

INVESTMENT RESEARCH

# 2025 GLOBAL OUTLOOK



**Generating Resilient Income Growth  
Amid Uncertainty**

**MAY 2025**

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

# 2025 GLOBAL OUTLOOK KEY TAKEAWAYS:

## 1 THE TIME IS STILL NOW.

Against an uncertain backdrop, global real estate markets offer resilience and income growth potential supported by low supply, at an attractive entry point.

## 2 INVESTORS NEED TO ADAPT.

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

## 3 THE OUTLOOK VARIES BY GEOGRAPHY.

There are big differences in forecasts both between and within regions, linked to market dynamics, economic outlooks, vacancy and demand differences.

Heightened uncertainty is weighing on the near-term outlook, but it has not derailed the **RECOVERY** and **GROWTH** story.



PART I

# GLOBAL OVERVIEW

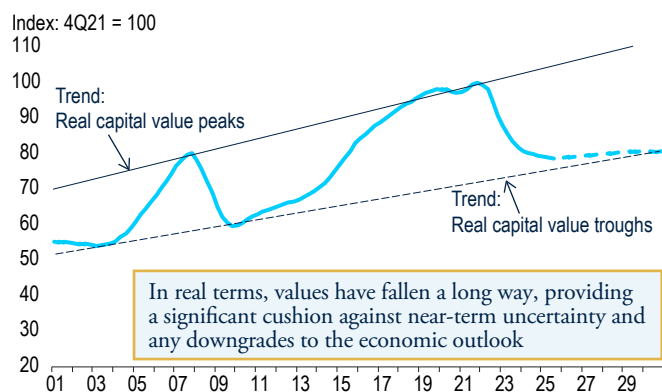


# Resilience Against an Uncertain Backdrop

After a big correction, a lot of bad news is already priced into global real estate markets. Heightened uncertainty is reducing upside potential in the next cycle, but it has not derailed the recovery and growth story.

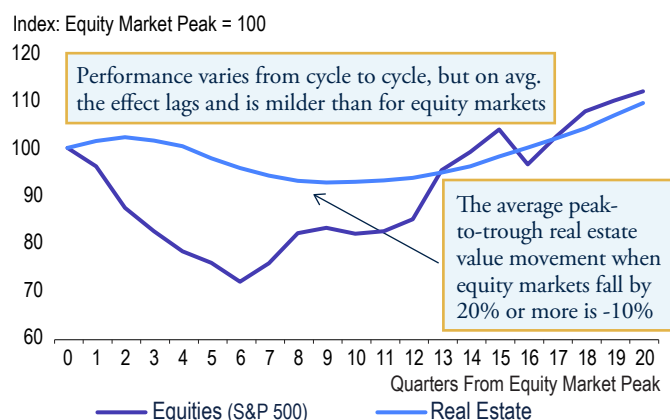
- On the back of the sharp drop in sentiment in April 2025, it is important to note that real estate has been through a big correction in recent years.
- Global prime values fell by nearly 30% in real terms between 2022 and 2024 and have risen little since. As such, a lot of bad news is already factored in, implying a strong degree of resilience to the current spike in uncertainty.
- Real estate does not always follow wider financial markets either. Unlike equities, for example, private real estate values didn't have a big ramp up over the past year or so.
- However, when equity markets fall 20% or more, real estate on average records a 10% decline, so there are clearly additional downside risks in play now.
- Heightened risk and uncertainty both dampen the outlook and reduce upside potential, but there are supporting factors for real estate too, including low supply, defensive sectors such as residential and long-term structural trends that are still supportive of demand in such sectors as data centers, urban logistics and senior living.
- The recovery story continues, and global returns are set to improve again this year as the drag from yield expansion fades.

## INDEX OF REAL CAPITAL VALUES – GLOBAL ALL PROPERTY



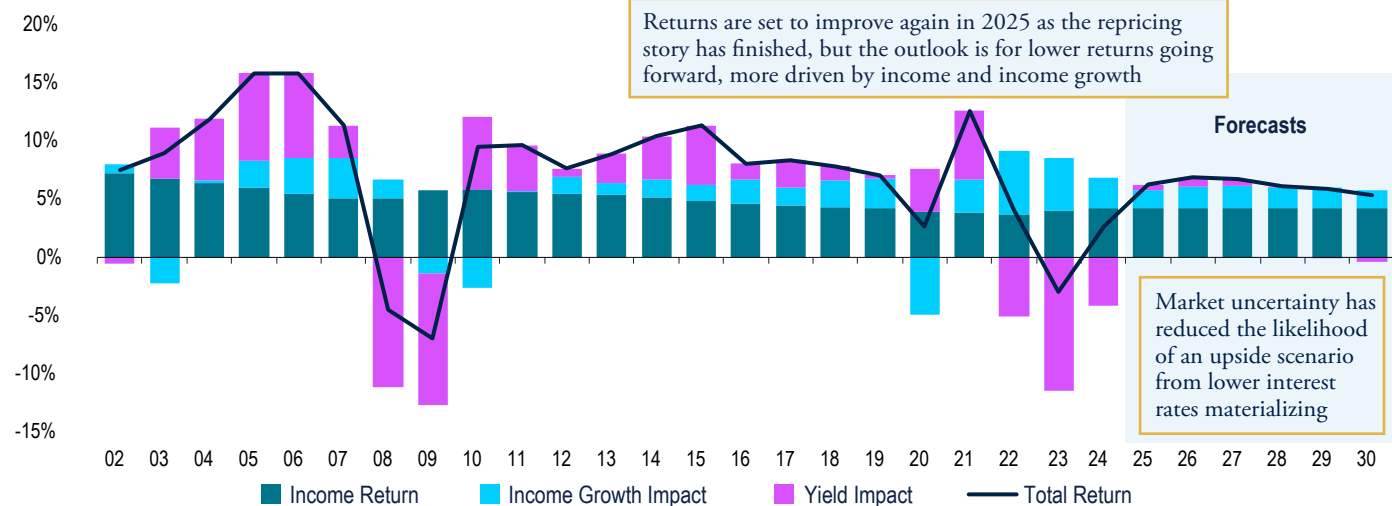
Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2025.

