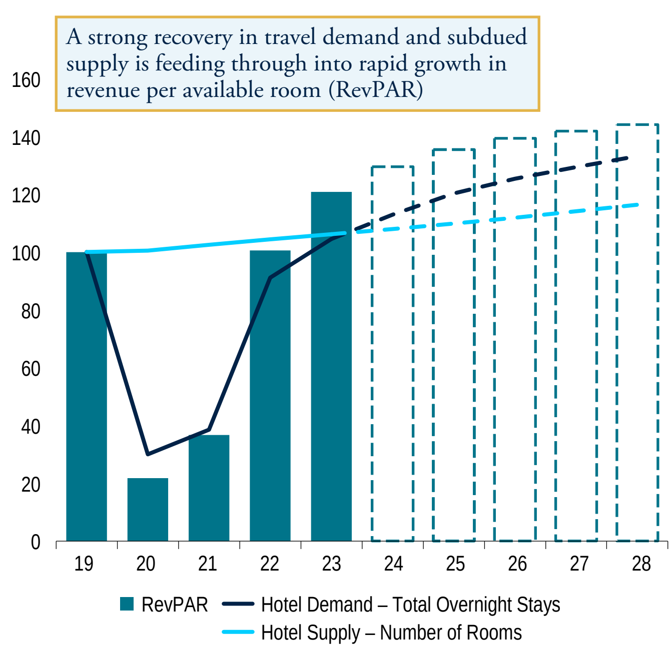


Sources: CoStar, PGIM Real Estate. As of May 2024.

- An improving economic backdrop is providing a recovery in discretionary spending by households and businesses. This is boosting the smaller, and still transforming, bricks and mortar retail sector – with its emphasis on services over goods – as it does wider leisure-related sectors, notably hotels.
- In the United States, the retail recovery is largely down to strong jobs growth feeding into strong retail sales growth, particularly across the South. Along with a retail supply shortfall, this has given rise to a wide differential rental outlook by geography.
- Outside the United States, differences in the growth outlook and the extent of the e-commerce threat present differential opportunities across both Asia and Europe. Tourist-related markets feature high, with prime high street rents recovering strongly to pre-COVID levels, particularly in markets such as Hong Kong, Tokyo, Paris and London. The outlook is further enhanced by improving occupier affordability thanks to rising retail revenues.
- For hotels, the United States and parts of Europe have seen a pick-up in business-related travel but more so in Europe where this is feeding into a stronger RevPAR growth outlook in markets like Frankfurt, Munich and Amsterdam. But both the United States and Europe are struggling with slower growth in domestic tourism as cost of living pressures bite.
- Markets linked to the rebound in international tourism offer the potential for a stronger hotel revenue uplift – in the near term at least as hotel supply cannot keep pace. For Europe, cities in traditional tourist destinations such as Paris, Rome and Madrid stand out, whilst in Asia, destinations such as Hong Kong and Singapore are recording a strong post-COVID rebound but in line with a strong upward trend in international travel.

European hotels: Strong demand pick-up driving revenues

EUROPEAN HOTEL DEMAND, SUPPLY AND REVPAR INDEX PERFORMANCE (2019=100)



Sources: PMA, PGIM Real Estate. As of May 2024.

