

## U.S. Real Estate Strategic Outlook

Year-End 2025

### IN A NUTSHELL

- Barring an unexpected economic shock, the cyclical upswing in U.S. real estate that began in 2024 should continue, in our view.
- We believe that investment performance will be healthy but moderate, characterized by stable yields and strengthening fundamentals, driven in part by a sharp pullback in new supply.
- While most sectors are expected participate in the upturn, infill Industrial, grocery-anchored Retail, and suburban Residential seem among the best positioned, in our view.
- We believe that a dearth of supply should reinforce the long-run advantages of high-growth markets in the South and Mountain West.

### Real Estate Outlook

U.S. real estate enters 2026 on a positive note, in our view. In the third quarter of 2025, core real estate marked its fifth consecutive quarter of positive performance, delivering trailing annual total returns of 4.7% (property-level) and 4.0% (fund-level).<sup>1</sup> Meanwhile, market-based prices continued to rise, providing a strong signal, in our view, that appraisal-based values, which have historically lagged by two quarters, are anticipated post further gains into the new year (see Exhibit 1).<sup>2</sup>

**Exhibit 1: Real Estate Market Prices and Appraisal Values**



Note: Weighted Industrial (35%), Residential (30%), Office (20%), and Retail (15%).

Sources: GSA (market prices); NCREIF (appraisal values). As of September 2025.

<sup>1</sup> NCREIF (NPI: property level; NFI-ODCE: fund-level). As of September 2025.

<sup>2</sup> GSA (market prices); NCREIF (appraisal-based values); DWS calculations. As of September 2025.

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After more than a year of positive returns, we believe that the central question for investors is no longer whether real estate is recovering, but rather what form the new cycle will take. Will the upswing be brief or persistent; sharp or shallow?

Start with duration. Since the 1960s, U.S. real estate has experienced six cycles, lasting, on average, 8.8 years.<sup>3</sup> Averages tell you little, however: Cycles have ranged from 2.75 years (post-COVID) to 21.25 years (1960s and 1970s).<sup>4</sup> The common feature is that each one ended with a macroeconomic event, typically a recession (1982, 1990, 2001, 2008, and 2020) and more recently an interest rate shock (2023) (see Exhibit 2).<sup>5</sup> If past is prologue, we believe the longevity of this cycle may hinge on the economy and capital markets.

Exhibit 2: Real Estate Prices



Sources: Federal Reserve (real estate); National Bureau of Economic Research (recessions). As of December 2025.

Next, consider the slope. We believe price fluctuations are a function of net operating income (NOI) and valuation multiples. In our view, over time, NOI (supported by occupancies and rents) is expected to remain the lifeblood of real estate, presuming that multiples cannot rise or fall in perpetuity. We believe stronger fundamentals (more demand than supply) should lead to better investment performance. Yet in the near-term, shifts in cap rates (an inverse multiple) dominate real estate returns (correlation: -0.84).<sup>6</sup> In other words, we believe that the amplitude of the cycle will be determined by cap rates in the first instance and fundamentals in the second.

In our view, these considerations can be distilled into four key performance pillars: two macro (the economy and interest rates) and two micro (structural demand and supply) (see Exhibit 3). From a macro perspective, the economy is an important driver of leasing activity (over the past 30 years, sector-weighted demand has exhibited a 0.83 correlation to GDP), while interest rates have largely dictated cap rates (correlation to long-term corporate BAA yields: 0.96).<sup>7</sup> From a micro perspective, we believe that structural factors (e.g., e-commerce) can lift or suppress demand beyond any impulse from the economy, which in turn is balanced against the forthcoming supply pipeline.

Exhibit 3: Macro and Micro Drivers of Real Estate Performance

DRIVER	FACTOR	IMPULSE
MACRO	Economy	↔
	Interest Rates	↔
MICRO	Structural Demand	↑
	Supply	↑
REAL ESTATE OUTLOOK		↗

Sources: DWS. As of December 2025.

In our view, the U.S. economy appear to have defied headwinds stemming from an immigration crackdown (reducing the number of workers and consumers), “DOGE” spending cuts (a fiscal contraction), and “Liberation Day” tariffs (taxing importers and creating business uncertainty).<sup>8</sup> Job creation has slowed, but GDP growth is estimated to have averaged about 4% (annualized) in the middle two quarters of 2025.<sup>9</sup> A full accounting of the dynamics at play is challenging, not least due to the reduced flow of official data stemming from the government shutdown. However, we believe that the economy has been buoyed by artificial intelligence (AI): information technology and data center investment jumped 23% year-over-year in the second quarter, while an AI-fueled stock market rally has bolstered household wealth.<sup>10</sup> The

<sup>3</sup> Federal Reserve (real estate cycles); DWS calculations. As of September 2025.

<sup>4</sup> Federal Reserve (real estate cycles); DWS calculations. As of September 2025.

<sup>5</sup> Federal Reserve (real estate cycles, interest rates); National Bureau of Economic Research (recessions); DWS calculations. As of September 2025.

<sup>6</sup> NCREIF; DWS calculations. As of September 2025.

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<sup>7</sup> CBRE-EA (demand); Bureau of Economic Analysis (GDP); Moody’s (BAA yields); NCREIF (cap rates). As of September 2025.

<sup>8</sup> “DOGE” is an acronym for Department of Government Efficiency.

<sup>9</sup> Bureau of Labor Statistics (jobs); Bureau of Economic Analysis and Federal Reserve Bank of Atlanta (GDP). As of November 2025.

<sup>10</sup> Bureau of Economic Analysis (IT and Data Center investment); Bloomberg (stock market); Federal Reserve (household wealth). As of June 2025.

International Monetary Fund (IMF) predicts that GDP growth will average 2% in 2025 and 2026, a pace that should provide moderate support to real estate demand.<sup>11</sup>

Meanwhile, the Federal Reserve has cut its Fed Funds rate by 150 basis points (bps) since the spring of 2024, and its latest Summary of Economic Projections anticipates a further 75 bps reduction in the coming quarters.<sup>12</sup> Historically, 10-year Treasury yields have moved directionally with the policy rate (correlation: 0.92 over the past 50 years).<sup>13</sup> Nevertheless, consensus expectations, perhaps influenced by fiscal concerns, call for Treasuries to remain near current levels (around 4%).<sup>14</sup> If credit spreads (and therefore BAA bond yields) also remain stable, we believe that this scenario would likely hold cap rates near current levels, neither inflating nor deflating real estate valuations.

