Alternatives Research
Real Estate

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Marketing Material*

ASIA PACIFIC REAL ESTATE STRATEGIC OUTLOOK

Despite the recent uptick in vacancy in key markets in Asia Pacific, longer term rental growth could be expected as the economic recovery materialises.

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- Asia Pacific has performed relatively well in controlling the virus outbreak while central authorities have acted decisively by introducing significant fiscal packages and stimulative monetary policies to support jobs growth and consumer spending, and the region looks positioned towards normalization in business operations and economic recovery.
- Despite the recent uptick in vacancy in key markets, longer term rental growth could be expected as the economic recovery materialises. Accommodative monetary policies and low interest rates, combined with available dry powder allocation to the region should provide strong support for an eventual recovery in capital values.
- We believe logistics assets across key hubs in the region as well as offices in Sydney, Melbourne and Seoul present the most attractive investment opportunities with favourable demand drivers and disciplined supply pipelines.

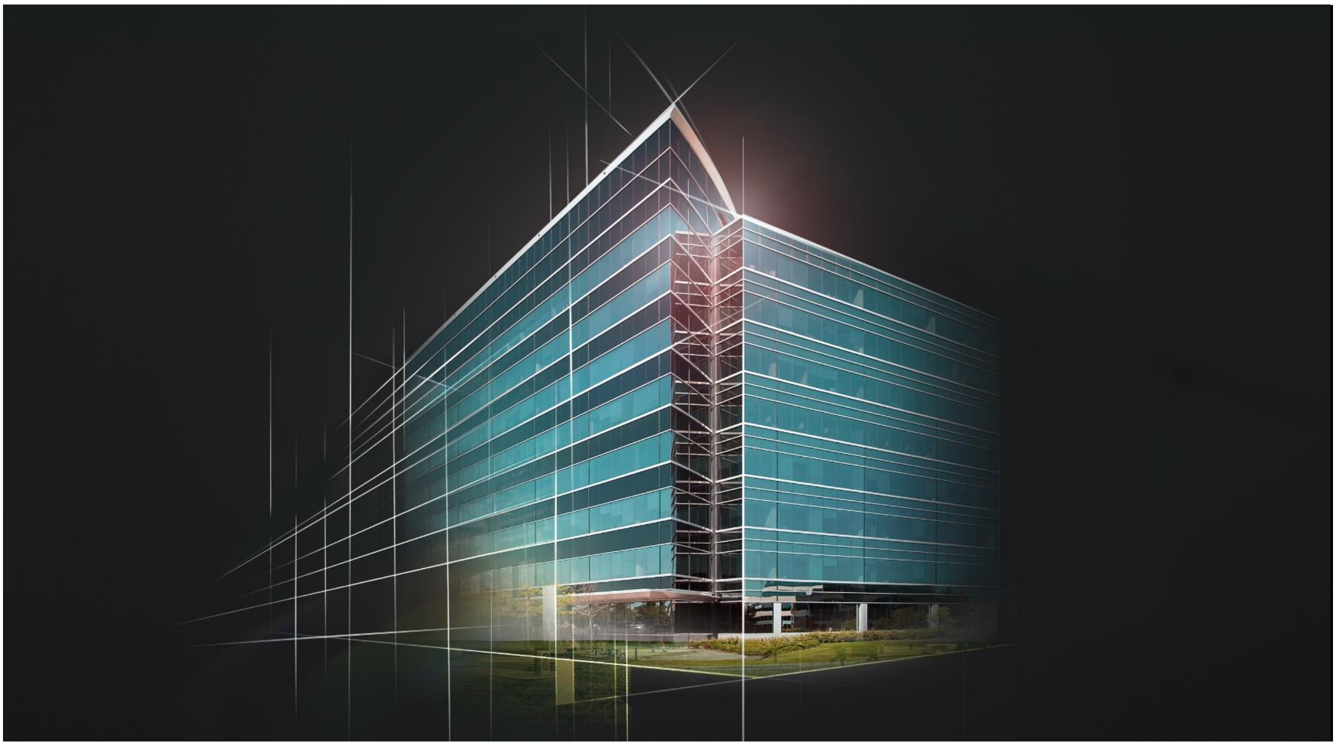


Table of Contents

1 / Overview

- Amid the global COVID-19 pandemic in 2020, Asia Pacific has performed relatively well in controlling the virus outbreak with lower infection cases compared to the United States and Europe, notwithstanding a recent resurgence of new cases in some countries including Japan, South Korea and Southeast Asia. Meanwhile, central authorities around the region have acted decisively by introducing significant fiscal packages and stimulative monetary policies to support jobs growth and consumer spending, while also working towards the implementation of mass vaccination on local populations. As a result, the region looks positioned towards normalization in business operations and economic recovery over the coming years.

- Real estate markets in the region experienced a mixed performance in 2020 across countries and sectors. The hospitality and retail sectors have experienced the most severe impact as tourist arrivals plummet and consumers reduce in-store spending. Occupier demand for office space weakened due to the recessionary environment, leading to higher vacancy rates and rental corrections in some markets, while logistics was the most resilient sector underpinned by increases in e-commerce retailing orders. Meanwhile, despite rental corrections, real estate asset prices have broadly remained firm with little signs of distressed sales as sellers generally remain well captialised, supported by low borrowing costs.

- Nonetheless, it is important for investors to look beyond the current situation and focus on the region's long term fundamentals. Despite the recent uptick in vacancy in key Asia Pacific markets such as Japan, Australia and Singapore, occupancy levels remain at moderate levels with disciplined supply pipelines, while longer term rental growth could be expected as the economic recovery materialises in the following years. Accommodative monetary policies and low interest rates, combined with available dry powder allocation to the region should provide strong support for an eventual recovery in capital values over our five-year forecast horizon.

Exhibit 1: APAC Sector Houseview

	Summary Houseview	Comments
Industrial	Overweight	— Demand from e-commerce retailers should increase as some consumers prefer online retailing and avoid physical stores. Remain overweight in key hubs, including Tokyo, Osaka, Seoul, Singapore and top Australian cities.
Residential	Neutral	— Demand for the affordable residential market is expected to remain resilient in the long-term, underpinned by sustainable income, vis-a-vis luxury segment which is more exposed to an economic downturn. — Focus on major Japanese cities (Tokyo, Osaka).
Office	Neutral	— Rental and capital value corrections expected in the near term due to weak economic outlook. Longer term office fundamentals of core cities in the region remain supported by diversified occupier base and limited supply pipelines. — Focus on Sydney, Melbourne and Seoul.
Retail	Underweight	— High street assets are expected to underperform while non-discretionary retail, such as grocery anchored assets, should perform relatively better. Store closures could accelerate in some markets. Apply a very selective approach.

Sources: DWS. As of December 2020. Past performance is not indicative of future results.

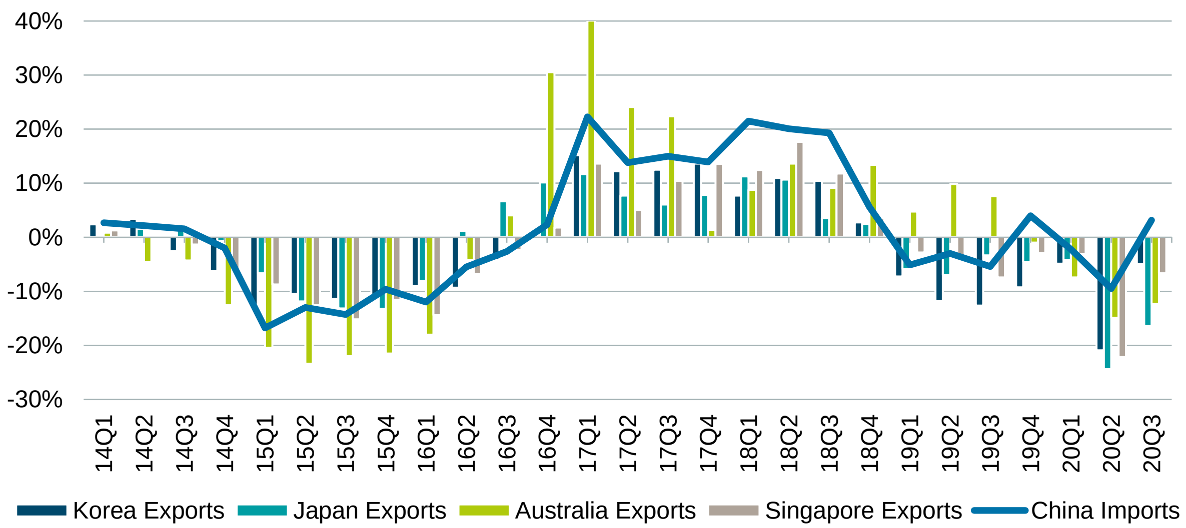
2 / Economic Update

2.1 Regional Economic Outlook

The outbreak of COVID-19 created significant disruptions to business, travel and daily activities, particularly in the first half of 2020 as infection cases soared across Asia Pacific. Since then, the virus has been better controlled in Asia Pacific compared to most other parts of the world, leading to the reopening of economic activities. However, a re-emergence of infection cases had recently occurred in some countries such as Japan and South Korea, prompting calls for further restriction measures to control the pandemic such as Japan's declaration of a second state of emergency in January 2021.

Meanwhile, regional economic activity remains weak, evidenced by declines in manufacturing PMIs, exports and retail consumption across the region. One positive sign is the pickup of China's imports in the third quarter of 2020, which being highly correlated with regional exports should drive regional trade activities if sustained.

