

A photograph of a modern, multi-story glass skyscraper at night. The building's facade is illuminated from within, creating a warm glow that contrasts with the dark exterior. The structure is composed of a grid of dark frames and large glass panels. The building is set against a dark background, and its reflection is visible on a surface in the foreground. The overall aesthetic is sleek and architectural.

July 2019 / Research Report

# EUROPE REAL ESTATE STRATEGIC OUTLOOK

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas Inc. and RREEF America L.L.C., which offer advisory services. There may be references in this document which do not yet reflect the DWS Brand.

Please note certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered by this presentation report may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein.

For Professional Clients (MiFID Directive 2014/65/EU Annex II) only. For Qualified Investors (Art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA)). For Qualified Clients (Israeli Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 5755-1995). Outside the U.S. for Institutional investors only. In the United States and Canada, for institutional client and registered representative use only. Not for retail distribution. Further distribution of this material is strictly prohibited. In Australia, for professional investors only. \*For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda.

# Table of Contents

<b>1 / Executive Summary</b> .....	<b>3</b>
<b>2 / The Economy</b> .....	<b>4</b>
<b>3 / Real Estate Performance</b> .....	<b>6</b>
3.1 Occupier Fundamentals .....	6
3.2 Capital Markets.....	9
3.3 Returns and Market Calls .....	11
<b>4 / Environmental, Social and Governance</b> .....	<b>16</b>
<b>5 / Office Market</b> .....	<b>17</b>
<b>6 / Retail Market</b> .....	<b>18</b>
<b>7 / Logistics Market</b> .....	<b>19</b>
<b>8 / Residential Market</b> .....	<b>20</b>
<b>9 / Hotel Market</b> .....	<b>21</b>
<b>10 / Private Debt</b> .....	<b>22</b>
<b>11 / Listed Market</b> .....	<b>23</b>
<b>12 / Appendix</b> .....	<b>24</b>
<b>Important Information</b> .....	<b>25</b>
<b>Research &amp; Strategy—Alternatives</b> .....	<b>29</b>

The opinions and forecasts expressed are those of Europe Real Estate Strategic Outlook and not necessarily those of DWS. All opinions and claims are based upon data at the time of publication of this article (July 2019) and may not come to pass. This information is subject to change at any time, based upon economic, market and other conditions and should not be construed as a recommendation.

# 1 / Executive Summary

We have revised up our outlook for European real estate. At first this may seem strange; economic growth has slowed and investment activity has fallen sharply over the first half of the year. However, as we move into the second half of the year, the occupier market remains remarkably robust, while the return of negative bond yields look to be fuelling investor demand for core real estate once again.

Office, logistics and residential vacancy rates continue to fall, and good quality stock is in short supply. Retail is certainly the exception. Over the next five years we expect annual rental growth of 2.0% for office and logistics, and 2.7% for residential, but even for the best shopping centres we see no growth on average across Europe, and rental decline within Core Europe.

Perhaps the most significant change is our outlook for yields. It's easy to forget that only seven months ago the ECB was bringing its programme of quantitative easing to a close. Today the prospect of monetary tightening looks some way off. Long-dated bonds across much of Core Europe are negative, bringing to the fore once more the relative attractiveness of real estate income. Prime yields are now forecast to fall further and to stay lower for a longer period of time.

Over the next five years we forecast European real estate to record an annual average prime total return of 4.0% – a 50 basis point increase compared to six months ago. As ever, this masks considerable differences between sectors and cities. In particular, logistics and residential and cities such as Paris, Madrid, Dublin and Warsaw are set to outperform the market.

Even in markets with a less favourable outlook, we do not exclude the possibility of finding attractive investments. Positive employment growth, low vacancy and rising rents are set to remain commonplace across the cities we cover, opening up opportunities in emerging office submarkets, and for taking a more active asset management approach. Likewise, as lifestyles change, so do real estate needs. Whether it be flexible living or a desire for faster home delivery, we see structural factors supporting demand, from urban logistics to affordable housing and from hotels to student accommodation.

In sum, the outlook for European real estate has improved over the past six months. While macroeconomic and political risks are clearly evident, in many ways this reinforces the attractiveness of a strong and relatively high income return. This is particularly true of core property in Europe's major metropolitan areas. With a focus on both outperforming cities and major structural drivers, we continue to see attractive opportunities for investment in European real estate.

## EUROPE REAL ESTATE KEY INVESTMENT THEMES:

	Theme	Comment
Targets	Overweight Markets	Target outperforming sectors and markets such as logistics, residential, Paris and Madrid.
	Emerging Sectors	Target emerging submarkets and segments gaining from structural change.
	Active Management	Low vacancy is creating opportunities to actively manage office, logistics and residential space.
Risk Awareness	Tailored Risks	Selective focus on fundamentals when moving up the risk curve, but avoid style drift.
	Hurdle Rate	Real estate still attractive in a multi-asset context, but target returns should reflect outlook and risk profile.
	Yield Sensitivity	Despite lower-for-longer yields, prime real estate returns are moderating and sensitive to exit yields.
Optimise	Long-term Focus	Increase allocation to long-term growth segments such as logistics, residential and hotels.
	Diversify	Subsectors such as urban logistics and affordable residential for outperformance and diversification.
	Sell Underperformers	Take advantage of liquidity to reduce exposure to assets set to underperform over the medium term.

Source: DWS, June 2019. Forecasts are not a reliable indicator of future returns.

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.

## 2 / The Economy

A veil of uncertainty has descended upon the global economy. The causes are numerous, from trade tensions to the lagged impact of tighter monetary policy, and have once again highlighted the long-term fragility of the post-financial crisis recovery. Europe has not been immune. Sentiment surveys have continued to weaken throughout the first half of the year, and in general we've downgraded our outlook for economic growth.

This is not to say Europe is on the verge of recession. GDP growth accelerated during the first three months of 2019, while the latest Purchasing Managers' Indices showed continued growth, with even a slight pick-up in Eurozone activity. Through this year and next, the Eurozone is projected to grow by 1.2% per annum, only slightly less than the 20-year average.<sup>1</sup>

Perhaps more important for the performance of the real estate sector is the change in global monetary policy. While the outlook for growth has been downgraded somewhat, the near-term outlook for interest rates is a complete reversal from where we were at the end of last year. It's easy to forget that it was only seven months ago that the ECB brought its programme of quantitative easing to a close. However, since that point, the ECB has resumed its dovish stance, and looks increasingly likely to loosen policy further before the end of the year.<sup>2</sup>

Debt markets have responded to the changing economic backdrop. Having edged higher since mid-2016, the ten-year German Bund has fallen sharply since the latter part of 2018, not only returning to negative territory, but also touching record low levels of -0.4% in early July.<sup>3</sup> With slower growth and inflation below target, this has reinforced our view that without a significant and sustained rise in nominal GDP growth, bond yields will remain very low for a long time.

The outlook for Europe conceals wide differences between countries and across the major cities. At the country level, Ireland and the CE markets stand out as the top performers over the next five years. Despite evident political risks in Poland, Hungary and the Czech Republic, robust consumption growth, government spending and trend increases in productivity are set to support GDP growth well above the Eurozone average, with Poland forecast to expand at an annual rate of 3.0%.<sup>4</sup>

At the other end of the spectrum sits Italy. Continuing its trend of anaemic growth, the next five years are forecast to see an annual rate of expansion of just 0.5%.<sup>5</sup> We can see room for upsides, given spare capacity and the potential for reform, but debt, political instability and tensions with Brussels weigh heavily on investor sentiment. Nonetheless, within Italy, Milan continues to stand out. Not only does the city command high levels of affluence, but both population and employment growth are forecast to exceed the European average looking ahead.

Indeed, this story of major cities outperforming the national and European average has been, and is expected to remain, commonplace across the continent. Of all the major real estate markets that we forecast, only a small handful, such as Lisbon, are projected to see below-average population and employment growth. And even in the case of Lisbon, there is certainly a chance that we are underestimating the impact of increasing inward migration.

Nordic cities such as Stockholm and Copenhagen are expected to be particularly strong performers. Recording levels of jobs creation not dissimilar to fast-growing Asian cities, real estate demand is set to remain robust there for the foreseeable

<sup>1</sup> DWS CIO View, June 2019

<sup>2</sup> DWS CIO View, June 2019

<sup>3</sup> Macrobond, June 2019

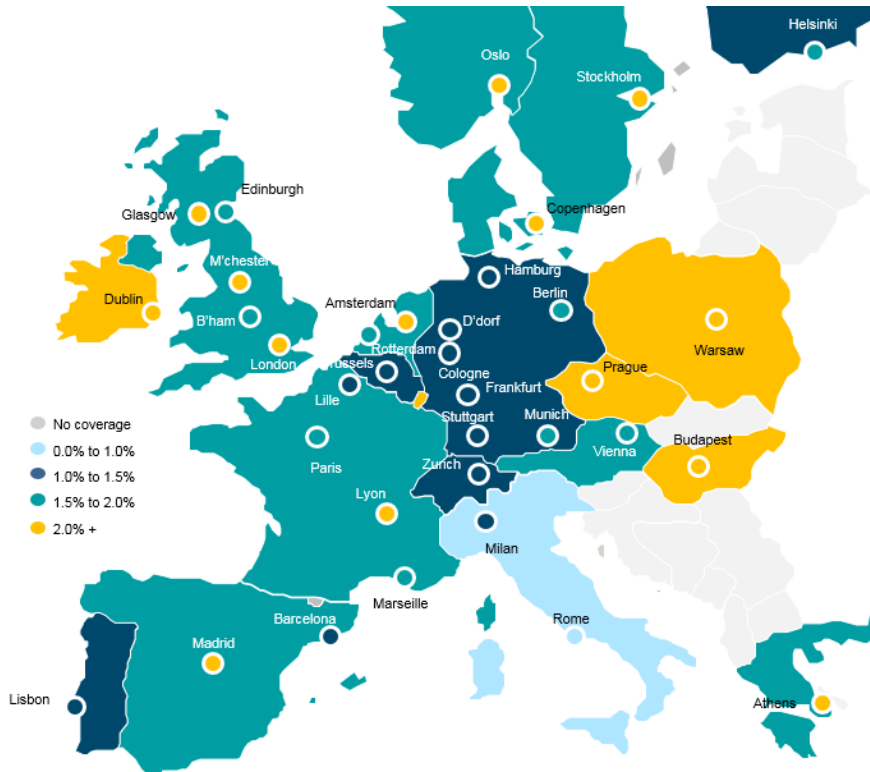
<sup>4</sup> Oxford Economics, June 2019

<sup>5</sup> Oxford Economics, June 2019

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.

future. Not far behind are the likes of London, Munich and Amsterdam, with a number of U.K. regional cities also expected to perform well. While London and the other U.K. cities have favourable demographic trends and look well placed for growth, much will depend on the outcome of the Brexit process, as we've been saying for the past three years.

**EXHIBIT 1: COUNTRY AND CITY LEVEL GDP GROWTH (2019-23F, % P.A.)**



Source: DWS, Oxford Economics, June 2019.  
 Note: f = forecast. There is no guarantee the forecasts will materialise. 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.

We continue to expect that the United Kingdom will leave the European Union with an agreed deal. However, there is a clear risk that this will not be the case, and a no-deal exit certainly cannot be ruled out. While there is currently no parliamentary majority for this outcome, the U.K. Conservative Party is currently going through a leadership election. Both of the final two candidates, one of which will be the next Prime Minister, have stated a strong desire for a 31<sup>st</sup> October 2019 exit date while openly countenancing the possibility of leaving without a deal.

