Marketing Material*

September 2020 / Research Report

GLOBAL REAL ESTATE STRATEGIC OUTLOOK

Table of Contents

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1 / Key Points

- COVID-19 leveled a heavy blow to the global economy in March and April. A recovery took hold in May and gathered pace through June and July. Still, world GDP is expected to contract 4% in 2020, the most since the Great Depression, with steeper declines anticipated in most developed economies.

- The impact on global real estate prices has been limited so far. We expect to see more weakness in the second half of the year. However, we believe that attractive relative yields will help to contain the downside and pave the way for a respectable rebound.

- We expect that performance will diverge substantially across sectors, markets, and assets. We favor the industrial and apartment sectors, cities with strong technology drivers, and lower-risk assets.

- We do not have strong regional preferences. In the near-term, countries that have more successfully contained the virus, primarily in Asia, may outperform. However, valuations and greater exposure to the industrial and apartment sectors may favor the U.S. and Europe over the medium term.

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2 / Global COVID Recession

The global proliferation of COVID in the early months of 2020 triggered a collapse of economic activity as anxiety and lockdowns caused businesses and consumers to retrench. GDP fell 5% year-over-year in the second quarter on a global basis, the steepest drop since the Great Depression. The drop was larger in the U.S., Germany, and Japan (10%) and larger still in France (15%) and the United Kingdom (20%).[1]

Policymakers responded with unprecedented stimulus, slashing interest rates to zero (lower in Europe and Japan), buying mountains of debt, and providing income support to businesses and households totaling about 10% of GDP (more in the U.S., less in Europe).[2] Coupled with an easing of lockdowns, these measures supported a recovery in May that gathered momentum into June and July (see Exhibit 1).

EXHIBIT 1: COMPOSITE PMI

	JAN 2020	FEB 2020	MAR 2020	APR 2020	MAY 2020	JUN 2020	JUL 2020
WORLD	52.1	46.1	39.2	26.2	36.3	47.8	50.8
UNITED STATES	53.3	49.6	40.9	27.0	37.0	47.9	50.3
EUROZONE	51.3	51.6	29.7	13.6	31.9	48.5	54.9
FRANCE	51.1	52.0	28.9	11.1	32.1	51.7	57.3
GERMANY	51.2	50.7	35.0	17.4	32.3	47.0	55.3
UNITED KINGDOM	53.3	53.0	36.0	13.8	30.0	47.7	57.0
JAPAN	50.1	47.0	36.2	25.8	27.8	40.8	44.9
SPAIN	51.5	51.8	26.7	9.2	29.2	49.7	52.8
ITALY	50.4	50.7	20.2	10.9	33.9	47.6	52.5
CHINA	51.9	27.5	46.7	47.6	54.5	55.7	54.5

LEGEND: >50 and increasing; >50 and falling or unchanged; <50 and increasing or unchanged; <50 and falling

Source: Bloomberg. As of July 2020. Past performance is not indicative of future results.

