

U.S. Real Estate Strategic Outlook

December 2024

IN A NUTSHELL

- U.S. real estate turned a corner in 2024 as prices stabilized and fundamentals strengthened.¹
 - The November 2024 election sparked debate about its implications for real estate. We believe that the impact will be modest, contingent on the scope and timing of prospective policy changes.
 - Assuming a stable macroeconomic environment, we believe that real estate is positioned to perform well, underpinned by solid income returns and robust rental growth.
 - We favor sectors and geographies supported by structural drivers. In general, these include industrial, residential, and retail properties, and markets in the Sun Belt and Mountain West.
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1 / Real Estate Outlook

The third quarter of 2024 marked an important inflection point for U.S. real estate, as total returns turned positive for the first time in eight quarters.² The uptick followed other pricing measures that moved higher earlier in the year.³ Listed REITs, a sometimes-useful harbinger of private markets (they signaled looming threats in early-2022), produced 10% (year-to-date) and 34% (trailing 12 months) returns in October (see Exhibit 1).⁴

¹ GSA (prices); CBRE-EA (fundamentals). As of September 2024.

² NCREIF. As of September 2024.

³ GSA. As of October 2024.

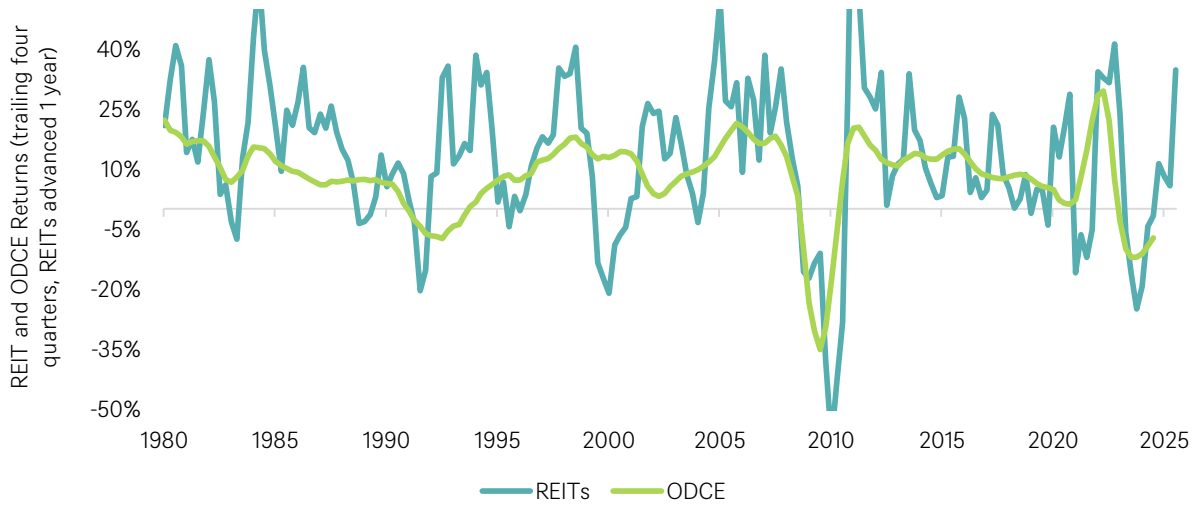
⁴ NAREIT. As of October 2024.

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EXHIBIT 1: Private Real Estate (ODCE) And REIT Total Returns



Sources: NAREIT (REITs); NCREIF (ODCE). As of September 2024.

The improvement was not confined to prices and returns. Underlying fundamentals, which entered a soft patch in mid-2022, also firmed.⁵ Vacancy rates for strip retail centers reached historic lows (since 2005).⁶ In the apartment sector, they fell back to their 20-year average, thanks to surging demand (the strongest in 24 years, excepting an anomalous 2021 bounce).⁷ Even the beleaguered office sector delivered positive (albeit modest) demand and stable (but still elevated) vacancies for a second consecutive quarter.⁸ The singular exception was the industrial sector, where leasing remained lackluster, although vacancies remained low by historical standards.⁹ Across core real estate, net operating income (NOI) increased 4.7% (year-over-year) in the third quarter, twice the rate of inflation.¹⁰

Fundamentals notwithstanding, much of the recovery can be attributed to falling interest rates, in our view. Anticipating easier monetary policy as inflation cooled, 10-year Treasury yields slid from 5% in October 2023 to 3.6% in September 2024.¹¹ Lower interest rates improve the appeal of real estate income and reduce financing costs for levered investors. By supporting the stock market, they also fuel appetite from institutional investors (seeking to maintain relative real estate allocations) and REITs (enjoying a lower cost of capital).¹²

Just as the real estate recovery took shape, the November 2024 elections cast uncertainty over the outlook. Treasury yields reversed course in mid-September, moving above 4% in October on rising expectations (we believe) of a Trump victory.¹³ This begs the question: Will the Republican sweep help or hinder the nascent real estate recovery?

From our perspective, conventional wisdom appears to hold that a program of deregulation, tariffs, tax cuts, and curbs on immigration will fuel modestly higher economic growth, inflation, and interest rates. Yet conventional wisdom could be

⁵ CBRE-EA. As of September 2024.

⁶ CBRE-EA. As of September 2024.

⁷ CBRE-EA. As of September 2024.

⁸ CBRE-EA. As of September 2024.

⁹ CBRE-EA. As of September 2024.

¹⁰ NCREIF. As of September 2024.

¹¹ Federal Reserve. As of November 2024.

¹² DWS. As of November 2024.

¹³ Federal Reserve. As of November 2024.

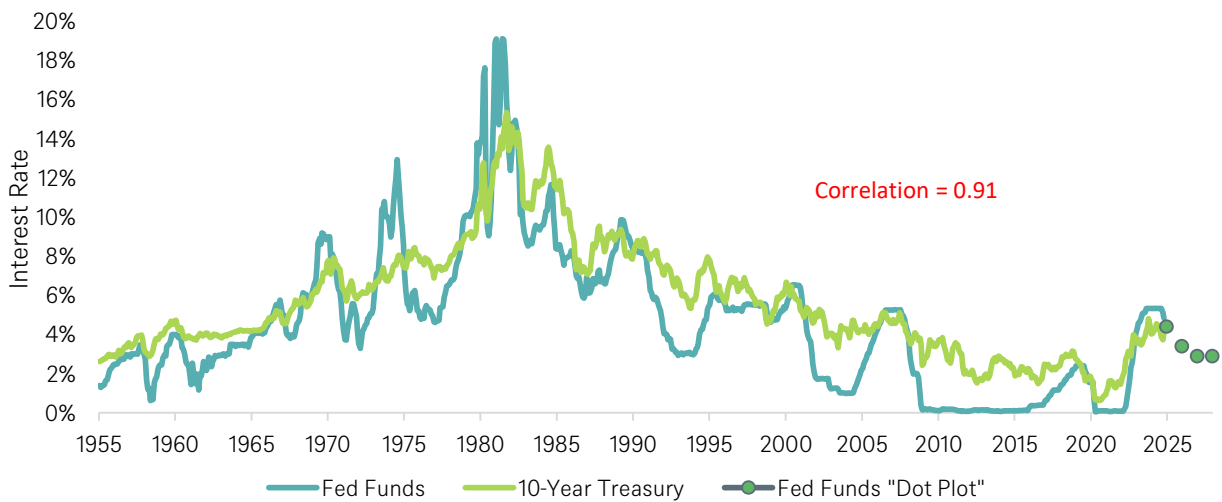
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wrong. True, deficit-financed tax cuts could stimulate the economy and put upward pressure on interest rates (due to more restrictive Federal Reserve (Fed) policy and a higher term premium on longer-dated debt) – unless offset with tariff revenue and spending cuts. Reduced immigration could slow the economy (with fewer workers and consumers) but its impact on inflation is ambiguous (it would weaken both aggregate supply and demand). Tariffs could hurt growth and lift prices, but deregulation and tax cuts (by supporting productivity) could do the opposite.

“Bring me a one-armed economist”, President Harry Truman is reputed to have thundered, “so that he can’t say ‘on one hand’ and then ‘on the other.’”¹⁴ With apologies to President Truman, we believe that the net effects of these countervailing forces are hard to predict. Nevertheless, assuming that conventional wisdom is broadly correct, the consequences for real estate will be benign, in our view.

Start with interest rates. While Treasury yields have risen, credit spreads have also tightened as risk appetite has grown: long-term corporate BAA yields (to which cap rates are closely correlated) ended October about 100 basis points lower than a year earlier.¹⁵ Policy changes may arrest their decline, yet further rate cuts from the Fed – consistent with its forward guidance – will in our view keep long-term rates anchored near current levels (see Exhibit 2). This interest rate scenario is consistent, we believe, with cap-rate stability that would neither buoy nor penalize valuations, while preserving a healthy income return – the highest in a decade – for investors.¹⁶

EXHIBIT 2: FED FUNDS AND 10-YEAR TREASURY RATES



Sources: Federal Reserve. As of October 2024.

Moving to fundamentals, we would first note that prospects have brightened irrespective of political considerations. Demand has generally emerged from a post-COVID lull, while the supply pipeline has evaporated, with construction starts (on a sector-weighted basis) sinking 70% from their mid-2022 peak (see Exhibit 3). Policy could add further support: To the extent that it promotes faster growth (once again, a debatable assertion), we would expect to see stronger real estate demand. Meanwhile,

¹⁴ Quote Investigator. As of November 2024.

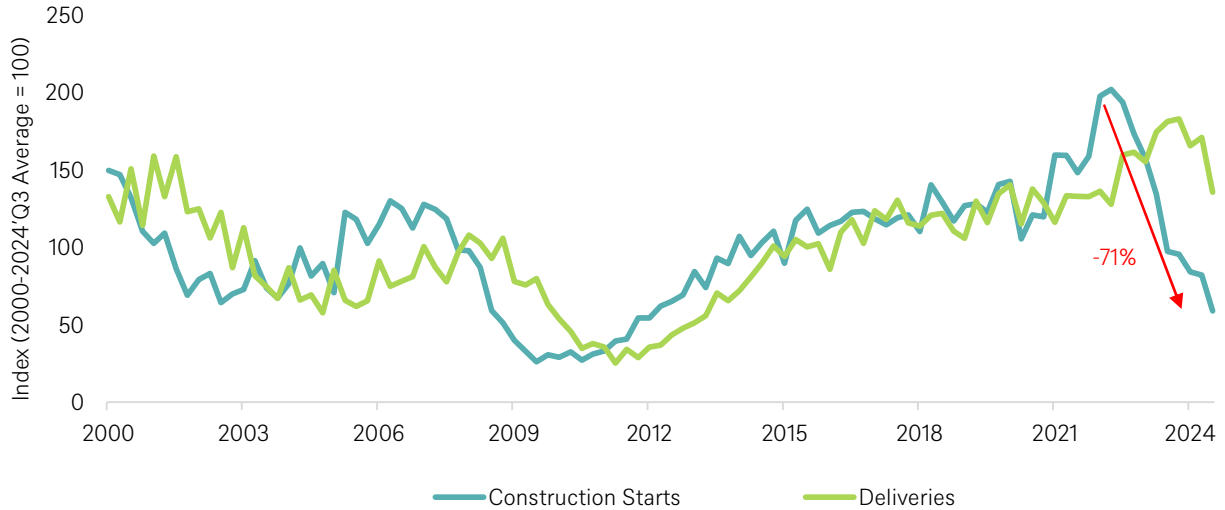
¹⁵ Moody's. As of November 2024.