## INDEX OF PERFORMANCE AFTER PEAK WHEN EQUITIES FALL BY >20% (SINCE 1980)



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

## MSCI GLOBAL ANNUAL PROPERTY INDEX, ALL PROPERTY TOTAL RETURN (%)

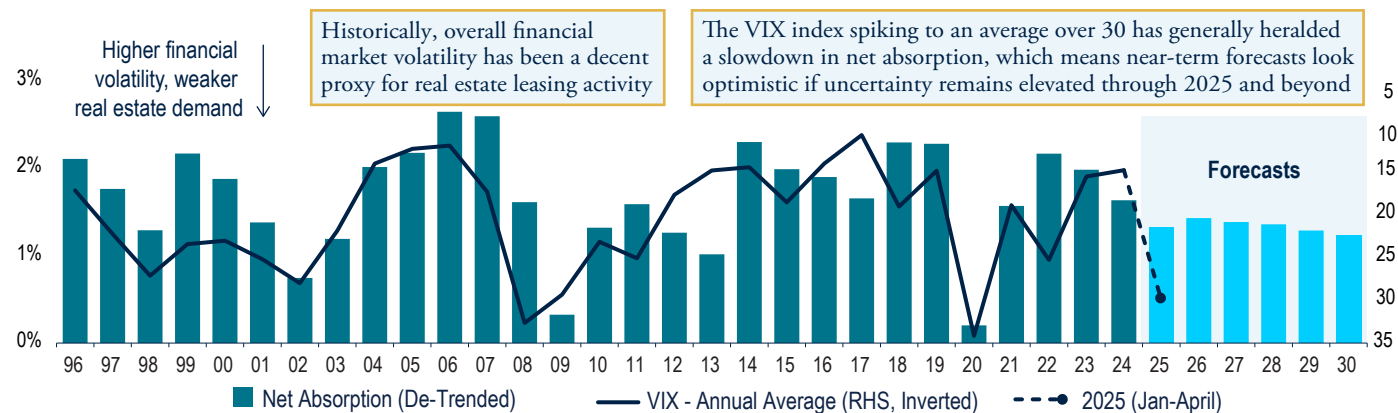


Sources: MSCI, PGIM Real Estate. As of May 2025.

# Heightened Volatility Weighs on Real Estate Demand

When policy uncertainty and financial market volatility rise, corporate occupiers are less active. Net absorption is set to face pressure through 2025.

ANNUAL GLOBAL REAL ESTATE NET ABSORPTION (% STOCK) VERSUS VIX INDEX OF FINANCIAL MARKET VOLATILITY



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

- The spike in the VIX volatility index is historically consistent with a slowdown in global real estate leasing activity.
- Corporate occupiers typically delay investment plans, expansions and signing new leases in times of uncertainty, with the impact playing out over about two years.
- The residential sector, supported by household formation and basic needs demand, tends to be less affected than commercial sectors.
- Crucially, if there is a drop in demand this year, it will come at a time when supply growth is slowing, reducing the impact on rents and values.