EXHIBIT 2: GROWTH IN ASIA'S EXPORTS AND CHINA'S IMPORTS (Y-O-Y %)



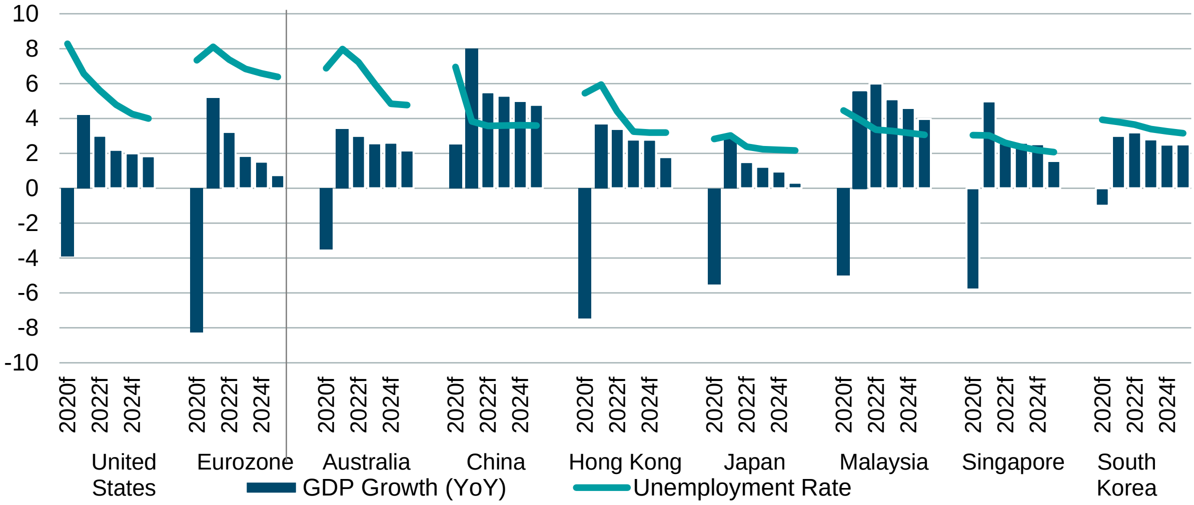
Source: DWS, Oxford Economics. As of December 2020. Past performance is not a reliable indicator of future returns.

While a high degree of economic uncertainty remains tied to the progression and successful containment of the coronavirus, the current general consensus points towards a strong rebound of the global economy in 2021. China is projected to see strong GDP growth of 8% in 2021[1], while other developed Asia Pacific economies including Japan, Australia, South Korea and Singapore are expected to emerge from recession. Meanwhile unemployment is expected to peak by the end of 2020 or early 2021 coupled with a gradual recovery in employment levels.

Apart from positive news of the invention and expected roll-out of the coronavirus vaccine, the Regional Comprehensive Economic Partnership (RCEP) Agreement involving 15 Asia Pacific countries including China and Japan was successfully signed in November 2020, following several years of negotiations. This represents a big step towards the enhancement of intra-regional trade relations and trade activity within Asia Pacific in the long run.

[1] DWS Forecasts, December 2020

EXHIBIT 3: ASIA PACIFIC REAL GDP GROWTH & UNEMPLOYMENT RATES
%

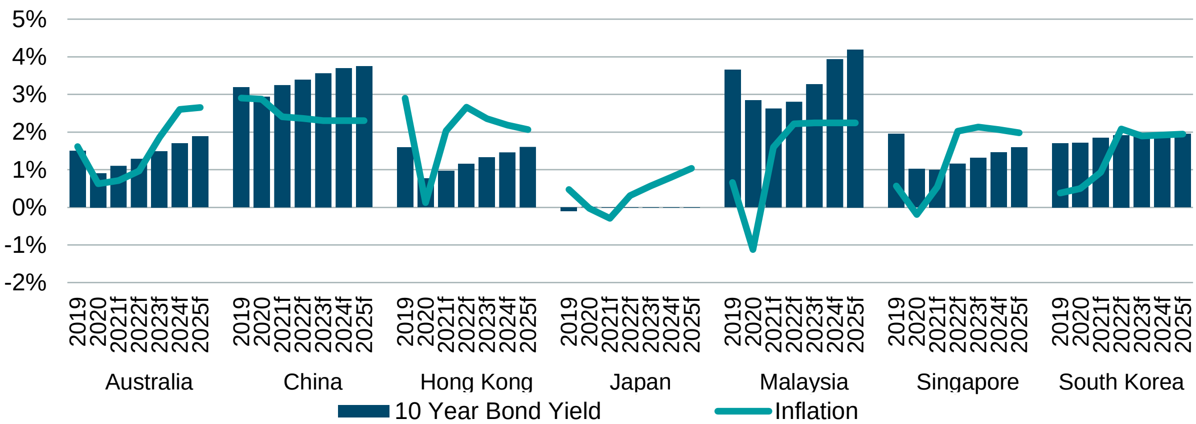


Notes: f = forecast. There is no guarantee the forecasts will materialize.
Sources: DWS, Oxford Economics, Bloomberg. As of December 2020

2.2 Inflation and Bond Yields

Lower economic activity levels and weak aggregate demand have led to lower commodity prices and disinflationary pressures across the region. However, inflation is expected to pick up gradually on the back of recovery in economic growth and consumption along with bond yields in the later years, albeit at a measured pace.

EXHIBIT 4: INFLATION AND LONG TERM INTEREST RATES



Note: f = forecast. There is no guarantee the forecasts will materialize.
Sources: DWS, Oxford Economics, Bloomberg. As of December 2020.

2.3 Monetary Policy

Meanwhile, governments in Asia Pacific have continued to support their domestic economies with multibillion-dollar fiscal packages ranging from direct cash handouts and wage subsidies to tax relief and loan-related support to households and businesses. Central banks in the region have continued to maintain policy rates at ultra-low levels while increasingly joining the likes of the Bank of Japan in quantitative easing measures to lower borrowing costs and elevate liquidity levels. Going forward, monetary policies are expected to remain stimulative in favour of growth amidst the pandemic-induced uncertainties.

EXHIBIT 5: POLICY RATES IN MAJOR COUNTRIES

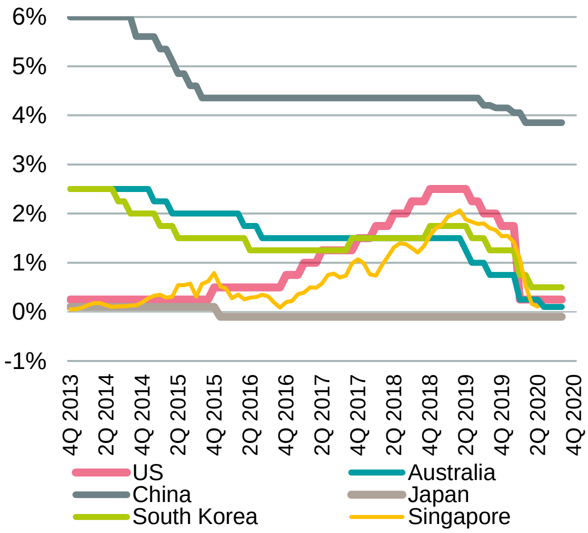
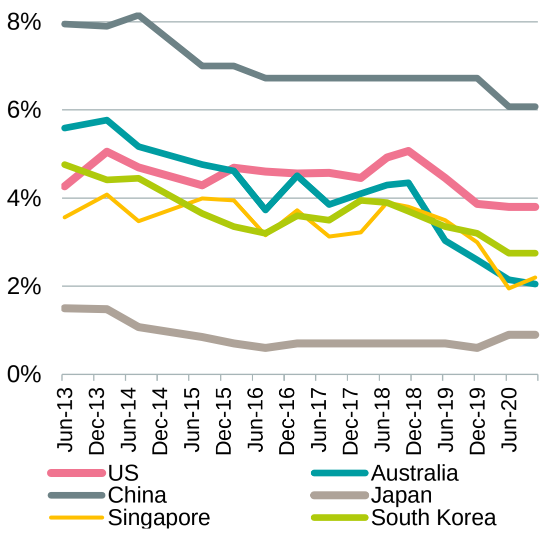


EXHIBIT 6: INDICATIVE REAL ESTATE LENDING RATE



Note: Policy rate for Singapore based on the domestic interbank overnight rate
Sources: DWS, Oxford Economics, Bloomberg. As of December 2020. Past performance is not indicative of future results.

2.4 Country Outlook[2]

Japan: Japan's GDP growth is estimated to recover to 3.0% in 2021 after declining by 5.5% in 2020, while the reissuance of the state of emergency in the major cities in January 2021 cast a shadow for the early economic recovery. The ten-year Japan bond yield remained relatively stable at around 0% throughout 2020, with yields likely to remain flat in the near future. Core CPI dipped down to -0.9% in November 2020 and is expected to remain subdued due to weak demand.

South Korea: South Korea's GDP output is expected to rebound to 3.0% in 2021 after a 1.0% contraction in 2020, though concerns loom over a further drag of the economic recovery with the recent COVID resurgence and weak labor market. The Bank of Korea lowered the base rate to 0.5% in May 2020 and is expected to keep it low in the coming years, while inflation is expected to pick up gradually to 1.0% in 2021 from 0.5% in 2020.