¹⁶ NCREIF. As of September 2024.

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a combination of higher tariffs (particularly on politically salient items like steel) and tighter immigration (foreigners are disproportionately represented in construction trades) could extend the development hiatus. Tight market conditions will, we believe, drive accelerating rent growth, which will in turn propel capital appreciation even without the support of falling cap rates.

EXHIBIT 3: CONSTRUCTION STARTS AND DELIVERIES



Weights: Industrial (35%), Multifamily (30%), Office (20%), Retail (15%).
 Source: CoStar (starts, deliveries) & DWS (calculations). As of September 2024.

Elections have added a layer of uncertainty to the outlook. Ultimately, whether policy helps or hinders the real estate market will depend on the scope and timing of any changes. Under a baseline scenario, however, where growth and interest rates receive a minor lift, we believe that the impact will be modest overall – forestalling cap-rate-compression but reinforcing income returns and rent growth. In short, we believe that the real estate recovery that began in 2024 will remain intact.

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2 / Investment Strategy

For several years (since before COVID), our investment strategy has underweighted the office sector and overweighted the industrial and residential sectors, while gradually increasing its allocation to the retail sector. Within sectors, we have targeted infill logistics, lower-density housing, and grocery-anchored strip centers. Geographically, we have generally favored markets in the Sun Belt and Mountain West.

The premise behind this strategy is straightforward. Investment performance is mostly driven by supply and demand. There are times when the former can outrun the latter, causing rents and returns to falter. Recent examples include the industrial and residential sectors, especially in some Sun Belt markets (e.g., Phoenix and Austin).¹⁷ However, supply is often transitory – witness the recent, near-universal construction slump. Our research indicates that over a 5-10-year horizon – the appropriate lens for investors in semi-liquid private assets, in our view – demand generally predominates.

The key to success, we believe, is to identify important structural drivers and the real estate that is positioned to profit from them. In recent years, these have included the relentless expansion of e-commerce (industrial), the chronic failure of homebuilding to keep pace with household formation (residential), and migration to the south and suburbs (lower-density housing and strip centers). There is nothing immutable about these dynamics. History is replete with examples of trends that eventually fizzled: Consider the 1990s dot-com bubble, which propelled San Francisco and Boston offices, or the 2000s housing boom, which fueled a retail rally. It is therefore incumbent on investors to routinely reassess their assumptions.

In doing so, our conclusion is that the themes animating our strategy remain valid – although subject to risks, not least from the policy environment. Accordingly, we have made only modest changes, trimming our overweight in Industrial, adding to it in Retail, and leaving most market ratings unchanged.

Industrial (Overweight): After seven consecutive years in the pole position, Industrial slipped behind Retail from a total return perspective in 2023 and 2024.¹⁸ Although vacancies remain historically low, they have edged higher amid sluggish leasing and inflated deliveries.¹⁹ We remain confident in the sector: E-commerce, a critical demand driver, has resumed its pre-COVID trajectory (growing at 2-3 times the pace of retail sales), and construction starts are down 76% since mid-2022.²⁰ However, there is a risk that draconian tariffs (not our base case) could shift spending from goods to services and stifle port-related demand (although other markets could benefit from onshoring). In the context of recent demand weakness, we believe this justifies a modest pullback in our allocation, while remaining comfortably overweight.

Residential (Overweight): Apartment absorption was red-hot in 2024, allowing vacancies to fall back despite historic levels of supply.²¹ A clampdown on immigration could depress household formation; however, high mortgage rates (another by-product of the policy agenda) may continue to channel demand into rentals. Meanwhile, multifamily construction starts have tumbled 66% since mid-2022, portending low levels of supply over the next 2-3 years.²² Population growth in the suburbs continues to outpace that in urban areas by a wide margin, as Millennials (mostly in their 30s) seek family-friendly environments, made easier by hybrid working arrangements (see Exhibit 4). In our view, this favors lower-density (suburban) over high-rise (urban) product.

¹⁷ CBRE-EA. As of September 2024.

¹⁸ NCREIF. As of September 2024.

¹⁹ CBRE-EA. As of September 2024.

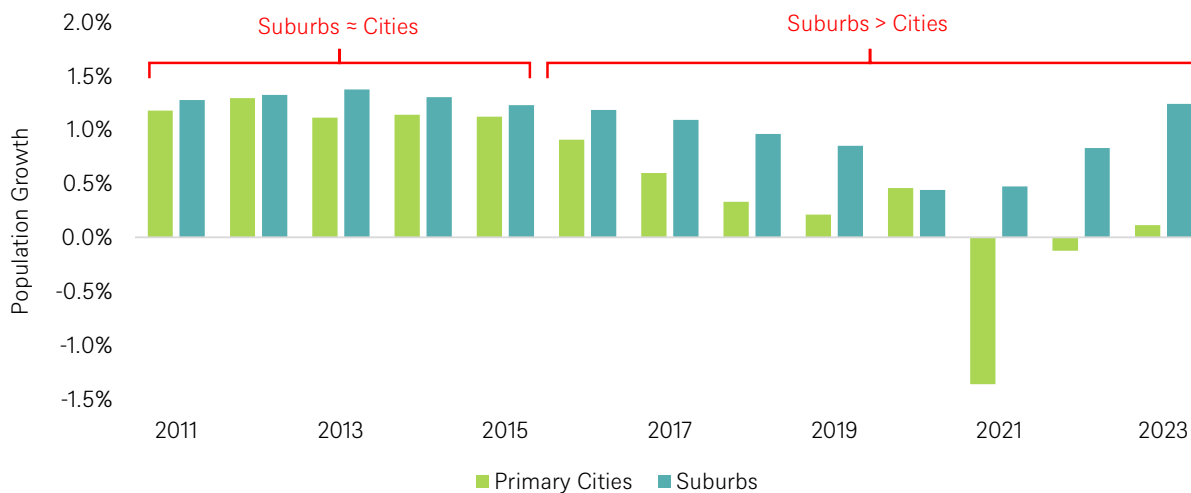
²⁰ Census Bureau (e-commerce, retail sales); CoStar (construction starts). As of October 2024.

²¹ CBRE-EA. As of September 2024.

²² CoSar. As of September 2024.

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EXHIBIT 4: CITY AND SUBURBAN POPULATION GROWTH



Source: Census Bureau, DWS Calculations. As of December 2023.

Retail (Overweight): The retail sector has emerged as an increasingly attractive investment target, in our view. Despite rising e-commerce penetration, demand has remained stalwart, as physical space complements online activities (pickup or delivery from stores) and hosts a proliferation of services (including health care).²³ This trend is most pronounced in strip centers catering to expanding suburban populations who, with remote work, are spending more money closer to home.²⁴ Very low levels of supply and higher yields add to the sector's appeal.²⁵

Office (Strong Underweight): In our view, the office sector will continue to underperform over the near term. Modestly positive absorption in recent quarters suggests that corporate office planning, upended by work-from-home dynamics, has begun to crystalize.²⁶ From a financing perspective, the CMBS market has re-opened as a source of debt capital.²⁷ However, we believe that high vacancy levels and cautious investor sentiment will weigh on rent and value growth for a while longer. Some fast-growing markets and trophy or medical assets may realize earlier recoveries, but we believe that an underweight to the sector remains warranted.

Self-Storage (Market Weight): The self-storage sector has cooled as stagnant home sales have stifled mobility-related demand, and supply sparked by an earlier pandemic boom has completed.²⁸ However, as in other sectors, lower prices and tighter financing have curtailed construction starts.²⁹ Moreover, we believe that remote work, Millennial household formation, and high housing costs will promote increased utilization of self-storage properties over the medium term.

Real Estate Debt (Overweight): Spreads on senior real estate loans are in line with historical averages and well below COVID and Global Financial Crisis (GFC) peaks.³⁰ However, following a rally in listed credit markets, the gap between yields on core real estate debt and A-rated corporate bonds widened to their highest levels on record (since 1990), outside a brief period

²³ CBRE-EA. As of September 2024.

²⁴ CBRE-EA. As of September 2024.

²⁵ CBRE-EA (supply); NCREIF (yields). As of September 2024.

²⁶ CBRE-EA. As of September 2024.

²⁷ GSA. As of November 2024.

²⁸ GSA. As of September 2024.

²⁹ GSA. As of September 2024.

³⁰ ACLI. As of September 2024.

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during the GFC.³¹ In our view, high yields, attractive relative spreads, and limited competition from banks (which account for 50% of outstanding mortgages) have created favorable conditions for real estate debt investors.³²

Markets: 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.³³ In our view, demand will ultimately prevail, driving superior investment performance, as it has over extended periods historically.

³¹ ACLI (real estate debt); Moody's (A-rated bonds); DWS calculations. As of September 2024.

³² Federal Reserve (bank share). As of September 2024.

³³ CBRE-EA. As of September 2024.

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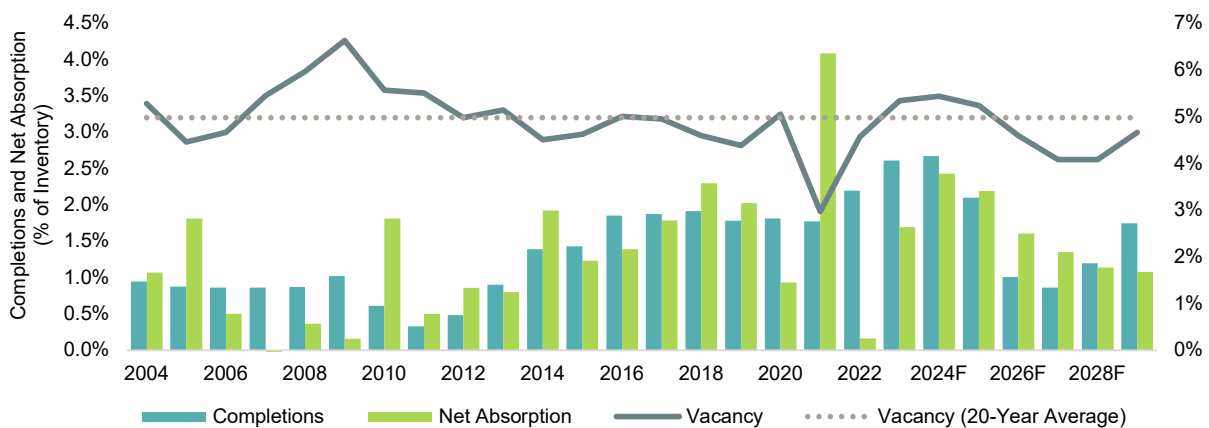
3 / Residential Outlook and Strategy

3.1 Current Conditions

Early signs of an apartment and build-to-rent (“residential”) market recovery are emerging. Residential demand looked quite remarkable in 2024, even as a record number of deliveries hit the market.³⁴ Soaring demand, stimulated by rising household creation, solid wage growth, and a dislocated for-sale housing market, appears to have caught up with record construction. The overall vacancy rate for DWS’s 32 Investable Markets (“Investable Markets”, “Investable Universe”) was 5.2% in September, a 30 basis points decline from the first quarter of 2024.³⁵ This marks a significant milestone as it is the first time in two and a half years that the vacancy rate has fallen (albeit modestly) for two consecutive quarters. This trend suggests that the sector’s vacancy rate may finally stabilize following its steep rise from a record low of 2.4% in the first quarter of 2022.

