Global Real Estate Strategic Outlook

January 2025

IN A NUTSHELL

- The global real estate market has entered its period of recovery. Prices have corrected, yields have stabilised, interest rates are being cut, and perhaps most importantly, real estate fundamentals remain in excellent shape.
- Development starts have plunged across much of the globe, and unless we witness a marked increase in capital values, or a material reduction in construction costs, we think it unlikely we will see a considerable increase in development, leaving us with the prospect of lower vacancy and widespread shortages of high-quality space.
- Our focus remains on industrial and residential. Not without their challenges, we remain convinced that structural demand drivers and a modest supply outlook could continue to drive performance for the foreseeable future.
- Europe and the US are expected to lead the recovery, with APAC a few quarters behind. Our forecasts suggest that absolute returns in Europe and the US may outperform, but in all regions we see compelling opportunities for both domestic and global capital to consider investment in the real estate sector.

1 / Real Estate Outlook

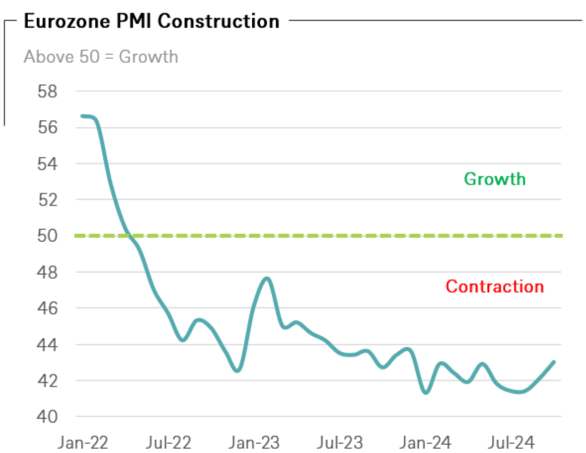
The global real estate market has entered its period of recovery. Prices have corrected, yields have stabilised, interest rates are being cut, and perhaps most importantly, real estate fundamentals remain in excellent shape. This doesn't mean that things will now be easy. Recovery can be as painful as the initial trauma. Geopolitics, weakened economies, bursts of inflation, legacy financing issues and several structural challenges, could all weigh on the pace of recovery. Market and asset selection at this point in the cycle will be paramount. While the downturn was broad and uniform, the upturn may be fragmented, as investors tentatively return, focusing on a select range of assets across a limited number of global markets.

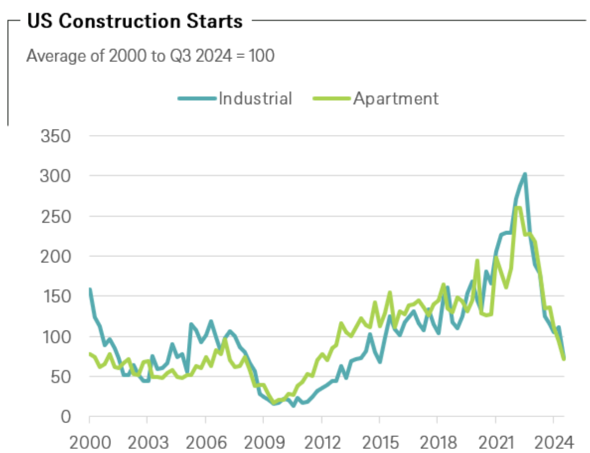
Despite these challenges, we maintain our position that this could prove to be an exceptional period to deploy capital into the global real estate market, with returns well above the historical average. This is quite typical of a recovery period, and importantly we're already seeing many indications of this. Return indices in Europe and the US have turned positive, global transaction volumes in the second and third quarter of 2024 saw a marginal year-on-year improvement, and across an increasing number of markets yields have stabilised, and in some cases are now starting to compress.[1] The REIT market also provides some comfort that the momentum could continue into 2025. Often a lead indicator for the performance of the direct market, global REIT prices – despite a weak December - were up 5% over the second half of 2024.[2]

We should be careful at this point not to assume that the market bursts back into life. History suggests that this is unlikely, while delinquencies and recent fundraising figures show it could take some time for momentum to build and broaden across capital markets. And while we strongly expect interest rates to be cut further, particularly in Europe, the impact may well be lagged, with liquidity initially concentrated on a select number of gateway cities and favored sectors. When liquidity does return a market may move quickly. This has been evident in places such as the City of London, where even office yields look to be down 25-50 basis points since the start of 2024.[3]

Setting aside the uncertainties of interest rates and capital markets, the outlook for occupier fundamentals only improves. While it's true that vacancy ticked up last year, development starts have plunged across much of the globe, and unless we see a marked increase in capital values, or a material reduction in construction costs, we think it unlikely we will see a considerable increase in development, leaving us with the prospect of lower vacancy and widespread shortages of high-quality space. Top-end rents are smashing previous highs and look well set for a strong run through to the end of the decade.