MODERN WORKPLACES

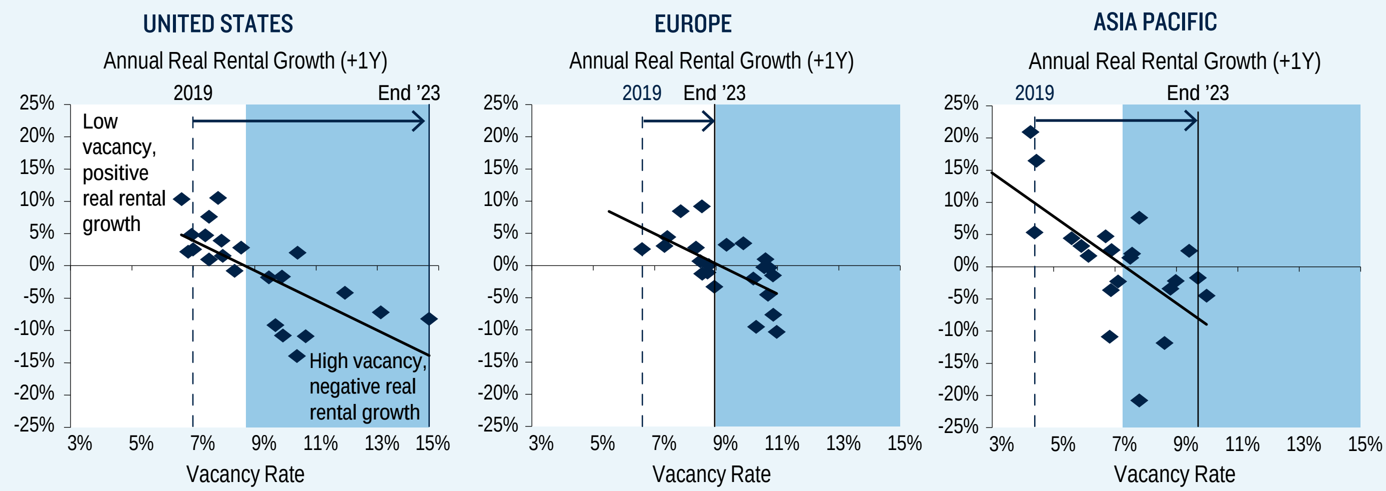
TOP INVESTMENT PICKS

- European low supply CBD office markets
- Developed Asia Pacific CBD office markets
- Value-add plays to reposition older stock in Europe and Asia Pacific

Offices are still facing headwinds from hybrid working so there is a challenging backdrop for investing in the sector. Cities in the United States still have further to adjust, but low supply in CBD areas in Asia Pacific and Europe means rental growth is driving targeted opportunities.

COMMON GLOBAL THEME: Rising vacancy limits office rental growth potential

OFFICE VACANCY RATE VS. ANNUAL REAL RENTAL GROWTH BY REGION

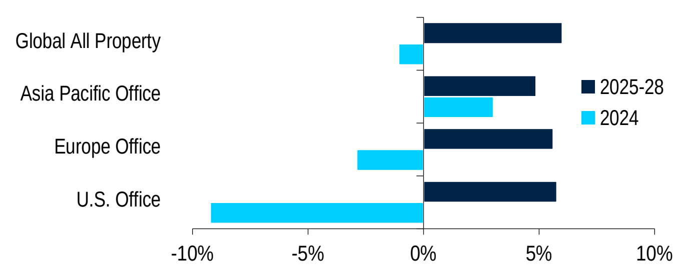


Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2024.

Key Points

- The outlook for the office market is hard to generalize. Overall, the economic outlook is improving but jobs growth, lagging activity as it does, remains subdued. Cost controls and revised expansion plans will continue to hit key office occupier groups over the rest of 2024.
- Office utilization rates remain low – albeit improving. The shift to hybrid working continues to have a bigger impact in larger cities, particularly in Europe and the United States. But even then, there are large differences, with cultural, physical, sectoral and legal factors impacting its significance.
- It still makes for a challenging investment opportunity. In each region, we've seen the same pattern: rising vacancy and lower real rental growth. For the United States where vacancy rates in CBD areas of major cities have more than doubled, rents are falling and values are still adjusting – exacerbated by limited liquidity on the back of this challenging market picture. The correction of rents and values has further to go and near-term downside risks are high.
- In contrast, CBD office markets in Europe and parts of Asia are reporting rental growth. The shift in vacancy has been relatively small and tenant demand has been strong in central locations, with ESG factors also playing a role, driving a push for modern, efficient space that is often located in CBDs rather than suburban areas. An occupier retreat to quality – a time-tested pattern of occupier demand – will continue to play out.

MSCI INDEX FORECAST TOTAL RETURNS BY SECTOR AND REGION (% P.A.)