While the macro environment appears relatively benign, micro factors are more categorically positive, in our view. A jump in home prices and interest rates since the pandemic has pushed the cost of buying an average home (with a mortgage) to 50% above that of renting (compared to 20%, on average, over the past 20 years), generating robust demand for rental housing.<sup>15</sup> Retail properties are catering to Americans' growing appetite for services, including health care and entertainment.<sup>16</sup> Industrial demand appear to be suffering a momentary hangover following an unsustainable COVID boom (i.e., leasing ran ahead of long-term needs), exacerbated by tariff uncertainty; however, underlying support from e-commerce remains intact (growing at roughly double the pace of retail sales), and may be augmented by onshore manufacturing.<sup>17</sup> Finally, within the office sector, demand for space has outstripped employment for the past two years, suggesting that return-to-office mandates are supporting a nascent recovery.<sup>18</sup>

In our view, structural demand across major real estate sectors is meeting a shrinking supply pipeline. In the third quarter of 2025, construction starts (weighted across sectors, as a share of inventory, on a trailing four-quarter basis) dropped to 2012 levels and continued to trend lower (see Exhibit 4).<sup>19</sup> This plunge may imply modest new supply through at least mid-2027 (since 2000, deliveries have lagged starts by 1.5 years).<sup>20</sup> The pause may last much longer, in our view: With real estate valued at a 15% discount to replacement cost (on average, with large variations across sectors and markets), a disparity that might widen with the advent of tariffs, prices

may need to rise substantially before many projects are viable.<sup>21</sup>

#### Exhibit 4: Construction Starts and Deliveries



Note: Weighted Industrial (35%), Residential (30%), Office (20%), Retail (15%).

Sources: CoStar; DWS calculations. As of September 2025.

In our view, the sum of these macro and micro factors is positive for the real estate outlook. Yet recalling our original question, we believe it also has implications for the shape of the cycle. In our view, a V-shaped rebound would require a large decline in interest rates, which appears unlikely. Perhaps just as well, because it likely would also accelerate a resurgence of construction and temper future fundamentals, in our view. Instead, we believe that a stable interest-rate environment could clear the path for an extended period of solid, if unspectacular, performance, as moderate economic growth, structural demand, and limited supply propel healthy rent and value gains. To be sure, a macroeconomic surprise (recession or interest rate spike) could prematurely end the cycle, but at the very least, supportive micro factors likely would cushion the blow.

<sup>11</sup> IMF. As of October 2025.

<sup>12</sup> Federal Reserve. As of October 2025.

<sup>13</sup> Federal Reserve; DWS calculations. As of September 2025.

<sup>14</sup> Moody's Analytics. As of October 2025.

<sup>15</sup> Census Bureau (rents); National Association of Realtors (mortgage payments); CBRE-EA (rental demand); DWS calculations. As of June 2025.

<sup>16</sup> Bureau of Economic Analysis. As of June 2025.

<sup>17</sup> CBRE-EA (demand); Census Bureau (e-commerce); Bureau of Economic Analysis (manufacturing); DWS calculations. As of June 2025.

<sup>18</sup> CBRE-EA. As of September 2025.

<sup>19</sup> CoStar (starts); NCREIF (sector weights); DWS calculations. As of September 2025.

<sup>20</sup> CoStar (starts); NCREIF (sector weights); DWS calculations. As of September 2025.

<sup>21</sup> NCREIF (values); Engineering News-Record (costs); DWS calculations. As of September 2025.

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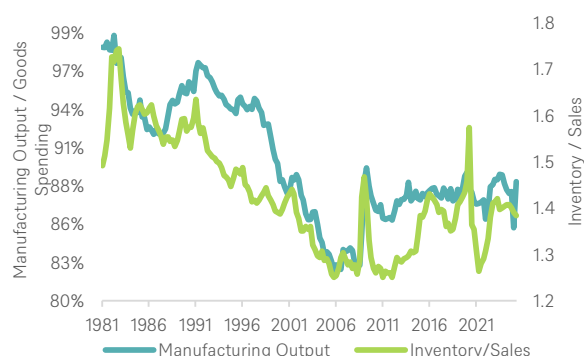
### Investment Strategy

Among major sectors, Retail delivered the strongest total returns in the third quarter of 2025 on a trailing four-quarter basis (7.0%).<sup>22</sup> Residential (5.3%) also outperformed the broader index (4.7%), while Industrial (4.5%) slightly underperformed.<sup>23</sup> Office returns were weak (1.9%) but positive for a third consecutive quarter.<sup>24</sup> Geographically, performance was relatively strong in the South (5.8%) and Mountain West (5.2%), mixed in the Northeast (5.0%), and poor on the west coast (3.1%).<sup>25</sup>

Over a five-year investment horizon, we believe that a balance of yields and fundamentals is expected to favor the industrial, residential, and retail sectors, and disfavors the office sector (see Appendix 1). Regionally, we are optimistic towards the South, Mountain West, and (to a lesser extent) the Midwest and are cautious towards the Pacific West, and Northeast (see Appendix 2), although there are important distinctions at the sector and market levels (see Appendix 3).

**Industrial:** Having led the index for seven straight years (2016-2022), the industrial sector has lost momentum of late.<sup>26</sup> In part, the slowdown reflects a historic supply wave, but demand has also been lackluster, particularly on the west coast.<sup>27</sup> In our view, recent demand-side weakness represents a payback from over-leasing in the wake of COVID, exacerbated by tariff-related disruptions, and may have a few more quarters to run. Yet we have confidence in the medium-term outlook, for three reasons: First, the supply pipeline is quickly diminishing construction starts are down 61% (as a share of inventory) from their 2022 peak on a trailing four-quarter basis.<sup>28</sup> Second, e-commerce, which we believe has been instrumental in driving warehouse demand, is expanding at roughly double the pace of retail sales (ex autos and gas).<sup>29</sup> Third, onshore manufacturing, a trend that began 15 years ago and may accelerate with the advent of tariffs, could stimulate demand in certain markets, handling upstream and downstream distribution and the consumer needs of workers (see Exhibit 5).