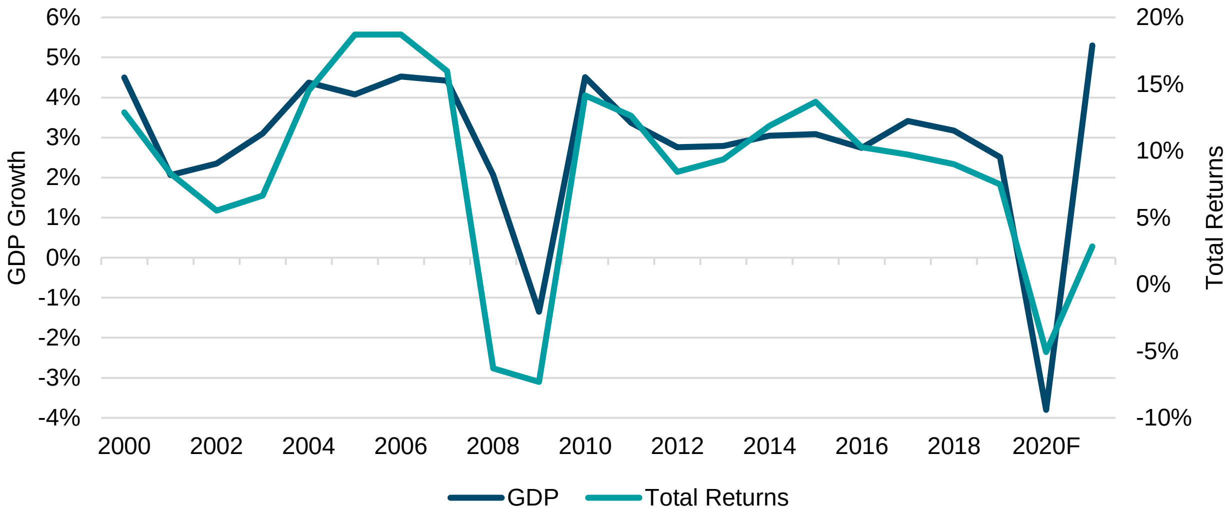
We believe that the recovery will remain on track on the assumption that authorities will not reinstate draconian lockdowns and will continue to provide ample fiscal and monetary support. Yet neither of these conditions is assured. Moreover, after an initial bounce, the recovery could slow as certain industries, such as travel and entertainment, struggle to revive. We therefore expect GDP growth of -4% globally in 2020, ranging from around -10% in southern Europe, the UK and France (due to various combinations of smaller stimulus, more infections, and greater exposure to tourism) to -6% in the U.S. (larger stimulus) and Germany (fewer infections) to +2% in China (earlier reopening).

[1] Oxford Economics. As of June 2020.
[2] Moody's Analytics. As of August 2020.
Unless otherwise noted, source is the Alternatives Research & Strategy team.

3 / Impact on Global Real Estate

Real estate performance is inextricably tied to the economy, primarily via its impact on occupational demand. Indeed, global real estate returns have exhibited a 0.85 correlation to world GDP growth over the past 20 years (see Exhibit 2). To be sure, factors such as existing vacancy rates, new supply, valuations, and financial conditions influence the amplitude of real estate cycles. But with respect to timing, the economy is paramount.

EXHIBIT 2: GLOBAL GDP GROWTH AND REAL ESTATE TOTAL RETURNS (2000-2021F)



Sources: Oxford Economics (GDP); DWS (total returns). As of August 2020.
Notes: F = forecast. Past Performance and forecasts are not reliable indicators of future returns. No assurance can be given that any forecast or target will be achieved. Forecasts are based on assumptions, estimates, opinions, models and analysis which may prove to be incorrect.