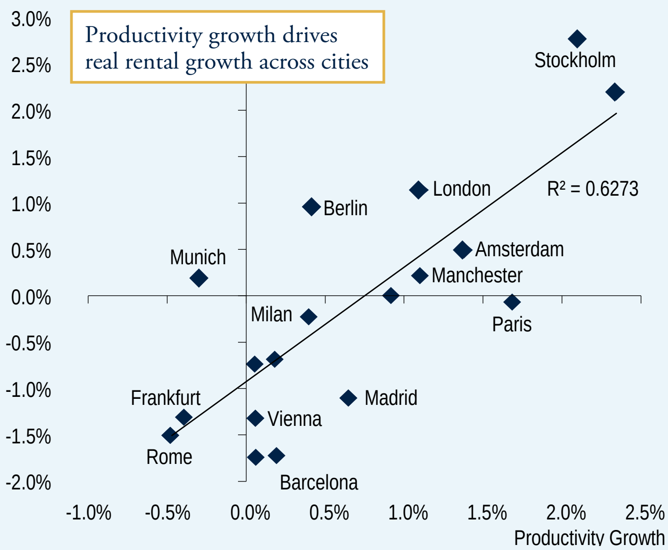


Sources: MSCI, PGIM Real Estate. As of May 2024.

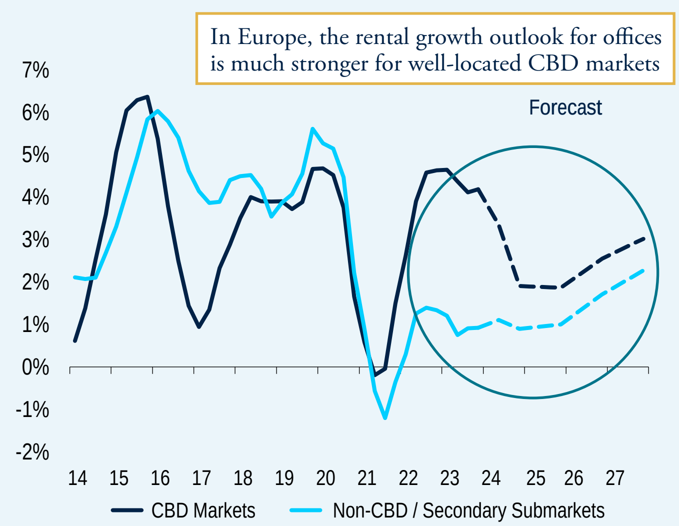
Forecasts are not guaranteed and may not be a reliable indicator of future results.

Europe: Office productivity driving rental growth in central business districts

CITY OFFICE PRODUCTIVITY GROWTH VS. OFFICE REAL RENTAL GROWTH BY CITY (2003 – 2023)



EUROPEAN OFFICE PRIME RENTAL GROWTH (%)



Sources: Oxford Economics, PMA, Cushman & Wakefield, PGIM Real Estate. As of May 2024.

Globally, European office markets offer the most comprehensive investment opportunities in the office sector thanks to:

- Scale of the investment market across major cities.
- A relatively limited pick-up in vacancy, along with a low supply pipeline.
- Many markets are either existing hybrid-driven (e.g. Amsterdam, Stockholm) or are demonstrating resistance to remote working (e.g. Milan, Frankfurt, Munich, Madrid), limiting the impact on occupier demand.
- An ESG focus among occupiers and owners that supports demand for high-quality office stock (at the expense of older, poorly located space).

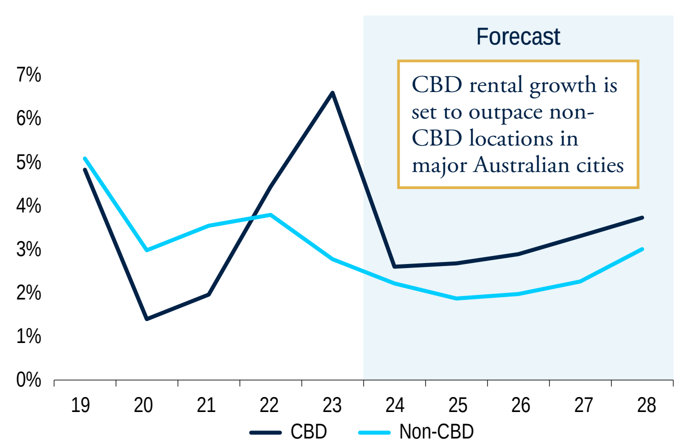
Moreover – in what is still a tough occupier environment – the flight to quality in a more productivity-driven office space recovery is playing out with CBD rental growth expected to continue to outpace non-CBD locations. Such a scenario points to high employment share cities (e.g. Stockholm and London) providing income resiliency alongside the potential for higher rental growth linked to productivity gains.

