

CAPITALIZING ON A COMPELLING INVESTMENT VINTAGE IN EUROPEAN VALUE-ADD

March 2026



EXECUTIVE SUMMARY

Current market conditions support the outlook for value-add investing in Europe. Liquidity is improving but near-term capital shortages mean attractive opportunities can be sourced in the market.

We identify four key value creation drivers that provide expected tailwinds for value-add returns:



Real estate values are now rising from a low base after a deep correction.



There are shortages of quality stock to meet growing occupier needs and real estate rents are rising.



Rising productivity growth, fueled by tech adoption, is driving benefits of clustering, profitability and wages in Europe's major cities.



Ongoing evolution of real estate markets toward higher value, operational investment models.

How to Play the Opportunity?

Everything points towards 2026 being a compelling vintage, but one that needs a clear focus: this means executing on high conviction structural and tactical themes.

Structural: Everyday Life

Development of assets and the establishment of operating platforms to meet basic needs real estate demand linked to living and related urban infrastructure.

Tactical: Market Momentum

Driving value creation through capex injections, asset repurposing and repositioning, and institutionalization, alongside asset management strategies that capture upside in a recovering occupier market.

FOUR KEY DRIVERS OF VALUE CREATION FOR EUROPEAN VALUE-ADD REAL ESTATE

01

1. CYCLICAL RECOVERY

Europe’s recovery is now clearly underway as headline values rose by about 4% in 2025, with expectations for further capital growth in the coming years driven by ongoing rental growth and some yield compression as market interest rates come down and investor sentiment improves (**Exhibit 1**). Leverage is becoming more accretive to transactions again, boosting overall return prospects.

Given the time it takes to deploy capital and execute value creation strategies in private real estate markets, building exposure now allows investors to potentially capture early cycle upside.

Picking the right sectors and markets to focus on is key given the difference in outlook between stronger and weaker markets.

EXHIBIT 1: RECOVERY UNDERWAY, BUT SECTOR AND MARKET SELECTION CRUCIAL FOR PERFORMANCE

Prime European All Property Nominal Capital Values (Index, 1Q01 = 100)



Sources: PMA, PGIM. As of March 2026. **Forecasts are not guaranteed and may not be a reliable indicator of future results.**

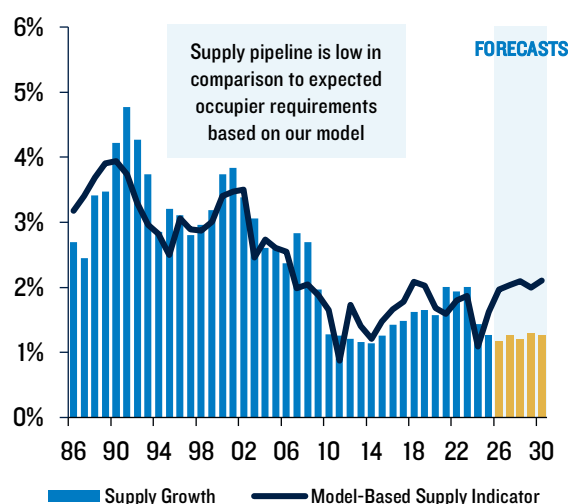
2. SHORTAGES OF QUALITY STOCK

Apart from a pick-up in logistics development, the last cycle featured low building activity, withdrawals of older stock and sluggish capex. Based on a levelling off of construction costs and strengthening real rents, supply growth should be picking up – but instead remains at historically low levels (**Exhibit 2**).

The effects are clear in the market today. Shortages of housing are an obvious example, but also of the high-quality office and retail space that occupiers are now demanding. Rental growth for grade A space remains robust and ongoing shortages mean competition among occupiers for the best assets will remain stiff.