Exhibit 5: Manufacturing and Inventory Accumulation



Sources: Bureau of Economic Analysis (manufacturing output, goods spending); Census Bureau (inventory/sales); DWS calculations. As of June 2025.

**Residential:** Residential rents have tread water over the past three years (with declines in the South offsetting gains in the Northeast and Midwest) amid a post-COVID supply glut.<sup>30</sup> Yet unlike in the industrial sector, demand has been stalwart, and vacancy rates have plunged well below historical norms.<sup>31</sup> In our view, the strength of demand owes much to the relative affordability of renting versus buying: Since 2019, rents have increased about 20%, less than inflation and median incomes (about 25%). Yet home prices have risen 50%, and mortgage payments (excluding insurance and taxes) have nearly doubled.<sup>32</sup> Residential demand cooled somewhat in third quarter of 2025, possibly reflecting a slowdown in job creation, in our view (although one quarter does not necessarily mark a trend).<sup>33</sup> Yet we believe that relative affordability, coupled with a dramatic pullback in construction – starts are down 61% (as a share of inventory) from their 2022 peak on a trailing four-quarter basis – should continue to support strong returns in this sector.<sup>34</sup>

**Retail:** In our view, the retail sector has successfully emerged from the shadow of e-commerce and the pandemic, having generated the strongest returns among major sectors since 2023.<sup>35</sup> To be sure, retailer bankruptcies occasionally surface, yet overall demand has been sustained by retailers employing omni-channel strategies (including the use of stores for pickup, delivery, and returns), as well as healthcare and other service providers.<sup>36</sup> Together with minimal construction, this has kept vacancy rates for neighborhood and

<sup>22</sup> NCREIF. As of September 2025.

<sup>23</sup> NCREIF. As of September 2025.

<sup>24</sup> NCREIF. As of September 2025.

<sup>25</sup> NCREIF. As of September 2025.

<sup>26</sup> NCREIF. As of September 2025.

<sup>27</sup> CBRE-EA. As of September 2025.

<sup>28</sup> CoStar; DWS calculations. As of September 2025.

<sup>29</sup> Census Bureau. As of June 2025.

<sup>30</sup> CBRE-EA. As of September 2025.

<sup>31</sup> CBRE-EA. As of September 2025.

<sup>32</sup> Census Bureau (incomes); Bureau of Labor Statistics (inflation); CBRE-EA (rents); Case-Shiller (home prices); National Association of Realtors (mortgage payments). As of September 2025.

<sup>33</sup> CBRE-EA. As of September 2025.

<sup>34</sup> CoStar. As of September 2025.

<sup>35</sup> NCREIF. As of September 2025.

<sup>36</sup> CBRE-EA. As of September 2025.

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community centers near all-time lows.<sup>37</sup> Meanwhile, from a valuation perspective, retail property boasts comparatively elevated cap rates.<sup>38</sup> Retail rarely produces the rent spikes sometimes seen in other sectors.<sup>39</sup> However, we believe that strong yields and stable fundamentals could support market-leading performance in 2026, and potentially relative outperformance over the rest of the decade.

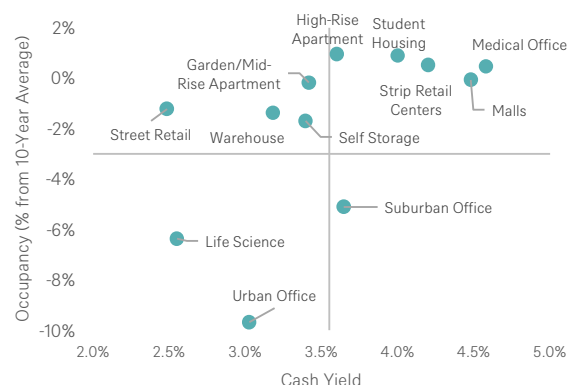
**Office:** The office sector appear to be on the path to recovery, generating positive absorption and total returns over the past six and three quarters, respectively.<sup>40</sup> Vacancy rates have started to recede, and rents are rising for top-quality space in certain markets, including New York.<sup>41</sup> We believe that the recovery should continue as more workers return to the office amid a virtual absence of net new supply (with selective additions offset by subtractions from older buildings converted to residential and other uses). Nevertheless, caution remains warranted, in our view. Vacancies remain near all-time highs.<sup>42</sup> Moreover, even before COVID, the office sector had a checkered history, outperforming the broader real estate market in only eight of the last 30 years, leading in only six (most recently 18 years ago), and delivering the lowest average returns of any major sector (6.6% versus 8.2% for the broader index).<sup>43</sup> The sector shoulders a heavy capex burden which we believe may not be appropriately factored into prices.<sup>44</sup> In our view, diversification and select opportunities (e.g., medical office) may justify a small allocation to the sector, but an overall underweight position remains appropriate.

**Self-Storage:** The self-storage industry is currently facing weak demand and slower lease-ups due to a stagnant home sale market. These conditions have led to lower occupancy and NOI growth, though recent trends – such as positive move-in rate growth and stabilized rental rates – suggest demand may be bottoming out at current levels of supply. Additionally, affordability has improved as cost-to-income ratios declined, and the need for space continues to cushion storage demand despite sluggish home sales. On the supply side, development activity has contracted sharply, with fewer projects and construction starts, potentially positioning the sector for a more favorable balance and recovery over the medium term.

**Sector Subtypes:** In our view, successful investment strategies may also target segments within sectors offering the most compelling combination of yield and fundamentals (see Exhibit 6). To be sure, current conditions are no guarantee of

future performance. However, we believe that several underlying trends, including growth at major universities (student housing), suburbanization (garden apartments and strip retail), and ageing and a shift toward outpatient care (medical office) may remain relevant for a while longer.

**Exhibit 6: Cash Yields and Occupancies by Segment**



Sources: NCREIF; DWS calculations. As of September 2025.