A similar story is playing out in Australia where jobs growth is supporting economic activity and with it a clear shift to CBD office locations. CBD rental growth is set to outpace non-CBD in Sydney, Melbourne and Brisbane to at least 2028. Australia is another example of offering resilient growth given the jobs growth dynamics.

Cities such as Seoul and Singapore are performing better than Sydney, for instance, offering higher near-term rental growth, since more productivity-driven rental growth is more cyclical and investment timing is more important.

Asia Pacific also seeing divergence by quality of asset

AUSTRALIA OFFICE EFFECTIVE RENTAL GROWTH – CBD VS. NON-CBD (% P.A.)



Sources: JLL, PGIM Real Estate. As of May 2024.

FUNDING GAP

A significant volume of commercial real estate loans maturing sets the stage for a surge in refinances, with alternative lenders poised to capitalize as banks and CMBS face regulatory and market constraints.

TOP INVESTMENT PICKS

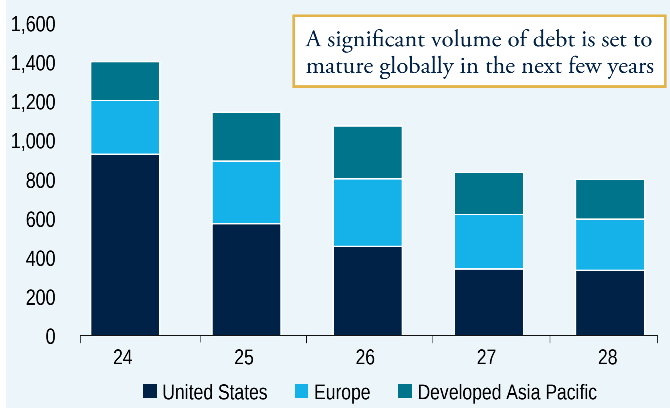
- Lending into funding gaps
- Gap financing
- Development finance

Key Points

- A lot of debt is due to roll over in the next few years, and there will be opportunities for nonbank lenders.
- As interest rates decline, debt financing becomes more viable and accretive to transactions. Concurrently, rental growth is poised to surpass historical averages, increasing cash flows and improving debt service coverage. Additionally, value growth expected after 2024, from rental growth and some mild yield compression, will improve loan-to-value (LTV) ratios on existing debt.
- Together these will strengthen credit and enhance equity cushions, yielding a better balance of risk and reward on CRE debt investments

COMMON GLOBAL THEME:
Significant debt rollovers due

ESTIMATED REAL ESTATE LOAN MATURITIES (US$ BILLIONS)

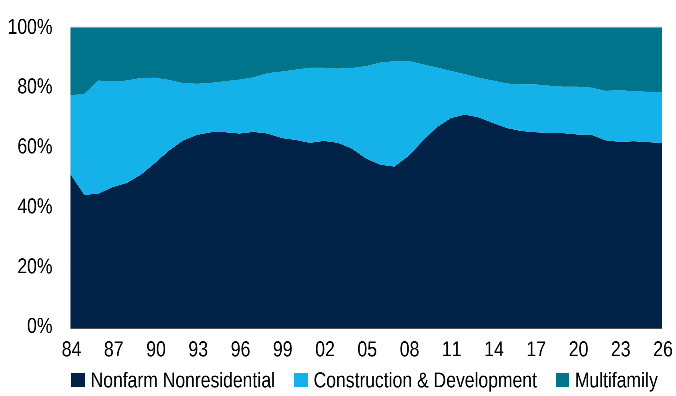


Sources: Mortgage Bankers Association, AFME, ECB, Cushman & Wakefield, MSCI, Bayes Business School, IREBS, IEIF, APRA, PGIM Real Estate. As of May 2024.