Brexit is certainly not the only political risk. As mentioned, Italy remains a clear concern, reflected in bond yields that at the time of writing were not far below those of Greece. However, we can also draw comfort that the European Parliamentary elections in May did not see as large a swing to the extremes as had been feared. And while there will now be a change in leadership at the European Commission, European Council and ECB, this is unlikely to cause major disruption.

The shift in economic outlook is expected to be positive for real estate. While economic growth has been revised downwards slightly, jobs are still being created, particularly across the major markets. But perhaps most importantly, the income return from real estate, even in the lowest yielding markets, is once again looking attractive against the risk-free rate. On balance, this backdrop supports our decision to upgrade our outlook for real estate returns.

## 3 / Real Estate Performance

### 3.1 Occupier Fundamentals

By and large, the real estate occupier market is in good health. The Spanish, Dutch, German and Parisian office markets have carried through strong momentum into 2019, while European logistics is still seeing unprecedented – albeit still modest – levels of rental growth. However, retail is facing growing headwinds and is struggling with weakening occupier fundamentals, causing us to further downgrade our outlook for the sector.

**Office:** Despite a moderation in economic growth, the European office occupier market remains in good shape and the short-term outlook is positive. Recent demand trends have mirrored the stronger employment growth of recent years and rolling annual take-up in major office markets remained at around 5% of existing stock in the first quarter of the year, slightly above the long-term average. A further 2.4 million office-using jobs are expected to be created over the next five years, although the rate of increase is likely to decline in line with weaker working age population growth.<sup>6</sup> Nevertheless, Europe's major cities are forecast to see notably higher rates of employment growth compared to the wider European average, which should provide support for office take-up in those cities.

The occupier balance is also being aided by a sticky development market. Current levels of demand, value growth and vacancy resulted in higher rates of construction during previous cycles. However, ongoing cautiousness among developers has led to somewhat lower development activity in the current cycle. In the first quarter, rolling annual building starts remained close to 2% of current stock, around 50% lower than in 2007 when occupier conditions were broadly similar. With this in mind, European vacancy rates remain on a downward trend, reaching 6.8% on aggregate in the first quarter, although a number of markets such as Berlin, Munich and Paris are seeing rates considerably lower than this.

Given current conditions, it's hardly surprising that rents are growing strongly. In the 12 months to March 2019, average European prime rents grew by 3.9%, with almost 60% of markets seeing positive growth over the period.<sup>7</sup> We do expect to see a modest pick-up in net completions and a moderation in net absorption over the coming years, putting an end to the downward trend in vacancy. That said, with vacancy remaining well below its historical average we are still forecasting nominal rent growth of 2.0% per annum over the next five years, slightly outpacing inflation.

Berlin, Paris CBD, Lisbon and the Spanish markets could achieve some of the strongest growth, while there is strong momentum in the Dutch markets at the moment, leading to an upgrade to our near-term forecast. We have also upgraded the five-year outlook for the remaining German markets as vacancy remains very low. At the other end of the scale, both Stockholm and Dublin have seen exceptional growth over the past five years, and despite low vacancy and above-average GDP growth we expect stronger development activity and affordability constraints to put a cap on further prime rental growth in both cities.

**Logistics:** The logistics occupier market remains in fine fettle, with total occupier demand reaching a new high last year. While the volume of completed space was largely flat in 2018, take-up of European logistics space reached 23 million square metres, up by 3% year-on-year. As online retail continues to expand across the continent, e-commerce occupiers have become an increasingly important source of demand for logistics space. As a proportion of the European total, e-commerce take-up reached a peak of 24% in 2016, and although the proportion has moderated slightly over the past two years, we expect the upward trend to resume as rates of online sales continue to increase.

<sup>6</sup> Oxford Economics, July 2019

<sup>7</sup> DWS, PMA, June 2019

At the same time, the amount of space under construction has been rising steadily over the past decade, and reached an all-time high of almost 16 million square metres late last year.<sup>8</sup> What's more, rates of speculative development have gradually increased in recent years, and last year more than 20% of schemes over 10,000 square metres were constructed speculatively – more than double the rate seen at the beginning of the decade. The largest supply of such space is being recorded in the United Kingdom, where almost half of total space was delivered on a speculative basis in 2018, but the CE markets and Germany are also beginning to see stronger speculative activity.<sup>9</sup>

Given the unprecedented levels of demand in recent years, vacancy has been on a downward trend, although has recently levelled off at around 4%.<sup>10</sup> However, while the overall trend for grade A vacancy is generally flat, some locations are starting to see a rise in available space. This is most notably evident in the United Kingdom, where vacancy reached a six-year high of 8.8% in the first quarter of this year, boosted by a strong rise in availability of new space.<sup>11</sup> Nevertheless, European logistics rents are still growing at unprecedented rates. On average, big box logistics properties registered prime rental growth of 2.7% year-on-year in 2019 Q1,<sup>12</sup> which is impressive for a sector that has historically seen little or no rental growth, due in large part to the ease and speed at which new space can often be built.

Although rents for large distribution warehouses are on the rise, urban logistics units have been growing at much faster rates. Large-scale distribution rents have only just returned to where they were ten years ago, yet over the same period urban logistics rents have grown by almost 25%, with rents in markets such as London and Munich growing by as much as 50%.<sup>13</sup> Over the next five years we expect distribution rents to increase in line with the office market at an average of 2.0% per year, while growth for urban units – where there is greater scope for alternative land use and availability of land tends to be lower – could be significantly higher than this.

For distribution space, we expect London and Paris to be at the top of the pile in terms of rental growth, with Lisbon, Munich, Dublin and the Spanish markets also among the best performers. However, the sector is not without risk, as global trade tensions remain elevated, retailer margins are under pressure and a further pick-up in speculative development could lead to rising vacancy in some markets.

**Retail:** The underlying drivers of consumer demand are still showing positive signs, but structural changes to shopper behaviour are continuing to have a significant negative impact on retail real estate. Having already downgraded our shopping centre rent forecasts six months ago, we have made further negative adjustments to reflect a worsening outlook for the sector.

European retail sales volumes have been growing at an average of well over 2% per annum for the past five years. However, taking online sales into account, in-store sales growth has been closer to 1% per year over the same period. And looking ahead, if we assume that online sales growth begins to accelerate in areas such as Southern Europe and the CE region, we expect European in-store sales volumes to record very little growth over the next five years.

Even with a sharp drop in construction volumes, recent occupier demand has been insufficient to prevent a long and slow rise in retail vacancy. Excluding markets such as Turkey and Russia, where online penetration is minimal and there is still significant development activity, the European shopping centre stock grew by just 1.2% in 2018 – compared to a 20-year average of almost 4% per year – with this year and next set for average growth of closer to 1%. Over the past ten years, shopping centre vacancy has doubled to 8.6%, a period during which office vacancy has fallen and logistics vacancy has

<sup>8</sup> JLL, May 2019

<sup>9</sup> PMA, June 2019

<sup>10</sup> JLL, May 2019

<sup>11</sup> JLL, May 2019

<sup>12</sup> PMA, June 2019

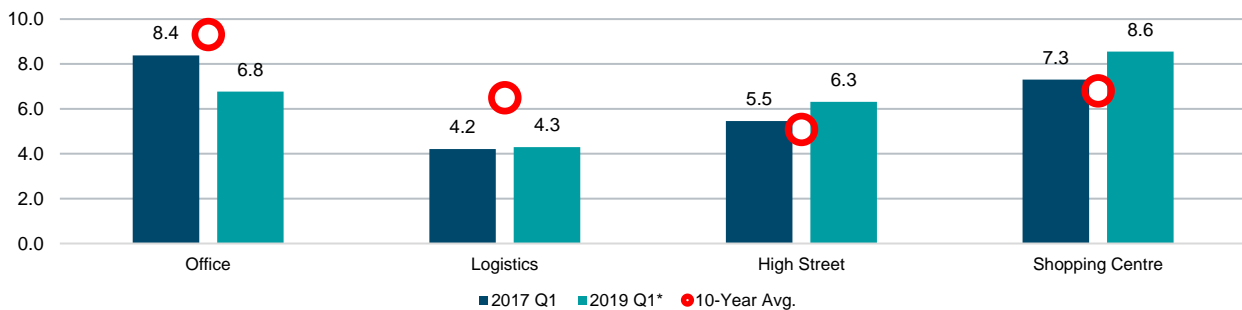
<sup>13</sup> PMA, June 2019

halved. The deterioration in market conditions becomes even starker for small shopping centres (below 15,000 square metres), where vacancy now sits above 15% on average.<sup>14</sup>

Although net store openings remain positive, the rate is falling and retailer profit margins continue to be squeezed.<sup>15</sup> European prime shopping centre rents grew by just 0.3% in 2018<sup>16</sup> and we are forecasting growth to turn negative over the next two years, particularly in the United Kingdom and Germany, but also in a number of other markets. Over a five year period, we expect almost no growth in prime shopping centre rents, with a more pronounced negative trend for smaller, secondary centres.

While our retail rent forecasts have been downgraded almost universally, we still believe that markets with much lower rates of online penetration should provide a modest return over the five-year forecast period. Southern European and CE markets are set to outperform in this context, however, we believe that even in these markets in-store sales growth and rental growth will be modest and increasingly at risk.

**EXHIBIT 2: VACANCY RATE BY SECTOR (%)**



Source: PMA, JLL, Cushman & Wakefield, DWS, June 2019  
 \*For retail subsectors 2019 Q1 shows latest available data.

**Residential and Hotel:** The ‘living sector’ remains on a firm footing. There has been significant growth in demand for private rented residential accommodation, as homeownership rates in Western Europe have gradually fallen and the proportion of the population that is renting has increased. In the Eurozone almost 24% of people currently live in rented accommodation at market prices, up from 22% at the beginning of the decade, although in Germany the rate is currently as high as 40%.<sup>17</sup> And in almost every major European market, house price growth has easily outpaced inflation and wage growth over the past five years,<sup>18</sup> making homeownership increasingly unaffordable.

Residential construction activity continues to pick up, as net completions in major European cities grew by 10% last year. In this regard, new development is going some way towards redressing the supply-demand imbalance; however, the number of planning permits for new dwellings in major cities is estimated to have fallen in 2018, based on preliminary estimates, meaning that we do not expect to see a strong increase in completions in the short term. Combined with healthy real disposable income growth and low unemployment over the coming years, this should lay a path for further European rental growth, which we expect to average 2.7% per annum over the five-year forecast period.

Hotel market occupancy has been increasing in all regions within Europe in recent years, although overall occupancy was close to flat during the first five months of the year compared to the same period last year. Nevertheless, ADR growth of

<sup>14</sup> PMA, June 2019

<sup>15</sup> PMA, June 2019

<sup>16</sup> Cushman & Wakefield, DWS, June 2019

<sup>17</sup> Eurostat, June 2019

<sup>18</sup> Oxford Economics, OECD, June 2019



2.2% over the same period led to RevPAR growth of 2.3%, making Europe the best performing region globally.<sup>19</sup> In 2018 E.U. overnight stays at hotel accommodation grew by 2.6%, and while overall growth has paused during the first three months of 2019, there was still growth in markets such as Germany, the Netherlands and Poland.<sup>20</sup>

Along with positive demand drivers, construction activity in the hotel sector also continues to rise sharply. In April this year there were 187,000 rooms under construction, a rise of almost 50% year-on-year. Half of these are in Germany and the United Kingdom,<sup>21</sup> which will lead to significant increases in the supply of rooms and will likely dampen further RevPAR growth in the short term.