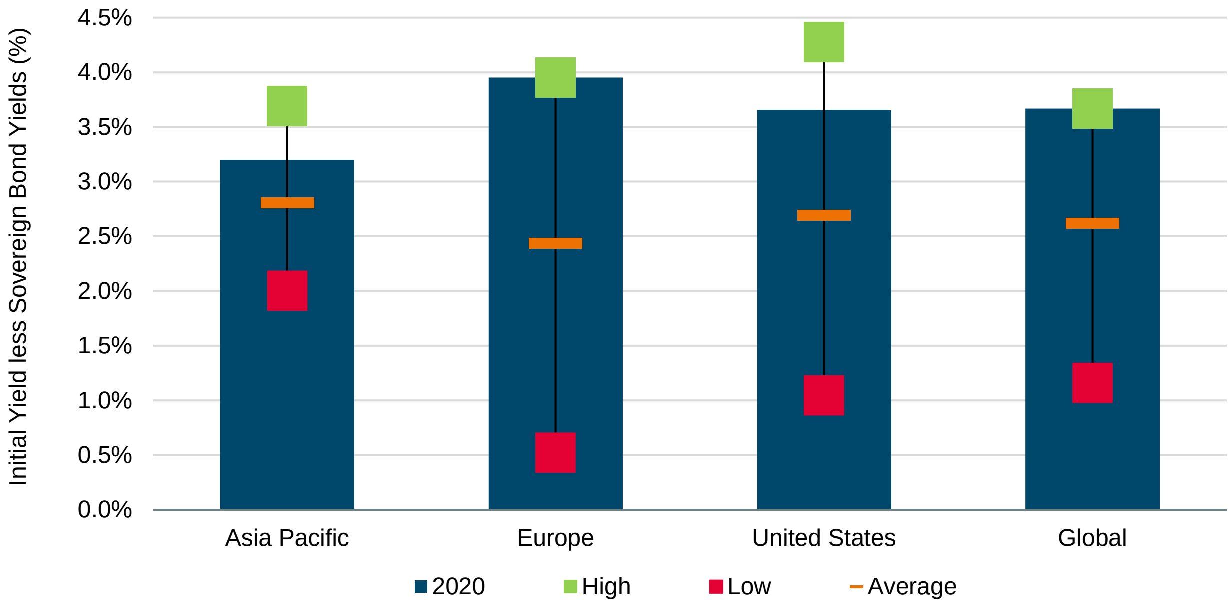
It is all the more remarkable, therefore, that at least on the surface, real estate pricing appear to have been scarcely affected by the crisis. To be sure, after a 40% plunge and subsequent rebound, listed REITs ended August nearly 20% below January levels.[3] But direct real estate transaction prices hardly moved, falling by less than 2% in Asia and holding steady or rising slightly in the U.S. and Europe.[4]

The explanation lies in the fact that real estate transactions largely evaporated in the second quarter, falling 50% year-over-year globally (30% in Europe and Asia and 70% in the U.S.). Initially, travel restrictions impeded investors' ability to tour potential acquisitions. As transactions dwindled, it became difficult to assess fair market values, further inhibiting investor confidence. We believe that the stalemate will break in the second half of 2020 for three reasons: First, travel restrictions should gradually ease, allowing for more property tours. Second, low interest rates should fuel demand for secure, cash-flowing properties from levered and yield-seeking investors. Third, distress among more troubled assets should lead to foreclosures and forced sales. Rising transaction volume forecasted later this year and into 2021 should provide greater clarity around the impact of the crisis on real estate prices.

[3] Bloomberg. As of August 2020.
[4] Real Capital Analytics. As of June 2020.
Unless otherwise noted, source is the Alternatives Research & Strategy team.

How severe will it be? There is no denying that the COVID-19 recession, a synchronized global downturn unparalleled since the Depression, will exact a toll on real estate performance. However, in our view the downturn will be mitigated by several factors: First, outside of retail, real estate markets generally entered the recession on a strong footing, exhibiting low vacancy rates and moderate levels of new construction.[5] Second, although the recession has been sharp, it may also prove unusually short, and by providing abundant income support, policymakers have preserved tenants' ability to pay rent in the interim.[6] Third, low interest rates have bolstered the relative attractiveness of real estate yields — spreads to sovereign bond yields are well above historical norms, and in most cases near all-time highs (see Exhibit 3). Overall, we expect that real estate prices will fall about 10% globally, less than half as much as during the Global Financial Crisis. After the near-term correction, the combination of an improving economy, modest supply (as developments are delayed), and attractive valuations is expected to propel price increases of 3%-4% and total returns approaching 10% annually through mid-decade.

EXHIBIT 3: REAL ESTATE YIELD SPREAD TO SOVEREIGN BOND YIELD (2000-2020)



Sources: Bloomberg (sovereign bond yields); DWS (initial yields). As of July 2020.
Notes: Past Performance and forecasts are not reliable indicators of future returns. No assurance can be given that any forecast or target will be achieved. Forecasts are based on assumptions, estimates, opinions, models and analysis which may prove to be incorrect.