EXHIBIT 2: LOW SUPPLY PIPELINE FALLING SHORT OF OCCUPIER NEEDS

Net Additions to Europe All Commercial Property Supply (% p.a.) Vs. Model-Based Supply Indicator*



Sources: PMA, Oxford Economics, World Bank, BLS, PGIM. As of March 2026. *Model-based supply indicator is estimated using a regression that includes real global construction costs (3-year lag) and real prime all property rents (2-year lag). **Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.**

FOUR KEY DRIVERS OF VALUE CREATION

3. AI/PRODUCTIVITY BOOST

There are a lot of uncertainties around tech and AI adoption and their impact, but beyond the simple case of rising demand for digital infrastructure, the benefits for real estate will pass through several key channels.

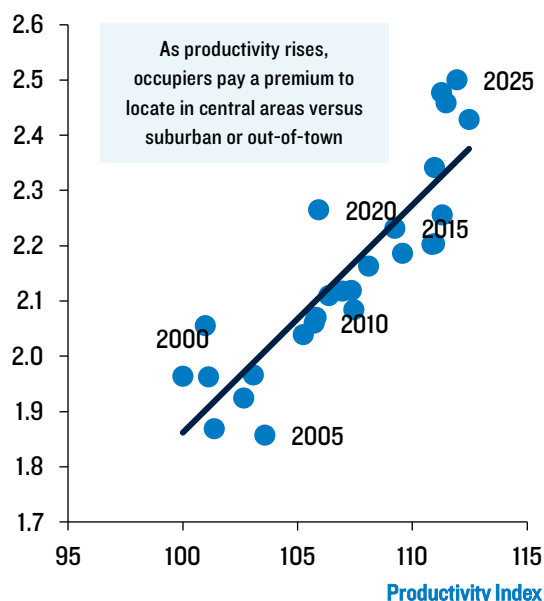
The first is that productivity will be an enhancer for high value activity clusters via agglomeration benefits. We're already seeing this effect in high value office markets – tenants will pay a premium for the best space where they can drive profitability, focusing on quality and location, rather than quantity (**Exhibit 3**).

A second is that productivity enables higher wage growth without creating inflation, although this will not be even. Workers linked to higher value clusters (finance, innovation, etc.) stand to do well. Providing housing and urban infrastructure that meets the needs of value-creating workers in city areas is attractive in this environment.

EXHIBIT 3: PRODUCTIVITY GROWTH FAVORS HIGHER VALUE SPACE USES

Office Rent Ratio Versus Productivity Level – Average of Major European Cities

Rent Ratio: CBD-to-Decentralized



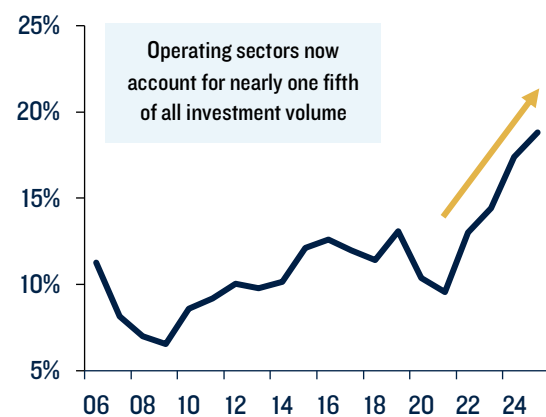
Sources: Cushman & Wakefield, PMA, PGIM. As of March 2026.

4. REAL ESTATE MARKET EVOLUTION

Recent years have seen a significant shift toward operational real estate (**Exhibit 4**), crucially among core buyers that represent an exit route for value-add investment strategies once assets and platforms are stabilized.

EXHIBIT 4: INVESTMENT INTO OPERATIONAL REAL ESTATE IS GAINING MOMENTUM

Share of Operational Sectors in Total Transaction Volume



Sources: MSCI/Real Capital Analytics, PGIM. As of March 2026.

Operating strategies dominate in hotels, rental living and storage for example, but platforms and customer interaction are also increasingly important for the execution of strategies in more traditional commercial uses like flexible office, retail and urban logistics.