Asking rent growth for the Investable Universe has been essentially flat for the past two years,³⁶ although the prevalence of discounts and strong renewal activity have created divergent rent trends.³⁷ The increased use of concessions amid supply-driven competition has curtailed rent growth, but stronger gains among lease renewals have helped elevate the overall average. Tenant retention was almost 55% in August 2024, increasing by 150 basis points year-over-year. That momentum supported a 4.0% annual rent increase among lease renewals, compared with a 0.8% drop for new tenants. Renters earning the typical household income devoted 26.1% of their income on the average rental rate in September 2024.³⁸ That rate has been consistently ticking down over the last two years as wage growth has begun to outpace inflation. Generally, households should spend no more than 30% of their gross income on rent, according to the NYU Furman Center.

EXHIBIT 5: Rental Net Absorption And Completions As A % Of Inventory And Vacancy Rate (2004 – 2029)



Source: CBRE-EA; Yardi-Matrix, RealPage(history) / Moody’s Analytics, & DWS (forecast). As of November 2024.
 Note: F = forecast. Aggregate of DWS’s investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

³⁴ CBRE-EA, Yardi-Matrix, CoStar, Real Page, & DWS. As of September 2024.
³⁵ CBRE-EA & DWS. As of September 2024.
³⁶ CBRE-EA, & DWS. As of September 2024.
³⁷ Institutional Property Advisors & DWS. As of September 2024.
³⁸ Yardi-Matrix (rents), U.S. Census Bureau (Median HHI) & DWS. As of September 2024.

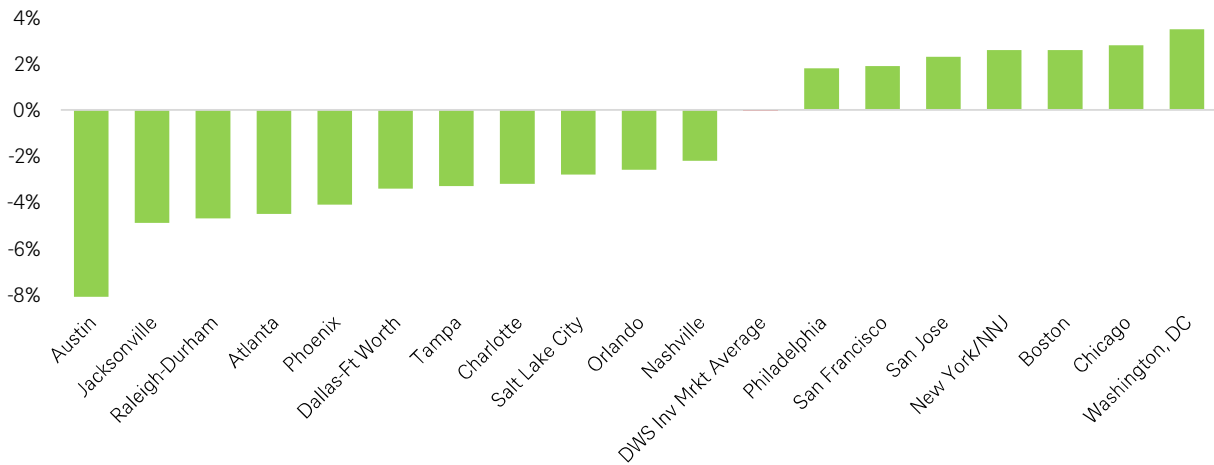
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While the residential sector continues to contend with the delivery of a record number of new units, net absorption shifted gears in the third quarter of 2024, rising to its highest quarterly level since 2021.³⁹ Third quarter demand reached 123,000 units, marking a 71% year-over-year increase, having accelerated for six consecutive quarters. Renter demand reached 275,000 units during the first three quarters of 2024, exceeding every year other than 2021 tracked by CBRE-EA going back to 1996. The impressive three-quarter demand total is 60% above the sector’s yearly historical average. Absorption has been particularly strong in the Sun Belt and Mountain West markets, driven by in-migration and job growth.

Concurrently, the Investable Universe added 103,530 new units during the third quarter.⁴⁰ This is a decline from the current cycle's peak deliveries of 115,700 units during the fourth quarter of 2023. The record setting completion total expected for 2024 will expand the Investable Universe’s inventory by 2.7% and bring the two-year volume to about 700,000 units. The regional dividing line caused by supply growth continues. While Sunbelt and Mountain West markets like Austin, Charlotte, Jacksonville, Nashville, Orlando, Raleigh, and Salt Lake City have all faced significant inventory growth, ranging from nearly 6.0% to as high as 8.8% in 2024, other areas of the country like Boston, Chicago, the San Francisco Bay Area, Southern California will deliver inventory additions only in the 1.0% range.

While rents in our Investable Universe were flat in the third quarter of 2024, wide variations have emerged between markets around the country.⁴¹ Gateway markets on the East Coast and Chicago in the Midwest recorded the highest annual rent growth, led by Washington DC (3.5% year-over-year), Chicago (2.8%), Boston (2.6%), and New York/NNJ (2.6%). A positive sign of note is that tech-heavy markets in the San Francisco Bay Area appear to be recovering; San Francisco and San Jose posted their strongest rent growth in years (1.9% and 2.6%, respectively). Negative rent growth remains intense in many Sun Belt and Mountain West markets, with Austin again claiming the greatest rent cuts in the nation in September (-8.1%), followed by rent declines deeper than 4% in Atlanta, Raleigh/Durham, Jacksonville, and Phoenix.

EXHIBIT 6: Annual Rent Growth by Market



Source: CBRE-EA, & DWS. As of September 2024.

The historic construction boom is ending despite strong demand. Development pipeline activity continues to indicate a steady decline in residential construction activity.⁴² Among the Investable Markets, the under-construction pipeline in the

³⁹ CBRE-EA & DWS. As of September 2024.

⁴⁰ CBRE-EA, CoStar, Yardi-Matrix & DWS. As of September 2024.

⁴¹ CBRE-EA & DWS. As of September 2024.

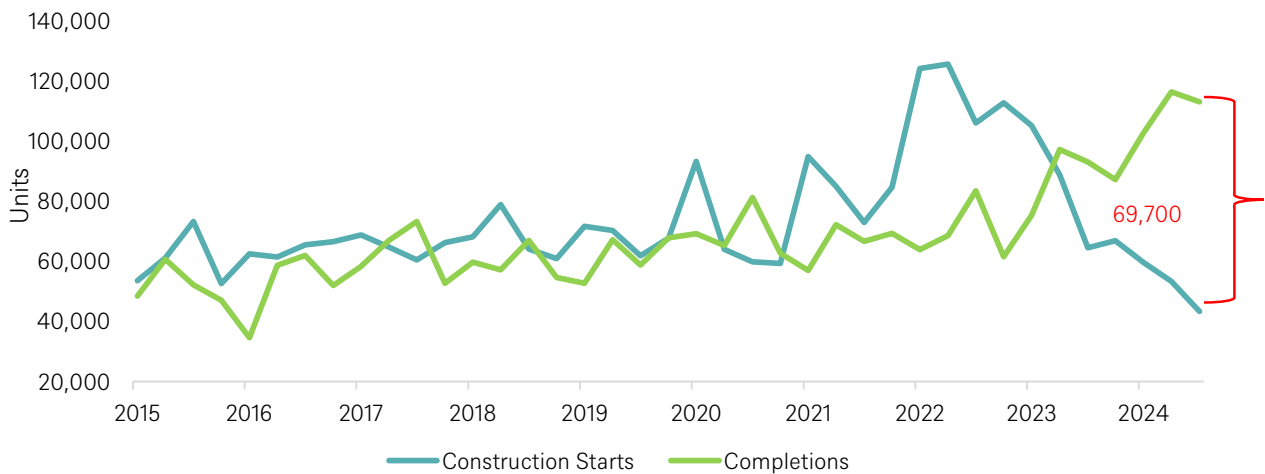
⁴² CBRE-EA, CoStar, Yardi-Matrix, & DWS. As of September 2024.

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third quarter of 2024 fell almost 11% quarter-over-quarter to 512,000 units.⁴³ In the fourth quarter of 2023, the under-construction pipeline was around 684,000 units. Completions also declined in the third quarter, falling -3.3% from mid-year to 112,000 units. Year-to-date September 2024, completions are outpacing new starts at the widest levels in decades.

Completions are at historic highs while starts continue to rapidly plunge.⁴⁴ The number of new projects that broke ground across the Investable Universe dropped to just 43,329 units between July and September 2024, a 33% decrease from the 65,000-unit volume of starts registered last year during the quarter and 66% below the levels set in 2022. Key forward-looking indicators for construction spending continue to show signs that starts will likely remain weak for at least another year.⁴⁵ It should be noted that the amount of time the average apartment project spends between construction authorization and when construction begins has risen to nearly 500 days, a 45% increase from 2019.⁴⁶

EXHIBIT 7: Construction Starts & Completions: DWS Markets



Sources: CoStar and DWS. As of September 2024.

Renters are staying put in the midst of barriers to becoming a homeowner. With home prices at record highs, mortgage rates remaining elevated and a shortage of homes for sale, renting is increasingly the only viable choice for many young people and families.⁴⁷ A household needed to earn roughly \$101,000 in November to afford a median existing-home sales price with a 20% down payment—almost double the income from before the pandemic.⁴⁸ The typical U.S. household earns an estimated \$81,600 annually, far lower than what they need to become a homeowner.⁴⁹ Instead, the typical asking rent today to lease an apartment or single-family rental would require more affordable annual incomes of \$63,800 and \$78,000, respectively.⁵⁰ Renter households are opting to stay in place when leases expire, resulting in above average retention rates.⁵¹ The 2024 Resident Experience Management Report from Zego shows 59% of residents said they plan to renew their lease in the next

⁴³ CoStar & DWS. As of September 2024.

⁴⁴ CoStar & DWS. As of September 2024.

⁴⁵ U.S. Federal Reserve’s Senior Loan Officer Opinion Survey, National Association of Home Builders’ (NAHB’s) Multifamily Market Survey American Institute of Architects’ Architecture Billings Index & National Association of Home Builders/Wells Fargo Housing Market Index & DWS. As of October 2024.

⁴⁶ Yardi-Matrix, Inman Connect & DWS. As of June 2024.

⁴⁷ National Association of Realtors, Freddie Mac, Redfin, Yardi-Matrix, & DWS. As of November 2024.