China: Among the first few countries to lift lockdown restrictions and fully reopen its economy, China is expected to record strong GDP growth of 8.0% in 2021. Recent economic indicators suggest the recovery in production, business activities and retail sales continue to gather momentum with the workforce and factory production operating at normalized levels. Nonetheless, deteriorating trade relations and geo-political issues with major western economies could pose headwinds to the economic recovery.

Singapore: Following a deep recession in 2020, Singapore is expected to see recovery in economic growth by more than 5.0% in 2021, as government restrictions on business and social activities ease while manufacturing exports is likely to pick up. The nation remains highly trade dependent, with growth prospects tied to global economic conditions and regional consumption. Domestic interest rates remain highly sensitive to the U.S interest rate outlook, with benchmark borrowing costs having declined significantly this year as monetary conditions remain accommodative.

Australia: GDP growth is expected to have shrunk by 3.5% in 2020, before bouncing back to 3.4% in 2021. Policy support is likely to spur consumer spending and residential construction with business investment continuing to be subdued amidst uncertainty about the economic outlook. Monetary policy should remain accommodative with the Reserve Bank of Australia (RBA) anticipated to maintain the cash rate at a record low of 0.1% while remaining open to extending its quantitative easing (QE) program beyond April 2021.

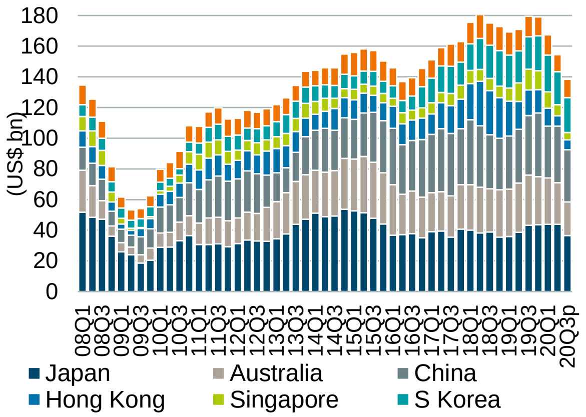
[2] GDP figures based on DWS projections as of December 2020

3 / Real Estate Capital Markets[3]

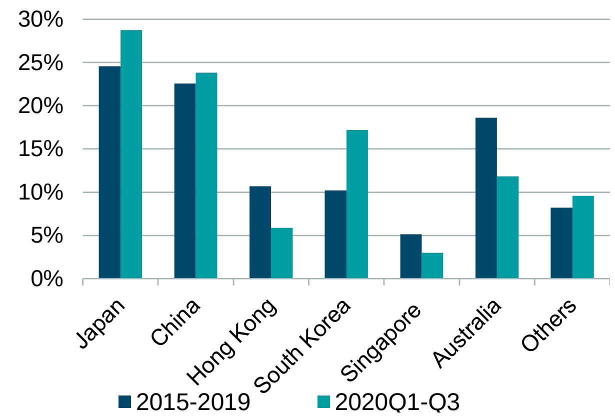
Transactions: The outbreak of COVID-19 weighed on regional real estate activity with transaction volumes in Asia Pacific down 38% year-on-year (4Q rolling: -23%) in the third quarter of 2020. Japan, China and Australia remained the top investment destinations, while capital inflows into South Korea have strengthened significantly in recent years. Meanwhile, investment flows into Hong Kong slowed considerably with Chinese buyers receding as pro-democracy street protests gained momentum.

EXHIBIT 7: APAC REAL ESTATE TRANSACTION VOLUME BY COUNTRY

Volume By Country (Rolling 12Mth)



% Share of Total Volume in Asia Pacific

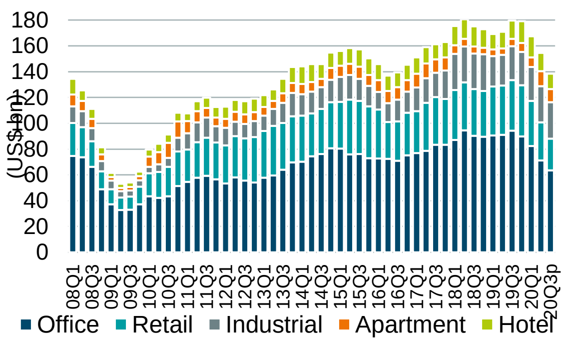


p = preliminary Note: Figures shown based on rolling 12-month period. Exclude land transactions. Past performance is not a reliable indicator of future returns.
Source: DWS, Real Capital Analytics. As of December 2020.

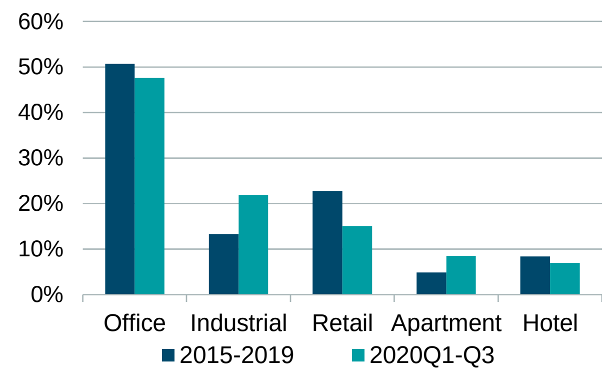
The outbreak of COVID-19 impacted recent investor interest most significantly for hospitality and retail assets. Industrial and residential assets saw a rising proportion of overall transaction volumes while the share of other sectors declined.

EXHIBIT 8: APAC REAL ESTATE TRANSACTION VOLUME BY SECTOR

Volume By Sector (Rolling 12Mth)



% Share of Total Volume in Asia Pacific

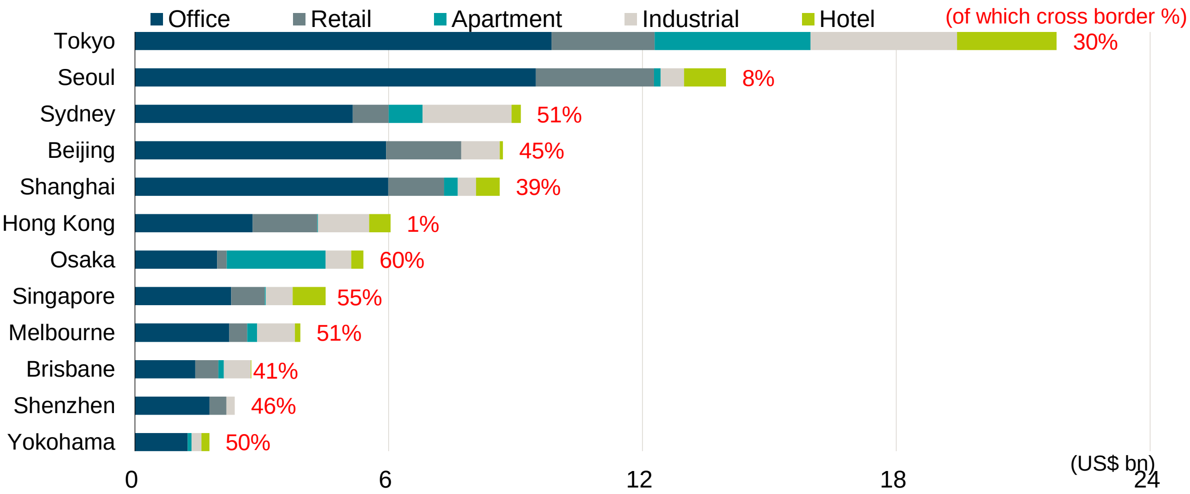


p = preliminary Note: Figures shown based on rolling 12-month period. Exclude land transactions.
Source: DWS, Real Capital Analytics. As of December 2020.

[3] DWS. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. There can be no certainty that events will turn out as we have opined herein. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.

At the city level, Tokyo continued to attract the highest investment volumes in recent periods, followed by Seoul and Sydney. Meanwhile, Hong Kong saw lower transactional activity compared to previous years due to weaker investor sentiment arising from political issues. Despite travel restrictions in-place, cross-border investors have remained active as a major buyer group accounting for at least 30% of recent transaction volumes across most of the key Asia Pacific cities.

EXHIBIT 9: COMMERCIAL REAL ESTATE TRANSACTION VOLUME BY CITY (12 MONTHS TO SEPTEMBER 2020)



Note: Figures shown based on rolling 12-month period. Exclude land transactions.
Source: DWS, Real Capital Analytics. As of December 2020

Credit markets: Supported by a range of monetary easing policies including cuts in central bank rates, all-in financing costs across the region have fallen along lower base rates in 2020, leading to favourable financing conditions. With the exception of China and Hong Kong, office cap rate spreads over financing costs remain positive across core markets with the highest positive carry of circa 200-300 basis points in the Australian and Japan markets.

Exhibit 10: Typical commercial lending terms (Up to 5Y Swap)

Market	LTV (%)	Base Reference rate	Spread (bps)	Financing Cost (bps)
Australia	50-55%	5Y Swap Rate : 0.3%	150 – 200	180 – 230
China	50-60%	5Y Loan Prime Rate: 4.65%	100 – 185	565 – 650
Japan	50-60%	5Y JPY swap rate + TL spread: 0.2%	60 –80	80 – 100
Singapore	50-60%	3M Swap Rate: 0.2%	170 – 230	190 – 250
South Korea	50-60%	5Y KTB: 1.3%	120 – 170	250 – 300

Source: DWS. As of December 2020

Listed REITs: In the regional listed REIT space, benchmark REIT indices have recovered from the lows recorded in the first quarter of 2020, although the recovery has lagged behind the broader stock markets and REIT prices remain below their pre-crisis levels. From a sector perspective, using the major J-REITs as a proxy, the listed Hotel and Retail REITs experienced the largest price declines in 2020, while Logistics REITs have thus far emerged as the most resilient amid the market selloff.