[5] CBRE-EA (U.S.); JLL (APAC); PMA (Europe). As of June 2020.
[6] Moody's Analytics. As of August 2020.
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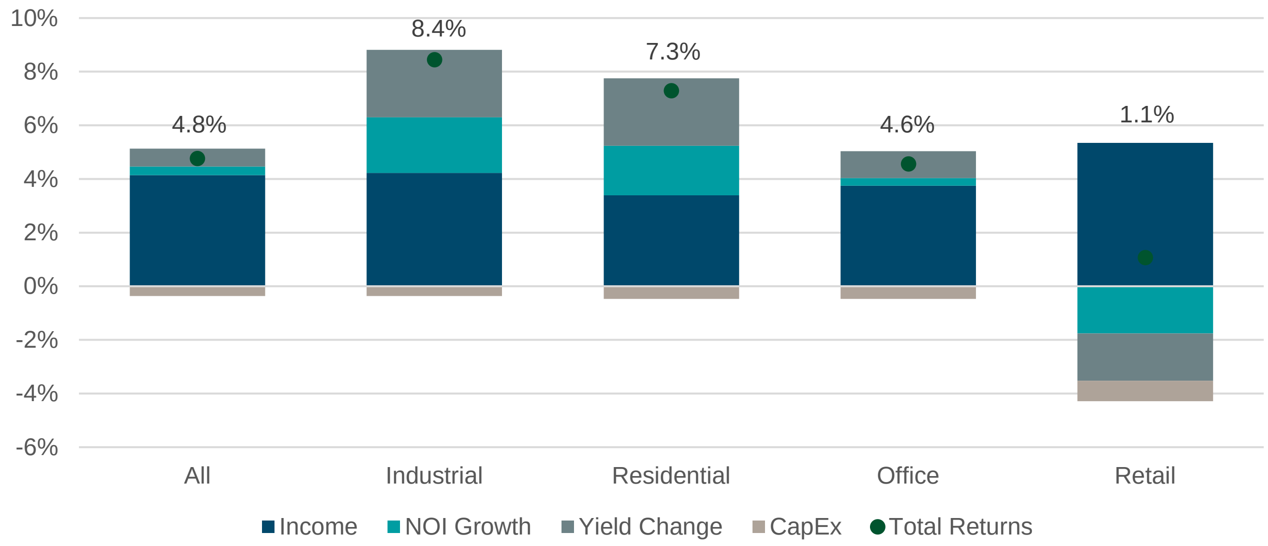
4 / Investment Outlook and Strategy

While the economic and capital markets backdrop points to a moderate decline in real estate prices followed by a solid recovery, the reality for investors is more nuanced. Even more than during previous recessions, the COVID crisis is expected to produce a wide dispersion across sectors, geographies, and assets.

Sectors: We favor Industrial and Residential over Retail and Office

Well before COVID, the relentless growth of e-commerce had reverberated through the ***industrial*** and ***retail*** sectors as stores closed and suppliers scrambled to build out their home-delivery networks. While total returns to industrial property were about 14% in 2019 globally (uniformly across regions), retail returns were roughly flat (negative in Europe and slightly positive in the U.S. and Asia). By all accounts, the COVID crisis has massively reinforced this trend: In the U.S., e-commerce soared 44% year-over-year in the second quarter of 2020 even as total retail sales (excluding autos) slid 8%. E-commerce jumped from 12% to 18% of sales in just six months. This growth will likely slow as stores reopen. Still we suspect that many consumers have acclimatized to purchasing more products online, delivering a lasting boost to industrial real estate at the expense of retail property (see Exhibit 4).

EXHIBIT 4: TOTAL RETURNS BY SECTOR (2020-2024F)



Source: DWS. As of August 2020.
Notes: F = Forecast. Past Performance and forecasts are not reliable indicators of future returns. No assurance can be given that any forecast or target will be achieved. Forecasts are based on assumptions, estimates, opinions, models and analysis which may prove to be incorrect.