⁴⁸ National Association of Realtors, Freddie Mac, Yardi-Matrix, & DWS. As of November 2024.

⁴⁹ U.S. Census Bureau & DWS. As of September 2024.

⁵⁰ Yardi-Matrix & DWS. As of September 2024.

⁵¹ Institutional Property Advisors & DWS. As of September 2024.

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year.⁵² Improved resident retention allows owners and operators to avoid interruptions to revenue flows when a unit is vacant.

The number of homes for sale for each renter household in the U.S. remains near record lows, highlighting the supply crunch that first-time buyers face in the current housing market.⁵³ There are about 30 renter households for each available home for sale, up from less than 10 in 2006, according to Freddie Mac's latest market outlook report. The supply shortage dates back to the Global Financial Crisis, which dealt a major blow to new home construction. Since then, construction has slowly increased, but failed to keep pace with demand, resulting in a shortage of at least 1.5 million homes.⁵⁴ First-time homebuyer market share decreased to a historic low of 24% (down from 32% last year), while first-time home buyers' ages hit all-time highs of 38 years (35 last year).⁵⁵ The median age of apartment renters in the U.S. is 32, according to RealPage. Renters are less confident that they will ever own a home than they have been since the Federal Reserve Bank of New York began asking them about this prospect. Renters put the probability of ever owning a home in the future at 40.1%, a decrease from 44.4% a year ago, reflecting a series low. Lack of affordability is the prevailing reason renters believe they're unlikely to become homeowners.

It is not surprising that renter households have formed faster than homeowner households for the past four quarters.⁵⁶ The number of renter households rose 2.7%, in the third quarter 2024 year over year – three times faster than the increase in homeowner households. The 2.7% increase—representing 1.18 million additional renter households—was the second fastest pace since 2015, only trailing the first quarter's 2.8% rate.

3.2 Outlook and Strategy

Stability emerges in 2025 as residential demand catches up to record construction. Wage growth across the U.S. economy, as well as high employment levels and household creation should continue to sustain demand along with heightened renewal activity. Though housing costs are high across the board, renting is a more affordable and realistic option for many Americans right now. The recent boom in residential construction helped meet surging demand in some areas—especially in Sun Belt and Mountain West markets—but builders are now hitting the brakes. Construction costs, the cost and access to financing, and the availability of land and regulations remain significant obstacles to new residential development.

In the short term, there remains no bigger issue in residential than supply. The outlook expects completions to remain relatively robust in 2025 at roughly 290,000 units (2.1% of inventory).⁵⁷ This amount of construction poses near-term hurdles for some of the Sun Belt and Mountain West locations, but many are also among national leaders in household creation, immigration and absorption. Rent growth is expected to continue to be flat or negative in markets with large deliveries. In the medium term, the decline in starts likely will cause deliveries to drop sharply in 2026 and 2027, potentially providing conditions for strong rent growth once the historic supply wave gets absorbed. New supply likely bottoms in 2027 at around 123,000 units, with a rebound in new supply beginning in 2028 or 2029.⁵⁸ In the long term, the structural housing deficit built up over years where the number of households grew faster than the housing stock should counterbalance any influx of new units.

⁵² National Apartment Association & DWS. As of July 2024.

⁵³ Freddie Mac, National Association of Realtors & DWS. As of October 2024.

⁵⁴ Freddie Mac (Market Outlook - October 18, 2024) & DWS. As of October 2024.

⁵⁵ National Association of Realtors & DWS. As of October 2024.

⁵⁶ U.S. Census Bureau & DWS. As of October 2024.

⁵⁷ CBRE-EA, Yardi-Matrix, CoStar & DWS. As of September 2024.

⁵⁸ CBRE-EA, Yardi-Matrix, CoStar & DWS. As of September 2024.

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See Exhibit 8 for central themes that are shaping our residential strategy:

Housing Trends Continue to Support the Suburbs

Suburban rental demand should continue to benefit over the long term from ongoing migration trends, demographic tailwinds, evolving lifestyle preferences, and significant barriers to homeownership; all pre-pandemic demand drivers that remain in place. The development of more urbanized suburbs and the ability to work from home should support rental demand over the long term as well, and lead to outperformance. In terms of asset selection, investors should focus on modern, well-amenitized garden-style and mid-rise apartments, as well as build-for-rent communities. These properties should be located near jobs, well-rated schools, and neighborhood amenities. Also, given demographic trends and the strong demand for more space, investors should target larger floor plans and an abundance of open and outdoor amenity space.

Student Housing Remains Resilient

At Tier 1/Power 5 universities, demand is expected to remain strong for modern, purpose-built properties that are walkable to campus and have bed-bath parity. As was the case pre-COVID, as well as throughout the pandemic, modern product that is walkable to campus continued to see the highest occupancy levels this past school year, as well as the strongest pre-leasing velocity and rent growth for the upcoming school year.

Relative Underperformance in Urban Core

High-rise properties have seen improved performance recently, but large supply pipelines, ongoing migration to the suburbs, flexible hybrid work trends, and a high cost of living continue to restrain the segment from a relative perspective. Long term though, performance in the urban core is expected to stabilize as supply comes more into balance with demand and the impact of hybrid working becomes better understood. Gen Z is also expected to backfill Millennials as they graduate college and seek out a live-work-play lifestyle.

Structural Housing Shortage Signals Need for Development

It is more difficult for young households to access homeownership today than for generations prior. While financial market conditions will present ongoing challenges for new development currently, build-to-rent (BTR) is uniquely positioned to benefit from the expected increase in demand for high quality rental housing from those priced-out of homeownership. Investor interest for BTR product continues to gain steam, both from an investment—as well as a development—perspective. Over the long term, demographic and structural market trends will likely strengthen STR's tailwinds, advancing its standing within the housing market.

Source: DWS. As of December 2024.

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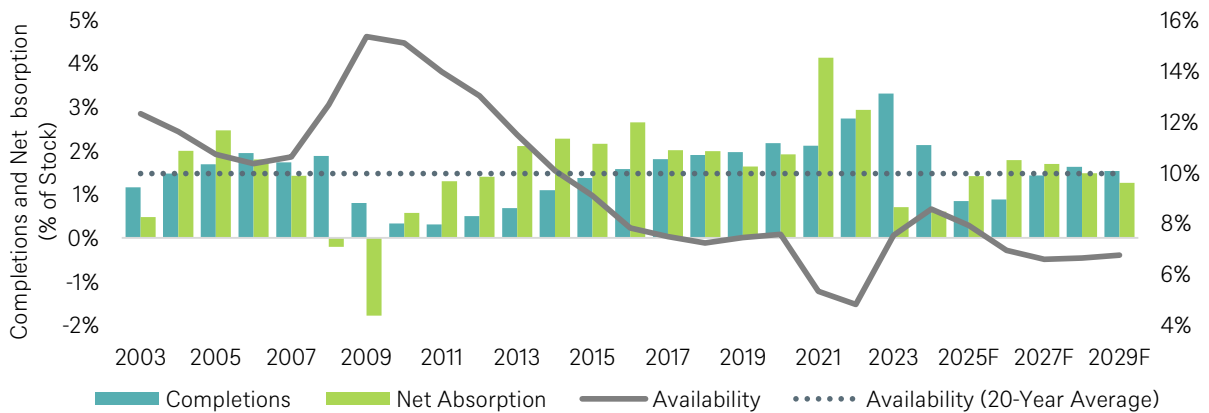
4 / Industrial Outlook and Strategy

4.1 Current Conditions

The US industrial market continued to exhibit mixed conditions in 2024. After weak demand and a record level of construction deliveries (3.1% of stock) in 2023, similar patterns emerged through the third quarter of 2024, although with reduced construction. The market produced 263 million SF of construction deliveries with just 42 million SF of absorption.⁵⁹ The availability rate in CBRE-EA’s national industrial base climbed 120 basis points during the year, reaching 8.3% in the third quarter of 2024.⁶⁰ This is 380 basis points above the record low achieved in 2022 and the highest rate since early-2016.² The average direct vacancy was significantly lower at 5.8% in the third quarter of 2024.⁶⁰

In our view, the widening gap between availability and vacancy rates highlights two important dynamics that have occurred in the past two years. The ratio of absorption to new deliveries in the development pipeline normalized to about 60% in 2023 (compared to 80% in 2022), and there was also a steady flow of sublease space entering into the market in 2023.⁶¹ We estimate that sublease space adds about 1.2 percentage points to the availability rate.⁶¹

Exhibit 9: Industrial Net Absorption and Completions As % Of Stock and Availability Rate (2003 – 2029)



Source: CBRE-EA (history) & DWS (forecast). As of December 2024.
 Note: F = forecast. Forecast for US top 54 markets. There is no guarantee the forecasts shown will materialize. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

A segmented view of national trends indicates that direct space absorption has averaged about 55 million SF per quarter since early-2023, while sublease absorption has been about -10.5 million SF per quarter.⁶¹ While this adds to overall availability, in our view sublease space can be less competitive to functional space that is available on a direct basis. Excess spaces may be available on a temporary basis (short sublease terms), so a path to longer-term occupancy (renewal options) may not be available. Also importantly, sublease spaces may be offered as-is, and may require additional tenant-funded investment. Despite potentially lower rental rates, moving costs can be high and disruptive to operations. We believe that these dynamics may be supporting a high ratio of tenants renewing in-place and helping landlords hold occupancy and market rent levels.

Demand and supply balance as well as rent growth momentum have been playing out differently across markets, but in our view, a majority of markets have weathered the past several quarters well, essentially rebalancing to occupancies that were similar to pre-pandemic levels in most markets.⁶⁰ The availability rate rise between the first and third quarters totaled 50

⁵⁹ DWS and CBRE-EA. As of September 2024.

⁶⁰ DWS and CBRE-EA. As of September 2024.

⁶¹ DWS and CoStar Analytics, 64 Market Expanded Universe. As of September 2024.