EXHIBIT 11: APAC REIT PRICING TRENDS BY COUNTRY

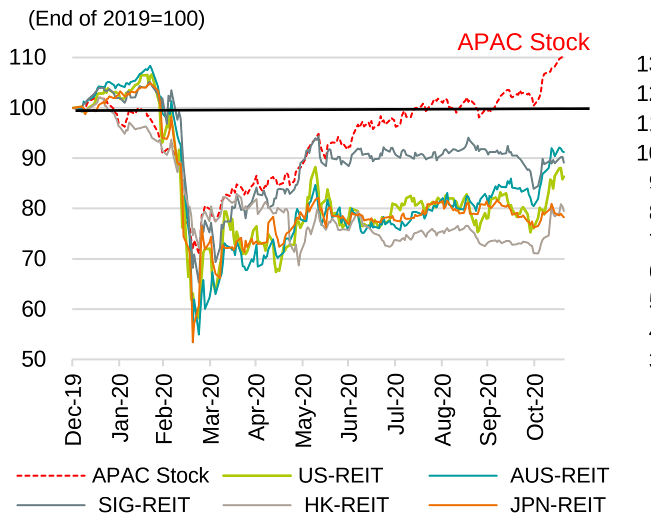
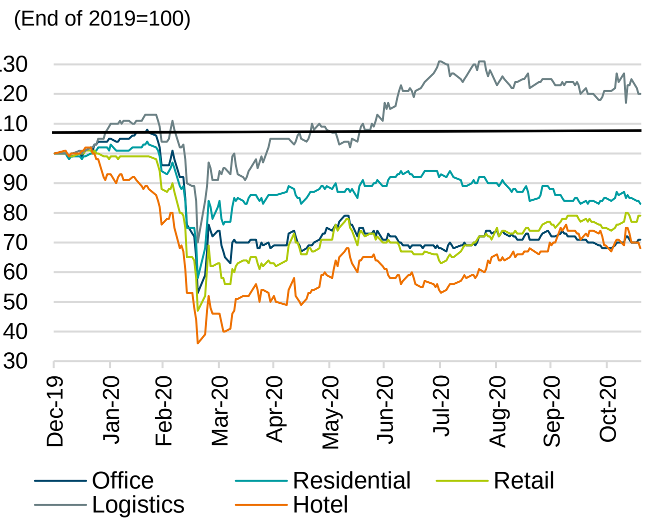


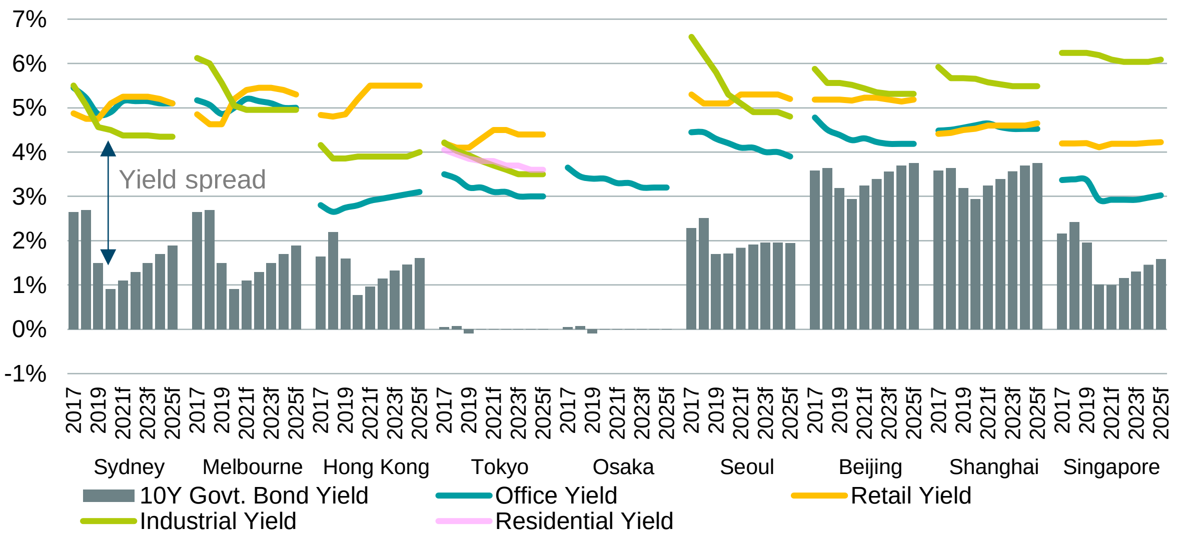
EXHIBIT 12: JAPAN REIT PRICING TRENDS BY SECTOR



Note: APAC Stock = MSCI AC APAC Index, US-REIT = FTSE EPRA/NAREIT United States, AUS-REIT = S&P/ASX 200 REIT, SIG-REIT = FTSE ST REIT Index, HK-REIT = Hang-Seng REIT Index, JPN-REIT = TSE REIT Index, Office = TSE Office REIT Index, Residential = TSE Residential REIT Index, Retail = Average of Japan Retail Fund, Frontier Real Estate Investment Corp., and Aeon REIT Logistics = Average of Nippon Prologis Fund and GLP J-REIT, Hotel = Average of Japan Hotel REIT, Hoshino Resorts REIT and Invincible Investment Corp.
Source: DWS, Bloomberg, As of December 2020. Past performance is not a reliable indicator of future performance.

Cap Rate Trends: The trend of global and domestic capital chasing income producing office assets has contributed to cap rate compressions in previous years in some countries such as Japan, Australia and South Korea, while cap rates remain broadly flat in other markets such as China and Singapore. The weaker macroeconomic environment could pressure selling prices amid lower transactional volumes and slightly higher cap rates in the short-term, particularly for retail assets. Nevertheless, we expect low interest rates, continued capital flows and rising investor allocations into real estate to drive further cap rate compressions in the long run, particularly in the industrial sector underpinned by structural growth drivers.

EXHIBIT 13: CAP RATE / YIELD SPREADS RELATIVE TO BOND YIELDS



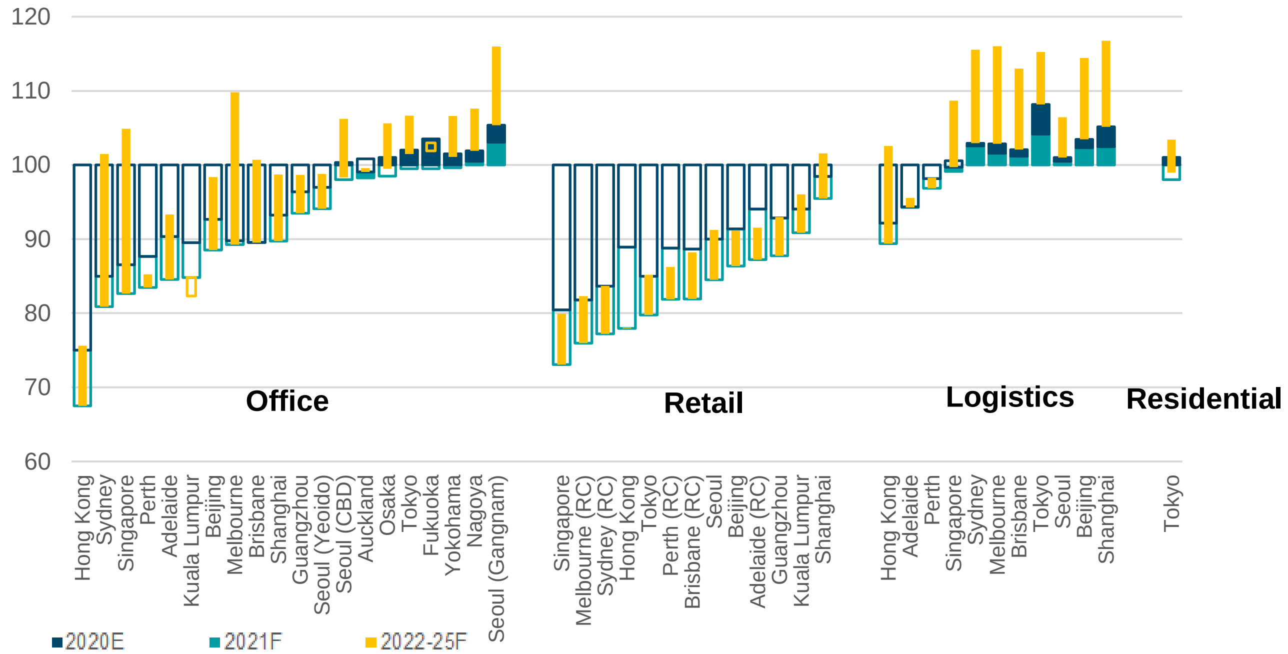
f = forecast. There is no guarantee the forecasts shown will materialize.
Source: DWS, Colliers, Miki Shoji, Oxford Economics, Bloomberg. As of December 2020. Past performance is not a reliable indicator of future returns.

4 / Real Estate Sector Outlook[4]

Regional Rental Outlook: Looking back at 2020, real estate markets in Asia Pacific saw a divergence in rental performance. Core logistics locations continued to experience rental growth supported by strong ecommerce sales. Meanwhile regional retail markets experienced significant rental declines while office markets outside Japan and South Korea saw rental corrections as occupier demand weakened amid economic headwinds.