Global Supply Outlook





Source: DWS, Macrobond, CBRE, December 2024

With the global real estate market now in recovery, we see 2025 as a year of opportunity, risk, and also frustration. For those with access capital and an investment pipeline the year sets the scene for a sustained period of above average performance, but mistake can still be made. The political and the macro environments are volatile, structural factors continue to play out, while the divergence in real estate performance appears set to widen. Market, sector, and asset selection will, as always, be crucial.

[1] MSCI, ANREV, INREV, NCREIF, December 2024
[2] Macrobond, January 2025
[3] DWS, Broker Sources, December 2024

2 / Investment Strategies

Our focus remains on industrial and residential. Not without their challenges in recent years, such as rising industrial vacancy and increased residential regulation, we remain convinced that structural demand drivers and a modest supply outlook could continue to drive performance for the foreseeable future. And while we see opportunities across the other main sectors – and increasingly emerging niche sectors – our positive outlook is less uniform. Where we may see opportunities for investment in Sydney office, the same cannot be said for San Francisco, and while US retail is one of our strongest performing sectors globally, German, and French shopping centres have over the past year continued to lose value.

Across all sectors it's important to see beyond the headlines, looking for opportunities within niches and subsectors, where structural drivers may be running hottest, and supply-demand imbalances most acute. US suburban residential over high-rise reflecting changing working patterns and demographic trends, European PBSA to capture the growth of international students in Germany and the Netherlands, new-build industrial in North Asia in the face of shortages and aging stock.

We expect all three regions to go through a period of recovery over the coming five years. Having already seen a resumption in positive total returns, Europe and the US are expected to lead, with APAC a few quarters behind due in part to Japanese office only now entering a period of modest price correction.[4] And while overall our forecasts do suggest that absolute returns in Europe and the US may outperform, in no way does this suggest a lack of opportunities in APAC. In all three regions we see compelling opportunities for both domestic and global capital to consider investment in the real estate sector.

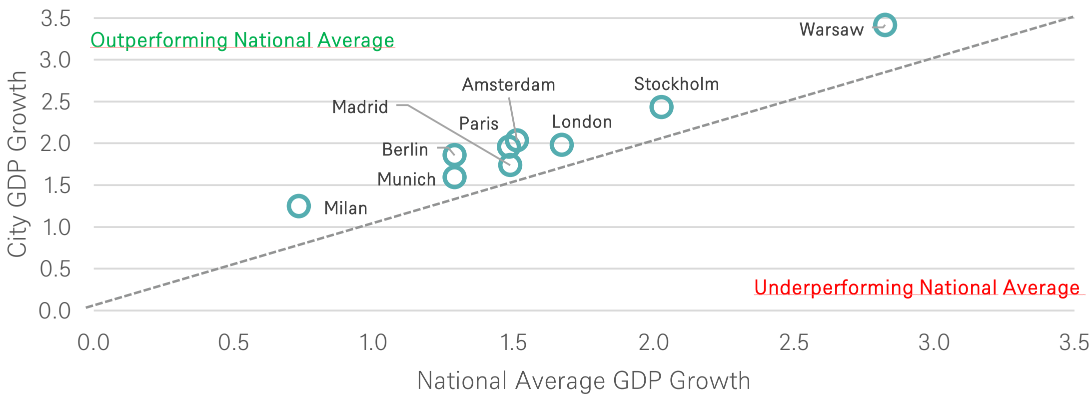
Weaker European macro but much lower rates. Focus on high quality assets in fast growing, supply constrained cities.
The overall macroeconomic weakness shouldn't necessarily deter investment in the European market. On the contrary, with many of the major cities growing substantially faster than the average[5], the headline reduction in national economic growth and subsequent cuts in interest rates to follow, and euro weakness could provide an intriguingly positive backdrop for real estate investment. This is particularly so, as many of these cities, with high barriers to supply, are exhibiting shortages of high-quality stock, shortages which we believe could only get worse over the coming few years.