**Geographies:** We believe that cost and quality-of-life advantages may continue to drive migration – and real estate demand – from Chicago and large coastal “gateway” cities toward the South and Mountain West. Indeed, significantly reduced immigration (on which gateway cities are disproportionately reliant) may intensify growth differentials.<sup>45</sup> Even in the industrial sector, where demand is sometimes driven by non-local factors (e.g., international trade), we believe inland metros may draw further support from onshore manufacturing. Admittedly, demand is not the only driver of performance: witness the recent struggles of several oversupplied apartment markets despite hearty demand.<sup>46</sup> However, over the medium term (five to ten years) – a more appropriate lens for core investment strategies, in our view – our analysis suggests that demand typically predominates.<sup>47</sup> This conclusion may be reinforced in today’s environment, we believe, with construction retreating across most markets.<sup>48</sup>

<sup>37</sup> CBRE-EA. As of September 2025.

<sup>38</sup> NCREIF. As of September 2025.

<sup>39</sup> CBRE-EA. As of September 2025.

<sup>40</sup> CBRE-EA (absorption); NCREIF (returns). As of September 2025.

<sup>41</sup> CBRE-EA. As of September 2025.

<sup>42</sup> CBRE-EA. As of September 2025.

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<sup>43</sup> NCREIF. As of September 2025.

<sup>44</sup> NCREIF. As of September 2025.

<sup>45</sup> Census Bureau. As of December 2025.

<sup>46</sup> NCREIF. As of September 2025.

<sup>47</sup> NCREIF (total returns); DWS calculations. As of September 2025.

<sup>48</sup> CoStar. As of September 2025.

# Residential

## Outlook

The U.S. apartment and build-to-rent (“residential”) market saw demand slow in third quarter, ending the streak of rapid growth seen during much of the past two years.<sup>49</sup> The slowdown came as the residential sector works through a record wave of new construction delivered last year.<sup>50</sup> Vacancy for the DWS Investable Markets<sup>51</sup> (“Investable Markets”, “Investable Universe”) backtracked quarter-over-quarter, rising 20 basis points to land at 4.4% in September 2025 – still 90 basis points lower than a year earlier and under the sector’s long-term historical average of 5.0%.<sup>52</sup> Sluggish new lease activity appears to be the primary driver behind a weaker-than-expected third quarter, perhaps due to slower job growth during the summer months.<sup>53</sup> The cooling comes after a historic run. In the 12 months ending in the second quarter of 2025, net absorption for the Investable Universe reached an unprecedented 519,000 market-rate units, capping nine consecutive quarters of growth.<sup>54</sup> By the end of the third quarter, annual absorption had slipped to 421,100 units – though still over twice the 15-year average.<sup>55</sup>

**Exhibit 7: Rental Net Absorption and Completions as a % of Inventory and Vacancy Rate (2006 – 2030)**



Sources: CBRE-EA (history as of 3Q25) & DWS (forecast). As of November 2025.

Note: F = forecast. Aggregate of DWS’s investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

Residential asking rents changed little in September from a year ago, likely reflecting the lingering impact of elevated supply and a cooling employment backdrop.<sup>56</sup> This cooldown followed a period of record-setting rent growth: the typical rent remained 20% higher than its March 2021 level.<sup>57</sup> Residential rent growth typically follows a seasonal pattern, with acceleration in the spring and a slowdown in late summer and fall.<sup>58</sup> With demand slowing this summer, operators had to lean more heavily on incentives to fill vacant units.<sup>59</sup>

Meanwhile, residential supply continued to slow rapidly.<sup>60</sup> Almost 312,000 units wrapped up construction across the Investable Universe in the past year, including about 73,400 units in third quarter.<sup>61</sup> This marks a fourth consecutive quarter of decline, representing a 21% decrease after annual supply peaked at almost 400,000 units in third quarter of 2024.<sup>62</sup> Austin experienced the largest decline in apartment construction over the past year.<sup>63</sup> Phoenix, Atlanta, Dallas and New York also saw a notable decrease in construction.<sup>64</sup> Denver’s annual apartment construction dropped 58% annually, while Charlotte, Washington DC, Raleigh-Durham and Newark also posted significant declines.<sup>65</sup>

Market performance continued to vary sharply by region.<sup>66</sup> Almost half of the Investable Markets with the highest vacancy rates are located in the Sun Belt or Mountain West, led by Austin and Jacksonville, both with a vacancy rate of 6.5%.<sup>67</sup> These regions have shouldered the brunt of the wave of residential construction over the past few years, weighing on occupancy and rent growth.<sup>68</sup> Average asking rents declined by 3% in the third quarter from a year earlier, marking more than two years of negative to flat annual rent

<sup>49</sup> CBRE-EA; DWS. As of September 2025.

<sup>50</sup> CoStar; CBRE-EA; DWS. As of September 2025.

<sup>51</sup> DWS: Residential Investable Markets include 32 major metros in the U.S.

<sup>52</sup> CBRE-EA; DWS. As of September 2025.

<sup>53</sup> Moody’s Analytics; Bureau of Labor; RealPage Analytics; DWS. As of September 2025.

<sup>54</sup> CBRE-EA; DWS. As of September 2025.

<sup>55</sup> CBRE-EA; DWS. As of September 2025.

<sup>56</sup> CoStar; CBRE-EA; Yardi-Matrix; DWS. As of September 2025.

<sup>57</sup> CBRE-EA; DWS. As of September 2025.

<sup>58</sup> Apartments.com; DWS. As of October 2025.

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<sup>59</sup> RealPage; DWS. As of October 2025.

<sup>60</sup> CoStar; CBRE-EA; DWS. As of September 2025.

<sup>61</sup> CBRE-EA; DWS. As of September 2025.

<sup>62</sup> CBRE-EA; DWS. As of September 2025.

<sup>63</sup> CoStar; CBRE-EA; RealPage; DWS. As of September 2025.

<sup>64</sup> CoStar; CBRE-EA; RealPage; DWS. As of September 2025.

<sup>65</sup> CoStar; CBRE-EA; RealPage; DWS. As of September 2025.

<sup>66</sup> CBRE-EA; CoStar; Yardi-Matrix; RealPage; DWS. As of September 2025.

<sup>67</sup> CBRE-EA; DWS. As of September 2025.