Over the long term, increases in both leisure and business travel across Europe should support demand for hotel accommodation. We expect a growing number of city breaks to fuel demand for apart-hotels and economy and mid-scale hotels, while the ageing demographic and more senior travellers should also support the branded hotel offering from budget through to upscale. At the same time, a growing demand for experience and shared space is leading to more hostels and co-living concepts. We believe that cities such as London, Paris, Amsterdam, Berlin, Madrid and Barcelona are well placed to benefit from these trends.

## 3.2 Capital Markets

**Investment:** Following another strong period of investment activity in 2018, this year has got off to a slower start. Investment volumes were down 25% year-on-year during the first three months of 2019, resulting in the weakest quarter for five years. And although preliminary data suggests that second quarter volumes returned to stronger ground, half year volumes are still well down on last year.<sup>22</sup>

Conversely, overall investor sentiment towards European real estate jumped to a five year high in the first quarter of the year, with 70% seeing an improvement in investment intentions.<sup>23</sup> To some extent, the current mismatch between stronger investor demand and weaker deal flow could partly reflect a lack of suitable product on the market, and the fact that most markets have been trading at or close to capacity. We could also see a lagged impact from the stronger demand, as anecdotal evidence suggests that activity is picking up notably going into the second half of the year. Nevertheless, while a gradual rise in new completions will provide additional investment stock, some investors are reluctant to adjust hurdle rates too far downwards, meaning that current pricing levels at the prime end of the market may still be difficult to justify for some.

Although overall activity is down, a number of markets are still seeing significant momentum. Last year, Spanish volumes were very close to the previous year's record total, and in the first half of this year volumes were up by almost 40% compared to the same period a year ago. Elsewhere, the Nordic region and parts of the CE region have also seen strong demand so far this year, although demand for U.K. property continues to fall, with volumes down by more than 30% year-on-year in the first six months of the year.<sup>24</sup>

While the investment slowdown has been relatively widespread so far, it is the retail sector that has borne the brunt of the fall. Retail investment in the first half of the year was down by around 50% year-on-year, leading to the lowest half-year total since 2009.<sup>25</sup> Sentiment towards retail investment has also dropped to the lowest level since at least 2001, as investors are increasingly worried about the prospects for the sector. Sentiment towards the office sector remains positive, with investors attracted by rising rents and occupancy rates, and logistics sentiment is close to a post-GFC high. Nevertheless, despite the

<sup>19</sup> STR, June 2019

<sup>20</sup> Eurostat, June 2019

<sup>21</sup> STR, May 2019

<sup>22</sup> RCA, July 2019

<sup>23</sup> PMA, April 2019

<sup>24</sup> RCA, July 2019

<sup>25</sup> RCA, July 2019

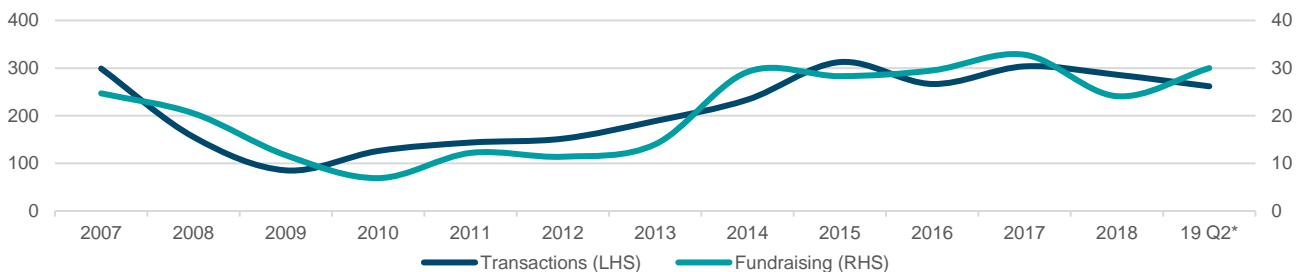
Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

structural drivers supporting the logistics sector, concerns over rising construction volumes are beginning to creep in, leading to a modest decline in sentiment in the early part of this year.

One area that continues to attract significant interest is the living sector, encompassing hotels and residential, where investment activity has so far matched the 2018 year-to-date total. At this stage in the cycle, there is often a temptation to drift up the risk curve, but many investors are still looking for defensive assets that offer some protection against wider economic risks. While no sector can be immune to the economic cycle, hotels offer some international diversification, benefitting from visitor flows and structural growth in international tourist numbers. At the same time, residential occupancy rates are often higher than those for commercial space, while rents tend to be more resilient to a market downturn.

The private equity space appears to show further evidence of stronger demand in the first half of the year. Having reached a record total of €33 billion in 2017, total fundraising fell by 25% last year, but 2019 has got off to a strong start. Fundraising for opportunistic strategies remains the main focus here, although core and value added strategies have also seen activity this year.<sup>26</sup> Other parts of the market are also seeing strong inflows of capital. German open ended real estate funds, for example, saw net inflows of around €3 billion in the first quarter – almost double those of the same period a year ago<sup>27</sup> – while we anticipate recent falls in the risk-free rate could support renewed inflows into the sector.

**EXHIBIT 3: REAL ESTATE TRANSACTION VOLUMES AND PRIVATE EQUITY FUNDRAISING (€ BILLION)**



Source: RCA, Preqin. As of July 2019.

Note: \*12-month rolling total

**Pricing:** With the exception of retail, there has been relatively little deviation in the downward trend of real estate yields over the past year. European average prime office yields have now edged below 3.60% for the first time, while logistics yields were down by an average of 10 basis points in the first quarter alone, also hitting a new low of 4.85%.<sup>28</sup> Prime shopping centre yields, on the other hand, have risen by 20 basis points over the past year<sup>29</sup> as investors increasingly shun the sector. And the picture is even more challenging for secondary retail, where yields are up by around 40 basis points.<sup>30</sup>

On one hand, limited availability of core product, already high pricing and a perception of increased global risks may provide limited room for further growth in investment volumes. However, investors are still sitting on significant capital; Europe-focused dry powder in the private equity space reached a record €68 billion in June 2019. At the same time, borrowing costs are low, long-term bond yields have fallen again in the early part of the year, occupier fundamentals are healthy and the supply pipeline remains in check. And compared to other fixed income investments, real estate continues to look attractive, with an average prime office yield spread of more than 250 basis points over 10-year government bonds. The combination of these factors mean that we still expect to see a further decrease in property yields over the next 12 months or so.

<sup>26</sup> Preqin, July 2019

<sup>27</sup> BVI, June 2019

<sup>28</sup> PMA, DWS, June 2019

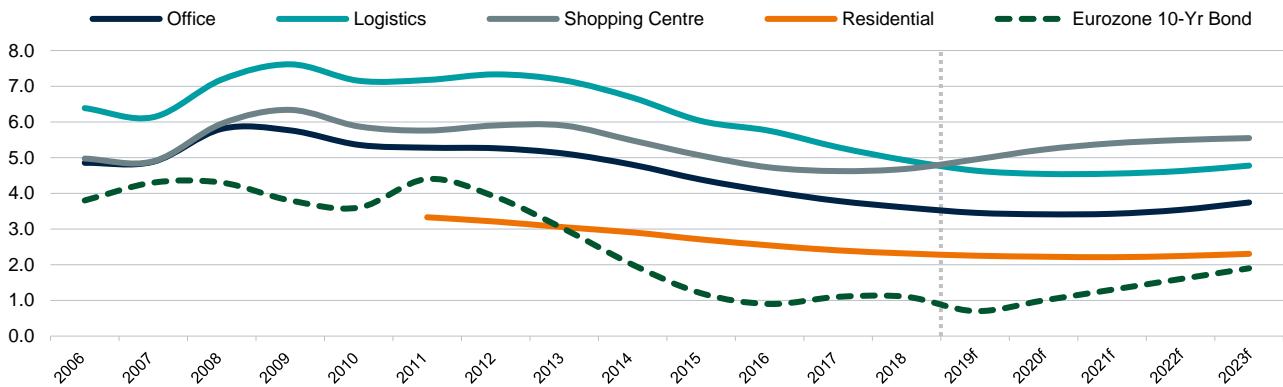
<sup>29</sup> Cushman & Wakefield, DWS, June 2019

<sup>30</sup> CBRE, DWS, June 2019

Beyond next year, in our central case scenario we see bond yields beginning to edge higher, slowly narrowing the real estate yield spread. And at the same time, below trend economic growth and a rise in the amount of new space being completed are set to act as a brake on rental growth. With this in mind, we would not expect further yield compression after 2020, although with a more dovish stance from the ECB suggesting a lower future path for interest rates, we have revised down our outlook for future outward yield movement. We now expect office yields to move out by just 20 basis points and logistics yields to remain broadly flat over the next five years.

That said, while slower yield expansion is typically good news for capital values, it is likely to come at the expense of lower trend rental growth. Capacity constraints and weaker demographic trends mean that we see relatively limited upside for long-term economic growth, and should interest rates remain lower for even longer, this is likely to be accompanied by a reduction in the outlook for inflation and economic growth.

**EXHIBIT 4: PRIME YIELD OUTLOOK (%)**



Source: DWS, PMA, Cushman & Wakefield. June 2019. Past performance is not a reliable indicator of future returns. No assurance can be given that any forecast will materialise. 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.

Following some initial volatility, U.K. yields have actually been relatively flat over the past two years, and while we do foresee some further short-term outward movement in Central London, the United Kingdom should actually be an outperformer in the medium to long term as already elevated yields give more breathing room and also equate to a higher income return. Nevertheless, this view is highly dependent on the next prime minister overseeing an orderly Brexit, and clearly there are downside risks here.

Yields continue to trend downwards in Germany and France, but the strongest compression is currently being seen in CE offices as investors look for additional income return, as well as Nordics logistics, attracted by the region’s strong consumer fundamentals. Overall, logistics and shopping centres are now priced similarly, and we expect that in the second half of the year, logistics yields will dip below shopping centres for the first time. Logistics has also significantly closed the gap over offices, with the spread between the two sectors narrowing from 200 basis points five years ago to just 130 basis points currently. We expect the popularity of logistics to be reflected in a further narrowing of this spread over the next five years.

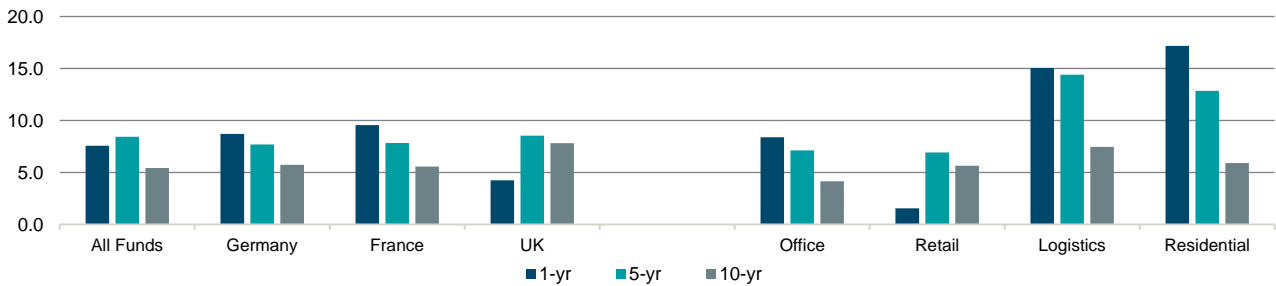
### 3.3 Returns and Market Calls

In general we still anticipate that returns will begin to moderate across the majority of markets over the next 18 months. Having lowered our yield outlook, we now expect total returns to be slightly higher for most markets and sectors over five years. Nevertheless, from 2020 onwards we are forecasting returns to drop below their historical average.