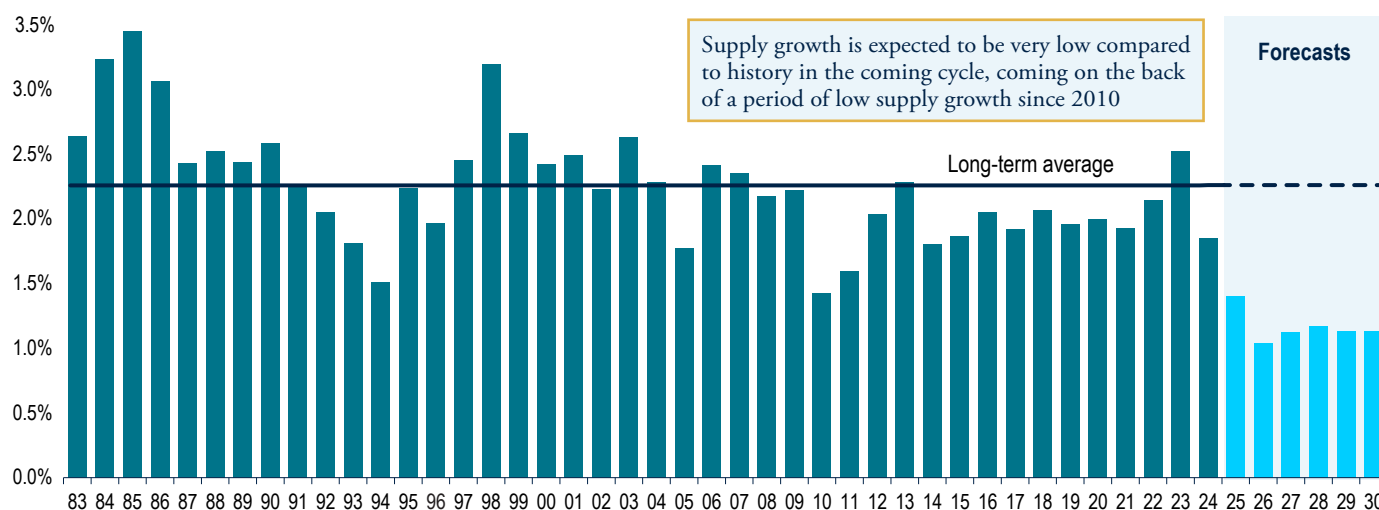
## In Focus: Setting Out Our Narrative

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

# Low Supply Is a Common Global Theme

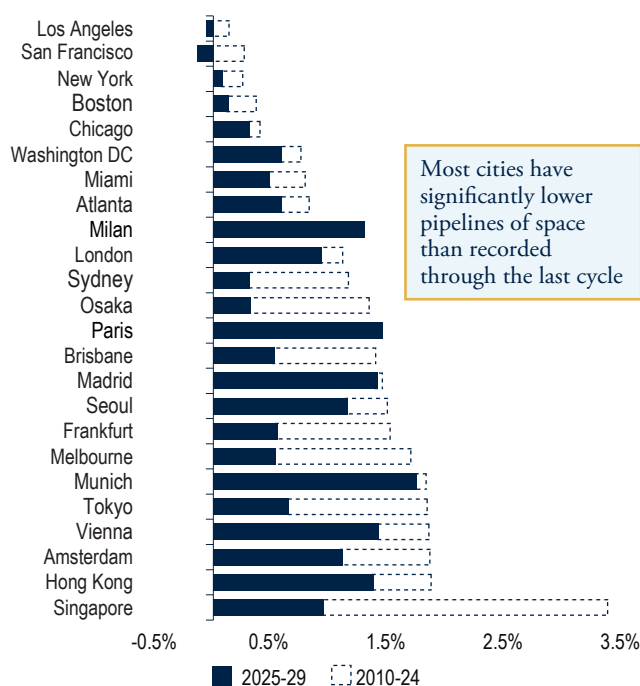
Supply pipelines are historically low globally, giving the occupier market outlook resilience against softening near-term demand.

ANNUAL GLOBAL REAL ESTATE SUPPLY GROWTH AND GLOBAL GDP GROWTH – ADVANCED ECONOMIES (%)



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

ANNUAL CITY SUPPLY GROWTH – COMMERCIAL PROPERTY, MAJOR CITIES (%)



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

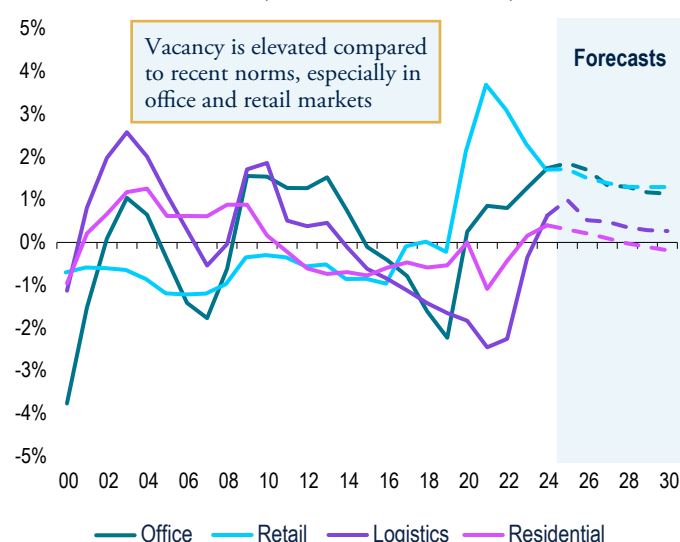
- In the last couple of years, the combination of correcting values, elevated interest rates and rising construction costs has hampered development activity.
- While deliveries of existing projects, notably in fast-growing sectors like logistics and U.S. apartments, kept supply growth up in the last couple of years, development activity has since pulled back and the pipeline is dropping sharply.
- Differences in vacancy rates and local market dynamics have varying implications, but the pattern of low supply growth is consistent in cities around the world.
- The main exception to this is in a handful of European and developed Asia cities – including Hong Kong, Madrid, Milan and Paris – where logistics provision is still responding on the back of rising demand.
- Most U.S. cities have very low pipelines for commercial space, while previously strong supply growth in the apartment sector is also slowing.
- A backdrop of low supply growth is a crucial factor supporting the resilience of occupier market performance and income growth in today's uncertain market environment.