COVID has not only fueled online buying; online working has surged as well. For the most part, corporate tenants have continued to pay rent even if they have not been using their space.[7] But there is an active debate about whether homeworking will permanently reduce demand for ***office*** space over time as leases expire. We believe this view is speculative. Although recent experience may prove that remote working is possible, it is not necessarily optimal: morale and productivity might suffer

[7] NCREIF. As of June 2020.
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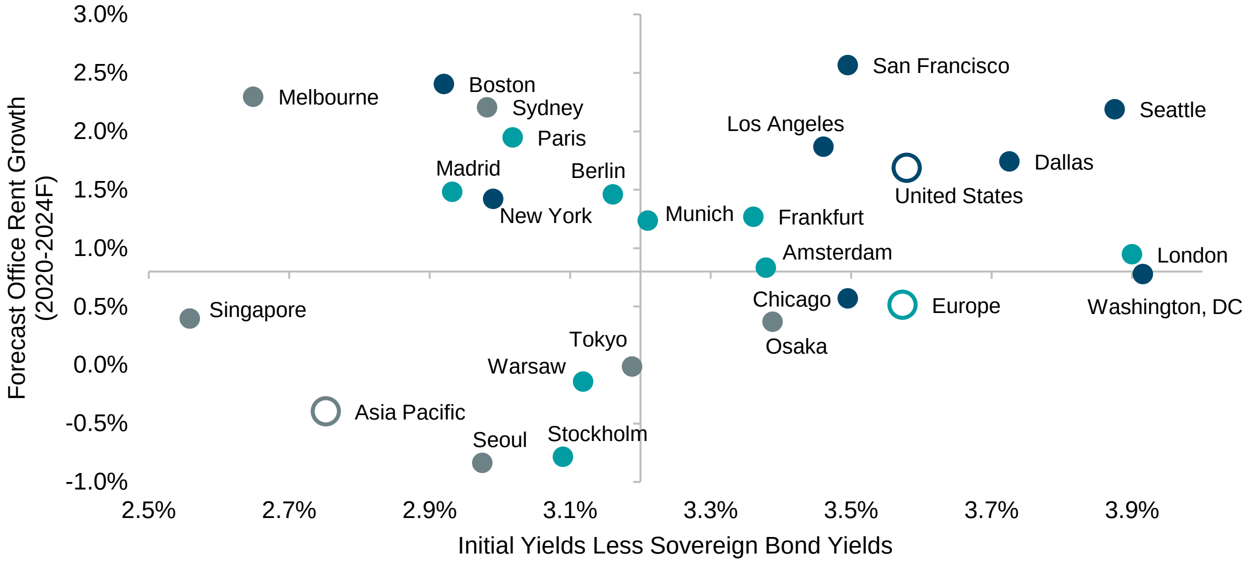
from isolation and household distractions. Moreover, social distancing could induce employers to de-densify their office layouts, offsetting any drag from lower on-site headcounts. Even so, we remain cautious. While rumors of the office building's death may be exaggerated, the sector is still expected to succumb to bankruptcies and job losses, as in past recessions.

Conversely, ***residential*** real estate has typically proved more resilient in recessions as jobless households have tapped savings or government or family support to remain in their homes. We believe that this time will be no different, and the sector should also draw support from the chronic undersupply of new housing in most industrialized countries (where homebuilding is less than half what it was in the 1960s).[8] True, low mortgage rates could siphon some renters into homeownership. But in general, we believe that high home prices, onerous deposit requirements, and a recessionary aversion to long-term financial commitments will sustain demand for rental units.

Geographies: Technology in focus

Online shopping, working from home, and social networking — the COVID crisis has underscored the degree to which society and the economy depend on technology as never before. Within the U.S., the tech-heavy NASDAQ's 30% year-to-date gain through August (vs. 8% for the S&P 500) testifies to the remarkable faith investors have placed in this industry. From a real estate perspective, the corollary is that cities with outsized exposure to technology may be well positioned to prosper. More tech employees may work remotely, but not enough, in our view, to negate the positive momentum. Several tech-oriented markets around the world appear to provide an attractive combination of yield and potential rent growth, including Sydney, London, Berlin, Amsterdam, Boston, San Francisco and Seattle (see Exhibit 5).