**Recent performance:** The current strength of the prime market is clear to see, but the wider institutional market also continues to record total returns well above past levels. In the first quarter of the year, year-on-year fund-level returns for the INREV All Funds Index moderated to 7.6% as a weaker retail sector dragged down overall performance.<sup>31</sup> The MSCI Pan-European Quarterly Property Fund Index (PEPFI) showed a similar trend, with the Balanced Funds Index recording a total return of 5.9%.<sup>32</sup> However, in both cases returns are still comfortably higher than their ten-year averages.

Looking at the performance of the underlying assets in both the INREV and MSCI indices, the Netherlands and Germany remain particularly strong performers, although the Dutch market carries a heavier residential weighting. The French market is also performing well, but the United Kingdom has been somewhat of an underperformer of late. At the sector level, logistics and residential are clearly out in front, with annual fund-level returns of 17% and 15%, respectively. Office also continues to perform relatively well, while retail is firmly bringing up the rear, with quarterly returns turning negative.<sup>33</sup>

**EXHIBIT 5: ANNUAL FUND-LEVEL RETURNS TO Q1 2019 (%)**



Source: INREV, June 2019

Note: Past performance is not indicative of future results.

**Return outlook:** Having revised our five-year forecast for all property yields downwards by around 25 basis points, the outlook for total returns has improved since six months ago. Asset selection will always have a large impact on achieved returns, but at a broader level there are also certain sectors and markets that we expect to outperform the wider market. We expect retail to be a major drag on performance over five years, with shopping centre prime total returns of just 2.2% per year, although with prime shopping centre values already down by more than 10% and further decline to come, retail will account for a smaller proportion of the total investment stock than in the past.

Conversely, as alternative investments such as private rented residential, hotels and student housing become more and more part of the institutional market, these sectors will have an increasing influence on all property performance. While we don't believe that any sector can sustain the exceptional returns of recent years, these sectors, together with logistics, are well positioned to benefit from more structural and long-term performance drivers. Logistics remains our strongest performer, at 7.2% per annum, but private residential should also provide an above average prime total return of 5.1%.

Even so, for the vast majority of the commercial real estate market, income return is likely to be the main driver of returns over the next five years. We now expect a prime all property total return of around 4.0% per annum over five years, which represents an upward revision of 50 basis points from our 2018 year-end forecasts. Clearly this is a significant reduction compared to the 13.0% per annum achieved over the past five years, and also some way below the historical average of 10.0%. However, we are in an unprecedented environment of sustained low interest rates, and in this context there is still a clear case for investing in real estate, given the returns currently on offer from fixed income investments.<sup>34</sup>

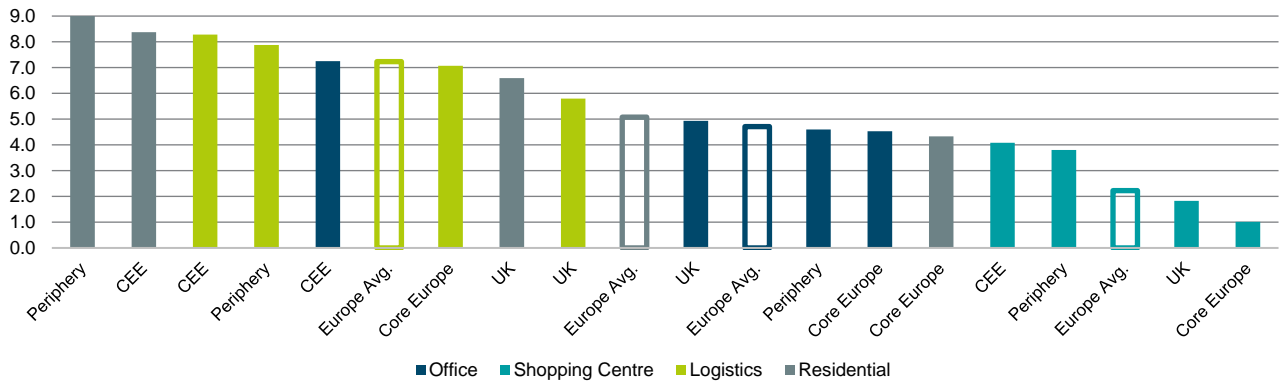
<sup>31</sup> INREV, June 2019

<sup>32</sup> MSCI, June 2019

<sup>33</sup> MSCI, INREV, June 2019

<sup>34</sup> Bloomberg, June 2019

**EXHIBIT 6: PRIME TOTAL RETURNS BY SECTOR AND REGION (2019-23F, %)**



Source: DWS, June 2019

Notes: f = forecast. Core Europe = Germany, France, Benelux, Nordics, Austria & Switzerland; Periphery = Iberia, Italy, Greece & Ireland; CEE = Czech Republic, Hungary & Poland. There is no guarantee the forecast shown will materialise. As such, the performance and forecast shown represent hypothetical and simulated performance, which has many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. No assurance is made that forecast returns will be achieved.

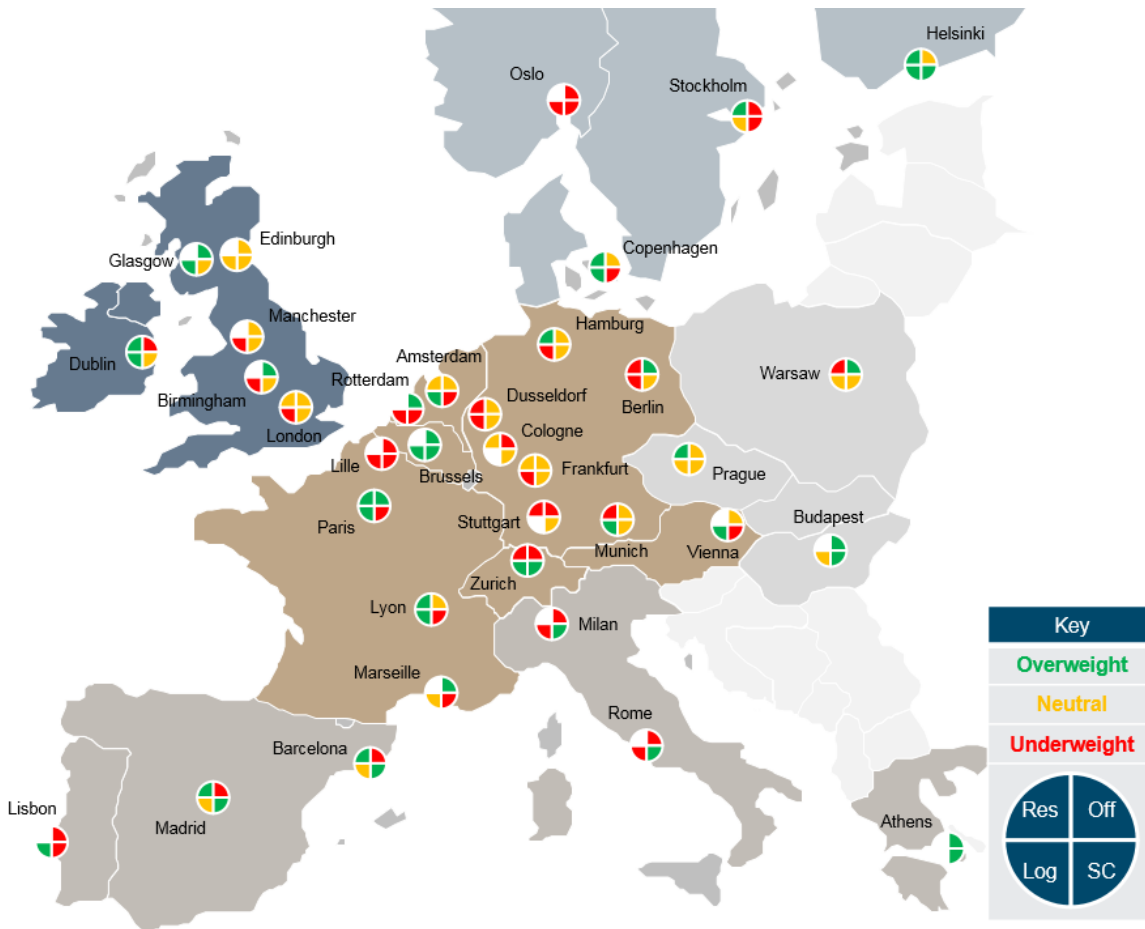
At the market level, we still expect Iberia and the CE region to be clear outperformers within almost every sector. With expected annual returns of 8-9% between 2019 and 2023, residential is set to be a strong performer here, but the institutional market is still immature in both regions. Forecasted returns of close to 8.0% in the more established logistics markets should provide some of the strongest performance across Europe, with CE offices also due to perform well. Within southern Europe, the Italian market is generally being pulled back by a weak national economy, although we expect logistics in Milan to prosper thanks to its strategic importance and expectation of rising online sales. Nonetheless, stronger performance in both Southern Europe and the CE region doesn't take into account the higher risk that often accompanies investments in these markets.

In Core Europe, we are generally forecasting lower returns, although Brussels, Helsinki and select French markets are still expected to come out ahead of the European average for both offices and logistics. Overall, we would anticipate that the United Kingdom will outperform Core Europe over five years, assuming an orderly Brexit, but there is still a great deal of uncertainty around this subject.

**Market calls:** In the map below, we summarise our market-level calls for the three main commercial sectors and the private rented residential sector over the five years from the second quarter of 2019. It is worth noting that these calls are made within and not between sectors. If compared against an all property average, the share of overweight calls in logistics would certainly increase given the strength of the sector in general. Likewise, the share of underweight calls in the shopping centre sector would increase.

These numbers are based on our forecasts for prime property performance and also account for market risk. The map provides our views on market selection; however, these are not all encompassing within the real estate investment universe and therefore should be considered in conjunction with the strategic themes shown in this document.

**EXHIBIT 7: MARKET INVESTMENT OUTLOOK (19Q2-23Q2F)**



Source: DWS, June 2019

Note: Countries are coloured by DWS Country Cluster. Overweight, Neutral and Underweight calls are made on the risk-adjusted total return relative to the sector average. Based on a hedged euro investment over a 5-year hold period. The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. No assurance can be given that any forecast or target will be achieved.

By country, there are still relatively few locations where we have a clear call across the main sectors. Overall, we still anticipate stronger risk-adjusted returns in Brussels and Helsinki, while the Paris market also looks attractive generally speaking. The French capital benefits from positive demographics, strong investment liquidity and expected GDP growth comfortably above the European average. There is also a major public transport upgrade underway, and the city may receive some long-term boost from firms relocating away from the United Kingdom following its departure from the European Union. Of all sectors in Paris, we believe logistics offers the most compelling story, and particularly urban and last mile delivery assets; while big box logistics rental growth in Ile-de-France has been relatively limited due to the corridor nature of the French logistics backbone, we would expect stronger growth for urban logistics units closer to the city centre.