# Vacancy and Obsolescence Determine Market Resilience

Global vacancy has risen in recent years, but functional obsolescence of older office and retail stock means effective vacancy is much lower and its impact on rental growth prospects limited.

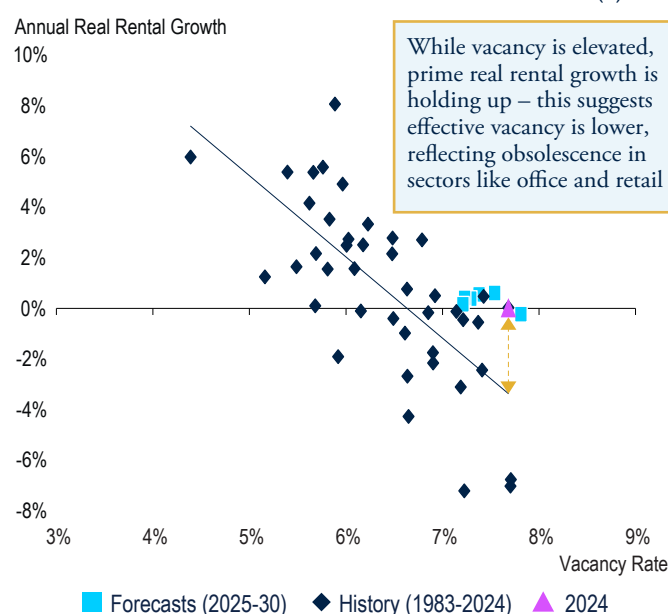
- Global vacancy has risen significantly over the past few years, reflecting a shift toward lower demand for traditional property types like office and retail, but also higher development activity in sectors like U.S. apartments and most global logistics markets.
- There are two key reasons that this should not be a major cause for concern.
  - Supply growth is historically low, so vacancy rates will gradually ease back over the coming years, even if demand growth is sluggish in the near term.
  - There are signs of obsolescence in some higher vacancy parts of the market, such as office and retail – old or poorly located stock that is being counted but doesn't feature in leasing decisions.
- Office in the United States and Asia Pacific and retail in Europe all have high vacancy rates, but landlords have improving pricing power for modern assets in strong submarkets, and real rental growth is expected to continue.
- There is potential for upward forecast revisions in low vacancy markets such as European residential.

GLOBAL VACANCY RATE BY SECTOR (% RELATIVE TO 2000-24 AVERAGE)



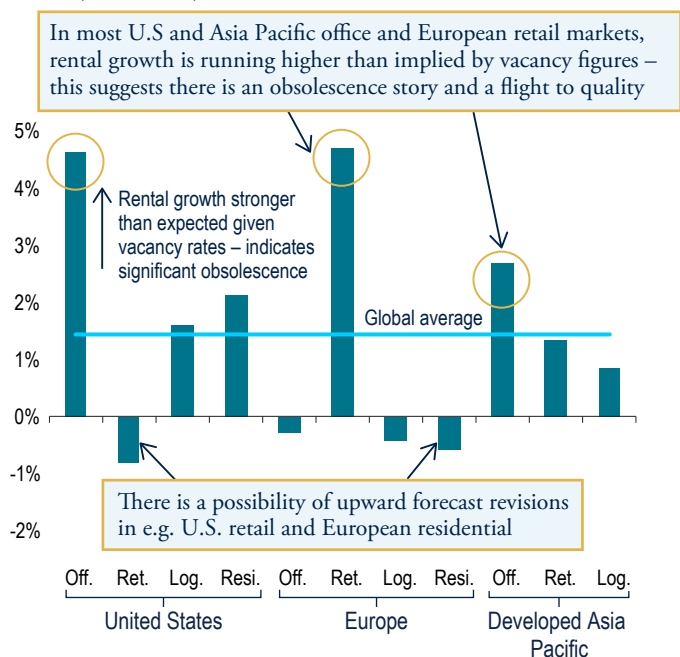
Sources: CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of May 2025.

GLOBAL ALL PROPERTY ANNUAL PRIME REAL RENTAL GROWTH AND VACANCY RATE (%)



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

GAP BETWEEN FORECAST ANNUAL REAL RENTAL GROWTH AND VACANCY-IMPLIED REAL RENTAL GROWTH (2025-29, % P.A.)

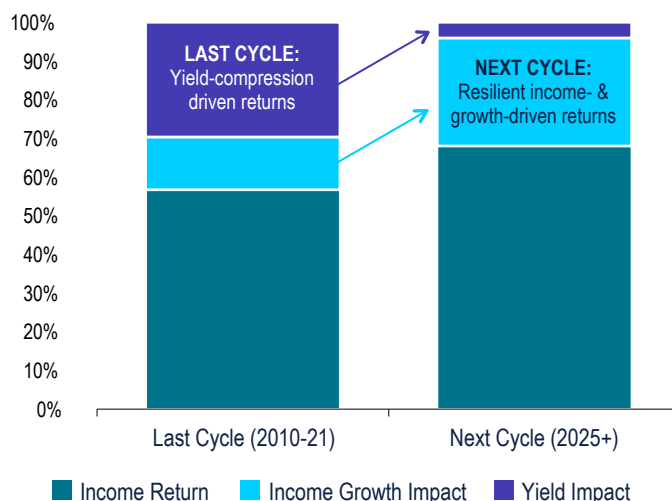


# Adapting to Changing Market Conditions

Rising market uncertainty reinforces the message about needing to generate income growth to drive returns through the next cycle. Other factors continue to shift too, such as the rise of operational real estate sectors.