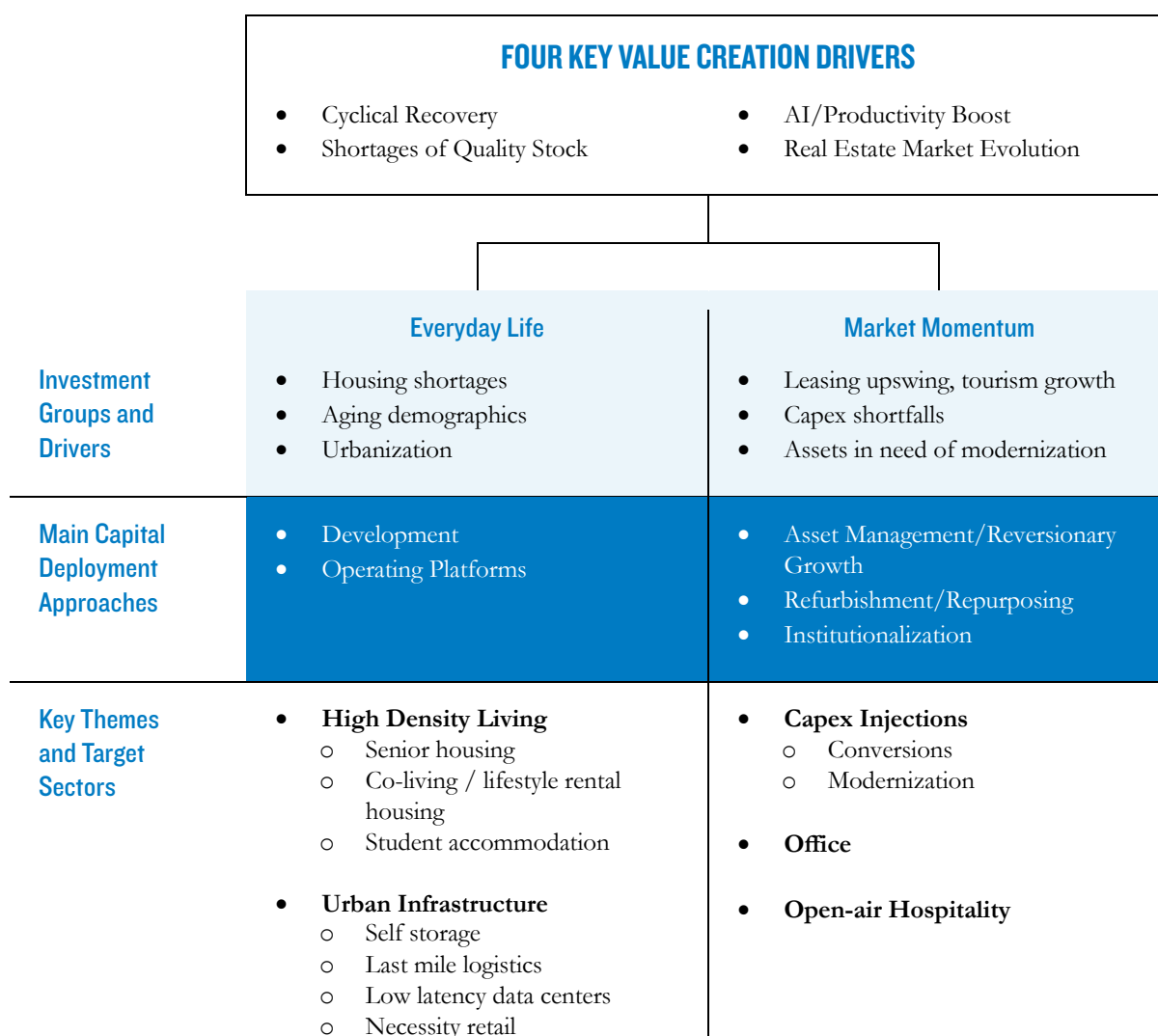
While there are undoubtedly risks to investing in operating businesses alongside the real estate, such strategies offer several additional routes to creating value:

- Ability to drive rental growth through specialist market knowledge, branding and direct customer interaction.
- Creation of potential equity value at the platform level in addition to the real estate.
- Higher yielding to reflect upfront risks, with upside to values at exit once portfolio and platform are trading and stabilized.