The Dutch markets have moved fast over the past year, and though we still expect continued momentum and short-term outperformance, returns are set to moderate over the medium term as the occupier balance begins to shift with greater construction activity. Our calls on the German markets are still rather varied, but we see relatively few opportunities to achieve risk-adjusted outperformance in the prime segment, despite typically strong liquidity and low volatility. The Berlin

office market is one area we do see potential; despite yields that are now well below 3.00%, rents are still growing fast and investor sentiment is flying high.<sup>35</sup>

CE offices remain an overweight call, with Warsaw in particular looking attractive. Rents in the Polish capital are down by almost 20% since 2012 as new supply has flooded the market, and although there is more supply still to come in the pipeline, build costs are rising rapidly and in time we expect this to curb activity, putting a floor on rents over the coming years. At the same time, the market still offers a yield premium over other major European cities, and given strong investor demand we would expect to see further yield convergence, leading to a period of outperformance.

Our outlook for the United Kingdom remains largely unchanged, with the exception of retail, where we have downgraded our call. Here there seems little prospect of rental growth and the pace of change in investor sentiment has led to a sharp drop in liquidity and rapid repricing. The Spanish and Italian markets are among the few where we still see some value in the retail sector, driven largely by still-low rates of online shopping. However, we remain underweight on offices for both countries, with much of the upside already taken in Spain and weak occupier fundamentals holding back the Italian market.

**Summary:**

<b>Germany</b>	<ul style="list-style-type: none"> <li>— Increasing number of underweight calls relative to the European average, reflecting sub-3% prime yield.</li> <li>— Exceptionally low vacancy in cities such as Berlin, Munich and Hamburg support taking a more active asset management approach in office and residential.<sup>36</sup></li> </ul>
<b>France</b>	<ul style="list-style-type: none"> <li>— Outlook for Paris remains strong. Low vacancy, rising rents and potential long-term gains from improving infrastructure and economic reforms.</li> <li>— Paris logistics market one of the top-performing segments in Europe, supported by relatively attractive pricing, low vacancy and future demand from growing home delivery requirements.</li> </ul>
<b>U.K. &amp; Ireland</b>	<ul style="list-style-type: none"> <li>— U.K. market still performing better than expected and pricing relatively attractive, but Brexit continues to weigh on economic performance and investor sentiment, given potential for significant disruption.<sup>37</sup></li> <li>— Dublin residential expected to be one of the top-performing segments in Europe over the next five years, reflecting strong population growth, housing shortages and relatively attractive pricing.</li> </ul>
<b>Southern Europe</b>	<ul style="list-style-type: none"> <li>— Iberian economies continue to grow strongly, supporting positive real estate performance. Jobs growth, rising disposable incomes, and low levels of development sustaining strong residential rental growth.</li> <li>— Political risks still high in Italy and prime pricing strong. Stay selective with a focus on asset fundamentals.</li> </ul>
<b>Benelux</b>	<ul style="list-style-type: none"> <li>— Strong economic performance but upsides in Amsterdam office have increasingly been taken. Dutch residential, logistics, Rotterdam office and Brussels still offering opportunities to outperform.</li> </ul>
<b>Nordics</b>	<ul style="list-style-type: none"> <li>— Helsinki and Copenhagen prime offering the best regional opportunities. Swedish residential recovering but prime office affordability constraints suggest a focus on emerging submarkets in Stockholm.</li> </ul>
<b>Central Europe</b>	<ul style="list-style-type: none"> <li>— Prime Warsaw assets have experienced strong value growth over the past 12 months.<sup>38</sup> Market retains its overweight position, but window of opportunity to purchase attractively priced prime stock is shrinking.</li> </ul>

<sup>35</sup> PMA, June 2019

<sup>36</sup> PMA, June 2019

<sup>37</sup> Oxford Economics, July 2019

<sup>38</sup> PMA, June 2019

## 4 / Environmental, Social and Governance

Country-level regulations around key ESG topics continue to drive dynamics in the European property market. Adding to this is the sweeping set of guidelines broadly labeled the European Union (E.U.) Action Plan on Sustainable Finance. We believe that these two trends will shape the nature and velocity of investment in responsible property practices.

Since the adoption of the Paris Climate Agreement in 2015, the E.U. has increasingly moved towards ambitious carbon emissions reduction targets. While the current commitment is a 40% reduction by 2030, there has been a recent push for an E.U. wide resolution of net zero carbon emissions by 2050. In the interim, countries including Sweden and the United Kingdom have set their own net zero emissions targets.

**The road to decarbonisation:** As countries set ambitious goals towards decarbonisation by 2050, real estate, which constitutes nearly 40% of emissions globally, will play a significant role.<sup>39</sup> To date, most of the focus has been on new construction, particularly given the European Parliament's adoption of the 2010 Energy performance of buildings directive (EPBD), a regional mandate requiring all new buildings to be nearly zero-energy buildings (NZEBs) by 2020. France has taken this regulation a step further with the passing of la réglementation thermique (RT) 2020, which requires buildings to be net positive generators of energy, using improvements such as on-site renewable energy generation.

We believe that in order to achieve these ambitious targets, countries will have to address efficiency of the existing building stock. According to the Buildings Performance Institute Europe (BPIE), only 3% of Europe's building stock had the highest Energy Performance Certificate (EPC) rating of A in 2017, and a further 7% was rated B. To achieve the level of decarbonisation envisioned, it would likely require that more than 90% of the existing stock be renovated. With current renovations estimated at between 1% and 2% of stock each year, a significant change in policy or incentives is needed.<sup>40</sup>

The BPIE study also revealed significant differences among member countries. In Italy and Spain, the share of buildings rated below D is more than 70% of stock, while in the United Kingdom and the Netherlands it is less than 30%. These differences may in part be explained at the country level. In April 2018, the Minimum Energy Efficiency Standards (MEES) went into effect in the United Kingdom, requiring all buildings to have an EPC rating of D or higher in order to be lettable. In November 2018, the Netherlands enacted a decree requiring office buildings have a minimum energy label of C by 2023 and, by 2030, the minimum will move to an A rating. We believe other countries will likely follow. Additionally, as more efficient buildings are delivered into the market under increasingly stringent building regulations, the gap between existing buildings will continue to widen and owners will have to invest more capital to protect against obsolescence.

**The EU Action Plan:** In addition to its efforts on climate policy, the E.U. has recently adopted its Action Plan for Financing Sustainable Growth. These guidelines are designed to drive more capital to sustainable activities. While the guidelines are still being developed, the E.U. released a taxonomy document, which identifies the acquisition, development and renovation of energy-efficient buildings as an opportunity for driving sustainable finance. The definition of what would be deemed as "sustainable" is still being finalised, and we believe there will be challenges in developing a consistent set of standards across the region as individual countries have different approaches to energy efficiency standards.

**Investment Impact:** As regulations and investor demand continue to focus on decarbonisation, the implications could be significant for property markets. First, the drive to improve the current state of efficiency in building stocks could generate more investment activity around deep retrofit projects. Second, as countries increasingly focus on net-zero objectives, renewable energy via on-site systems may become increasingly common. Lastly, we believe that tenant engagement will become more important to mitigate regulatory and legal risk. For instance, through the use of green lease clauses. We believe that these solutions, while not exhaustive, provide a foundation for real estate to contribute to climate goals.

<sup>39</sup> JLL, July 2018

<sup>40</sup> Buildings Performance Institute Europe, June 2017



## 5 / Office Market

**Current Conditions:** Occupier conditions in Europe have rarely been stronger. Vacancy rates in most markets are below their 10-year average, especially for grade A product. As a result, prime rents continue to rise, albeit at a slightly slower rate than in 2018. Being at an earlier stage of the property cycle, major Southern European cities are forecast to see faster rent growth than the European average (3.3%) in 2019. Office markets in Barcelona and Madrid are particularly buoyant.

Technology and telecommunications are outpacing banking and finance occupiers in terms of take-up for the second year running in 2019. Cities such as Berlin and Lisbon, with expanding technology and telecommunications sectors, are consequently benefitting from stronger rent growth. Berlin in particular is seeing strong rental outperformance (10% year-on-year in the first quarter of 2019) thanks to a record low vacancy rate of 2.0% and strong occupier demand,<sup>41</sup> but above-trend growth can also be found in some of the other major German cities, including Frankfurt and Munich.

**Outlook and Investment Strategies:** The current tight occupier market and modest new supply are supportive of further prime rent growth in 2019 and 2020. However, an uptick in new deliveries over the next two years will likely result in a slower rate of rental increase. Nevertheless, with new deliveries as a percentage of stock averaging just 1.2% this year and next, net completions are still around 30% below the levels seen in the last cyclical supply peak in 2008 and 2009. Most markets will therefore continue to see rising rents.

We expect the strongest rent growth to be achieved in Spain and Germany, although the forecast for Dublin has been revised downwards to account for the full pipeline of new supply over the next 2-3 years and the period of particularly strong rental growth the market has experienced since 2013.

With office yields in Europe at historical lows approaching 3.50%,<sup>42</sup> active management strategies will increasingly be required to create value. This is especially relevant in markets where vacancy is low and repositioning an asset can release value without significantly increasing risk.

Another strategy arising from the low yield environment is seeking out emerging office locations. In markets such as Paris, where there are major infrastructure projects unlocking new areas for office development, it is possible to identify hubs where offices are still relatively attractively priced. As these areas mature as office destinations, some yield convergence with the existing CBD can be expected.

Further opportunity can be found in underappreciated markets where fundamentally sound assets will attract a high yield. This may result from a market re-pricing event, such as the U.K. referendum to leave the European Union.

	Theme	Comment
Office Strategies	Active Management	Focus on repositioning existing assets to realise rental uplift in markets with especially low vacancy.
	Emerging Locations	Identify dynamic, emerging office locations, often benefitting from enhanced transport connectivity, to realise yield compression.
	Tactical	Target good quality assets in markets where pricing may have over-corrected.

<sup>41</sup> PMA, April 2019.

<sup>42</sup> DWS, PMA, April 2019.

## 6 / Retail Market

**Current Conditions:** It is exceptionally difficult to paint a positive picture of retail real estate. While certain retailers and shopping venues may continue to do well, on the whole, pessimism hangs over the sector. This is most notable in the United Kingdom, but there is an ever-increasing sense that no part of Europe will be immune to the structural disruption enveloping the sector. While the polarisation between prime, dominant centres and weak, secondary retail continues, even some of the best centres are seeing rising vacancy and pressure on headline rents.

Given this backdrop, it is perhaps no surprise that investor sentiment and transaction activity have slumped.<sup>43</sup> After some delay, valuers look to be catching up with this change in sentiment. Prime shopping centre yields increased across almost every major European country during the first quarter of the year,<sup>44</sup> but despite this, anecdotal evidence strongly suggests that a considerable difference remains between book values and where many assets would trade on the open market.

There are a few notable exceptions to the prevailing climate. The Czech Republic and Hungary continue to see positive rental growth, buoyed by annual retail sales value growth running in excess of 6%.<sup>45</sup> More widely, factory outlets, luxury retail and a selection of prime high streets continue to perform well, while supermarkets, particularly in the United Kingdom, have proved more defensive given less online penetration, long leases and their ability to facilitate delivery to home.

**Outlook and Investment Strategies:** We have significantly downgraded our outlook for European shopping centres. Over the coming five years we expect prime shopping centre rents in Europe to grow at an annual average rate of just 0.2%, and for net initial yields to rise by 90 basis points to around 5.50%.

This outlook suggests we could see an average value decline of 15% over the next five years. While this hides a wide range of outcomes, we don't see any markets recording positive value growth in this period.