<sup>68</sup> CoStar; CBRE-EA; Yardi-Matrix; RealPage; DWS. As of September 2025.



growth.<sup>69</sup> Conversely, markets with limited new construction, such as New York, Chicago, Boston, and San Francisco, have maintained lower vacancy and stronger rent gains.<sup>70</sup>

Our analysis of the residential market highlights a sector in transition – one where elevated mortgage costs and moderating new supply are keeping renters in place longer, even as overall demand cools.<sup>71</sup> Resident retention has increased and is approaching an all-time high as the current cost of renting is significantly lower than that of homeownership.<sup>72</sup> The fact that rent-to-income ratios remained healthy at 22% and on-time rent payments have surpassed 95% since 2022 reinforces that this premium may not have been driven by overextension but by renters' willingness to pay for quality.<sup>73</sup> It appears to be a positive indicator for both landlords and tenants, as it suggests that the rental market is affordable and that tenants can cover their rent and other living expenses.<sup>74</sup> We believe the continued rise in resident retention alongside new leasing suggests that demand for residential remains healthy. Current trends do not mirror past downturns, where both retention and new lease activity contracted significantly.<sup>75</sup> In fact, should strong resident retention persist, the residential sector could see improved momentum heading into next year.

As 2026 approaches, the residential market appear to be recalibrating toward balance aided by a shrinking construction pipeline and resilient renter demand.<sup>76</sup> The remaining residential developments in the lease-up phase are expected to capture strong renter demand, particularly in higher-quality properties, where absorption has already outpaced supply growth.<sup>77</sup> Annual completions for the Investable Universe are forecast to fall to around 230,000 units in 2026, down roughly 40% from a peak of nearly 378,000 units in 2024.<sup>78</sup> Elevated financing and construction costs have made many projects financially unfeasible, and with construction starts at 15-year lows, the pipeline is likely to contract further in the coming quarters.<sup>79</sup> We anticipate that once the current construction wave subsides, new supply likely will remain below normal for an extended

period. Combined with elevated retention and steady new lease traffic, these conditions position the residential sector for a more balanced 2026, with rents climbing 2.0%.<sup>80</sup>

### Strategy

As the residential sector enters the new year, there could be a near-term oversupply with a view towards sustained long-term renter demand. We believe the DWS Investable Markets are turning a corner as the gap between absorbed units and delivered units has reached its lowest level since 2021.<sup>81</sup> A Residential strategy could benefit from evolving demand drivers, affordability challenges in homeownership, and a slowdown in new rental housing deliveries.

We are focused on the pace of recovery in Sun Belt and Mountain West markets with particular attention to markets that saw construction starts peak earlier, allowing supply and demand to rebalance sooner. As new deliveries decrease heading into 2026, these high-growth markets should experience a supply/demand inflection, potentially leading to positive movements in rent and occupancy. The coastal markets have benefited from an uptick in tech-driven demand, positive migration and limited new supply.<sup>82</sup> A tactical approach to investing in high-barrier Northeast and West Coast metros, targeting markets that are magnets for high-tech, biotech and healthcare may be worth consideration. We maintain a favorable view on suburban markets in response to demographic and other housing trends. Homeownership is receding further out of reach for most Americans, supporting a strategy around build-to-rent housing, which may provide an affordability solution in today's increasingly challenged for-sale housing market.<sup>83</sup>

<sup>69</sup> CBRE-EA; DWS. As of September 2025.

<sup>70</sup> CBRE-EA; DWS. As of September 2025.

<sup>71</sup> Freddie Mac; CBRE-EA; CoStar; Yardi-Matrix; RealPage; DWS. As of October 2025.

<sup>72</sup> RealPage; DWS. As of October 2025.

<sup>73</sup> RealPage; DWS. As of October 2025.

<sup>74</sup> RealPage; Census Bureau; Pew Research Center; DWS. As of October 2025.

<sup>75</sup> CBRE-EA; CoStar; Moody's Analytics. As of September 2025.

<sup>76</sup> CoStar; CBRE-EA; RealPage; DWS (forecast). As of November 2025.

<sup>77</sup> CoStar; DWS. As of November 2025.

<sup>78</sup> CBRE-EA; DWS (forecast). As of September 2025.

<sup>79</sup> CoStar; RealPage; GlobeSt; DWS. As of November 2025.

<sup>80</sup> DWS 2026 House View. As of November 2025.

<sup>81</sup> CoStar; CBRE-EA; DWS. As of September 2025.

<sup>82</sup> CoStar; CBRE-EA; Moody's Analytics; RealPage; GlobeSt; DWS. As of October 2025.

<sup>83</sup> National Association of Realtors; Freddie Mac; Moody's Analytics; John Burns Research; Yardi-Matrix; DWS. As of October 2025.

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**Exhibit 8: DWS Residential Outlook**


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**Housing Trends Continue to Support the Suburbs**

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

**Student Housing Remains Resilient**

At Tier 1/Power 4 universities, demand is expected to remain strong for modern, purpose-built properties that are walkable to campus and have bed-bath parity. As was the case pre-COVID, as well as throughout the pandemic, modern product that is walkable to campus continued to see the highest occupancy levels this past school year, as well as the strongest pre-leasing velocity and rent growth for the upcoming school year.

**Relative Underperformance in Urban Core**

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

**Structural Housing Shortage Signals Need for Development**

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

Sources: DWS. As of December 2025.