U.S. banks pulling back from construction finance

U.S. banks are expected to continue reducing assets in construction and development, which is subject to higher regulatory capital charges under the Basel framework.

U.S. BANKS' COMPOSITION OF COMMERCIAL REAL ESTATE ASSETS (%)

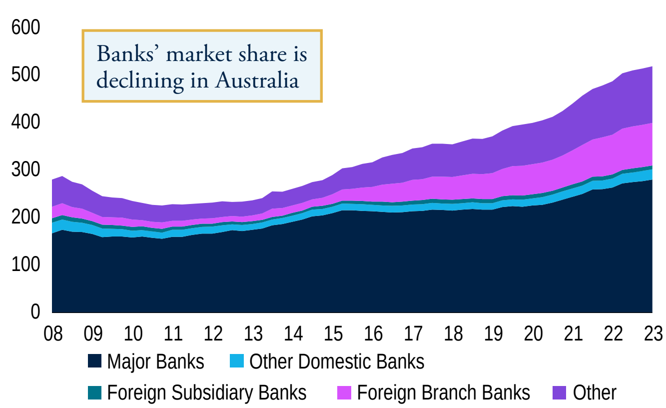


Sources: FDIC, PGIM Real Estate. As of May 2024.

Nonbank lenders gaining market share in Australia

Major Australian banks are increasing CRE exposure limits at a slower pace than other lenders, reducing market share further, from a high of 70% to 60%. Minimal growth in land development exposure limits is expected to persist.

AUSTRALIAN AUTHORIZED DEPOSIT-TAKING INSTITUTIONS (ADIS) COMMERCIAL REAL ESTATE EXPOSURE LIMITS BY INVESTOR GROUPS (AU$ BILLIONS)



Sources: APRA, PGIM Real Estate. As of May 2024.

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The MSCI Global Annual Property Index (Unfrozen; Weighting: Market Size) measures unlevered total returns of directly held property investments from one valuation to the next. The index tracks performance of 55,862 property investments, with a total capital value of USD 1,977.1 billion as at December 2023. This MSCI regional composite index is market weighted based on MSCI's market size estimate of the professionally managed real estate investment market.

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- ◆ 上記投資一任契約報酬とは別に、保管等に係る諸費用が発生し、契約資産から控除されることがあります。これらの費用は運用状況等により変動するものであり、事前に料率、上限額などを表示することができません。したがいまして、お客様が支払うべき手数料の金額の合計もしくはその上限を記載することはできません。
- ◆ ビークルにかかる運用報酬は、ビークルにより異なりますので、金額およびその上限額を記載することはできません。ビークルの資産から間接的にご負担いただく運用報酬とは別にリーガル費用、ドキュメンテーション費用、監査費用等の諸費用が発生し、ファンドの受託資産から控除されます。これらの費用は、運用状況により変動するため、事前に具体的な料率・上限額を表示することができません。このように金額およびその上限額を記載することができない費用があることから、ファンドの受託資産から控除される形で投資家が実質的に負担する費用の合計額もしくは上限を記載することはできません。
- ◆ 金額及びその上限額を記載することができない費用があることから、お客様が支払うべき手数料の金額の合計もしくはその上限を記載することはできません。

※　記載の数値は当社が現在、投資顧問業務で提供している運用戦略にかかる投資顧問報酬で最も高いものを記載しております。実際の投資顧問報酬は、個別の契約内容、受託資産残高等によって異なります。

会社概要

商号	PGIM ジャパン株式会社 PGIM Japan Co., Ltd.
所在地	東京都千代田区永田町 2-13-10　プルデンシャルタワー
代表取締役社長	國澤　太作
設立年月日	2006 年 4 月 19 日
主要株主	Prudential International Investments Company, LLC（100%）
資本金	2 億 1,900 万円
主要業務	① 投資運用業 ② 投資助言・代理業 ③ 第 二 種金融商品取引業
登録番号等	金融商品取引業者　関東財務局長（金商）第 392 号
加入協会	一般社団法人投資信託協会 一般社団法人日本投資顧問業協会 一般社団法人第二種金融商品取引業協会

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