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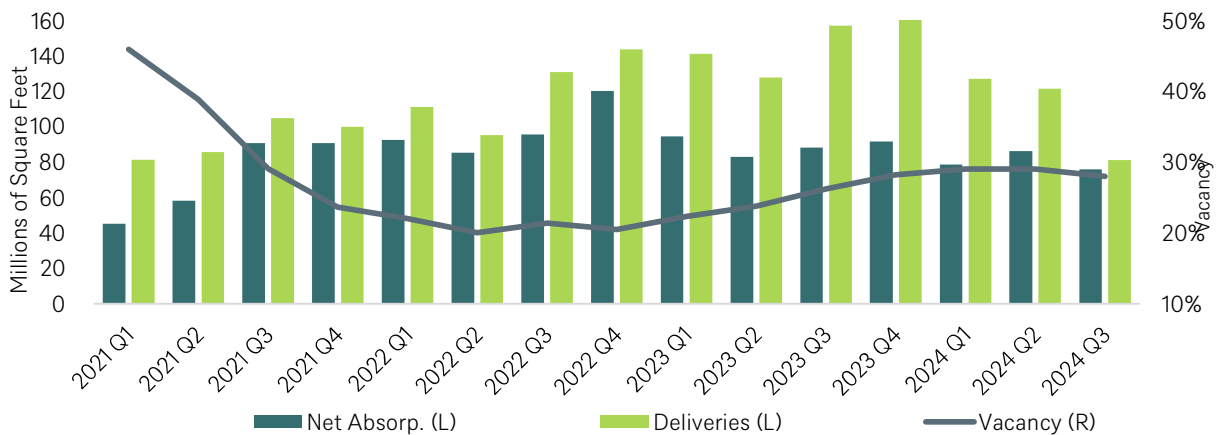
basis points.⁶⁰ On an average, market rent growth, which averaged about 10% per year in 2021 through 2023, is estimated at -3% in 2024.⁶⁰ Market rent results were varied across markets and size segments, with market rents falling 7%-10% or more in some markets on the west coast, but markets in the Florida and Mid-Atlantic regions posting small gains.⁶²

Negative demand has generally been confined to the mature and highly constrained Northeast and West coast markets, which serve as primary international import gateways. Vacancy rates had reached record low levels in past years, as logistics providers scrambled to lease any spaces available during the pandemic, in our view pushing below structural limits in Southern California and New York/New Jersey.² Retailers and third party logistics firms over leased space and now have excess capacity, exiting some of that in recent quarters. We believe that this is in stark contrast to a typical recessionary environment, where economic contraction impairs business operations more uniformly and severely. Although space givebacks have softened rent fundamentals, they have been mild and the path to recovery appears to be shorter compared to past cycles as demand remains positive, overall vacancy rates are relatively low compared to past recessions and new construction starts have fallen sharply. Contrary to the coastal markets in the northeast and west, higher levels of positive absorption have been achieved in the growth markets of the Southeast, Southwest and Mountain West regions. Outsized development pipelines have loosened vacancy and rent fundamentals, but overall core submarket locations have generally held up well.

4.2 Outlook and Strategy

In our view, a soft-landing economic cycle should enable the industrial market to stabilize into a measured recovery phase in 2025. Construction starts have fallen 75% from peak levels in the third quarter of 2024 (the lowest quarterly level since 2013). Construction deliveries in CBRE-EA’s national industrial base totaling 68 million SF in the third quarter of 2024 were the lowest since mid-2021. In a broader set of markets (Exhibit 10), space absorption in the post-2020 development pipeline surged in the third quarter of 2024, nearly matching deliveries. Additionally, the flow of sublease space also moderated, averaging about 6 million SF in the second and third quarters of 2024 (half the pace compared to the prior four quarters).

EXHIBIT 10: POST-2020 DEVELOPMENT PIPELINE – DELIVERIES, ABSORPTIONS, AND VACANCY



Source: DWS, CoStar. As of September 2024.

We believe that the pace of construction will slow dramatically in coming quarters (aligned with plummeting new starts), but demand levels should improve to more typical growth cycle levels, and that this will support near-term recovery trends. We expect space demand will pick up to about 1.5%-1.8% of stock, starting in 2025 and 2026.⁶³ Given the expected gap in new

⁶² DWS. As of September 2024.

⁶³ DWS and CBRE-EA. As of September 2024.

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construction and stronger demand momentum, it is our view that this will allow the market to turn the corner on fundamentals, achieving declining vacancy rates and healthy rent growth. In the near term we expect modest gains in 2025 (2%-4%) and then stronger rent gains beginning in 2026 (4%-6% per year).⁶⁴

Despite recent over-capacity among logistics providers, we believe that strong underlying economic conditions are helping them absorb that space and will continue to enable businesses to maintain their logistics footprints in strategic locations. This concept is supported in the NCREIF Property Index ("NPI"), where NOI growth for industrial properties has averaged about 9% year-over-year in the first and second quarters of 2024, and 13% in the third quarter.⁶⁵ Vacancy in the subsector measured just 3.1% in the third quarter of 2024. The current value cap rate for industrial properties in the NPI measured 4.35% in the third quarter of 2024, perhaps reflective of future mark-to-market potential in the sector.⁶⁶

Fundamentals recovery appears to be forming around solid pre-leasing activity within the development pipeline (about 42% leased in the third quarter of 2024).⁶⁷ A large portion of this absorption has occurred in the national and regional logistics hubs and higher growth local markets in the south and mountain west regions. The current development pipeline includes build-to-suit manufacturing facilities and numerous 1-million square foot-plus, pre-leased logistics facilities. The speculative construction cycle is nearing its end.

In the near term, we believe that automobile, semiconductor, and food-related manufacturing facilities will make up a growing portion of the development pipeline, while speculative construction starts will be modest. When speculative construction does resume, we expect it will involve costlier debt, higher return requirements, as well as increased construction costs, which will require continued rent growth.⁶⁸

We believe that recovery momentum is forming now, and will improve notably in 2025, fueled by persistent structural drivers (e-commerce growth and replacement of obsolete stock) as well as renewed cyclical drivers (broad-based economic growth and a new business investment cycle). We expect that the higher growth sunbelt markets will likely lead the demand recovery, but also believe that the constrained coastal markets will begin to catch up later in 2025.

⁶⁴ DWS. As of September 2024.

⁶⁵ NCREIF. As of September 2024.

⁶⁶ DWS and NCREIF. As of September 2024.

⁶⁷ CoStar Analytics Query, 2024 deliveries and under construction properties. As of September 2024.

⁶⁸ DWS and CoStar. As of September 2024.

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See Exhibit 11 for central themes that are shaping our industrial investment strategy:

Growth Markets

In recent quarters and in the early stages of recovery, from a rent and occupancy gain standpoint, we believe that the high-supply/high-demand markets are winning out over the coastal gateway markets. They have achieved superior rent growth (or at least rent stability) compared to slower growth markets with high land constraints. In the near term, we believe that these high growth markets (notably in Texas, Arizona, Florida, and the Southeast), will continue to perform well. Emerging land constraints may also support longer-term performance.

Regional Hubs

The Northeast and West regions remain underserved by modern logistics. We believe that the trends of the past cycle will be renewed upon economic recovery, benefitting Lehigh Valley, Las Vegas, Phoenix, and Reno, as well as in selected Southeast markets such as Charlotte and Orlando. We expect potential near-term imbalances to be resolved early in a recovery cycle.

Infill Logistics

We believe that functional smaller and mid-sized warehouses located in core submarkets of our investable universe will weather near-term challenges relatively well, but larger bulk warehouses in ex-urban locations could face greater supply challenges. Infill submarkets have tended to maintain lower vacancy rates and development totals.

Large Population Centers Underserved by Modern Logistics

We believe functional warehouse stock in our large population centers will continue to be scarce and perform well over the longer-term. In our view, a resumption of economic growth should support relatively strong occupancy and rent fundamentals in these markets.

Source: DWS. As of December 2024.

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5 / Office Outlook and Strategy

5.1 Current Conditions

The U.S. office market reached an inflection point in mid-2024. With the concurrent acceleration in leasing activity and slow-down of new supply, office vacancy levels began to stabilize for the first time in over five years.

The economic landscape has shifted into a positive trajectory in the past few months, reflected in lower inflation and strong GDP growth. The labor market remains stable, although conditions differ across different industries, with more job gains in the finance and government sectors and fewer in the tech sector. The overall unemployment rate remains healthy (hovering near 4%)⁶⁹ as American businesses continue to post strong earnings. Against this favorable backdrop, office absorption improved, reaching 4.7 million sq. ft. (MSF) in the third quarter of 2024, up from the previous quarter's 2.3 MSF.⁷⁰ This marked the second quarter of positive net absorption since 2022. Although the trailing four-quarter net absorption remained negative (-4.4 MSF), the trend was positive.⁷¹

National vacancy averaged 19% in the third quarter, 220 bps higher than the peak (16.8%) during the Global Financial Crisis (GFC), but unchanged from the first quarter.⁷² Moreover, sublease additions fell by 13% quarter-over-quarter and dipped below the post-pandemic quarterly average of 8.4 MSF. New supply has fallen dramatically (only 3.9 MSF in the third quarter), and a record volume of inventory is being removed for conversion and redevelopment.

Leasing activity has been driven by finance and law industries and less so by tech, although we are seeing some green shoots in tech coming from AI focused companies. Importantly, technology tenants have slowed their additions to the sublease market.⁷³ As return-to-office momentum grows and more firms consider expansionary activity, some groups are reconsidering space that was previously placed on the sublease market.⁷⁴ Going forward, we anticipate that leasing activity will continue to grow, and the downsizing activity will steadily normalize as tenants become more comfortable with their existing office footprints.

⁶⁹ BLS. As of November 2024.

⁷⁰ CBRE-EA. As of September 2024.

⁷¹ CBRE-EA. As of September 2024.

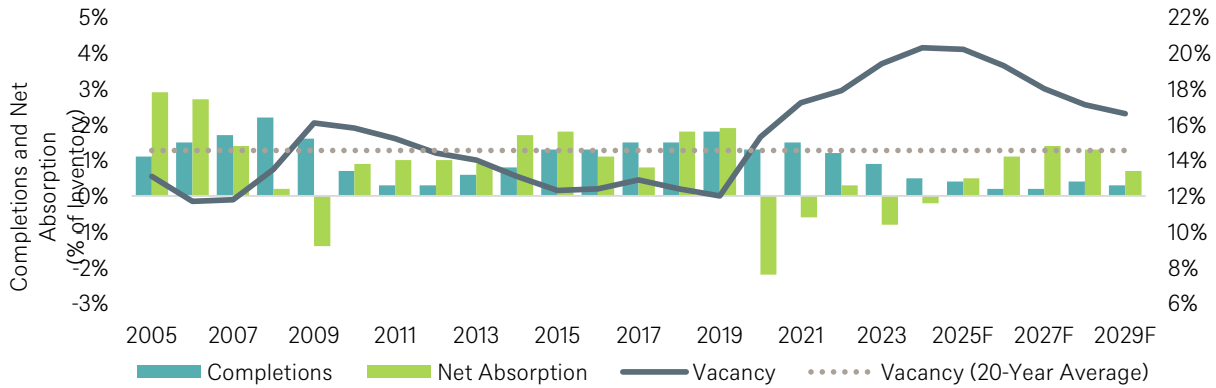
⁷² CBRE-EA. As of March 2024.

⁷³ Costar. As of September 2024.

⁷⁴ Costar. As of September 2024.