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# Industrial

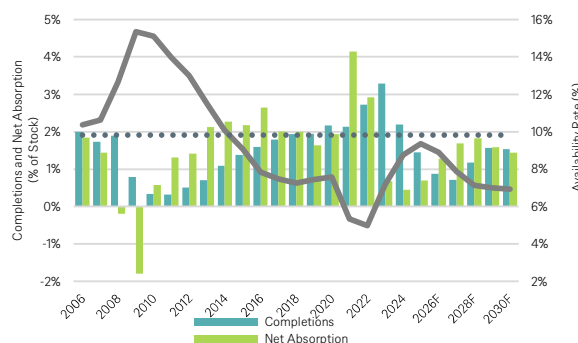
## Outlook

The U.S. industrial market has faced challenging conditions in 2025. We believe that continued uncertainties around tariffs, inflation, interest rates and the economy have suppressed business decision making and dampened leasing momentum. While we remain constructive about the industrial sector's long-term performance potential, our near-term outlook for recovery has moderated as demand and availability trends failed to turn the corner this year.<sup>84</sup>

Net absorption totaled about 38 million square feet (MSF) year-to-date through the third quarter of 2025.<sup>85</sup> Meanwhile, the post-pandemic development pipeline moderated, but continued to deliver new supply, totaling about 170 MSF during the same period.<sup>86</sup> The national availability rate ticked up to 9.3% during the quarter, while the vacancy rate climbed 10 basis points to 6.6%.<sup>87</sup>

Competitive leasing conditions spread to a greater number of markets, although the strongest (Texas) and weakest (California) markets did not change positions in the past few quarters.<sup>88</sup> In total, of the 48 markets included within the DWS national industrial baseline outlook, 25 posted positive absorption year-to-date through the third quarter of 2025 and 23 posted negative absorption.<sup>89</sup> The fallout to occupancy from weak demand, however, was mostly moderate,<sup>90</sup> we believe because the underlying occupier businesses remained healthy, albeit cautious.

**Exhibit 9: Industrial Net Absorption and Completions as a % of Inventory and Vacancy Rate (2006 – 2030)**



Sources: CBRE-EA (history as of 3Q25) & DWS (forecast). As of November 2025.

Note: F = forecast. Aggregate of DWS's investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

Metro availability rates remained below their long-term averages, but sub-par demand levels contributed to weakened market rent fundamentals.<sup>91</sup> We estimate that on average, market rents declined by about 4% in the past year (after climbing about 30% in the prior five years).<sup>92</sup> Outcomes have varied across markets, submarkets and property types, based on relative new supply and vacancy levels.<sup>93</sup> Generally, infill core market locations have held up better, while submarkets with outsized development pipelines have been more competitive.<sup>94</sup> We estimate that total rent declines from peak levels have ranged from 5%-10% across most markets, but up to 20% in Southern California.<sup>95</sup> However, there still exists substantial mark-to-market activity across markets.<sup>96</sup>

From a demand perspective, we believe the strongest markets are in the Southwest (led by Texas) and Mountain regions (mostly in Phoenix). Results in the Southeast were mixed as demand eased in Florida but remained strong in Savannah.<sup>97</sup> Several Midwest markets posted healthy demand, including Kansas City, Indianapolis and Columbus, perhaps benefiting from importers seeking to front-load holiday season stock in the face of uncertain tariffs.<sup>98</sup> Negative demand

<sup>84</sup> DWS. As of September 2025.

<sup>85</sup> CBRE-EA and DWS. As of September 2025.

<sup>86</sup> CBRE-EA and DWS. As of September 2025.

<sup>87</sup> CBRE-EA and DWS. As of September 2025.

<sup>88</sup> CBRE-EA and DWS. As of September 2025.

<sup>89</sup> CBRE-EA and DWS. As of September 2025.

<sup>90</sup> CBRE-EA and DWS. As of September 2025.

<sup>91</sup> CBRE-EA and DWS. As of September 2025.

<sup>92</sup> DWS. As of September 2025.

<sup>93</sup> DWS. As of September 2025.

<sup>94</sup> DWS and CoStar Analytics. As of September 2025.

<sup>95</sup> DWS, CBRE-EA and Colliers. As of September 2025.

<sup>96</sup> CBRE-EA and DWS. As of September 2025.

<sup>97</sup> CBRE-EA and DWS. As of September 2025.

<sup>98</sup> DWS and Ports of Los Angeles and Long Beach data. As of September 2025.

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trends continued to weigh on slower-growth markets especially in the Pacific, Northeast and Mid-Atlantic regions.<sup>99</sup>

In our view, the foundation for recovery may lie in the structure of the U.S. economy and industrial property market, plus shifting demographics and linkages to the global economy and trade. Uncertainty may produce volatility in the near term, but over the mid- to longer-term, we believe that the balance achieved between domestic production and international trade should be favorable to the U.S. economy and its labor market, as well as consumers.

We expect that industrial market fundamentals will begin to turn the corner and exhibit broader demand momentum in 2026, just as the development pipeline winds down. Healthy GDP, consumer spending, and continued e-commerce growth should have taken up a substantial part of the excess logistics capacity created following the pandemic.<sup>100</sup> In the four years ending 2023 the U.S. industrial market added 1.6 billion square feet of new space and absorbed about 1.5 billion square feet.<sup>101</sup> For the most part this stock has remained occupied space.<sup>102</sup>

We believe that the implications of onshoring and diversifying the global production of high-value and strategic goods will likely be a small part of direct logistics space demand. Future demand will likely be more dependent on economic growth (varied across regions), and continued e-commerce penetration, likely carried out among a larger set of retailers competing for customers, in our view.

The results of varied economic fundamentals across property markets can be exhibited in demand total returns, where 32 of 43 markets outperformed the industrial sector average in the past one- and three-year periods.<sup>103</sup> When divided into NCREIF regions, we can see that outside of the west, most have lifted off bottom, with total returns ranging from 5.5% to 9.8% in the year ending the third quarter of 2025. Among the eight markets that underperformed the sector in the past three years, seven were on the west coast, contributing to that region's -4.3% annualized total return in the three years ending third quarter 2025.<sup>104</sup> However, over a longer 10-year period the West and Northeast regions have maintained their relative outperformances (Exhibit 10). We believe markets in these regions should recover, but their paths may be longer in this cycle.

Exhibit 10: Total Returns in NCREIF by Division



Source: NCREIF and DWS, As of September 2025.

Note: NCREIF divisions, ENC-Midwest + East North Central and WNC-Midwest = West North

The markets that have had outsized development pipelines and high availability rates have also had stronger demand. We expect that future growth should absorb that supply and reduced construction start may enable strong recovery. Phoenix, Dallas, Salt Lake City, Raleigh and Savannah are examples of this. Meanwhile, the pace of obsolescence marches on. Functionally challenged assets in the mature coastal markets may languish vacant, absent local growth and challenged by a flight to quality. The result of this dynamic may be bifurcated conditions based on quality of asset and location.