We expect to see a continuation of this trend in 2021, with logistics remaining resilient while a recovery for office and retail rents is only expected towards late 2021 or 2022.

EXHIBIT 14: REGIONAL RENTAL PROJECTIONS
(2019 = 100)



Note: Transparent bars denote rental declines while shaded bars represent rental growth
f = forecast. There is no guarantee the forecasts shown will materialize.
Source: DWS, Colliers, Miki Shoji. As of December 2020. Past performance is not a reliable indicator of future returns.

Office: Majority of the office markets in Asia Pacific experienced rental declines in 2020, on the back of the weak macroeconomic outlook and low office utilization exacerbated by COVI9-19 outbreak. Low infection cases and cultural preferences towards physical attendance in offices among the workforce supported higher office utilization in North Asia, particularly in China and South Korea. In other countries, office utilization rates have been lower, such as Singapore due to imposed restrictions on workplace capacity (up to 50% of workforce), and Australia (due to state lockdowns at certain periods). While some of the workforce is gradually returning to offices as restrictions ease, flexible working and work-from-home arrangements are likely to remain among the preferred mode in some cities at least for the near future.

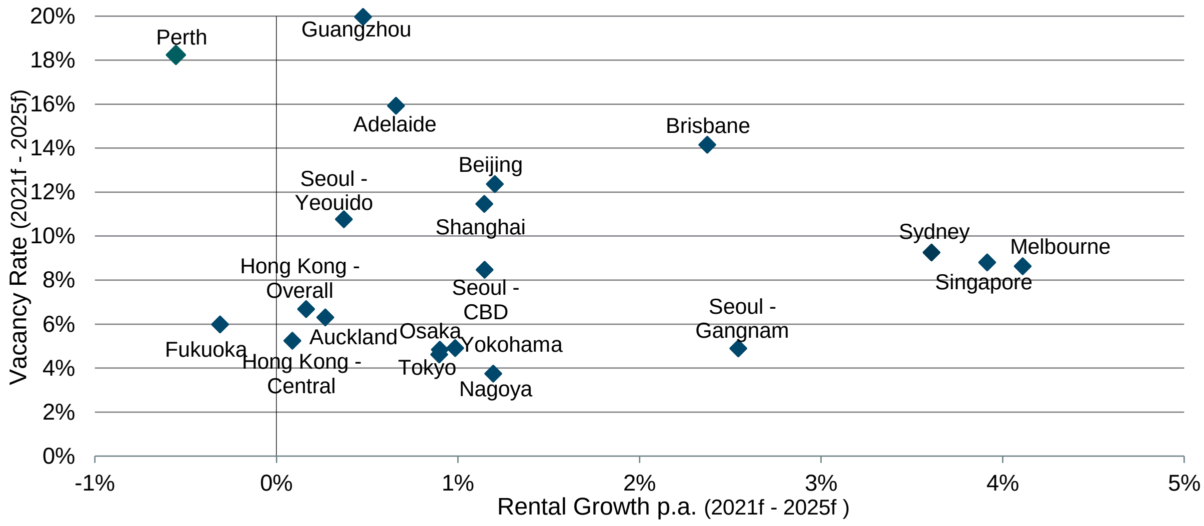
Still, regional office markets remain supported by healthy fundamentals with moderate vacancy levels while supply pipelines do not appear overstretched. We expect Sydney, Melbourne and Singapore to emerge from the downturn with healthy rental recoveries from 2022 onward**,** supported by a diversified occupier base. Seoul is also likely to outperform other office markets

[4] DWS. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.

given the strong and more resilient occupier base comprising technology-related companies. In Japan, regional cities including Osaka, Fukuoka and Nagoya continue to offer decent income and capital returns, combined with low local financing costs which equates to decent returns on a levered basis. At the other end, some office markets are likely to face long-term structural challenges, such as Hong Kong (political issues) and Kuala Lumpur which could drive down capital values over the next few years.

The future of the workplace remains hotly debated, as surveys among the region's workforce pointed towards employees' preference for a combination of working from office and home post-crisis, while some international banks among others have announced their intentions to adopt some form of permanent flexible working arrangements. The reality is that the health pandemic remains ongoing, which despite coordinated vaccination efforts, could take some time to be resolved. As health concerns remain a key priority, the working environment could see some changes, but in the long run offices should remain relevant due to the need for human interaction, cultural resistances from local employers especially across most Asian nations as well as questions over the efficacy of home-based working due to concerns over coordination and productivity.

EXHIBIT 15: OFFICE SECTOR: PROJECTED VACANCY RATE VS RENTAL GROWTH (2021F-2025F)

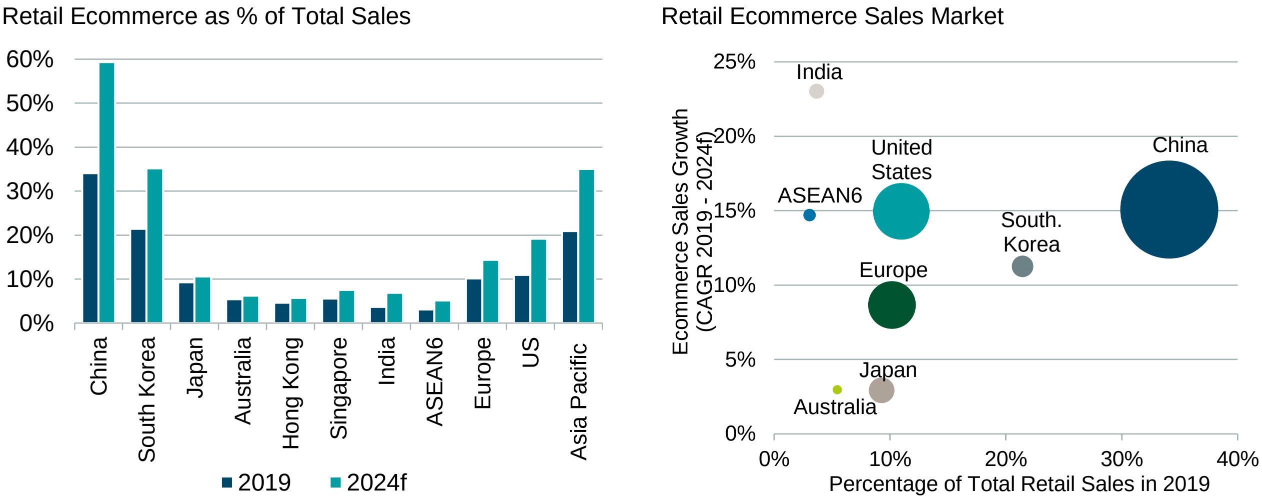


Note: f = forecast. There is no guarantee the forecasts will materialize.
Source: DWS. As of December 2020.

Retail: The retail sector faced severe pressures in 2020, as retailers struggle with lower retail sales and store shutdowns while COVID-19 boosted e-commerce sales at the expense of physical store sales. With international travel restrictions likely in place for some time in many countries, the lack of foreign tourist arrivals and expenditure is also expected to exert significant rental pressures, particularly for high-street shops and retail malls with heavy exposure to tourist spending. As importantly, the rise in e-commerce remains a major long-term driver in redefining the retail landscape in Asia Pacific. Outside China and South Korea, retail ecommerce penetration remains relatively low below 10% in Asia Pacific, though ecommerce sales growth and penetration is expected to continue increasing across the region in the coming years.

As such, regional retail markets are expected to face significant rental pressures which could extend till 2022, as landlords are likely to offer rental abatements and incentives to struggling retailers in efforts to minimize space vacancies. Given the significant headwinds, we expect retail to underperform other sectors. Correspondingly, the divergent trend across different retail assets is likely to intensify with a "winner-takes-all" outcome, as well-located malls with strong positioning and good tenant mix continue to fare better while poorly-managed malls with weak or unclear positioning face survival risks unless significant repositioning or exit strategies are deployed. Suburban or neighbourhood malls anchored by non-discretionary segments such as staple food and daily necessities are also likely to fare better than high-street or downtown malls which are more exposed to fluctuations in discretionary spending during economic downturns.

EXHIBIT 16: RETAIL ECOMMERCE TRENDS IN ASIA PACIFIC

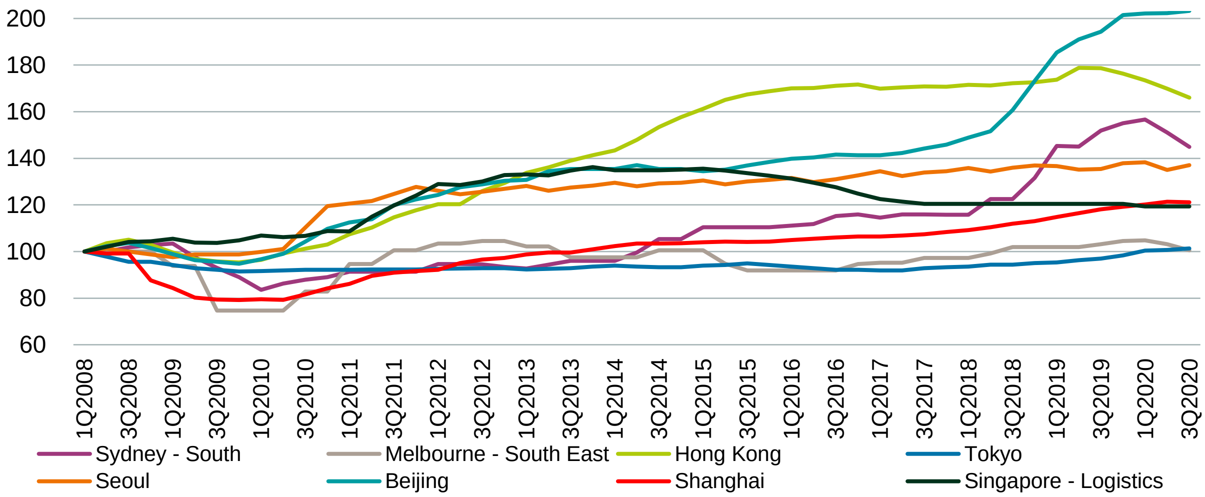


f = forecast. Note: Figures shown based on rolling 12-month period. Exclude land transactions.
Source: DWS, eMarketer. As of December 2020.