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EXHIBIT 12: OFFICE NET ABSORPTION AND COMPLETIONS AS A % OF INVENTORY AND VACANCY RATE (2005 – 2029)



Source: CBRE-EA (history) & DWS (forecast). As of December 2024.
 Note: F = forecast. Aggregate of DWS’s investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved

Rent performance continued to stall despite the improvement in leasing momentum. While asking rents were up 1.1% since 2020, they were down 16.7% on an inflation-adjusted basis.⁷⁵ Market participants have long reported elevated offers of free rent and tenant improvement allowances. In many markets, it was common in the late 2010s for owners to offer a month of free rent for every two years of term on a typical new lease. Now, offers of one month per year are not uncommon. Moreover, tenant improvement allowances to finish out shell space have increased as much as 50% since 2020, rising due to inflation and competitive bargaining. First generation new leases over the past year commanded roughly \$100/SF in tenant improvement allowances and nearly 10 months of free rent for a 10-year term.⁷⁶

Office sales volume in the third quarter provided evidence of a pickup in activity, totaling \$8.2 billion, up 15% from the previous quarter and 32% year-over-year.⁷⁷ Lower short-term interest rates, increased leasing activity in certain assets and locations, and better access to debt financing – notably from the CMBS market – were key drivers. In our view, transaction volume will likely continue to trend upwards in conjunction with expected rate cuts as valuations stabilize.

5.2 Outlook and Strategy

Between the impact of work from home (WFH), slowing job gains, and high real interest rates, coupled with still challenging debt capital markets, it is difficult to craft a positive narrative in the world of office real estate. The sector continues to underperform other major sectors and investor interest remains cautious given the sector’s high CapEx requirements and valuation uncertainties. While we recognize steady demand for well-located spaces, elevated CapEx and high tenant allowances are needed to keep buildings attractive. Evidence that demand is accelerating could be supportive over the forecast, but strong catalysts remain unclear over the near term.

Office trailing four quarter total returns were down 11.5% in 3Q 2024, with variations across property subtypes. Those most vulnerable to work from home trends (CBD, secondary business district and urban) performed poorly. Suburban office total returns (-7.3%) fared relatively better. Specialized office facilities (medical office and life sciences) also outperformed, as their unique tenancy and space utilization requirements shielded them from work-from-home impact. Compare average vacancy

⁷⁵ CBRE-EA. As of September 2024.

⁷⁶ JLL. As of September 2024.

⁷⁷ RCA. As of September 2024.

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for CBD, secondary business district, suburban, and urban office (20.6%) to that of medical office and life sciences (5.6%). More generally, office was the only sector whose values continued to decline, bringing the peak-to-trough total to -31.3%.

While employers continue to make efforts to drive greater in-office attendance, office utilization data remains mostly unchanged. Downsized office footprints due to remote and hybrid work still appear to be the norm in the office sector. Many firms have looked to entice workers back to the office with amenities and other incentives, but for the most part these efforts' success has been limited. While strict mandates from high-profile firms have received news coverage, the needle has yet to move when it comes to vacancy rates and office utilization.⁷⁸ The most recent reading of office utilization sat at 51.4%, roughly where it has been all year.⁷⁹ Moreover, CBRE reported that while the total number of leases signed in the first half of 2024 was roughly in line with pre-pandemic levels, the average lease size was down by more than a quarter.⁸⁰

Most U.S. office markets continue to register cyclically high vacancy levels. Large gateway metros (like San Francisco, Manhattan, Seattle and Los Angeles) and markets with strong supply (like Charlotte and Austin) are still fighting high post-covid vacancies, while Miami and Fort Lauderdale are notable exceptions, having returned to pre-pandemic conditions.⁸¹

New supply will likely remain muted, and we are expecting considerably lower completions than in the past decades, which serves as a tailwind for the sector and is signaling future supply constraints for tenants. About 68.5 MSF of office space is currently under construction, representing 1.0% of stock.⁸² The total size of the under-construction pipeline shrank by nearly a third through the first three quarters of 2024. A total of 37.5 MSF have been delivered, while just 9.3 MSF have broken ground. Two tech markets have seen the most dramatic shifts in development pipelines. Austin and Seattle both maintained steady development momentum through the first two years of the pandemic. They both also saw new development activity nearly dry up completely starting in 2023, as layoffs hit the tech sector, capital costs increased and it became clear that remote and hybrid work were fully entrenched.

While we currently maintain an underweight view to the sector, long term, we continue to favor metros with an expanding tech and life science presence and strong job and population growth. Those include mature markets like San Jose and Boston, as well as Sunbelt markets such as South Florida, Austin, Charlotte, Nashville, Dallas and Atlanta. Core gateway markets such as San Francisco, Washington D.C., Los Angeles, and Chicago are expected to produce weaker performance due to high vacancy levels and lagging demand.

Going forward, we remain cautious in the near-term as it relates to office investments. In our view, the sector will remain challenged in competing for tenants, capital intensive, and uneven in its recovery. The capital stacks of many office buildings are stressed and it could take several years before cash flows inflect up. Nevertheless, we favor stable rent roll and limited tenant risk, as well as higher quality assets with credit leases and low near-term capital requirements. In our view, office fundamentals will continue to be weak, and performance is likely to remain modest but, progress in return-to-office plans, increasing tenant requirements, declining sublease additions, low new supply, and a tightening market for high-end space all point to sector stabilization over the forecast.

⁷⁸ Yardi Matrix. As of September 2024.

⁷⁹ Kastle. As of September 2024.

⁸⁰ CBRE. As of September 2024.

⁸¹ CBRE-EA. As of September 2024.

⁸² Yardi Matrix. As of September 2024.

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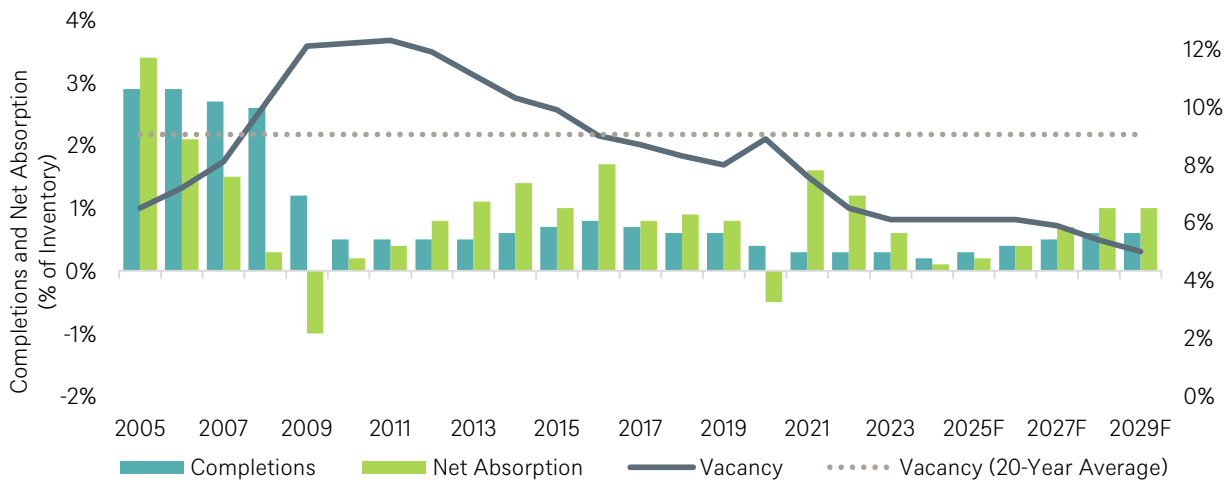
6 / Retail Outlook and Strategy

6.1 Current Conditions

Market conditions within the U.S. retail sector remain historically tight heading into 2025. The sector continues to demonstrate resiliency and retail sales remain healthy despite elevated costs in categories like shelter and food. October retail sales climbed 2.8% year-over-year while core sales increased 4.6%⁸³, surpassing expectations. Consumption is being largely underpinned by low layoffs, with additional help from strong household balance sheets thanks to a stock market appreciation and high home prices. Though inflation has not made much headway in recent months, it is on a downward trend, raising households' purchasing power. Household savings also remain lofty.⁸⁴ Concerns have been raised that growth is mostly being driven by middle- and upper-income households, which have more flexibility and substitutability of consumption. But credit card data shows spending resilient across all income groups.⁸⁵

The retail sector continued to post robust performance in 2024 as annual net absorption continues to comfortably outpace net deliveries. Over 7 MSF of retail space was filled over the past four quarters, pushing the retail availability rate, 6.5% in the third quarter, to a multi-decade low nearly 250 basis points below its 20-year historical average.⁸⁶ The primary constraint on leasing has been a lack of available space, due to limited new deliveries.⁸⁷ Annual construction starts are the lowest they have been in the last 15 years as construction costs have soared since the pandemic, thanks to surges in the cost of capital, labor and materials. While 5-year rent growth rates are also up significantly, in many cities rent gains are still trailing construction costs, which makes new development prohibitive.⁸⁸

Exhibit 13: Retail Net Absorption and Completions as % of Stock and Availability Rate (2005 – 2029)



Source: CBRE-EA (history) & DWS (forecast). As of December 2024.

Note: F = forecast. (1) Forecast for Neighborhood and Community centers. (2) Aggregate of DWS's Investable Universe of markets. There is no guarantee the forecasts shown will materialize. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

⁸³ BLS. As of October 2024.

⁸⁴ BEA. As of October 2024.

⁸⁵ Bank of America. As of September 2024.

⁸⁶ CBRE-EA. As of September 2024.

⁸⁷ JLL. As of September 2024.

⁸⁸ JLL. As of September 2024.

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Retailers continue to add new stores. But, the U.S. store closures outnumber openings so far in 2024 as bankruptcies accelerated in the second half of the year. As of October 2024, 6,500 closures were recorded against 4,500 openings. Retail bankruptcies—particularly among furniture, home goods, and improvement stores—have driven the rise in closures.⁸⁹ Importantly, store closings are not weighing on the current level of demand and provide much-needed supply for those tenants looking to expand. The increased demand for retail space is being driven by tenants in the food services, grocery, fitness, entertainment, and healthcare sectors.⁹⁰ Moreover, market participants are reporting exceptionally strong backfill demand for vacated spaces. Some spaces able to secure rent increases of 40% or more. In addition, over half of the leases signed in the third quarter of 2024 were for spaces that became available within the past six months.⁹¹

We believe tenant appetite for retail space remains robust, especially in lower density suburban areas. Given a preference among retailers for efficient spaces closer to the consumer, most of the demand has flowed into freestanding or neighborhood retail properties. In total, these retail property types accounted for 95% of all retail demand growth over the past several quarters. On a cautionary note, the newly elected president's proposal for tariffs have the potential to diminish consumer demand or buying power if prices increase with higher inflation. Moreover, retailers may see their margins squeezed if they import goods or materials, which could limit profitability and in turn their demand for space. Discretionary retailers are more likely at risk. Moreover, retailers that cater to low-to-middle-income consumers may see more pressure given budget considerations. However, we expect necessity-focused retail tenants (i.e., grocers and drug stores) to be less impacted.

On a market level, the Sun Belt is joined by the Northeast markets in the upper tier of recent vacancy reductions as both continue to tighten. But year-over-year declines continue to decelerate – further signaling a settling in equilibrium across markets. Most retail markets have a similar or lower vacancy rate compared with their pre-pandemic levels, with exception of the West Coast markets such as Oakland, San Francisco, San Jose and Seattle where conditions are still recovering and most of the underperformance is concentrated in the urban core.⁹²

We expect healthy market fundamentals going forward. Newly available space from continued retailer bankruptcies and reshuffling of pharmaceutical and wellness stores will likely be quickly absorbed over the course of the next few quarters, supporting strong rent gains. Vacancy rates are likely to fall further as development of new retail space remains low, the sector overall begins to settle, and tenants have fewer choice in spaces.⁹³ Near-term risks include higher borrowing costs, yet consumers are likely to continue to spend on household priorities. Over the forecast, we expect shifts in post-pandemic buying patterns to benefit neighborhood and community centers. Migration from cities to the suburbs, population growth in lower-cost markets, and more flexible workplace strategies should continue to sustain demand at suburban shopping centers.