We estimate that new construction deliveries in 2025 may total about 245 MSF and potentially be 40%-50% leased upon delivery.<sup>105</sup> Net absorption is forecast to total about 123 MSF in 2025, potentially benefiting from pre-leased deliveries.<sup>106</sup> Economic and policy risks aside, we expect that absorption could begin to normalize to healthier levels in 2026, totaling about 220 MSF, or 1.3% of stock, while deliveries may slow to about 150 MSF (0.9% of stock). Future supply likely will be concentrated in growth markets, where demand-supply patterns have been supportive of development.<sup>107</sup>

We believe future growth dynamics likely will be manifested more meaningfully in the Mountain West, Southwest and

<sup>99</sup> CBRE-EA and DWS. As of September 2025.

<sup>100</sup> Moody's, Census Bureau and DWS. As of September 2025.

<sup>101</sup> CBRE-EA and DWS. As of September 2025.

<sup>102</sup> CoStar, CBRE-EA and DWS. As of September 2025.

<sup>103</sup> NCREIF and DWS. As of September 2025.

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<sup>104</sup> NCREIF and DWS. As of September 2025.

<sup>105</sup> DWS, CoStar and CBRE-EA. As of September 2025.

<sup>106</sup> DWS and CoStar. As of September 2025.

<sup>107</sup> DWS and CoStar. As of September 2025.

Southeast regions. However, with less national growth momentum to stimulate demand,<sup>108</sup> even in the regions we favor, we believe market, submarket and asset selection likely will be more important than it has been in the past decade when economic growth and e-commerce momentum were stronger.

Our outlook calls for healthier fundamentals to emerge in 2026 and 2027. A pared down development pipeline in those years should allow for the U.S. availability rate to recede to the 7%-8% range (and vacancy near 5%) mid-way through our five-year forecast period.<sup>109</sup> We expect market rents to be flat in 2026, with growth picking up in 2027 and accelerating from 2028 through 2030.

Strategy

In terms of market selection, we continue to favor markets we view as having diversified economic growth and elements of land supply constraint in core submarkets. This includes larger metro areas in our growth regions (Dallas, Phoenix, Atlanta) as well as smaller markets that appear to have expanding demand drivers (Raleigh, Orlando, Nashville and Salt Lake City). We favor functional assets in mature markets that are potentially under-served by modern logistics facilities (Washington DC, San Francisco Bay Area and the New York region). See Exhibit 11 on the next page.

Exhibit 11: DWS Industrial Outlook

Growth Markets

We believe that the high-supply/high-demand markets currently are winning out over the coastal gateway markets and potentially provide the best near-term opportunities. They have achieved superior rent growth (or at least rent stability) recently. We believe that these high growth markets (notably in Texas, Arizona, Florida, and the Southeast), have emerging land constraints that may also support longer-term performance.

Regional Hubs

The Northeast and West regions remain underserved by modern logistics. We believe that the trends of the past cycle will be renewed upon economic recovery, benefiting Central Pennsylvania, Lehigh Valley, Las Vegas, Phoenix, and Reno, as well as in selected Southeast markets such as Savannah, Charlotte and Orlando.

Infill Logistics

We believe that functional smaller and mid-sized warehouses located in core submarkets should continue to perform well over the long-term, but larger bulk warehouses in expansion corridors or ex-urban locations could face more competitive leasing conditions and lower long-term rent growth.

Large Population Centers  
Underserved by  
Modern Logistics

We believe functional warehouse stock in our large population centers, once clear of near-term challenges, should perform well over the long term. In our view, a resumption of economic growth should support relatively strong occupancy and rent growth in these markets.

Sources: DWS. As of December 2025.

<sup>108</sup> Moody's and DWS. As of September 2025.

<sup>109</sup> DWS and CBRE-EA. As of September 2025.

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# Office

## Outlook

The U.S. office sector entered the second half of 2025 with its clearest signs of stabilization since the onset of the pandemic, marking a meaningful inflection point after several years of cyclical and structural disruption. The third quarter delivered an important milestone: the first decline in the national vacancy rate in seven years. While the recovery remains uneven across markets and asset types, the underlying trend appears to be a sector regaining its footing amid firmer economic conditions, rising office attendance, and a sharp contraction in new supply.

Macro conditions continue to reinforce this shift. Unemployment has drifted higher, from at 4% at the beginning of 2025 to 4.4% in September.<sup>110</sup> However, office fundamentals in the post-pandemic era have been more closely tethered to financial market performance than to traditional labor measures. U.S. equities posted another strong year in 2025, and S&P 500 earnings continued expanding.<sup>111</sup> This backdrop of sustained corporate profitability and capital market strength has helped stabilize tenant sentiment and decision-making.

Return-to-office behavior has also undergone a notable shift. Employers continue to elevate attendance expectations, and national foot traffic reached 80% of pre-COVID levels in July, the highest level since early 2020.<sup>112</sup> As of October, 56% of Fortune 100 employees were subject to full five-day in-office requirements, while nearly all remaining firms operated under structured hybrid models.

**Exhibit 14: Office Net Absorption and Completions as a % of Inventory and Vacancy Rate (2006 – 2030)**



Source: CBRE-EA (history) & DWS (forecast). As of December 2025.

Note: F = forecast. Aggregate of DWS's investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

The typical required presence has risen to four days per week, nearly double the 2022 average, and broadly aligns with workplace norms that preceded the pandemic.<sup>113</sup> This normalization is translating into more consistent space usage and more decisive long-term leasing strategies.

Signs of improvement are increasingly visible in the fundamentals. After deep negative absorption in 2023, demand stabilized in 2024 and picked up in 2025.<sup>114</sup> The recovery, however, remains geographically uneven. Sunbelt and high-growth markets continue to lead expansion, while several tech-oriented coastal markets are still adjusting to sector-specific volatility. Manhattan continues to outperform, driven by robust demand for modern trophy assets. Dallas, Atlanta, Austin, and Phoenix also show healthy fundamentals, supported by corporate relocations and diversified occupier growth. In contrast, Seattle, Boston, and Denver remain under pressure given tech-sector downsizing, softer venture-backed growth, and elevated sublease availability. Washington, D.C. has exhibited relative stability but remains subdued due to muted federal demand and longer decision timelines.<sup>115</sup>

Momentum in leasing reinforces the view of a sector in the early stages of recovery. Many markets are now recording leasing volumes above pre-pandemic levels, and national activity over the past year reached 82% of 2018–2019 benchmarks. Gateway markets—after several years of sharp contraction—have posted some of the strongest rebounds, with

<sup>110</sup> BLS. As of September 2025.