HOW TO PLAY THE OPPORTUNITY

A FOCUSED APPROACH TO CAPITALIZE ON A COMPELLING INVESTMENT VINTAGE

At the start of a cyclical recovery, opportunities are always broad based. However, creating value goes beyond passively benefiting from favorable market movements: it's about actively managing, positioning and developing assets, and creating and driving the related operating platforms needed to thrive. In today's market, investors need to be focused on opportunities that have favorable structural or tactical tailwinds, but also where the value creation drivers play out to boost returns.



HOW TO PLAY THE OPPORTUNITY

I. EVERYDAY LIFE

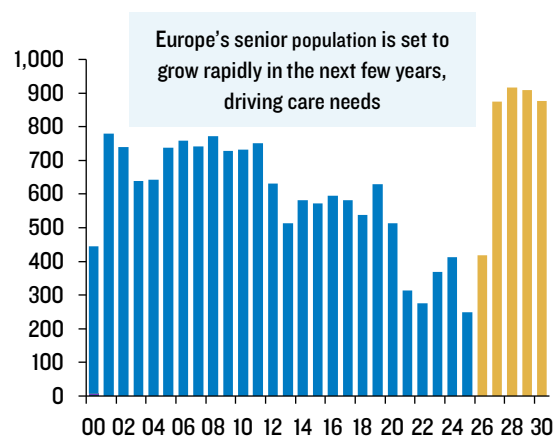
- Development
- Operating Platforms

HIGH-DENSITY LIVING

Living offers a broad opportunity set to investors driven by such structural tailwinds as rising urban populations, housing shortages and growing numbers of seniors with care needs (Exhibit 5).

EXHIBIT 5: SHARP INCREASE IN SENIOR POPULATION

Annual Change of 80+ Population – Europe (000s)



Sources: Oxford Economics, PGIM. As of March 2026.

A lack of existing institutional stock to trade means that value creation strategies invariably need to be via development or repurposing (e.g. office to residential), while achieving value-add returns needs a combination of elevated growth potential and significant development margins.

For growth potential, providing stock for households that have spending growth potential is attractive, notably for city-based workers where productivity is driving wages higher and to seniors that have accumulated significant housing and equity wealth with which to finance lifestyle and care in old age. Higher-end student accommodation also taps into rising family incomes of domestic and overseas students.

Development margins have been under pressure in recent years. While cost inflation has eased off

and exit yields have stabilized, market conditions still favor high-density projects – co-living in major cities, student accommodation and independent living senior housing.

Investors in these strategies can also boost returns by scaling operating platforms and seeking an exit to core investors upon stabilization.

URBAN INFRASTRUCTURE

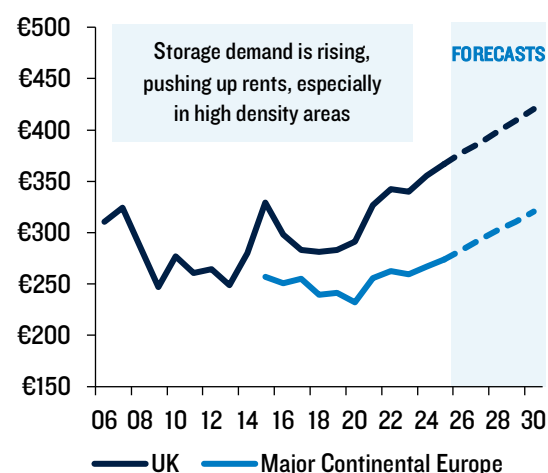
Investing in a productivity-driven city growth story shouldn't stop at living alone; instead, value creation opportunities extend to related infrastructure that comes hand in hand with living. There are several key opportunity groups:

Self Storage

A shift towards smaller home sizes in urban areas is driving a pick-up in demand for self storage. Rents are rising consistently across Europe as the market expands, especially in higher density cities where incomes are relatively high and set to grow (Exhibit 6). In continental Europe, there is a significant opportunity to institutionalize platforms and assets in markets dominated by smaller players.