6.2 Outlook and Strategy

Firming fundamentals and strengthened retailer health have led to solid investment performance. Retail remained the best performing sector in 2024, followed by industrial and residential. Total retail returns were 2.2% in the third quarter of 2024 (trailing four quarters), ahead of Industrial (-0.8%), Residential (-2.6%) and Office (-11.5%). Strip retail (3.5%) outperformed, malls (2.1%) tracked, and street retail (-5.9%) underperformed the NPI Retail subindex. Consistent with the return profile, vacancy for strip retail (5.9%) was below its long-term average (7.3%) while that of street retail (11.9%) was significantly above it (5.5%). Vacancy for malls, although elevated (10.6%), has reverted to its pre-COVID level (Exhibit 14).⁹⁴

⁸⁹ Coresight. As of November 2024.

⁹⁰ CoStar. As of November 2024.

⁹¹ CoStar. As of November 2024.

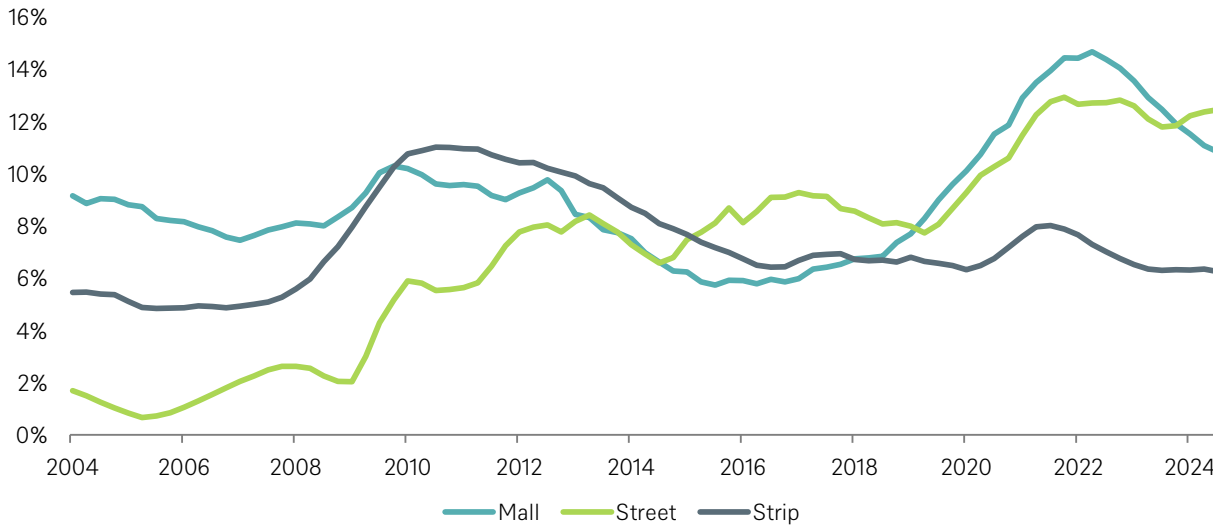
⁹² CBRE-EA. As of November 2024.

⁹³ CBRE-EA. As of November 2024.

⁹⁴ NCREIF. As of September 2024.

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EXHIBIT 14: RETAIL VACANCY BY SUBTYPE



Source: NCREIF. As of December 2024.

Note: **Mall:** A retail center that provides a variety of goods comparable to those of a central business district, over 400,000 SF in size. Consists of regional malls and super-regional malls.

Street: Located in the lower floors of, or adjacent to an office or multi-family building. Limited setback from the street and has access to heavy pedestrian and vehicle traffic.

Strip: An anchored or unanchored open-air shopping center, an aggregation of in-line stores with a common parking area. An anchor tenant (if any) may be a supermarket, discount store, major department store, or a specialty retailer. The center usually ranges in size from 30,000 to 400,000 SF but can be smaller or larger in some instances. This category typically consists of unanchored strip retail, neighborhood centers, community centers, fashion/specialty (lifestyle) centers and power centers.

Retail as a sector has undergone transformative changes as it has adapted to e-commerce and changing consumer preferences. With low retail distress and healthy fundamentals, the sector is on a sustainable growth trajectory. Open-air and grocery-anchored shopping centers have been the beneficiaries of renewed demand and are likely best positioned over the long term due to their proximity to residential areas, presence of essential retailers like grocery stores, and more diverse mix of consumer services. At the same time, apparel and lifestyle-oriented centers will likely continue to feel secular pressures from e-commerce over time and will require substantial investment to remain relevant. Still, given the importance of stores for omnichannel retail, tenants will continue to plan for space to ensure they have enough to house inventory to deliver a product and experience that meets customer expectations.⁹⁵

The sector outlook remains positive as household spending has been resilient and consumer sentiment is healthy. Corporate balance sheets in the retail sector are generally healthy, e-commerce disruption has already peaked and overbuilding is not even a remote threat. Leasing activity is expected to remain healthy and the sector is at low risk of a major disruption over the next few years. We believe these generally supportive dynamics point to ongoing stability for physical retail real estate. Moreover, we believe that the sector is well positioned to produce competitive, relatively stable returns over the next cycle.

Our House View retail strategy favors an increased allocation to necessity-based retail. Our near-term outlook for fundamentals remains upbeat and we believe the sector will continue to perform well given continuous retail demand and low vacancies. We continue to see a clear distinction in performance driven by geography, property subtype, and strength of the tenant

⁹⁵ UBS Research. As of September 2024.

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line-up. As the real estate recovery cycle continues, retail assets will continue to be a solid income producing component of a portfolio. We maintain our preference for grocery-anchored retail located in high growth regional markets.

See Exhibit 15 for central themes that are shaping our retail strategy:

Target Necessity-based Retail

Our conviction around daily needs and grocery-anchored retail remains high, as it is relatively immune to e-commerce pressures. Open-air suburban centers also benefit from increasing local consumption of goods and services.

Proceed with Caution on Power Centers

There is a risk that demand for electronics, furniture, appliances, and other household goods has been satiated (for now) following the COVID housing boom, and these categories are more vulnerable to online competition. Still, we believe that power centers will evolve into last-mile distribution locations over time. Top-tier quality malls are seeing increased tenant appeal and customer traffic. Some malls may thrive in the future as redeveloped mixed-use or entertainment-infused destinations. Yet, investors should watch the cost of managing the transition that may detract from investment performance.

Avoid Transitional Assets and High Street Retail

We expect e-commerce penetration will continue to grow in the apparel and commodity goods sector, which impacts class B/C assets and high street retail the most.

Source: DWS. As of December 2024.

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7 / Self-Storage Outlook and Strategy

Self-storage is in a soft patch as population mobility remains muted, putting downward pressure on occupancy and move-in rates (Exhibit 16).⁹⁶ Existing home sales, a pivotal seasonal demand driver and an indicator of population mobility, is at a decade low. This has led to sustained rent declines since the Federal Reserve began increasing interest rates.⁹⁷ Currently, 75% of outstanding mortgages are locked in at rates less than 5%.⁹⁸ Although the Federal Reserve has decreased the Federal Funds Rate, mortgage rates have remained elevated, hovering near 7%.⁹⁹

Exhibit 16: Occupancy and Existing Home Sales



Source: NCREIF (occupancy) & NAR (existing home sales). As of September 2024.

Still, there is room for cautious optimism. First, it is important to note that elevated long-term rates are, at least in part, due to stronger growth expectations. Stronger growth can be a positive tailwind for the labor market and home purchase demand.¹⁰⁰ Second, active listings for existing homes, although below their pre-COVID average, have increased 30% year-over-year. The rise in listings implies that the impact of the mortgage lock-in effect isn't absolute. Over the long run, life events and milestones can push households to sell their homes despite lower in-place rates. Separately, mortgage rate spreads are more than 60 bps higher than their long-term average. This spread is largely a function of higher prepayment risk that is influenced by an inverted yield curve.¹⁰¹ As the yield curve normalizes, we can expect this spread to decrease, providing further relief to mortgage rates.

Though the outlook for demand is murky, the supply side of the equation is favorable. Declining move-in rates have made it challenging to secure construction financing.¹⁰² Additionally, higher rates and building costs have led to fewer developments and an increase in abandoned projects.¹⁰³ With the recovery in demand being pushed out, a delay is expected in the longer-

⁹⁶ Yardi Matrix. As of November 2024.

⁹⁷ Yardi Matrix. As of November 2024.

⁹⁸ Federal Housing and Finance Agency. As of June 2024.

⁹⁹ Primary Mortgage Market Survey (PMS). As of November 2024.

¹⁰⁰ Fannie Mae. As of November 2024.

¹⁰¹ "Mortgage Spreads and Yield Curve", Federal Reserve Bank of Richmond. As of August 2023.

¹⁰² Green Street. As of November 2024.

¹⁰³ Green Street. As of November 2024.

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term pick up of supply relative to our last outlook. For reference, GSA forecasts that supply (as a share of inventory) in 2025 to 2026 will be at its lowest since 2015.¹⁰⁴

Structural demand drivers also remain intact. First, we are seeing improved household formation rates among millennials, a demographic that is using self-storage at higher rates than other generations.¹⁰⁵ Second, with office attendance still half what it was pre-Covid, hybrid work seems like it is here to stay for the foreseeable future, creating demand for more space.¹⁰⁶ This is especially important as apartment developers did not consider the need for this new lifestyle preference prior to the pandemic. As a result, small units and a lack of multiple bedrooms may not meet the working needs of dwellers and could continue to generate additional self-storage demand.

¹⁰⁴ Green Street. As of November 2024.

¹⁰⁵ Green Street. As of January 2024.

¹⁰⁶ Kastle Back to Work Barometer. As of November 2024.