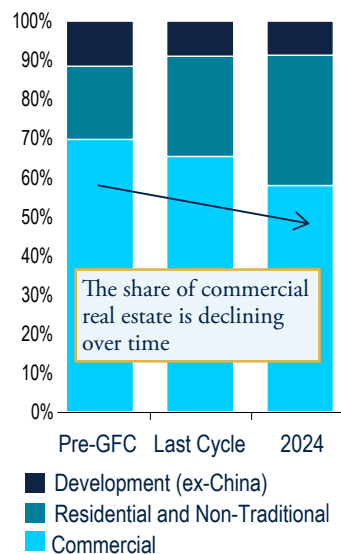
- Investors need to adapt to two types of shift – existing trends that were already in motion, and new factors that relate to the change in market conditions this year.
- Rising uncertainty and a lowering of the probability of going back to low interest rates is reinforcing the existing message about returns becoming more focused on income and income growth.
- As part of this transition, investment in non-traditional sectors continues to gain in share, with investors attracted by the enhanced income growth potential of combining real estate ownership with the operating platform.
- One key change is a shift toward a near-term outlook characterized by headwinds for capital raising and limited equity liquidity, which is a double-edged sword.
- On one hand, low investment volume will likely present opportunities linked to attractive or dislocated pricing, but on the other it also harms performance, slowing market momentum and limiting the potential for capital growth via yield compression.

BREAKDOWN OF MSCI GLOBAL ANNUAL PROPERTY INDEX ALL PROPERTY TOTAL RETURNS (%)

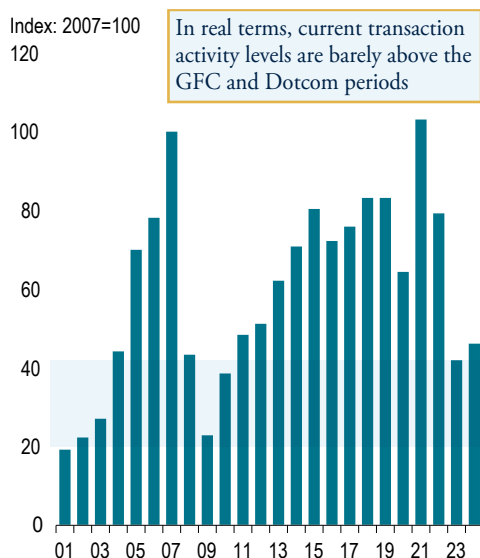


Sources: MSCI, PGIM Real Estate. As of May 2025.

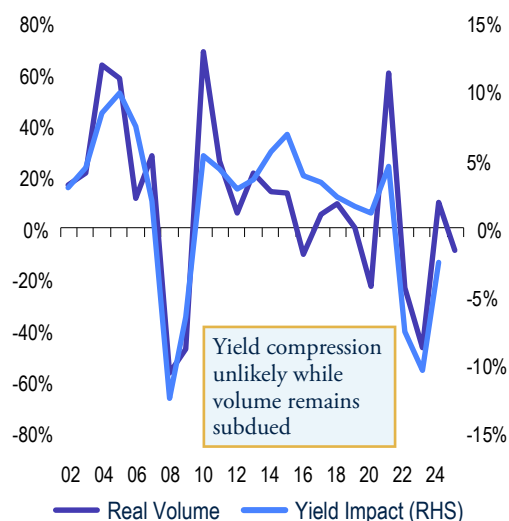
SHARE OF GLOBAL TRANSACTION VOLUME (%)



REAL GLOBAL ALL PROPERTY TRANSACTION VOLUME



ANNUAL GROWTH IN REAL GLOBAL TRANSACTION VOLUME VERSUS PRIME YIELD IMPACT (%)



Sources: MSCI/Real Capital Analytics, CoStar, Cushman & Wakefield, JLL, PMA, Oxford Economics, PGIM Real Estate. As of May 2025.



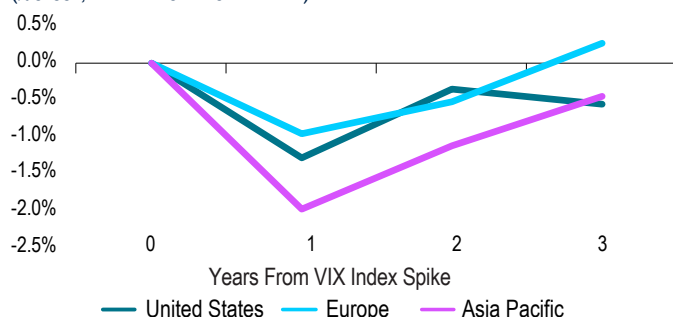
# The Outlook Varies Around the World

Unlike much of the last cycle, the outlook is not uniform around the world. There are big differences in forecasts both between and within regions, linked to market dynamics, economic outlooks and variations in supply, demand and vacancy.