Germany exemplifies the bumpy recovery. With sentiment downbeat, you could easily overlook the potential of the country. However, the country remains one of our top picks on a risk-adjusted basis as fundamentals remain exceptionally healthy. Cities like Berlin, Paris, London, and Amsterdam are set to lead the recovery, but with some gateway cities already seeing yield compression, we shouldn't overlook opportunities in less liquid markets such as Dublin and Warsaw, where despite strong fundamentals, pricing is, on a relative basis, becoming increasingly attractive.

Our sector outlook remains largely unchanged. The low availability of high-quality logistics persists, despite a recent uptick in new supply, and with new starts falling, this is set to create a fiercely competitive landscape in places such as the Benelux, Paris, the Central and Eastern Europe (CEE), and Italy. Residential continues to be the most supply constrained sector, with no imminent solution. We prefer new-build assets in major city commuter locations – particularly in Germany, Spain, and Denmark – senior housing in the Netherlands and Germany, and student housing in Germany, Spain, and Italy. Europe Living also presents a compelling value-add options. Strong fundamentals, coupled with pricing correction, create a unique window for living-to-living refurbishments, and (re)-development of obsolete assets, unlocking their full potential.

[4] ANREV, INREV, NCREIF, December 2025
[5] Oxford Economics, December 2024

European GDP Growth Forecast by Country and Major City (2025-29)



Source: DWS, Oxford Economics, December 2024

US industrial, residential, and retail properties, and markets in the Sun Belt and Mountain West in focus. The US economy has confounded expectations, sustaining strong growth and creating jobs, while successfully bringing inflation back down towards target. With the dollar strengthening and interest rates expected to stay higher for longer, this could potentially deter some international investors – particularly when the uncertainty of the November election and future policy changes are added into the mix.

However, we take the view that the consequences of the election would be relatively benign for the real estate sector, and while there may be specific areas of disruption, notably around higher tariffs, on balance the outlook for the US market looks strong. While office may drag on performance for much of the rest of the decade, the return outlook for industrial, retail and apartments are expected to be well above historical average levels.

Geographically, we generally favor the Sun Belt and Mountain West. Many of the markets in these regions are digesting elevated supply, but demand – driven by an influx of cost-conscious households who are retired or working from home, satellite offices, or relocated corporate headquarters – remains robust.

After seven straight years in the pole position, industrial has recently slipped behind retail from a total return perspective. Looking forward, we remain confident in both sectors, although the risk of tariffs could shift spending from goods to services, stifling port-related demand, while boosting service-led retail. A clampdown on immigration could depress household formation; but high mortgage rates may channel demand into rentals while construction starts have tumbled.

Finally, we believe, high yields, attractive relative spreads, and limited competition from banks have created favorable conditions for real estate debt investors.

APAC recovery lagging but outlook for Australia and Korea attractive. Very strong industrial rental growth projected. APAC has tended to underperform over the past twelve months due in part to a delayed revaluation of assets in Korea and Australia, and as the Japanese bull run finally came to an end. Despite this, we're now increasingly confident that the region is closing in on recovery, with interesting opportunities in Sydney and Seoul, and across the industrial and residential space.[6]

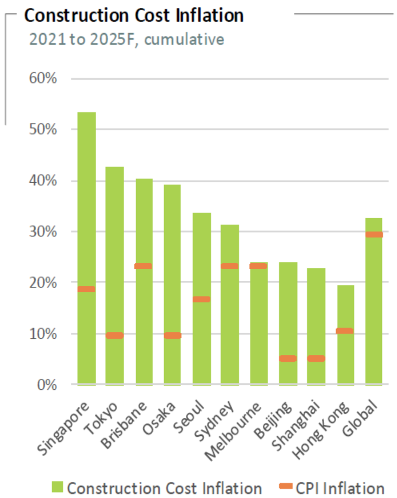
[6] ANREV, INREV, NCREIF, December 2025

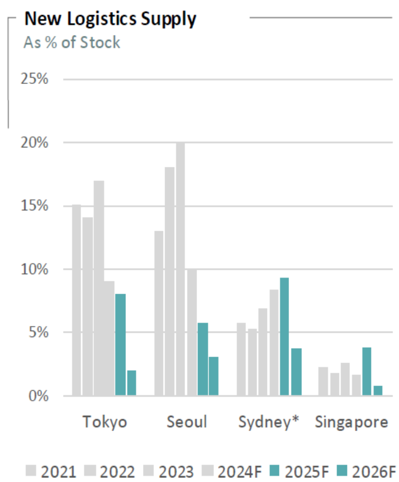
Australia is still projected to be one of our top performing markets globally, with population and GDP growth expected to be some of the strongest across all markets we cover globally. Sydney stands out, a sharp reduction in development, low vacancy across both residential and logistics, and an office market that has undergone a major price correction.