Industrial: Prime logistics space across the region continues to see healthy take-up driven by e-commerce and third party logistics providers (3PLs), resulting in positive rental growth trends across the region. The outbreak of COVID-19 had limited, or even positive, impact so far on logistics demand in most of the Asia Pacific cities. This is particularly the case for those catering to domestic-oriented segments including e-commerce retailers and 3PLs These segments benefited from higher online retail sales volumes during the past few months as physical store retailing declined due to mandatory or voluntary closures amidst the outbreak. Notwithstanding the likely short-term nature of the demand boost, long-term structural drivers of rising logistics requirements and e-commerce retailing bode well for demand for good quality warehouses and should underpin moderate rental growth across most markets over the next few years.

EXHIBIT 17: INDUSTRIAL SECTOR: NET RENT INDEX

(BASE YEAR 1Q2008 = 100)



Source: DWS, Ichigo, Colliers. Data as of December 2020. Past performance is not a reliable indicator of future returns.

Driven by higher income yields, strong underlying occupier demand and stable rental growth, the industrial sector has provided consistently higher returns than the office and retail sectors. It remains attractive over the next five years with projected total returns exceeding 7% for most locations in our coverage. Investors seeking access through forward funding commitments – often the most realistic approach to gain exposure to quality assets in certain markets such as China, and to a lesser extent, South Korea – need to consider development-related and transparency risks. Despite the relatively lower total return expectations, industrial assets in Tokyo remain attractive where we believe low bond yields will drive excess returns.

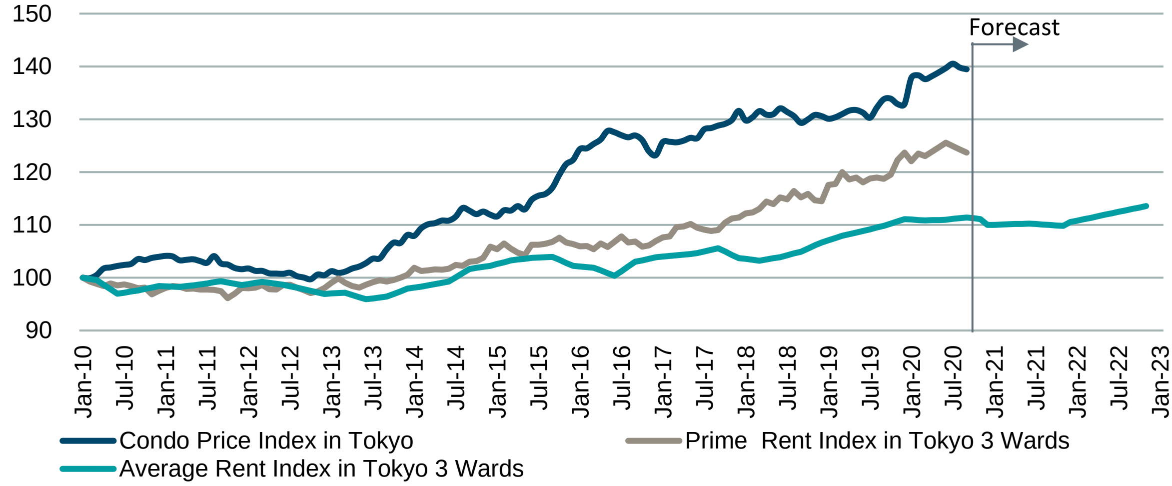
The availability of prime development land and quality modern warehousing facilities is critical for logistics markets undergoing modernization changes coupled with rising domestic consumption, particularly for locations such as Seoul and first-tier cities in China where the majority of existing warehouse stock is older and obsolete.

Residential: In 2020, the Japanese residential sector – by far the only sizeable and institutionalized residential market in Asia Pacific – was impacted by the COVID-19 disruptions. On the positive side, it continued to see strong capital inflows especially from the cross-border investors active in large portfolio deals, with transaction volume rising 24% year-on-year to hit a record US$6.7 billion in 2020, in stark contrast to the decline of 23% in overall commercial real estate transaction volume in Japan during the same period. It is noteworthy that the largest ever residential portfolio deal in Asia Pacific was transacted in May 2020 amid the peak of the local pandemic, followed by over ten portfolio deals exceeding US$100 million, proving the soaring investment appetite for the sector in the down cycle.

At the same time, the residential leasing market in Japan gradually lost its momentum throughout the year with increasing outflows of the affordable grade tenants from city centres to suburban areas as well as weaker leasing demand for higher grade units from corporate leases. Residential vacancy rates stood at 3.1% in Tokyo and 3.2% in Osaka in the second quarter of 2020, 0.6% and 0.3% higher than their recent bottom in the fourth quarter of 2019. Prime rents in the Central 3 wards in Tokyo declined by 1.5% in the third quarter of 2020 on a yearly basis, while rental growth for average assets in Tokyo remained positive at 1.4% in the same period on a yearly basis, but almost flat from the first quarter of 2020.

Despite the short-term disruptions, condominium unit prices in Tokyo are still close to the highest level in two decades, and are expected to encourage tenant leasing demand in the long term. The average for-sale condominium price per unit in greater Tokyo is slightly below JPY 60 million, or US$500,000, and majority of potential first time buyers facing affordability issues have little choice but to stick to rent houses. Combined with the partial or full-scale shift in lifestyle and business culture towards flexible working, demand for quality rent houses should remain strong in the longer term. Moreover, soaring construction costs and land prices nationwide in Japan limit the profitability of new residential developments, which should mitigate oversupply risks. As such, average rents may see moderate growth of around 0.5 % per annum in the next five years despite the short-term contraction in 2021, similar to the inflation expectations of 0.5% in the same period. Consequently, this should drive annual total returns slightly above 5% per annum over the next five years, underpinned mainly by income return and modest cap rate compression.

EXHIBIT 18: RESIDENTIAL RENT INDEX VS. CONDO PRICE INDEX (2001-2022F, 12 MONTHS ROLLING)
(JAN-10 = 100)



Source: DWS, Real Estate Economic Institute, LMC, Real Estate Information Network System, As of December 2020. Past performance is not a reliable indicator of future returns.

5 / Strategic Real Estate Outlook

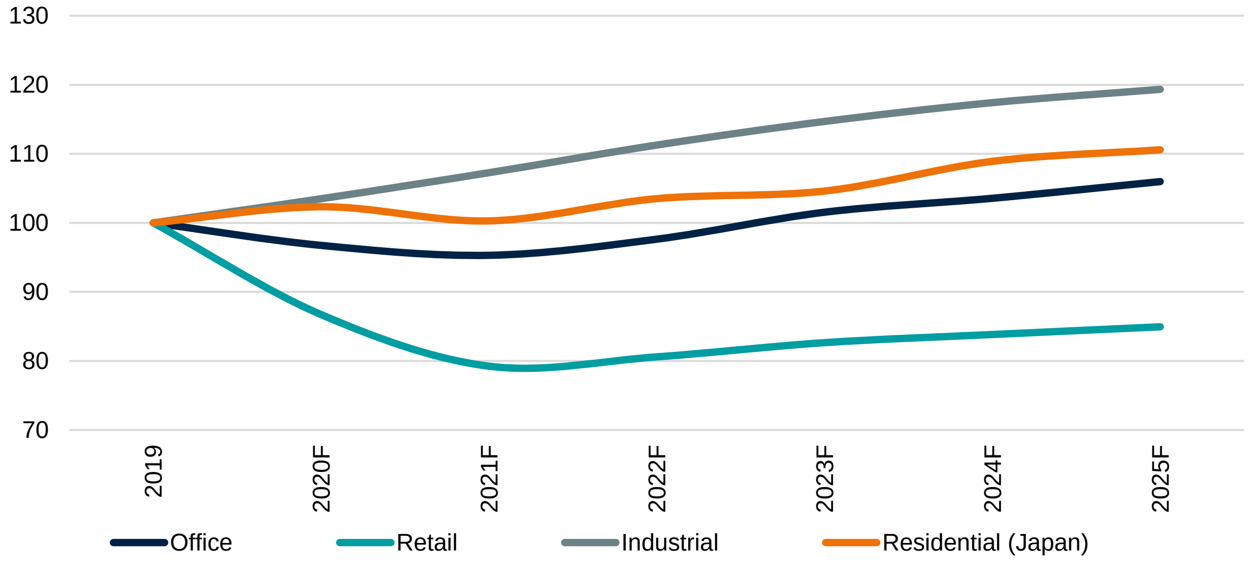
5.1 Pricing and Returns

One of the key questions on investors' minds centers around the potential impact of the COVID-19 outbreak on real estate pricing. Macroeconomic uncertainties and weaker rental outlook has led to underwriting of lower valuations from buyers' perspectives, however majority of sellers retain strong holding power with low holding costs amid the favourable financing conditions. This had contributed to lower transaction volumes and a pricing gap among buyers and sellers. As yet, there has been limited evidence of significant price discounts or distressed sale opportunities, except for the most hard-hit sectors.