The United Kingdom, France and Germany are forecast to see the greatest price corrections, with even prime centres giving up between 20% to 25% of their value. This is most notable for the United Kingdom, where the added effects of things like higher business rates, Brexit, a rising minimum wage and the Company Voluntary Arrangement (CVA) process have already seen prime values fall by over 10%.<sup>46</sup>

We have a strong underweight call for European retail and anticipate that, while the sector will remain a significant part of the investable universe, over time its prominence will lessen. However, it is important to stress that we still see some attractive opportunities in the sector, particularly factory outlets. Furthermore, given today's plunge in investor sentiment we do see a strong possibility that the sector will become oversold, where good quality stock with sustainable income will be trading at a significant discount to other real estate sectors.

	Theme	Comment
Retail Strategies	Factory Outlets	Focus on large, well-established outlets sustaining high sales densities. Selection of operating partner important for driving brand engagement, tenant churn and consumer experience.
	Integrated Urban	Grocery-anchored centres that are well integrated into the urban community and cater for frequent, small-basket shops. Focus on areas of gentrification in major cities such as London, Berlin and Paris.
	Oversold Assets	Find value in markets such as the United Kingdom, France and Germany. Take a forensic approach to understanding the current and future value of the store, and sustainability of rental income.

<sup>43</sup> PMA, Real Capital Analytics, June 2019

<sup>44</sup> CBRE, June 2019

<sup>45</sup> Oxford Economics, June 2019

<sup>46</sup> PMA, August 2018, Cushman & Wakefield, June 2019

## 7 / Logistics Market

**Current Conditions:** To many investors, logistics remains a key area of focus.<sup>47</sup> With vacancy rates hovering around 4% and rent growth broadening across markets it is easy to see why. Structural drivers such as the rise of online shopping, urbanisation, convenience and immediacy have forced the entire retail supply chain to rethink its distribution strategy.

The ability to sell online and to deliver goods to customers quickly has created demand for new asset types. We are seeing the development of ever larger distribution and e-fulfilment hubs, sortation centres, last mile customer delivery centres and parcel hubs, along with reverse logistics facilities sought by pure play retailers, omni-channel retailers and 3PLs alike. Grocers are also building dedicated facilities, such as REWE's state of the art automated online fulfilment centre in Cologne. And increasingly the footprint of multi-storey, a well established segment in Asia, is growing here in Europe.

**Outlook and Investment Strategies:** With internet penetration rates low across many markets, demand for logistics space is set to accelerate, perhaps offsetting any prospective slowdown resulting from a weakening economic environment. However, the positive impact of this trend will likely concentrate on the largest urban agglomerations. Distribution centres are gravitating closer to consumers; convenience grocery trends are leading to an increase in restocking frequency, thus necessitating proximity to populations; while growing demand for next hour and same day delivery will continue to act as a catalyst for infill logistics demand.

Often these facilities can come into contention with other land uses, placing upwards pressure on rents, a trend we have observed in Park Royal, Enfield and Dagenham in London.<sup>48</sup> Going forward we expect urban and "last hour" logistics to outperform across Europe. We still see a place for distribution facilities, particularly in strong hubs, but we would maintain caution on corridor locations and trade-linked ports, particularly those without the benefit of large consumer catchments.

While vacancy is low, supply is picking up. A wave of development in Madrid is likely to ease the pressure on near-term rent growth. And a similar story of rising supply continues to be observed in the U.K. "Golden Triangle", while parts of the French backbone, the Netherlands, Germany and CE markets are also seeing rising development.<sup>49</sup> All of this leads to a varied outlook for rental growth going forward. We remain broadly overweight to the sector but the story is far from uniform, leading to a more nuanced view on logistics. Pricing is tight in some markets and some are more exposed to global trade uncertainty, while distribution logistics can be exposed to higher levels of competing supply.

With this in mind, urban logistics – particularly in markets where yield premiums can still be achieved and where rents are set to accelerate – offer opportunity. Paris, Dublin, Helsinki, Amsterdam and Munich stand out in this regard, although the urban logistics strategy can be deployed across much of Europe. We recognise challenges concerning lot size, stock accessibility and management intensity within this sub-segment; However, through combining technology, transaction expertise and hands-on asset management, a foray into the sector could well yield outperformance.

	Theme	Comment
Logistics Strategies	Urban Logistics	Strong rental growth prospects and yield discount to prime distribution assets still available across Europe. Consider funding modern stock and multi-let industrial in urban locations.
	Last Hour Logistics	Assets in "last hour" locations that serve stores or customers across catchments with solid online spend potential within one hour drive. Examples include Rhine-Ruhr (DE), Randstad (NL) and North West (UK).

<sup>47</sup> PMA Survey of Investor Preferences, April 2019, JLL, June 2019

<sup>48</sup> Colliers, June 2019

<sup>49</sup> Savills, January 2019

## 8 / Residential Market

**Current Conditions:** European residential continues to form an increasing part of the European investment market. Transaction volumes have been rising for a number of years now, exceeding €50 billion in the twelve months to June 2019. The upward trend in investor interest has been most pronounced in markets such as Spain and the Netherlands where the sector is becoming institutionalised.<sup>50</sup>

Sustained strong performance is supporting investor interest. Fund-level returns, as measured by the INREV quarterly index, remain close to 17%, falling only slightly in the first quarter, and are still well above the five-year average.<sup>51</sup> Behind this performance lies persistent rental pressure in letting markets. While supply is generally increasing, often this is not enough to keep up with rising demand and to accommodate a significant demand overhang that has built up across many major European cities.

**Outlook and Investment Strategies:** According to our forecasts, European residential markets will perform well over the next five years. Although moderating, total returns are expected to outperform office and retail markets, especially in cities with strong demand dynamics like Dublin and Copenhagen. Moreover, given low vacancy and the strength of income from residential investment, plus the institutionalisation of the sector in certain markets, we expect on average that prime European yields will remain broadly flat over this period.

We expect to see some of the highest returns in Madrid and Barcelona, Dublin, Paris and across Nordic cities such as Copenhagen, Helsinki and Stockholm. Supply-demand imbalances, rising disposable incomes and the expectation of strong population growth are typically the key drivers behind these markets. In places like Spain, the institutionalisation of the market is expected to add an extra element, with rising capital allocations putting further pressure on yields.

Strong household growth and a moderate supply response in many European agglomerations mean that occupier market imbalances are easing only slowly. As a consequence, calls for political intervention and stricter regulatory regimes are getting louder. Two examples for this trend are Berlin and Barcelona. While regulatory changes have been postponed in Barcelona, rent regulation remains a hot topic in Berlin. Although not yet in effect, the expected rental freeze for standing investments could well discourage development activity and some investment – particularly non-core investors requiring outsized returns. We will monitor these regulatory developments closely.

Looking beyond prime residential, we see attractive returns from the more affordable end of the market. This could come in the form of either smaller units or well connected suburban locations. Not only do these types of residential asset help to overcome affordability constraints, they also cater for the structural trends of an increased desire for flexibility, an ageing demographic – with millennials increasingly in their 30s – and the ongoing urbanisation of major metropolitan areas.

	Theme	Comment
Residential Strategies	Outperformers	Focus on markets with strong demand fundamentals such as Madrid, Barcelona, Dublin, Paris and Copenhagen, but also key regional markets with sound economics, like in southern Germany.
	Micro Apartments	Focus on micro apartments in major agglomerations and key regional cities, which often benefit from strong appeal among the younger population, supply shortages and lower replacement costs.
	Commuter Belt	Focus on well-connected suburban locations with access to fast-growing but expensive city centres. Examples include the hinterland of major agglomerations like London, Munich, Barcelona or Paris.

<sup>50</sup> RCA, July 2019

<sup>51</sup> INREV, March 2019

## 9 / Hotel Market

**Current Conditions:** The hotel sector continues to enjoy healthy growth. International tourist arrivals in Europe grew by 4% in Q1 2019 compared with the same period last year, and for the seventh year in a row, growth in tourism exports exceeded growth in merchandise exports.<sup>52</sup> Leisure tourism in Europe has grown most steeply, from just over 100 million inbound tourists per year in 1980, to just under 350 million in 2019.<sup>53</sup>

Supported by these strong fundamentals, total returns for European hotels have exceeded the all property average over the past decade. RevPAR is growing in most gateway cities and key resort destinations. Paris and Lisbon top the list in terms of expected RevPAR growth for 2019, with Frankfurt, Amsterdam, and Prague also performing well.<sup>54</sup>

The growth in supply is fairly constrained, especially in central locations and in cities such as Amsterdam where the threat of overtourism has resulted in tighter planning controls on new development. London has the largest number of hotel rooms under construction, followed by Frankfurt, Munich, and Berlin.

**Outlook and Investment Strategies:** RevPAR growth has been strongest in gateway city locations. As 58% of leisure trips and 73% of professional trips are between 1 and 3 nights,<sup>55</sup> good transport connections, which can be found in and between gateway cities, are key in attracting tourists. Gateway cities also tend to benefit from both leisure and business demand.

New concepts are emerging in the hotel market to cater for more specific types of traveler. The Student Hotel, for example, blends student accommodation with hotel rooms. This allows high occupancy to be maintained throughout the year, and attracts a younger age group looking for opportunities to socialise while travelling.

Hotels aimed principally at leisure travel are expected to see the strongest growth, due to the sharp growth in tourist numbers. The increase in senior travellers in Europe, who tend to travel more frequently and less seasonally, suggests continued growth in leisure tourist numbers. We also see significant opportunities to target business travel, but the approach is more selective. Still one of the largest parts of the hotel market, we do see less growth in business travel going forward, and so this strategy requires a clear focus on a select number of large and fast-growing business and conference hubs.

Although the hotels sector is undergoing a phase of strong growth, there are some potential headwinds to be aware of. As bookings taken through online travel agencies (OTAs) involve high commissions (sometimes as high as 25%),<sup>56</sup> increasing RevPAR may not translate into increased profitability.

	Theme	Comment
Hotels Strategies	City Breaks	Well-connected and vibrant cities such as Madrid, Amsterdam, London and Berlin will benefit from high-frequency, short-duration travel.
	New Concepts	New hotel concepts such as “posh-tels” and co-living can cater more effectively for specific groups of traveler in cities such as Lisbon, Berlin, Barcelona and Prague.
	Business Travel	The largest and most liquid part of the hotel market. Target branded mid-scale and upscale in large cities, MICE locations and tech hubs such as London, Paris, Stockholm and Warsaw.

<sup>52</sup> UNWTO World Tourism Barometer, May 2019.

<sup>53</sup> UNWTO World Tourism Barometer, May 2019.

<sup>54</sup> PwC European Cities Hotel Forecast, 2018-19.

<sup>55</sup> Eurostat, January 2019.

<sup>56</sup> PwC European Cities Hotel Forecast, 2018-19.

# 10 / Private Debt

**Current Conditions:** Fundraising for private debt-focused strategies has really taken off in recent years, demonstrating a high level of investor interest in the sector. While 2019 has got off to a slow start, with only one fund closing in the first half of the year, an average of €6 billion was raised each year over the period 2013-2018, accounting for almost a quarter of all real estate fundraising during that time. And of the €77 billion of European real estate private equity dry powder recorded in June 2019, almost 20% was targeting a debt strategy.<sup>57</sup>

The situation remains favourable for European borrowers, although lenders are still cautious in terms of LTV. During the first six months of the year, swap rates have fallen considerably; Eurozone 5-year swap rates fell to an all-time low of -0.29% at the beginning of July, down from +0.20% at the start of the year, while rates for most other major European currencies are also trading at or close to record lows.<sup>58</sup>

In the United Kingdom, uncertainty around Brexit and the political situation has led some lenders to pull back from the market somewhat, meaning that the increased liquidity that borrowers enjoyed in 2018 and the early part of 2019 has reversed slightly. In particular, this is true in the retail sector, where a senior loan on a retail property in London will typically be priced at a 75 basis point premium over a prime office building in the capital. Furthermore, borrowers are increasingly required to demonstrate a clear asset management plan that assesses alternative uses beyond retail if the scheme should no longer be viable.<sup>59</sup>

Nevertheless, at a time when euro-denominated BBB corporate bonds are offering a yield of 1.0%<sup>60</sup> and direct real estate returns are trending lower, private debt can still offer attractive risk-adjusted returns. Senior lending margins have edged further downwards in some markets over the past 12 months, but still sit between 90 and 200 basis points in Western Europe and between 150 and 250 basis points in the CE region, with LTVs between 55% and 75% across the continent. Mezzanine loans, which are most common in the United Kingdom but also available in parts of Continental Europe, are currently offering margins of 600-800 basis points, typically at LTVs of up to 80%. In addition, while recent indications from the ECB point towards a lower future path for interest rates, there is still an expectation that rates will begin to rise gradually, and floating rate loans should offer a degree of protection against this trend.