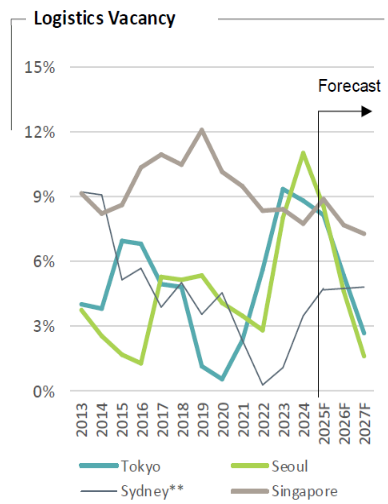
Notwithstanding recent political events, Korea also presents well. Seoul office remains one of the most robust globally, with low vacancy and annual rental growth of more than 3% forecast for the next five years.

Even more impressive is the outlook for logistics, a story which repeats itself across much if the region outside of China. Vacancy may be running near cyclically high levels in both Seoul and Tokyo, but with new supply in 2025 and 2026 projected to be only a fraction of previous deliveries – reflecting the current disconnect between market and breakeven development rent – we project a sharp pull back in vacancy and five-year annual average rental growth of more than 5% in both markets.

APAC Logistics







F=Forecast. There is no guarantee the forecasts shown will materialize. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.
Source: DWS, Turner & Townsend, Colliers, JLL, CBRE, R Square. As of December 2024. * Sydney reflects Central West Sydney and Outer West Sydney. ** Weighted average vacancy Central West Sydney and Outer West Sydney

Real Estate Research Team

Office Locations

Frankfurt
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London
45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York
875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco
101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore
One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo
Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minssato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney
Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA
Global Co-Head of Real Estate Research

Simon Wallace
Global Co-Head of Real Estate Research

Americas

Brooks Wells
Head of Research, Americas

Liliana Diaconu, CFA
Office & Retail Research

Ross Adams
Industrial Research

Sharim Sohail
Self-Storage Research

Europe

Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

Tom Francis
Property Market Research

Siena Golan
Property Market Research

Rosie Hunt
Property Market Research

Carsten Lieser
Property Market Research

Martin Lippmann
Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu
Head of Real Estate Research, Asia Pacific

Seng-Hong Teng
Property Market Research

Hyunwoo Kim
Property Market Research

Matthew Persson
Property Market Research

AUTHORS

Simon Wallace
Global Co-Head of Real Estate Research

Kevin White
Global Co-Head of Real Estate Research

Important information

For North America:

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services.

This material was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. It is intended for informational purposes only. It does not constitute investment advice, a recommendation, an offer, solicitation, the basis for any contract to purchase or sell any security or other instrument, or for DWS or its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. Neither DWS nor any of its affiliates gives any warranty as to the accuracy, reliability or completeness of information which is contained in this document. Except insofar as liability under any statute cannot be excluded, no member of the DWS, the Issuer or any office, employee or associate of them accepts any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage whether direct, indirect, consequential or otherwise suffered by the recipient of this document or any other person.

The views expressed in this document constitute DWS Group's judgment at the time of issue and are subject to change. This document is only for professional investors. This document was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. No further distribution is allowed without prior written consent of the Issuer.

Investments are subject to risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

An investment in real assets involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

For Investors in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the document contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group, you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates, and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For EMEA, APAC, LATAM & MENA:

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation, or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models, and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness, or fairness of such information. All third-party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.
DWS does not give taxation or legal advice.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, including the United States, where such distribution, publication, availability, or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Issued in the UK by DWS Investments UK Limited which is authorised and regulated by the Financial Conduct Authority (Reference number 429806).

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

For investors in Taiwan: This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed, and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction, or transmission of the contents, irrespective of the form, is not permitted.