## Three Areas of Difference:

### 1 INSULATED AGAINST UNCERTAINTY? Shallow demand reactions in Europe and the United States

ANNUAL NET ABSORPTION FOLLOWING SPIKE IN VIX INDEX  
(% STOCK, RELATIVE TO PRE-SPIKE LEVEL)



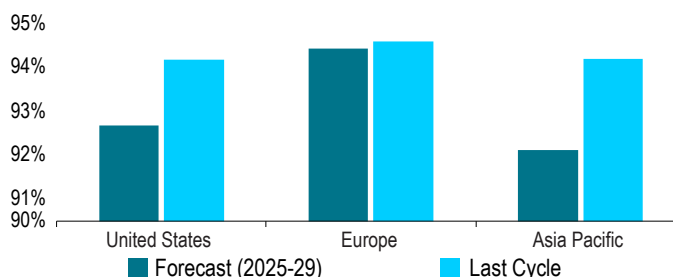
### 2 LOWER COST OF CAPITAL? Core continental Europe and Japan have low market interest rates

CONSENSUS BOND YIELD EXPECTATIONS, END-2025 (%)



### 3 HIGH OCCUPANCY? Europe, Japan, and retail in Australia and the United States

ALL PROPERTY OCCUPANCY RATE BY REGION (%)



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

## WHY THE UNITED STATES? Relatively higher growth potential, targeting markets with low cyclical sensitivity

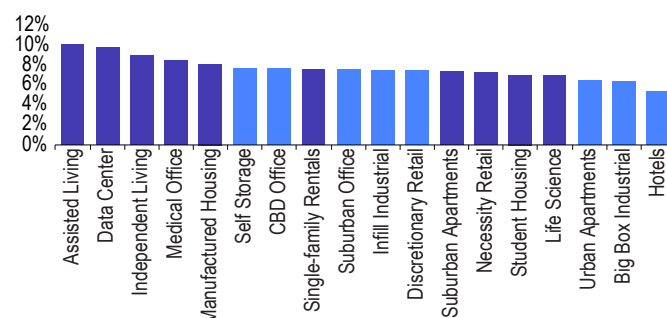
### Key Differentiating Factors

- Despite elevated economic and policy uncertainty, long-term U.S. growth potential remains attractive.
- The base case remains that recession is avoided but economic growth slows, set against a backdrop of relatively low supply and high existing occupancy rates.
- The cost of capital is higher than other global markets, but potential returns are still higher too.
- The depth of markets and liquidity, especially in living and alternatives, remains unmatched in other global markets.
- In a challenging market environment, investors need to be selective in targeting growth, while market dislocation and mispricing is also expected to drive opportunities.

### Top Investment Picks

- **Living:** senior housing, single-family rentals, suburban apartments, manufactured homes
- **Logistics:** infill, high-rent submarkets
- **Data centers:** low latency, inference-driven assets in tier 1 locations
- **Public markets:** undervalued REITs trading at significant NAV discounts

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



■ Less sensitive to economic cycle ■ More sensitive to economic cycle

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

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

## WHY ASIA PACIFIC? A differentiated outlook and wide range of opportunities

### Key Differentiating Factors

- There could potentially be high tariff exposure in China and other export-oriented economies, which adds to downside risks.
- Australia and Japan offer significant real estate market scale and depth across a wide range of asset types.
- Real estate supply growth is far lower than it was in the last cycle, with space shortages emerging in key markets.
- There is a highly differentiated outlook across the region – the outlook for cities and sectors is evolving at different speeds.
- Australia is expected to deliver elevated returns, while opportunities are emerging as Japan transitions to a higher growth environment.

### Top Investment Picks

- **Living:** apartments, senior housing, student accommodation
- **Logistics:** urban assets in high-rent submarkets
- **Data centers:** hyperscale, colocation in urban areas
- **Hospitality:** hotels in low supply markets

## WHY EUROPE? Limited supply, low cost of capital – low liquidity drives opportunity

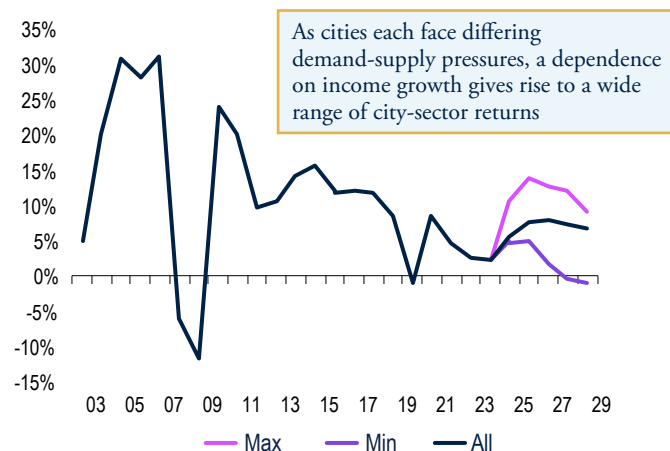
### Key Differentiating Factors

- There is modest long-term economic growth potential, but it is set against a very low real estate supply pipeline.
- Economic exposure to tariffs and trade risk is relatively limited. There is some growth potential from looser fiscal policy in Germany.
- The cost of capital is low, especially in core continental Europe.
- There are plenty of low vacancy markets, especially in the residential sector.
- There is growth potential in non-traditional sectors that need capital for improvements and institutionalization.