**Outlook and Investment Strategies:** With falling swap rates and increased competition among lenders, returns have been compressed in the prime space, particularly for office and logistics property, although on a risk-adjusted basis still look relatively attractive. We continue to favour growth sectors like student housing and hotels, together with office properties with curable deficiencies in good locations. Among the more mature Western European markets, the United Kingdom is still offering a return premium on senior debt over the likes of Germany and France, although clearly the risks remain higher given the current political situation and we would remain cautious on U.K. mezzanine opportunities. Growing challenges in the retail sector are already somewhat reflected through an additional margin premium in the United Kingdom, but less so on the continent, and we would be particularly cautious here, particularly for anything but the best schemes.

	Theme	Comment
Debt Strategies	Senior	Focus on core properties outside the prime segment in France, Italy, Spain and the United Kingdom. As well as offices, consider emerging segments like student housing, PRS and hotels.
	Mezzanine	Strong focus on asset selection rather than market allocation. Given market uncertainty, exercise caution in the United Kingdom, despite it being the largest market.

<sup>57</sup> Preqin, June 2019

<sup>58</sup> Macrobond, July 2019

<sup>59</sup> CBRE, May 2019

<sup>60</sup> IHS Markit, iBoxx € Non-Financials BBB, July 2019

# 11 / Listed Market

**Current Conditions:** European listed real estate outperformed the wider market in the first half of 2019, with the EPRA total return index +17.8%, 74 basis points above the Stoxx 600.<sup>61</sup> Logistics continues to be the strongest performer in 2019 along with the self-storage sector, which is +25% year-to-date. After a strongly negative performance in 2018 retail continues to lag behind other sectors delivering only +4% and trading on a spot discount to NAV of -36%. German residential remains attractive in the low bond yield environment and embedded supply-demand imbalance; however, an increased risk of rent control regulation has negatively impacted certain parts of the market in recent months.

Year to date, the U.K. real estate sector is showing a total return of +10%, a little behind the U.K. equity market (+13%). All of this uplift came in the first two months, with both sector and market moving broadly sideways thereafter. Retail-focused companies have continued their dramatic downward trajectory in light of tenant failures and overgeared balance sheets.<sup>62</sup>

**Outlook and Investment Strategies:** U.K. REITs have continued to trade at significant discounts since Brexit, which has attracted some M&A activity, such as PHP merging with MedicX and LondonMetric acquiring Mucklow. Smaller companies that are operating in alternative, less cyclical areas, such as student housing or PRS, are expected to deliver the strongest NAV growth and should continue to deliver relatively appealing earnings growth. The London office market has continued to be resilient despite political uncertainty, with space let at or above ERV.

On the continent, we expect continued strength in the office market, with strong earnings growth in France, Germany, Spain and Scandinavia. Vacancy rates across all larger office locations in Germany have continued to decrease and a large proportion of new space under construction has already been pre-let. Accordingly, German office companies posted strong average like-for-like rental growth of +3.5%<sup>63</sup> and indicated further upside potential in both rent and asset values. In France, Gecina, the largest Paris office player, also saw positive rental growth and the company reiterated its willingness to focus on the city centre, where rents should benefit from low levels of immediately available supply.

Given the low property yields on German residential property (and Berlin assets in particular) asset owners are reliant on organic rental growth and modernisation-driven uplifts to drive total returns and to support current valuations. The risk of freezing rents (so far only in Berlin) and removing a material part of modernisation gains for (at least) five years has raised investors' concerns and resulted in the sector now trading at a 5% discount to NAV.<sup>64</sup>

The retail sector remains our least favoured. However, the best quality shopping centres should be able to attract footfall and sustain underlying operating numbers. The earnings results from the likes of Unibail-Rodamco-Westfield and Klépierre clearly indicated solid development in rents, rent reversions and footfall. Nonetheless, yields for prime quality shopping centres are at risk of increasing as tenant concerns persist. Many of these companies have committed to ambitious disposal plans to repair balance sheets, although there have been no material asset transactions so far in 2019.

	Theme	Comment
Listed Market Strategies	United Kingdom	Slowing returns for U.K large caps suggest discounts to NAV are unlikely to reverse over the short term. Logistics and London office-focused names offer development surpluses, supporting returns.
	Continental Europe	Growth at a reasonable price – we expect office companies in Paris, Germany and Spain to be towards the top of the performance list.
	Non-cyclical Alternatives	We expect student accommodation, healthcare and residential companies to deliver above-average earnings growth, higher dividends and ultimately superior returns.

<sup>61</sup> EPRA, Bloomberg, June 2019

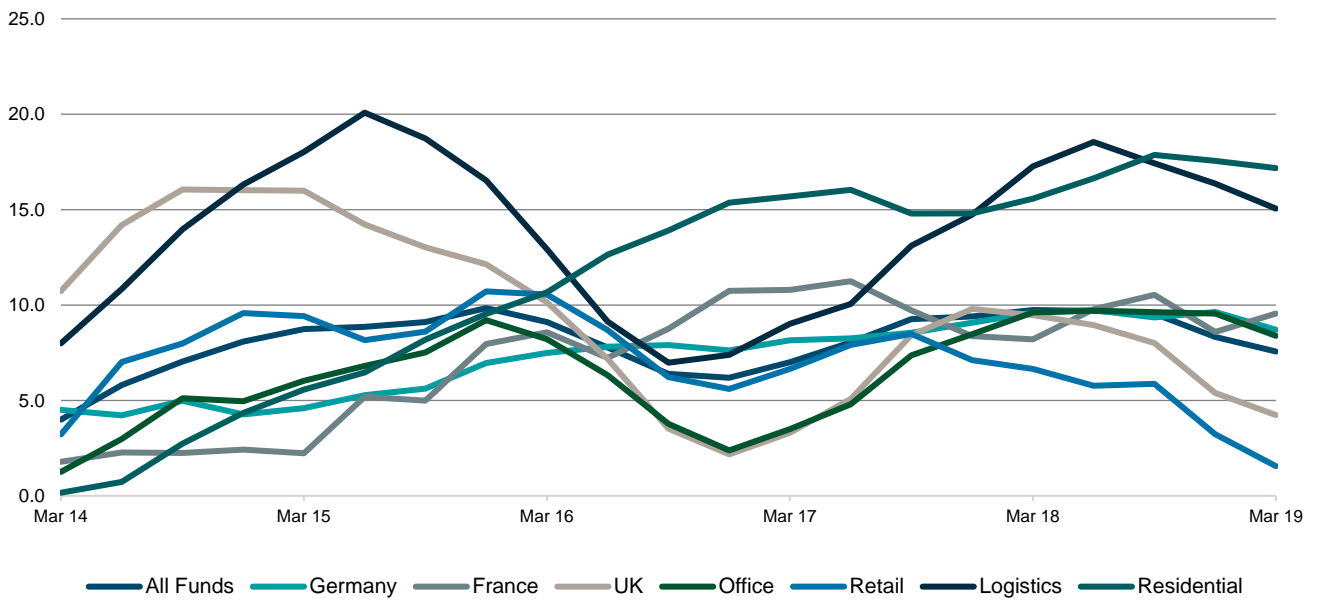
<sup>62</sup> Bloomberg, June 2019

<sup>63</sup> Company Reports, June 2019

<sup>64</sup> EPRA, Bloomberg, June 2019

# 12 / Appendix

**EXHIBIT 8: HISTORICAL ANNUAL INREV FUND-LEVEL RETURNS TO 2019 Q1 (%)**



Source: INREV, June 2019  
 Note: Past performance is not indicative of future results.

**EXHIBIT 9: HISTORICAL ANNUAL MSCI FUND-LEVEL RETURNS TO 2019 Q1 (%)**



Source: MSCI, June 2019  
 Note: Past performance is not indicative of future results.



# Important Information

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

DWS represents the asset management activities conducted by DWS Group GmbH & Co. KGaA or any of its subsidiaries. In the U.S., DWS relates to the asset management activities of RREEF America L.L.C.; in Germany: DWS Grundbesitz GmbH, DWS Real Estate GmbH, and DWS Alternatives GmbH ; in Australia: DWS Investments Australia Limited (ABN 52 074 599 401) an Australian financial services incense holder; in Japan: DWS Investments Japan Limited; in Hong Kong: Deutsche Bank Aktiengesellschaft, Hong Kong Branch (for direct real estate business), and DWS Investments Hong Kong Limited (for real estate securities business); in Singapore: DWS Investments Singapore Limited (Company Reg. No. 198701485N); in the United Kingdom: Deutsche Alternative Asset Management (UK) Limited, DWS Alternatives Global Limited and DWS Investments UK Limited; and in Denmark, Finland, Norway and Sweden: DWS Investments UK Limited and DWS Alternatives Global Limited; in addition to other regional entities in the Deutsche Bank Group. Key DWS research personnel are voting members of various investment committees. Members of the investment committees vote with respect to underlying investments and/or transactions and certain other matters subjected to a vote of such investment committee. The views expressed in this document have been approved by the responsible portfolio management team and real estate committee and may not necessarily be the views of any other division within DWS.

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

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

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

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Non performing real estate investment may require substantial workout negotiations and/ or restructuring. Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

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.

Any forecasts provided herein are based upon DWS's opinion of the market at this date and are subject to change dependent on the market. Past performance or any prediction, projection or forecast on the economy or markets is not indicative of future performance.

**In Australia:** Issued by DWS Investments Australia Limited (ABN 52 074 599 401), holder of an Australian Financial Services License (AFSL 499 640). This information is only available to persons who are professional, sophisticated, or wholesale investors as defined under section 761 G of the Corporations Act 2001 (Cth). The information provided is not to be construed as investment, legal or tax advice and any recipient should take their own investment, legal and tax advice before investing. DWS Investments Australia Limited is an asset management subsidiary of DWS Group GmbH & CO. KGaA ("DWS Group"). The capital value of and performance of an investment is not in any way guaranteed by DWS Group, DWS Investments Australia Limited or any other member of the DWS Group. Any forecasts provided herein are based upon our opinion of the market as at this date and are subject to change, dependent on future changes in the market. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. Investments are subject to investment risk, including possible delays in repayment and loss of income and principal invested. DWS Investments Australia Limited is not an Authorised Deposit-taking Institution under the Banking Act 1959 nor regulated by APRA.

**Notice to prospective Investors in Japan:** This document is distributed in Japan by DWS Investments Japan Limited. Please contact the responsible employee of DWS Investments Japan Limited in case you have any question on this document because DWS Investments Japan Limited serves as contacts for the product or service described in this document. This document is for distribution to Professional Investors only under the Financial Instruments and Exchange Law.