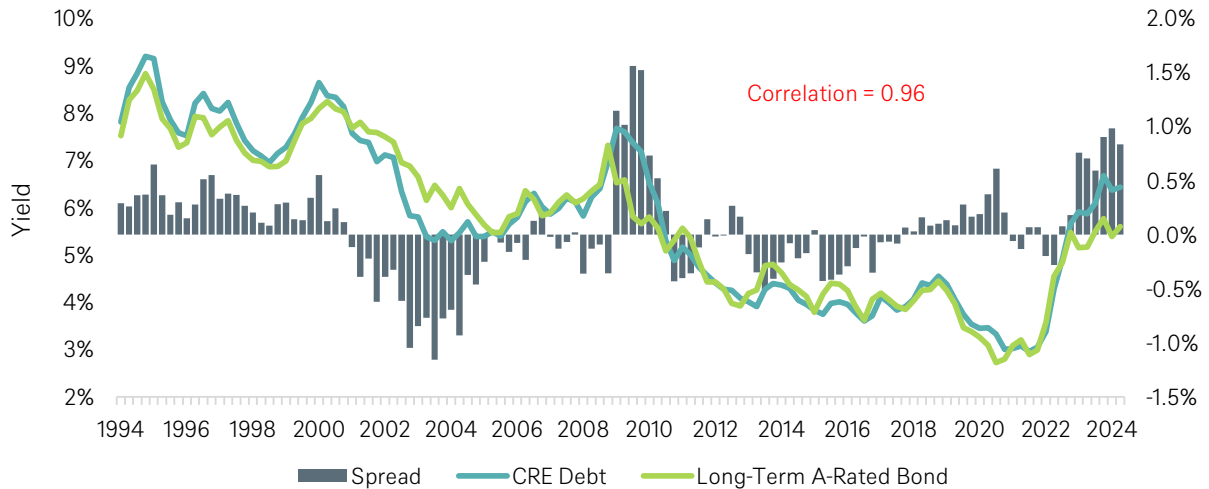
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8 / Debt Outlook and Strategy

Income, favorable risk-adjusted returns, and diversifications are features that may justify consideration for a strategic allocation to private real estate debt, in our view. Yet we believe that there are also reasons to consider the asset class from a tactical perspective. These include the potential for attractive yields and spreads; reduced cyclical risks; and an expanding opportunity set.

Yields and Spreads: Over the past 30 years, yields on private CRE debt have tracked those on long-term A-rated corporate bonds (Exhibit 17). In the wake of the Federal Reserve’s 2022-23 tightening campaign, yields on both instruments rose to their highest levels since 2010. However, private CRE lending rates increased further, opening a spread only exceeded during the GFC. In our view, elevated yields and spreads buttress the absolute and relative case for private CRE credit as a source of income and total return.

EXHIBIT 17: CRE DEBT AND A-RATED BOND YIELDS



Source: ACLI (real estate), Moody’s (A-rated Bonds); DWS (calculations). As of June 2024.

Reduced Cyclical Risks: The recent correction has reduced real estate values by 16%.¹⁰⁷ In our view, stabilizing interest rates, coupled with reduced supply, have laid the foundation for a new cycle, characterized by healthy fundamentals and moderate appreciation. Rising cash flows and values improve borrowers’ capacity to service and repay debts, reducing default risks.

Expanding Opportunity Set: We believe that loan maturities and reviving property sales, amid a pullback from banks, will create lending opportunities over the next several years. Just under half of the \$5.9 trillion of outstanding mortgage debt is scheduled to mature through 2028.¹⁰⁸ In some cases, debt may be written off, extended, or replaced with equity, but much of it will require refinancing. Moreover, although property sales were muted through the third quarter of 2024, we believe that they will pick up as real estate values recover, stimulating demand for new financing.¹⁰⁹

¹⁰⁷ NCREIF. As of September 2024.

¹⁰⁸ Federal Reserve (outstanding mortgage debt); Mortgage Bankers Association (maturities). As of June 2024.

¹⁰⁹ MSCI (transactions); Mortgage Bankers Association (originations). As of September 2024.

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This wall of demand may arrive at a time when banks (which hold 51% of outstanding mortgage debt) are under investor and regulatory pressure to curb their real estate exposure.¹¹⁰ In particular, small and medium-sized institutions (accounting for about 42% of the banking system but 74% of its CRE lending) hold record levels of CRE loans on their balance sheets (23% of total asset, up from 9% 30 years ago).¹¹¹ We believe that any effort to pare this exposure could create considerable origination and acquisition opportunities for other lenders, on more favorable terms (including yield and credit protections).

From a long-term perspective, private CRE debt has exhibited qualities – income, risk-adjusted returns, and diversification potential – that may, for many investors, justify a strategic portfolio allocation. Moreover, current conditions reinforce the case for investing in the asset class, in our view. Yields are elevated, both on an absolute (compared with history) and a relative (compared with other debt instruments) basis.¹¹² The prospect of healthy fundamentals and recovering asset values mitigate the credit risks that have already been relatively limited for core loans over the long-term.¹¹³ Finally, we believe that debt maturities and a rising pace of transactions, coupled with a pullback from banks, will create opportunities to acquire and originate loans on terms that are favorable for investors.

¹¹⁰ Federal Reserve. As of June 2024.

¹¹¹ FDIC; DWS calculations. As of June 2024.

¹¹² ACLI (CRE lending rates); Moody's (A-rated corporate bonds). As of June 2024.

¹¹³ ACLI (delinquencies); FDIC (bank net charge-offs); Giliberto-Levy Commercial Mortgage Performance Index (credit loss). As of September 2024.

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Appendix 1: U.S. House Portfolio

The DWS House Portfolio represents our opinion of the allocation by property sector for core portfolios in the United States which we believe would outperform the NFI-ODCE. We develop the House Portfolio as an unlevered portfolio of properties without regard to tax consequences. The House Portfolio is formulated using both quantitative and qualitative modelling, integrated with our House View. The resulting weights, we believe, aid in providing long-term risk-adjusted outperformance to our portfolios versus the market as a whole and against relevant benchmarks and indices. The analysis focuses on the four major property sectors and excludes hotels. The following table summarizes our conclusions on weightings in comparison with the NFI-ODCE.

Sector	Expanded NPI Weights	ODCE Weights	House Portfolio	Active Bet (vs ODCE)	Range
Apartment	28%	29%	34%	+5%	29% - 39%
Industrial	33%	34%	41%	+7%	38% - 48%
Office	20%	17%	6%	(11%)	1% - 11%
Retail	13%	11%	17%	+6%	10% - 20%
Other	6%	9%	2%	(7%)	0% - 7%

Note: NPI weights calculated as gross real estate value excluding ownership share. ODCE weights calculated as gross real estate value at ownership share. Totals might not add up to 100% due to rounding.
Sources: NCREIF; DWS. As of December 2024.

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Appendix 2: Real Estate Target Markets

Investable Metros: We screened top U.S. metros, which represent 90% of the NCREIF Property Index, and identified the investment markets for each property sector that we believe have the best prospects during the market cycle or a portion of it. This metro selection is based on property market size, liquidity, growth characteristics, income, historical returns and other factors indicative of future performance. The list of these metros remains generally static, although some metros may be added or subtracted over time due to structural market changes.

Target Investable Metros: These are a subset of the universe of investable metros and include markets that we expect to outperform or market perform during the next three to five years.

INVESTABLE AND TARGET MARKETS

Market	↑ Overweight	↓ Underweight	↔ Market Weight	
	Apartments	Industrial	Office	Retail
Allentown		↑		
Atlanta	↑	↑	↑	↑
Austin	↑	↓	↑	↑
Baltimore		↑		
Boston	↔	↑	↔	↔
Charlotte	↑	↔	↑	↑
Charleston	↔			↑

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Chicago	↓	↓	↓	↓
Dallas	↑	↑	↑	↔
Denver	↑	↓	↑	↑
Fort Lauderdale	↑	↑	↑	↑
Harrisburg		↔		
Houston	↓	↓	↓	↔
Jacksonville	↑			↑
Las Vegas	↔	↑		↔
Los Angeles	↓	↔	↓	↔
Miami	↑	↑	↑	↑
Minneapolis	↓			↓
Nashville	↑	↔	↑	↑
New York	↓	↔	↓	↓
Oakland / East Bay	↓	↔	↔	↔
Orange County	↔	↔	↓	↔
Orlando	↑	↑		↑
Philadelphia / Central PA	↓	↔		↓
Phoenix	↑	↔	↔	↑
Portland	↓	↔	↔	↓
Reno		↔		
Raleigh	↑	↔		↑
Riverside	↑	↔		↔
Salt Lake City	↑	↔		
San Diego	↔	↓	↔	↑
San Francisco	↓	↓	↓	↓
San Jose	↔	↔	↔	↔
Savannah		↔		
Seattle	↔	↑	↔	↑
Tampa	↑	↔		↑
Washington DC	↓	↑	↓	↔
West Palm Beach	↑			↑

Source: DWS. As of December 2024. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Appendix 3: Performance over the past 5 years (12-month periods)

	9/23-9/24	9/22-9/23	9/21-9/22	9/20-9/21	9/19-9/20
Expanded NCREIF Property Index (NPI)	-3.3%	-8.0%	16.0%	12.0%	2.1%
Residential	-2.6%	-7.2%	18.2%	13.1%	2.3%
Industrial	-0.9%	-5.4%	34.6%	32.1%	9.9%
Office	-11.5%	-16.3%	3.7%	5.1%	3.0%
Retail	2.2%	-1.3%	6.4%	0.7%	-6.3%
Other	1.1%	-0.8%	18.0%	12.6%	1.1%
Residential: Apartment	-3.0%	-7.6%	18.2%	13.4%	2.3%
Residential: Student Housing	4.5%	1.3%	15.6%	6.4%	2.8%
Residential: Single Family Rental	-1.5%	-5.2%	34.4%	N/A	N/A
Residential: Manufactured Housing	9.0%	9.2%	N/A	N/A	N/A
Office: CBD	-15.1%	-21.0%	0.7%	2.6%	2.1%
Office: Suburban	-7.3%	-13.9%	6.7%	8.4%	2.9%
Office: Urban	-11.8%	-16.6%	3.7%	4.9%	3.2%
Office: Secondary Business District	-10.2%	-12.5%	3.9%	7.4%	2.3%
Office: Life Science	-8.3%	-6.5%	17.0%	23.1%	13.3%
Office: Medical Office	-0.6%	-2.7%	9.3%	11.1%	7.0%

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Industrial: Warehouse	-1.1%	-5.7%	34.8%	32.4%	9.9%
Industrial: Specialized	2.3%	-2.2%	33.3%	29.2%	10.3%
Industrial: Flex	0.6%	-2.1%	33.5%	29.3%	10.0%
Industrial: Manufacturing	-2.2%	-1.4%	30.7%	32.0%	9.1%
Industrial: Life Science	-3.7%	-2.1%	16.1%	20.0%	11.5%
Retail: Mall	2.1%	-2.1%	5.4%	-2.4%	-8.6%
Retail: Strip	3.5%	0.8%	8.6%	5.0%	-3.1%
Retail: Street	-5.9%	-8.9%	1.2%	-1.8%	-7.7%
Other: Self-Storage	-0.1%	-2.3%	30.6%	22.1%	5.3%
Other: Senior Housing	-1.0%	-1.3%	4.0%	3.6%	0.9%
Other: Other	3.4%	-1.0%	12.1%	11.5%	3.2%
	9/30/2024	9/30/2023	9/30/2022	9/30/2021	9/30/2020
NASDAQ Composite Index	37.6%	25.0%	-26.8%	29.4%	39.6%
S&P 500 Index	34.4%	19.6%	-16.8%	28.1%	13.0%
FTSE NAREIT All Equity REITs	34.4%	3.2%	-16.6%	37.2%	-17.8%

Sources: NCREIF, Bloomberg, NAREIT, and DWS. As of September 2024.

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