### Top Investment Picks

- **Living:** apartments, single-family rentals, senior housing, co-living, student accommodation
- **Logistics and storage:** focus on urban assets that form part of the infrastructure needed to support living sector expansion
- **Data centers:** low latency, inference-driven assets in FLAP-D locations and emerging locations such as Milan
- **Hospitality:** capex injection for under-managed hotels, institutionalization play for open-air hospitality

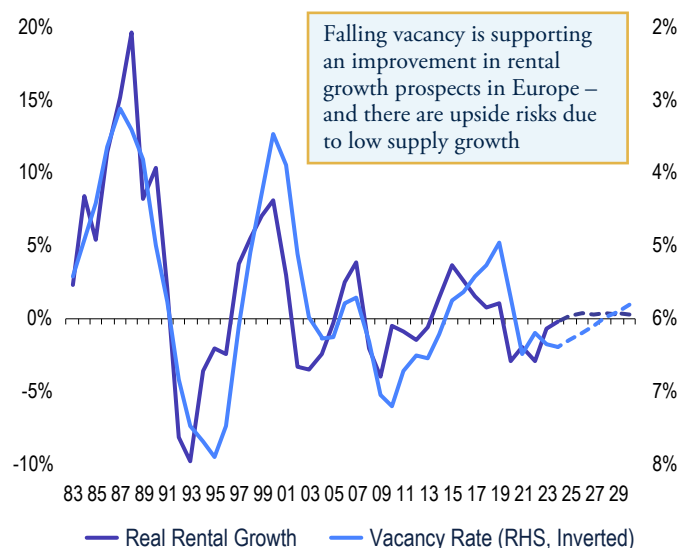
ASIA PACIFIC RANGE OF ANNUAL PRIME ALL PROPERTY CITY-SECTOR RETURNS FORECASTS (2025-29, %)\*



\*Average of total returns across office, retail and logistics sectors for the major city investment markets of Beijing, Brisbane, Hong Kong, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney & Tokyo as well as multifamily for Tokyo & Osaka.

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

EUROPE ALL PROPERTY ANNUAL PRIME REAL RENTAL GROWTH AND VACANCY RATE (%)



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



PART II

# PORTFOLIO CONSTRUCTION



# 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?

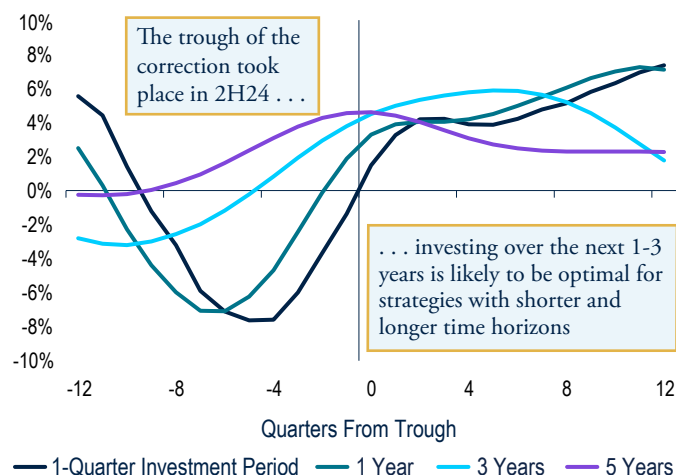
### What hasn't changed?

- 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?

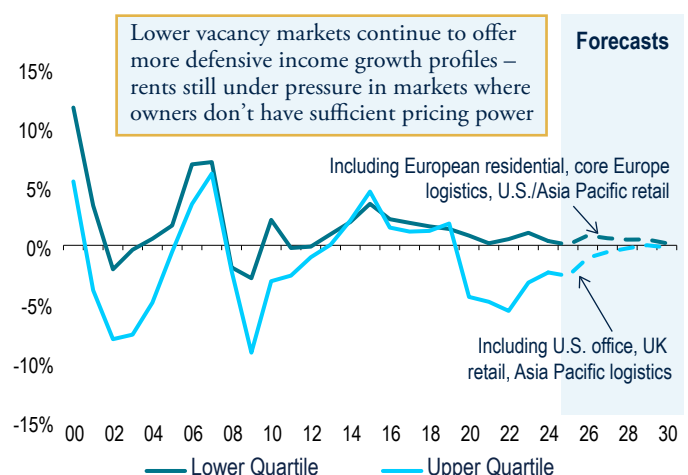
- Risks are now higher, while short-term returns forecasts have edged lower.
- Weaker demand story impacts execution of strategies in higher risk or cyclical strategies – the return of office and retail plays are on hold.
- The cost of capital has moved higher or at least is falling less quickly.
- Low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