EXHIBIT 6: STORAGE RENTS ARE SET TO RISE FURTHER

Average Self Storage Rents (€/sqm/year)



Sources: FEDESSA, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results. Such opportunities may be subject to availability, market conditions, and execution risks.

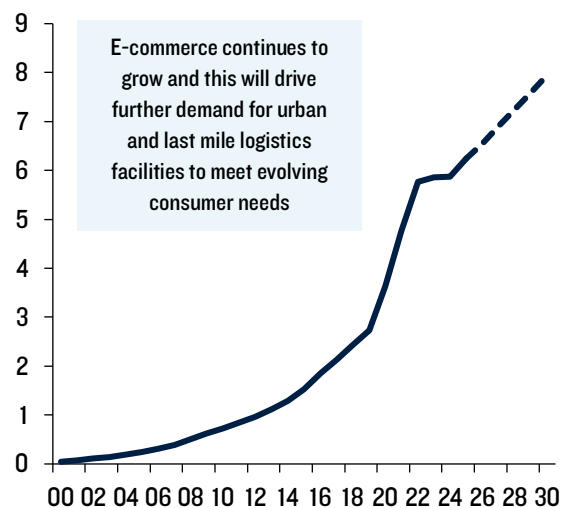
HOW TO PLAY THE OPPORTUNITY

Last Mile Logistics

While the overall thesis around big box logistics has slowed, ongoing e-commerce penetration continues to drive demand – and new development requirements – for urban and last-mile logistics facilities in Europe’s major cities (Exhibit 7).

EXHIBIT 7: URBAN LOGISTICS DEMAND CONTINUES TO RISE

Estimated E-commerce-Related Urban Logistics Demand – Major European Cities (Million sqm)



Sources: Oxford Economics, PMA, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.

Scale, spending power and urban density are key drivers of potential value creation, along with scope for online retail to grow further. Major cities in France, Germany and Spain, for example, offer significant growth potential in coming years as e-commerce players and retailers compete for scarce in-town sites to expand their supply chains to meet evolving customer needs.

Low Latency Data Centers

While there are concerns about the volume of supply and long-term needs for hyperscale space linked to AI training, demand for low latency data center space as a feature of critical urban infrastructure continues to grow.

Lifestyle and business needs continue to drive rapid demand growth for data storage and processing capacity near to major urban areas, linked to financial trading, streaming, gaming and a host of other uses.

Despite significant investment in the sector, capacity is still struggling to keep up with demand. Shortfalls remain elevated, pushing vacancy rates down and driving a strong rental growth outlook.



DEMAND FOR LOW-LATENCY DATA CENTER SPACE AS A FEATURE OF CRITICAL URBAN INFRASTRUCTURE CONTINUES TO GROW.”

GREG KANE

Managing Director

Head of European Investment Research

HOW TO PLAY THE OPPORTUNITY

Necessity Retail

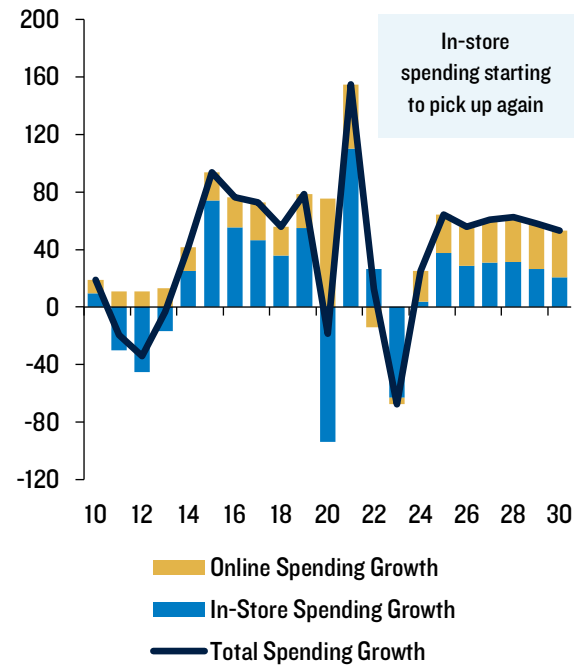
The provision of new living space in major cities needs to be accompanied by amenities. For opportunities in the retail sector, there have been two crucial shifts in recent years:

- i) In-store retail spending is now growing again *alongside* online retail, partly reflecting an easing of the rate of expansion of online penetration and partly because of higher household income growth and stronger spending patterns in major retail centers.
- ii) The overall supply of grade A space has been dramatically reduced by either conversions to other uses, or simply by a lack of capex.

An abundance of space a few years ago has quickly morphed into shortages of the type of units retailers want to occupy. Spending per square meter of high-quality, grade A retail space is now rising and driving rental growth from highly affordable levels (**Exhibit 8**).

EXHIBIT 8: SPENDING IN STORES STARTING TO PICK-UP AGAIN, DRIVING RENTAL GROWTH

Real Retail Spending Growth – Europe (€ Billion, 2025 Prices)



Sources: PMA, Oxford Economics, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.

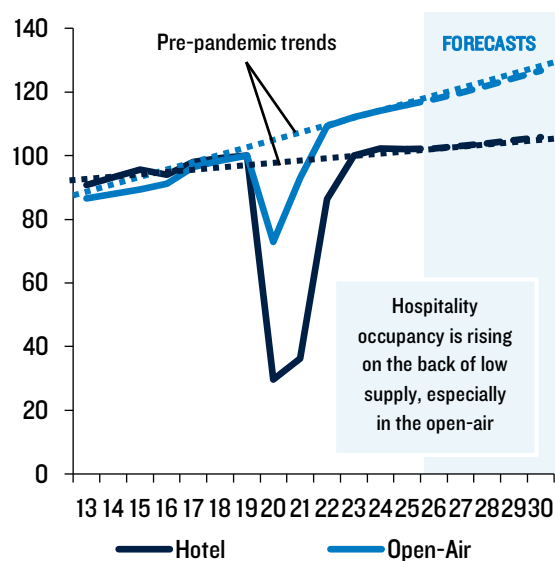
HOW TO PLAY THE OPPORTUNITY

OPEN-AIR HOSPITALITY

Hospitality demand is rising on the back of increased tourism flows, while the supply pipeline remains subdued, driving occupancy to record levels across Europe in 2025 (Exhibit 9).

EXHIBIT 9: HOSPITALITY OCCUPANCY RISING ON THE BACK OF INCREASED TOURISM AND LOW SUPPLY

European Hospitality Occupancy Index (2019=100)



Sources: PMA, Eurostat, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.

Strong growth in overnight stays and rising occupancy rates have been most notable in southern European markets, including Italy, Spain and Portugal.

One notable trend has been the resilience of open-air hospitality demand. Having had a milder downturn than hotels during the pandemic, the sector's cost-effective accommodation options have appealed to travelers, while supply has been stable or declined in major markets such as Italy, France and the Netherlands.

Open-air occupancy rates have risen significantly above pre-pandemic norms and are set to increase further in the coming years.

As low supply is set to persist, there is an ongoing value creation opportunity to acquire non-institutional open-air sites and reposition them in the market to capture potential growth in occupancy and leasing rates over time.

For value-add investors, stabilized exits to core buyers through a lease structure are increasingly attractive.

“

AS LOW SUPPLY IS SET TO PERSIST, THERE IS AN ONGOING VALUE CREATION OPPORTUNITY TO ACQUIRE NON-INSTITUTIONAL OPEN-AIR SITES AND REPOSITION THEM IN THE MARKET.”