Exhibit 19 provides our current regional pricing trend forecasts. Outside the logistics and residential sectors, some pricing pressures could materialise in the near-term. Capital values are expected to rebound in later years as rents recover along with economic growth while investors refocus on the region's fundamentals amid low borrowing costs supported by accommodative monetary policies. Retail assets potentially face the most significant declines and slower subsequent recovery due to headwinds relating to COVID-19 and shifting trends towards online retailing, while logistics pricing is likely to remain underpinned by stable occupier demand and rental growth.

EXHIBIT 19: PROJECTED ASIA PACIFIC PRIME CAPITAL VALUE TREND

(2019 = 100)

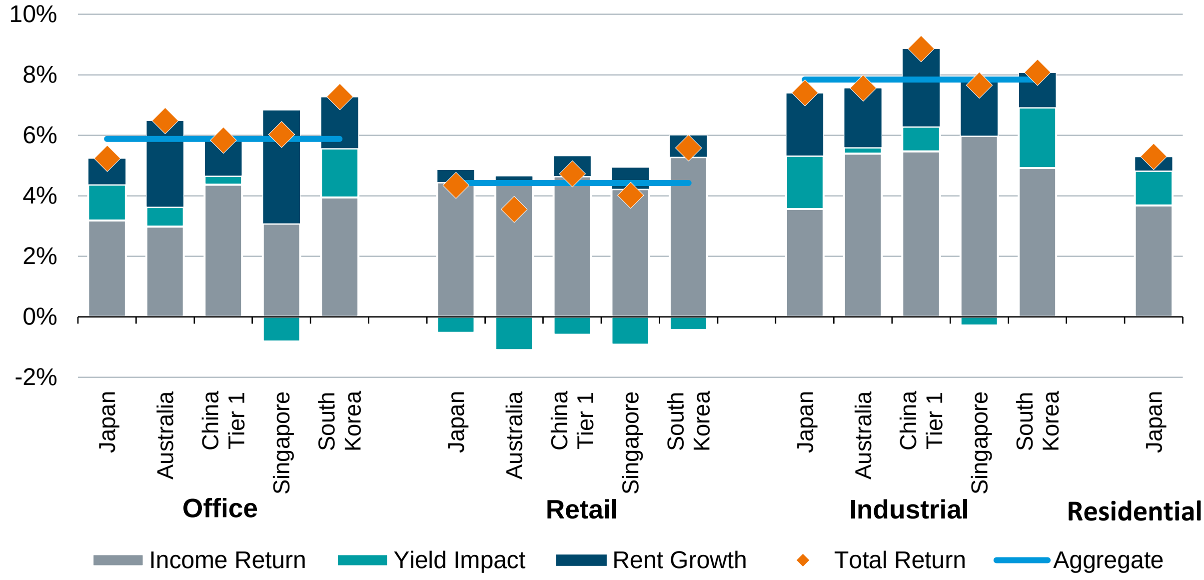


Note: f = forecast. There is no guarantee the forecast values shown will materialize. Figures shown are stock-weighted aggregate forecasts based on the following countries: Japan, South Korea, Australia, Singapore, China, Malaysia and New Zealand. Past performance is not a reliable indicator of future returns. Source: DWS, Colliers, Miki Shoji. As of December 2020

The current uncertainty in economic conditions and cross-border travel restrictions is expected to weigh on investor sentiment, with investors likely to remain cautious in the near-term. Nonetheless, investors should look beyond the current situation and focus on the region's long term fundamentals in the form of low vacancy levels and disciplined supply pipelines.

In our view, logistics will likely remain the best performing sector in Asia Pacific – supported by positive rental growth trends and expected cap rate compression, followed by the residential sector (Japan). Lower returns from office and retail assets suggest that investors should be more selective and look for entry opportunities with appropriate pricing adjustments to boost returns.

EXHIBIT 20: PROJECTED ANNUAL TOTAL RETURN BY SECTOR AND COUNTRY IN ASIA PACIFIC, 2021-2025F



Note: f = forecast. Projected returns are based on compounded basis. There is no guarantee the forecast returns shown will materialize.
Source: DWS. As of December 2020.
Country returns are stock-weighted based on city level data[5]. As such, the performance and forecast shown represent hypothetical and simulated performance, which has many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. No assurance is made that forecast returns will be achieved.

5.2 Market Calls

Going on to our regional market calls, we remain overweight on the logistics sector in Asia Pacific. The sector is expected to be the most resilient with assets catering to domestic consumption benefiting from rising orders of online retailing as physical retail activities decline, which should accelerate the structural tailwinds of consumption-driven logistics and continue to spur investment interest across the major logistics markets in the region. We favour the key logistics hubs in the region including Australia, Japan, South Korea and Singapore as core strategies and China logistics developments as a value-add strategy.

The institutional residential sector (in Japan) is expected to be more stable, comprising more defensive leases to tenants with non-discretionary accommodation needs through recessionary periods. Apartment assets catering to family needs located outside the city center would appear more resilient in this cycle than those smaller units for singles or young couples around city center locations.

We retain our underweight call in the retail sector given the structural headwinds from ecommerce retailing, which has been excaberated by rising tenant defaults and higher vacancies in retail portfolios as a result of the pandemic. Within the sector, high-street retail is likely to continue underperforming due to lower traffic footfall, while neighbourhood retail anchored by favorable surrounding resident catchment is less impacted and could present investment opportunities on a selective basis

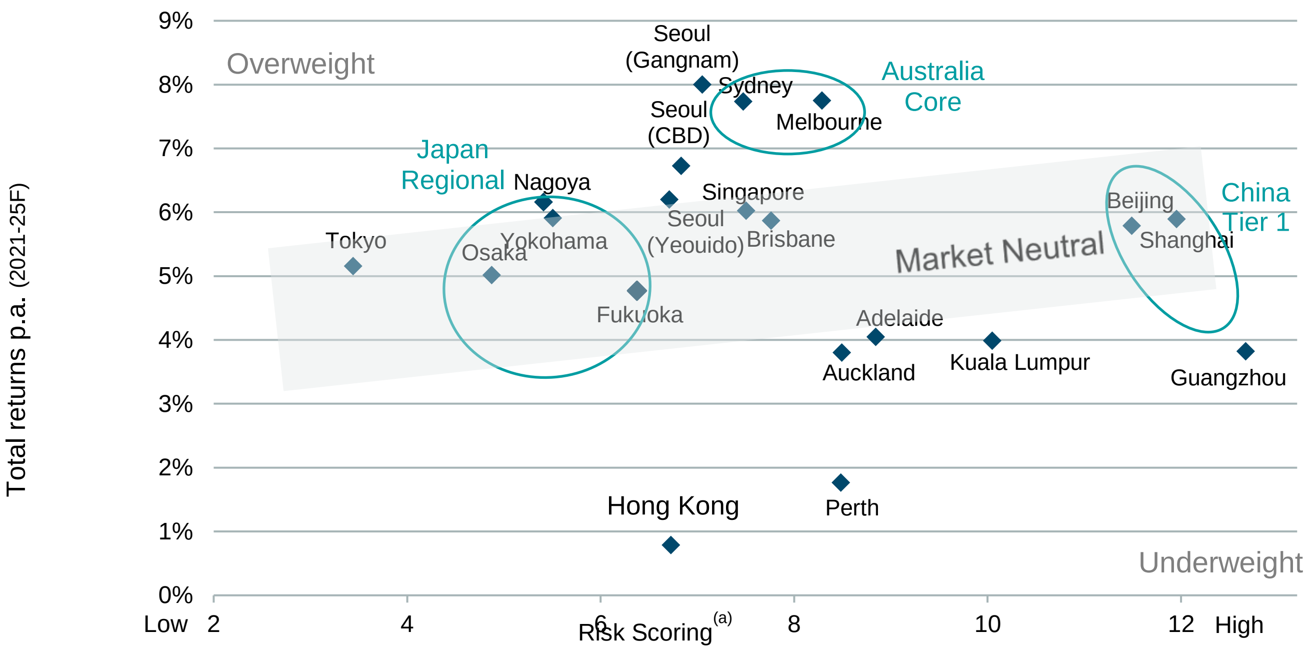
Meanwhile, the office sector could continue to face headwinds and business uncertainties resulting in continued rental declines for 2021 before recovering thereafter. We continue to favour the core office markets in Australia and South Korea which are expected to lead in the rental recovery cycle underpinned by favourable demand-supply conditions.

[5] Japan – Tokyo (All sectors), Osaka/Yokohama/Nagoya/Fukuoka (Office); Australia – Sydney/Melbourne/Brisbane/Perth/Adelaide; China Tier 1 – Beijing/Shanghai (All sectors), Guangzhou (Office & Retail); South Korea – Seoul.

It is insufficient to compare property-level total returns on a stand-alone basis without factoring the associated risks, especially in the Asia Pacific region where a significant divergence in market maturity and transparency persists. Several factors were considered in the computation of associated risks related to each submarket such as volatility, liquidity, transparency and the effect of obsolescence, along with domestic risk free rates. The associated risks were formulated using a combination of quantitative and qualitative modeling which have been integrated in our House View forecasts.