# 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.

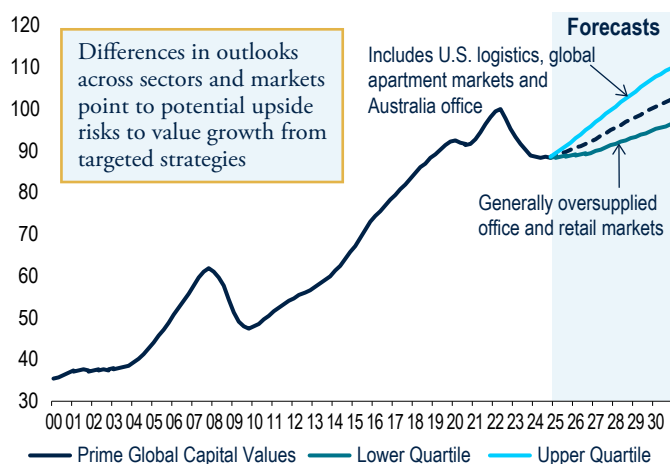
## 4 ATTRACTIVE ENTRY POINT

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

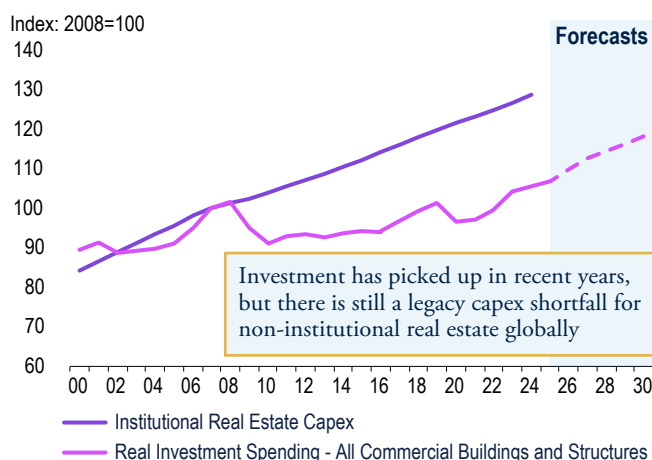
There are two principal routes by which we expect the value-add opportunity set to expand. First is via a shift toward non-traditional, more operational sectors. Second is by geography, as institutionalization plays out in underinvested markets.

EXHIBIT A: INDEX OF PRIME GLOBAL CAPITAL VALUES (2Q22=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.

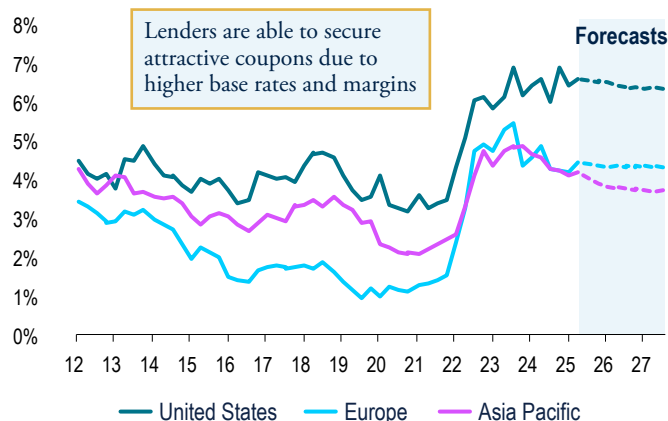
### CONSERVATIVE LOAN METRICS

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

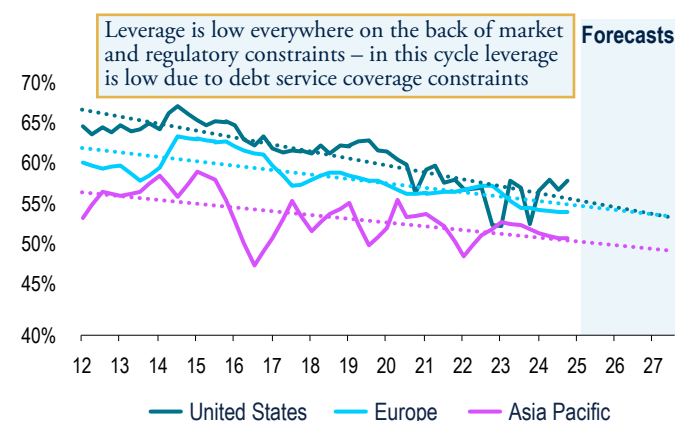
### ATTRACTIVE ENTRY POINT

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 refinancing.
- 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.

The background features a dark blue gradient. On the left side, there is a dense cluster of colorful bokeh lights in shades of orange, yellow, cyan, and magenta. From this cluster, numerous thin, glowing lines radiate outwards across the page, resembling fiber optic cables or light trails. A large, solid blue circle is positioned in the center-right of the image, serving as a backdrop for the main text.

PART III

# INVESTMENT THEMES



# Investment Opportunities

Structural investment themes still hold, but some strategies are more exposed to a softening near-term demand and liquidity story. High conviction themes, including living sector plays and data centers, are common to most markets and regions, while other opportunities vary significantly by geography.

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

## KEY TO RATINGS:

● HIGHEST CONVICTION THEMES, most resilient to uncertain market conditions.

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

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



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