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HOW TO PLAY THE OPPORTUNITY

II. MARKET MOMENTUM

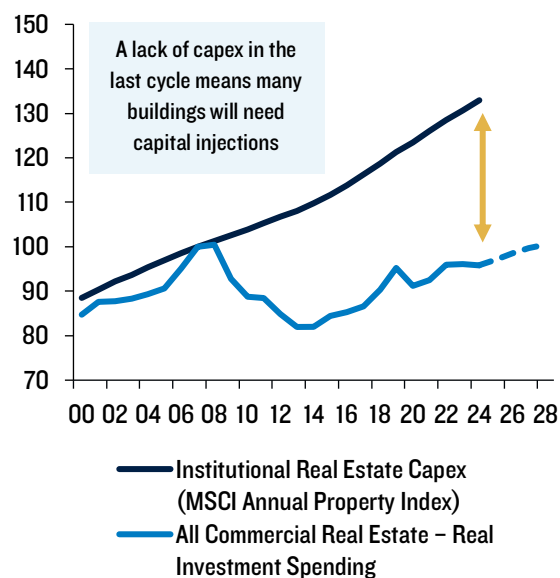
- Asset Management/Reversionary Growth
- Refurbishment/Repurposing
- Institutionalization

CAPEX INJECTIONS

As occupier demand recovers and requirements around ESG grow, a lack of grade A space is emerging, linked to constrained development, but also because capex was low through the last cycle – notably in non-institutionally held real estate (**Exhibit 10**).

EXHIBIT 10: A SIGNIFICANT CAPEX SHORTFALL OPENED UP IN THE LAST CYCLE

Index of European Capex Spending (Index 2007=100)



Sources: Oxford Economics, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.

The result is that a large volume of aggregate real estate stock needs modernization or can be converted to other uses where the numbers make sense, for example changing older office or retail sites to residential or hotel use.

OFFICE

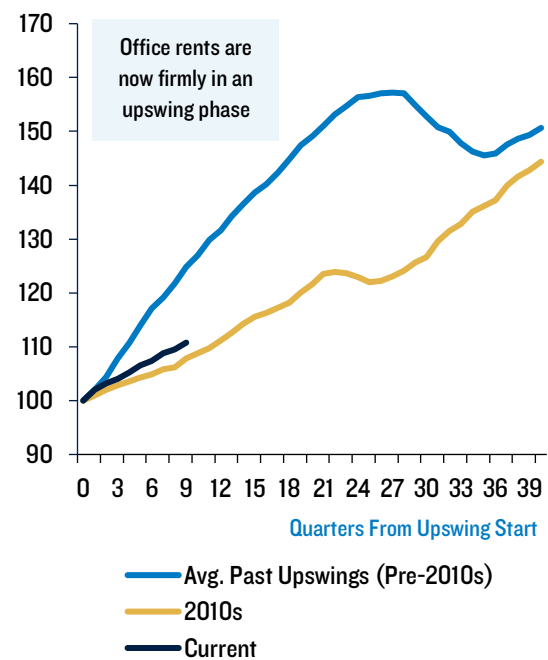
Offices are back as a clear investment opportunity, especially for value-add strategies. Linked to expectations of further productivity gains, firms are clearly paying a premium for high value assets that can deliver agglomeration benefits. Rental growth in CBD areas and high value submarkets is outstripping suburban and decentralized markets.

At the same time, such space is in short supply, with most markets having very low grade A vacancy rates. A collapse in building permits in recent years suggests shortages – and competition among tenants driving up rents – will continue.

The rental upswing is underway and even if a relatively modest growth path plays out like during the 2010s, there is a lot of upside to capture through the cycle, at the market level, but also via active asset management, repositioning existing assets and taking on leasing risk (**Exhibit 11**).

EXHIBIT 11: OFFICE RENTAL UPSWING IS STARTING TO GATHER MOMENTUM

Index of CBD Office Rents by Upswing (Upswing Start=100)



Sources: Cushman & Wakefield, PMA, PGIM. As of March 2026. Forecasts may not be achieved and are not a guarantee or a reliable indicator of future results.

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