Exhibit 21 highlights the positioning of the various markets in reference to this framework. The total forecast returns on the vertical axis are plotted against associated risks on the horizontal axis for each office market. Returns are based on the same office sector forecasts outlined on Exhibit 15. A Market Neutral zone (shaded) is added to indicate the level of attractiveness of each market from a risk-return perspective (cities above this line are deemed more attractive and vice versa).

EXHIBIT 21: RISK RETURN PROFILE OF APAC OFFICE MARKET



Source: DWS, Oxford Economics, Colliers, JREI, CBRE, Cushman & Wakefield, Real Capital Analytics. As of December 2020.
Note: F = forecasts. There is no guarantee the forecasts will materialize.
(a) Risk Scoring: A greater risk score indicates higher levels of risks associated with each market. A range of risk factors were considered including the local risk-free rate, historical volatility of returns, level of market liquidity, real estate transparency level and capital expenditure requirements.

We categorize the major office markets into the following three groups:

Overweight: Core target markets include core cities in Australia and Seoul where total return forecasts look favorable compared to their associated risks. These are among the most mature markets with a stable occupier base in the region. Core investors focused on income yields should center their portfolio investments mainly in these markets. This is broadly in line with our Core Strategy themes as outlined in Exhibit 21.

Market Neutral: Markets with a lower but nonetheless favorable risk-return profile. These cities are expected to see a gradual market rental recovery after a short term market correction with improving demand-supply fundamentals, such as Japan, Singapore, and Brisbane. Investment opportunities in China could present comparable returns though this should be on a selective basis considering the higher risk hurdle rate associated with a higher risk free rate, lower market transparency and other investment restrictions.

Underweight: Markets where forecast returns lag associated risks on the back of low forecast returns, high risks or a combination of both. Hong Kong could post unfavourable returns due to a potential rental correction cycle combined with low income yields, while in Kuala Lumpur, demand-supply fundamentals remain largely in favour of tenants at the expense of office landlords due to extremely high vacancy levels.

Our updated summary market calls for the region is summarized in Exhibit 22:

EXHIBIT 22 : ASIA PACIFIC REAL ESTATE KEY STRATEGIES:

	Theme	Sector	Countries/Cities	Main Rationale
Core Strategy	Structural Growth Drivers	Logistics	Key hubs in Japan, S.Korea, Singapore and Australia (overweight)	High logistics income yields and stable rental growth underpinned by favourable demographic profile and rising e-commerce retail trends.
Core Strategy	Cyclical Rental Recovery *(Entry after appropriate price adjustments)*	Office	Sydney, Melbourne, Seoul (overweight) Japan, Seoul (Yeouido), Singapore, Brisbane (market-weight)	Rental / capital value corrections expected in near term due to weak economic outlook. Key gateway cities in Australia are likely to lead strong rental recoveries over the longer term and are expected to continue to attract interest from domestic and offshore capital sources due to the premium relative to risk free rate. Seoul (Gangnam) could be more resilient during the downturn, due to its positioning towards the growing technology sector, while Seoul CBD is likely to see the healthy recovery with limited future supply. Longer term office fundamentals of core cities in the region remain supported by diversified corporate occupier base and limited supply pipelines.
Core Strategy	Resilient Demand	Residential (Mass / Mid-tier)	Japan (market-weight)	Demand for the affordable residential market is expected to remain resilient in the long-term, underpinned by sustainable income, vis-a-vis luxury segment which is more exposed to an economic downturn.
	Theme	Sector	Countries/Cities	Main Rationale
Core Plus and Value Added Strategy	Active Asset Management	Office, High Street / Neighbourhood Retail	Japan, S.Korea, Singapore and Australia	Distressed sale opportunities of poorly managed assets at lower than intrinsic values present value add potential through refurbishment/re-positioning exercises. Taking on leasing risks for vacant or under-rented office properties.
Core Plus and Value Added Strategy	Forward Commitments	Office	Japan, S.Korea, Australia	Facilitate investments where access to core stock is increasingly limited. Potential for higher returns compared to investments in core stabilized assets. JV with strong local operating partners to mitigate development risks.
Core Plus and Value Added Strategy	Forward Commitments	Logistics	South Korea, China	Demand driven by rising e-commerce retail and consumption. Build-to-core strategies provide access to modern logistics assets in markets dominated by older obsolete stock. JV with strong local operating partners to mitigate development risks.

Sources: DWS. As of December 2020. Past performance is not indicative of future results

Investors need to also consider other challenges and constraints that should be factored for commercial real estate investments which cannot be fully captured in the risk scoring computations, especially for cross border investors.

Currency hedging costs remain relatively expensive in Australia and South Korea for Euro-denominated investors and this can be an impediment for cross border investors when competing with domestic investors, despite favourable returns projections. In Japan, local investors and developers command the upper hand due to extremely cheap borrowing costs in the local debt market, whereas access to cheap capital is limited for foreign investors.

Foreign investors also face additional regulatory and compliance risks compared to domestic investors. In China, onshore holding structures with equity investments from foreign parties require the formation of foreign-invested enterprises (FIEs) or wholly owned foreign enterprises (WOFEs). Conversion of structures is required if the existing holding structure is not in either of these forms and is subject to regulatory approval, which introduces regulatory uncertainties. Foreign investors also have to deal with the complexities of capital controls and taxation issues which pose considerable challenges to new foreign investors.

Therefore, it is critical for investors to find capable investment managers who have a good foothold in each of these markets when making investments.

6 / Environmental, Social, and Governance (ESG) Outlook

The trend of environmental, social and governance investing has been increasingly relevant not just in the global context, but in Asia Pacific as well. Asian real estate corporations and portfolio managers have been notably raising their attention to sustainability performances and putting in-place execution strategies, as government pension funds, sovereign wealth funds and institutional investors increasingly commit to integrating ESG practices in their investment processes. Australia and New Zealand have continued to lead the Global Real Estate Sustainability Benchmark (GRESB) global rankings in 2020 with an average score of 77. Asia came in second with an average GRESB score of 72, ahead of Europe and Americas with scores of 69.5 and 69 respectively[6].

Since 2010, Australia had made mandatory rating disclosures of NABERS ratings and Building Energy Efficiency Certificates for large office spaces exceeding 1,000 square metres, with over 2,009 certified buildings as of 2020[7]. In Japan, 984 buildings (national-level) and 26,107 (prefecture-level) have been certified by CASBEE[8], while in South Korea, 212 buildings have been certified by LEED[9] and 15,584 buildings by G-Seed, the green building certificate initiated by the South Korean government[10]. In Singapore, about 3,000 buildings or about 40% of the current stock have undergone Green Mark Certification, while the government has targeted 80% of all buildings to be certified by 2030.[11] Green and sustainability-linked financing has also gained favour in recent years with several major developers in Singapore having secured green loans to build or refinance green buildings.

Sustainability considerations are becoming an increasingly important and integral component of commercial real estate investment decisions. For example in Australia, the first publicly available index, NABERS Sustainable Portfolios Index (SPI) which was released in May 2020 provides the performance of the top 40 property portfolios across Australia according to their NABERS ratings and percentage of portfolio rated. Investors can use the index to make informed decisions and compare the progress of their property portfolios against their peers.

EXHIBIT 23: GRESB REAL ESTATE GLOBAL SCORE

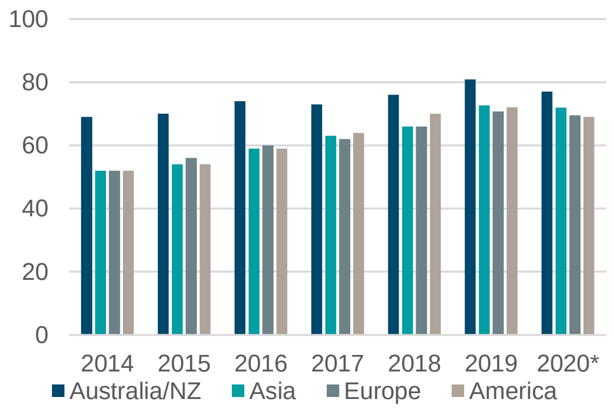
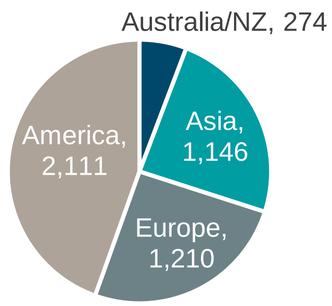


EXHIBIT 24: GRESB BENCHMARK SIZE BY GAV
(YEAR 2020, US$ BIL)



*Change in methodology primarily due to increased granularity in key performance indicators (now: Energy, Greenhouse Gas, Water and Waste).
Source: GRESB. As of December 2020. Past performance is not a reliable indicator of future returns

[6] 2020 GRESB Real Estate Benchmark
[7] NABERS Annual Report 2019/2020
[8] CASBEE website, December 2020
[9] USGBC website, December 2020.
[10] G-Seed Homepage December 2020
[11] Building and Construction Authority Singapore, December 2020
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- Adverse changes in economic conditions including changes in the financial conditions of tenants, buyer and sellers, changes in the availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses;
- Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;
- Changes in the relative popularity of property types and locations;
- Risks and operating problems arising out of the presence of certain construction materials; and
- Currency / exchange rate risks where the investments are denominated in a currency other than the investor's home currency.

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