**Dubai International Financial Centre:** Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

**Kingdom of Saudi Arabia:** Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

**For Investors in Switzerland:** This material is intended for information purposes only and does not constitute investment advice or a personal recommendation. This document should not be construed as an offer to sell any investment or service. Furthermore, this document does not constitute the solicitation of an offer to purchase or subscribe for any investment or service in any jurisdiction where, or from any person in respect of whom, such a solicitation of an offer is unlawful. Neither DWS CH AG nor any of its affiliates, gives any warranty as to the accuracy, reliability or completeness of information which is contained in this document. Past performance or any prediction or forecast is not indicative of future results.

The views expressed in this document constitute DWS Group's judgment at the time of issue and are subject to change. DWS Group has no obligation to update, modify or amend this letter or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice.

The information provided in this document is addressed solely to Qualified Investors pursuant to Article 10 paragraph 3 of the Swiss Federal Act on Collective Investment Schemes (CISA) and Article 6 of the Ordinance on Collective Investment Schemes. This document is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations and may not comply with the information standards required thereunder. This document may not be copied, reproduced, distributed or passed on to others without the prior written consent of DWS CH AG or its affiliates.

**For investors in the United Kingdom: FOR PROFESSIONAL CLIENTS ONLY**

Issued and approved by DWS Investments UK Limited of Winchester House, 1 Great Winchester Street, London EC2N 2DB, authorised and regulated by the Financial Conduct Authority ("FCA").

This document is a "non-retail communication" within the meaning of the FCA's Rules and is directed only at persons satisfying the FCA's client categorisation criteria for an eligible counterparty or a professional client. This document is not intended for and should not be relied upon by a retail client. This document may not be reproduced or circulated without written consent of the issuer.

This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group GmbH & Co. KGaA and/or its affiliates ("DWS"). Without limitation, this document does not constitute investment advice or a recommendation or an offer or solicitation and is not the basis for any contract to purchase or sell any security or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Past performance is not a guarantee of future results. Any forecasts provided herein are based upon our opinion of the market as at this date and are subject to change, dependent on future changes in the market. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. Investments are subject to risks, including possible loss of principal amount invested.

When making an investment decision, potential investors should rely solely on the final documentation relating to the investment or service and not the information contained herein. The investments or services mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand the transaction and have made an independent assessment of the appropriateness of the transaction in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. For general information regarding the nature and risks of the proposed transaction and types of financial instruments please go to <https://www.db.com/company/en/risk-disclosures.htm>. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with us you do so in reliance on your own judgment.

Any opinions expressed herein may differ from the opinions expressed by Deutsche Bank AG and/or any other of its affiliates ("DB"). DB may engage in transactions in a manner inconsistent with the views discussed herein. DB trades or may trade as principal in the instruments (or related derivatives), and may have proprietary positions in the instruments (or related derivatives) discussed herein. DB may make a market in the instruments (or related derivatives) discussed herein. You may not distribute this document, in whole or in part, without our express written permission.

**DWS SPECIFICALLY DISCLAIMS ALL LIABILITY FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL OR OTHER LOSSES OR DAMAGES INCLUDING LOSS OF PROFITS INCURRED BY YOU OR ANY THIRD PARTY THAT MAY ARISE FROM ANY RELIANCE ON THIS DOCUMENT OR FOR THE RELIABILITY, ACCURACY, COMPLETENESS OR TIMELINESS THEREOF.**

Any reference to "DWS", "Deutsche Asset Management" or "Deutsche AM" shall, unless otherwise required by the context, be understood as a reference to asset management activities conducted by DWS Group GmbH & Co. KGaA and/or any of its affiliates. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services. DWS's infrastructure investment business is part of the Alternatives platform. In the U.S., DWS relates to the asset management activities of RREEF America L.L.C.; in Germany: DWS Grundbesitz GmbH, DWS Real Estate GmbH, and DWS Alternatives GmbH; in Japan: DWS Investments Japan Limited; in Hong Kong: Deutsche Bank Aktiengesellschaft, Hong Kong Branch (for direct real estate business), and DWS investments Hong Kong Limited (for real estate securities business); in Singapore: DWS Investments Singapore Limited (Company Reg. No. 198701485N); in the United Kingdom: Deutsche Alternative Asset Management (UK) Limited, DWS Alternatives Global Limited and DWS Investments UK Limited; and in Denmark, Finland, Norway and Sweden: Deutsche Bank AG; in Australia: DWS Investments Australia Limited (ABN 52 074 599 401) an Australian financial services license holder.

© 2019. All rights reserved.

**For investors in Nordics:** Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank and the BaFin, Germany's Federal Financial Supervisory Authority). Deutsche Bank AG Stockholm branch ("DBS", Bolagsverket nr. 516401-9985) is authorised by BaFin and regulated by Finansinspektionen for the conduct of licensed activities in Sweden, Denmark, Norway and Finland. Deutsche Bank branches operate within the EEA on the back of the legal entity (Deutsche Bank AG) EU Passports within the European Economic Area ("EEA"). Reference is made to European Union Regulatory Background and Corporate and Regulatory Disclosures at

[https://www.db.com/en/content/eu\\_disclosures\\_uk.htm](https://www.db.com/en/content/eu_disclosures_uk.htm). Details about the extent of our authorisation and regulation by BaFin and respective Nordic Region Financial Supervisory Authority are available from us on request.

Without limitation, this document and any attachment does not constitute an offer or a recommendation to enter into any transaction with DBS. This material and attachments is for information purposes only and is not intended to be an offer or an advice or recommendation or solicitation, or the basis for any contract to purchase or sell any security, or other instrument, or for DBS to enter into or arrange any type of transaction as a consequence of any information contained herein. The implicit or explicit views and recommendations expressed in marketing or other financial presentation material as well as any financial proposals are solely those of the issuer of such material, and forwarded to you on behalf of the contracting party.

The views set out in this presentation are those of the author and may not necessarily be the views of any other division within Deutsche Bank, including the Sales and Trading functions of the Corporate and Investment Bank or the Global Client Group of Deutsche Asset Management and Private Wealth Management: all services provided by these the Sales and Trading functions of the Corporate and Investment Bank are purely on a non-advised, execution-only basis. DB may engage in transactions in a manner inconsistent with the views discussed herein. DB trades or may trade as principal in the instruments (or related derivatives), and may have proprietary positions in the instruments (or related derivatives) discussed herein. DB may make a market in the instruments (or related derivatives) discussed herein. Sales and Trading personnel are compensated in part based on the volume of transactions effected by them. You may not distribute this document, in whole or in part, without our express written permission.

DBS is solely acting for and on behalf of Deutsche Bank AG and/or any of its affiliates. Potential investors should be aware that if they decide to enter into a transaction with Deutsche Bank AG or any of its affiliates acting in their capacity as principal to the transaction ("contracting party"), any and all agreements will be entered into with that contracting party (unless re-negotiated) and pursuant to the financial laws and regulations of the country where the contracting party is licensed.

Unless DBS is entering into a separate and explicit contractual relationship with you for the provision of investment services, it is neither obliged to categorise you in accordance with MiFID nor perform MiFID suitability and/or appropriateness assessment (as enacted into Swedish laws and regulations). The investments or services mentioned in this material or an attachment thereto may not be appropriate for all investors and before entering into a transaction you should take steps to ensure that you fully understand the transaction and have made an independent assessment of the appropriateness of the transaction in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with a contracting party you do so in reliance on your own judgment. For general information regarding the nature and risks and types of financial instruments please go to [www.globalmarkets.db.com/riskdisclosures](http://www.globalmarkets.db.com/riskdisclosures).

**DB SPECIFICALLY DISCLAIMS ALL LIABILITY FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL OR OTHER LOSSES OR DAMAGES INCLUDING LOSS OF PROFITS INCURRED BY YOU OR ANY THIRD PARTY THAT MAY ARISE FROM ANY RELIANCE ON THIS DOCUMENT OR FOR THE RELIABILITY, ACCURACY, COMPLETENESS OR TIMELINESS THEREOF.**

**For Investors in Belgium:** The information contained herein is only intended for and must only be distributed to institutional and/or professional investors (as defined in the Royal Decree dated 19 December 2017 implementing MiFID directive). In reviewing this presentation you confirm that you are such an institutional or professional investor. When making an investment decision, potential investors should rely solely on the final documentation (including the prospectus) relating to the investment or service and not the information contained herein. The investments or services mentioned herein may not be adequate or appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand the transaction and have made an independent assessment of the suitability or appropriateness of the transaction in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with us you do so in reliance on your own judgment.

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

# Research & Strategy—Alternatives

---

## OFFICE LOCATIONS:

### Chicago

222 South Riverside Plaza  
34<sup>th</sup> Floor  
Chicago  
IL 60606-1901  
United States  
Tel: +1 312 537 7000

### Frankfurt

Taunusanlage 12  
60325 Frankfurt am Main  
Germany  
Tel: +49 69 71909 0

### London

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom  
Tel: +44 20 754 58000

### New York

345 Park Avenue  
26<sup>th</sup> Floor  
New York  
NY 10154-0102  
United States  
Tel: +1 212 454 6260

### San Francisco

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

### Singapore

One Raffles Quay  
South Tower  
20<sup>th</sup> Floor  
Singapore 048583  
Tel: +65 6538 7011

### Tokyo

Sanno Park Tower  
2-11-1 Nagata-cho  
Chiyoda-Ku  
18<sup>th</sup> Floor  
Tokyo  
Japan  
Tel: +81 3 5156 6000

## TEAM:

### Global

**Mark Roberts, CFA**  
Head of Research & Strategy  
mark-g.roberts@dws.com

**Jessica Elengical**  
Head of ESG Strategy  
jessica.elengical@dws.com

**Gianluca Minella**  
Infrastructure Research  
gianluca.minella@dws.com

**Yasmine Kamaruddin**  
Global Strategy  
yasmine.kamaruddin@dws.com

---

### Americas

**Kevin White, CFA**  
Head of Strategy, Americas  
kevin.white@dws.com

**Brooks Wells**  
Head of Research, Americas  
brooks.wells@dws.com

**Ross Adams**  
Industrial Research  
ross.adams@dws.com

**Liliana Diaconu, CFA**  
Office Research  
liliana.diaconu@dws.com

**Ana Leon**  
Retail Research  
ana.leon@dws.com

**Ryan DeFeo**  
Property Market Research  
ryan-c.defeo@dws.com

**Joseph Pecora, CFA**  
Apartment Research  
joseph.pecora@dws.com

---

### Europe

**Matthias Naumann**  
CIO & Head of Strategy, Europe  
matthias.naumann@dws.com

**Simon Wallace**  
Head of Research, Europe  
simon.wallace@dws.com

**Tom Francis**  
Property Market Research  
tom.francis@dws.com

**Martin Lippmann**  
Property Market Research  
martin.lippmann@dws.com

**Farhaz Miah**  
Property Market Research  
farhaz.miah@dws.com

**Aizhan Meldebek**  
Infrastructure Research  
aizhan.meldebek@dws.com

**Siena Carver**  
Property Market Research  
siena.carver@dws.com

---

### Asia Pacific

**Koichiro Obu**  
Head of Research & Strategy, Asia Pacific  
koichiro-a.obu@dws.com

**Natasha Lee**  
Property Market Research  
natasha-j.lee@dws.com

**Seng-Hong Teng**  
Property Market Research  
seng-hong.teng@dws.com

**Hyunwoo Kim**  
Property Market Research  
hyunwoo.kim@dws.com