EXHIBIT 5: OFFICE YIELD SPREADS AND FORECAST RENT GROWTH (2020-2024F)



Sources: Bloomberg (sovereign bond yields); NCREIF, PMA, JLL (real estate yields); DWS (rent growth). As of July 2020.
Notes: F = Forecast. Past Performance and forecasts are not reliable indicators of future returns. No assurance can be given that any forecast or target will be achieved. Forecasts are based on assumptions, estimates, opinions, models and analysis which may prove to be incorrect.

[8] The Economist. January 16, 2020.
Unless otherwise noted, source is the Alternatives Research & Strategy team.

More broadly, we do not hold a strong regional preference at this time. In the near term, Asian countries that have more successfully contained the virus, including South Korea, China and Australia, may prove more resilient. Over the medium-term, however, relative performance may favor Europe and especially the U.S., where yields may be slightly more attractive and the more buoyant industrial and residential sectors constitute a larger share of the investable universe. Nevertheless, we believe that investment performance will hinge more on sector, market, and asset selection than broad regional allocation over the next few years.

The last few months have stressed the importance of portfolio diversification from a risk perspective. However, we believe most investors may also be able to achieve higher absolute returns by allocating a share of capital outside of their home market. This is particularly the case for Swiss, Chinese and Japanese capital where our projections for below average domestic returns and recent declines in hedging costs have boosted the relative attractiveness of markets such as Australia, Korea, Europe and the United States.

In this context, the United Kingdom and the United States stand out in particylar as attractive locations for cross-border investment. Both markets have gained over the past six months from a much reduced hedging drag, while a higher than average income yield in the United Kingdom and above average medium-term rental growth in the United States place both markets in a strong position for the coming years. In the case of the United Kingdom some investors may wish to wait until the end of the current Brexit transition period and trade talks, however in the event of a successful trade deal with the European Union today's income premium may be quickly eroded.

Asset Selection: Seeking durable cash flows

Although the global economy appears to have turned the corner, the full impact on real estate has not yet materialized. Moreover, the durability of the recovery is subject to risks including the spread of COVID, the timing of any vaccine, and policy support for the economy. In this context, we believe that it is prudent to maintain a defensive posture. This does not mean eschewing all risk: lease-up or development projects may be advisable in the industrial and residential sectors, given their structural tailwinds. However, we would generally favor assets occupied by strong tenants on long-term leases. These assets may provide little cash-flow upside and may be no cheaper than before the crisis. Yet they should offer downside protection against more adverse economic outcomes and have the potential to appreciate should property yields decline in response to lower interest rates.

Environment Social Governance (ESG)

A small but growing number of regulators are establishing minimum energy efficiency standards for commercials buildings[9] including the UK, France, Netherlands, Belgium, and the U.S. cities of New York, Reno, St Louis, Washington DC and Washington State. Additionally, 33 major U.S. cities[10] require public benchmarking of existing buildings' energy efficiency with some also setting performance targets or requiring building improvements. We expect that regulatory requirements on buildings will continue to expand as governments seek to stimulate job creation, improve energy efficiency and reduce carbon emissions and as more investors advocate for stronger policies that support net zero portfolio targets.

[9] Regulatory Assistance Project, June 2020. https://www.raponline.org/knowledge-center/filling-the-policy-gap-minimum-energy-performance-standards-for-european-buildings/
[10] Institute for Market Transformation, May 2020. https://www.imt.org/resources/map-u-s-city-and-county-benchmarking-policies-for-existing-private-buildings/
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Investments in Real Estate are subject to various risks, including but not limited to the following:

_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.

An investment in real estate 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.

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