<sup>111</sup> Bloomberg. As of July 2025.

<sup>112</sup> Placer.ai. As of September 2025.

<sup>113</sup> JLL. As of September 2025.

<sup>114</sup> CBRE-EA. As of September 2025.

<sup>115</sup> CBRE-EA. As of September 2025.

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leasing in Silicon Valley, San Francisco, and Chicago rising 58%, 34%, and 28% respectively over the past twelve months.<sup>116</sup> Large-block leasing remains below historical norms, running at roughly two-thirds of pre-COVID volumes, a reminder that today's demand is steadier and less speculative than the tech-driven expansions of past cycles. Sublease supply, one of the clearest gauges of post-pandemic distress, in our view has finally begun to recede.<sup>117</sup> And, as expiring subleases roll back to landlords at lower rent levels and as tenant demand continues to firm, this reduction should play a constructive role in rebalancing market conditions through the forecast.

The most consequential tailwind is the collapse in new supply, in our view. The U.S. has averaged fewer than one million square feet of quarterly groundbreakings over the past year, and national inventory declined by 1.2 million square feet in the third quarter of 2025 alone due to demolitions and conversions. With only 6 million square feet of space left available in the current development pipeline and more than 25 million square feet removed from stock in 2025, the sector appears to be moving into a prolonged period of structurally low supply.<sup>118</sup> Even with a handful of emerging trophy proposals in select gateways, these projects seem far too limited to offset the broader collapse in speculative construction.

Direct asking rents remain generally stable, recording modest growth of 0.6% over the past four quarters.<sup>119</sup> Landlords have largely maintained market rents, and deep discounts have become increasingly uncommon. Notably, effective rents have recently begun to outpace asking rents as tenant improvement (TI) allowances for renewals – now comprising a growing share of market activity – have stabilized. With new supply limited, renewal activity is expected to dominate leasing in the near future. However, it is important to note that effective rents remain approximately 7.5% below pre-pandemic levels.<sup>120</sup>

Collectively, these dynamics point to a U.S. office market at a pivotal stage in its multi-year recovery. Strengthening leasing activity and the sharpest supply contraction in recent history are expected to push vacancy rates lower through the forecast. Relative to the prior House View, our forecast remains broadly consistent, with marginally stronger absorption and reduced downsizing contributing to a firmer demand outlook. We expect national vacancy to continue declining through the first half of 2026 and gradually converge toward its 20-year historical average by forecast-end. Our baseline forecast anticipates a period of modest rent growth in the near term, with broader market recovery expected to gain traction post-2026. On a market-specific basis, our outlook remains consistent: High-growth Sun Belt markets such as

South Florida, Austin, Charlotte, Dallas, and Nashville are expected to outperform, while slower-growth mature markets, including Chicago, Washington, D.C., and San Francisco, are likely to continue underperforming. Technology-focused markets are expected to remain challenged in the near term; however, we expect leasing momentum to improve as growth resumes within the technology sector, particularly driven by demand from artificial intelligence (AI) firms.

### Strategy

The path forward for the U.S. office sector appears to remain uneven, shaped by wide variations in market performance, asset quality, and vintage. Even so, the cumulative evidence across fundamentals, occupier behavior, supply dynamics, and investment flows may indicate that the sector has moved decisively from stabilization toward early-stage recovery. Total returns over the trailing four quarters turned positive at 1.8% as of the third quarter of 2025,<sup>121</sup> though performance remains highly segmented. Assets most exposed to remote work, including CBD and secondary business district properties, continued to post the weakest results, reflecting lingering occupancy challenges and heightened capital expenditure burdens. In contrast, suburban office assets exhibited more resilience, while specialized subsectors such as medical office outperformed meaningfully due to differentiated demand drivers and limited exposure to hybrid work.

The outlook is bolstered by a supply environment that remains extraordinarily constrained. U.S. office construction has fallen to its lowest level in nearly 15 years, with just 57 million square feet underway – a 65% decline from the 2019 peak.<sup>122</sup> Large, expensive office markets have seen the sharpest retrenchment. The shift away from major cities began pre-2020 and has accelerated, especially in CBDs, where construction is now one-third of its 2015 level.<sup>123</sup> To the extent that development has continued, its composition has changed. Traditional for-lease offices – once two-thirds of new builds – account for only about half of projects since 2023, with the rest shifting toward owner-occupied buildings, medical offices, and lab space. Looking forward, the office pipeline is likely to remain lean as long as prices for existing buildings remain well below the cost of building new ones. This scarcity of new supply means tenants may have fewer high-quality, first-generation space options—pushing some to renew existing leases, consider overlooked buildings, or adapt to more flexible layouts.

At the same time, the bifurcation between prime and non-prime assets has become one of the most defining dynamics of the current cycle. High-quality office space is expected to continue to materially outperform the broader market, as tenants seek superior amenities and technological readiness. As of the third quarter, direct vacancy at premier workplaces stood at 14.2%, 490 basis points lower than the non-prime

<sup>116</sup> JLL. As of September 2025.

<sup>117</sup> C&W. As of September 2025.

<sup>118</sup> JLL. As of September 2025.

<sup>119</sup> CBRE-EA. As of September 2025.

<sup>120</sup> CBRE-EA and DWS. As of September 2025.

<sup>121</sup> NCREIF. As of September 2025.

<sup>122</sup> CoStar. As of September 2025.

<sup>123</sup> CoStar. As of September 2025.

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segment, and asking rents carried a 19% premium.<sup>124</sup> The scarcity of top-tier product has encouraged a handful of first-mover developers to pursue new trophy projects in select high-cost gateway submarkets. Still, such projects are economically viable only in markets with elevated rent levels in our view and deep trophy-tenant demand pools and are unlikely to materially offset the broader collapse in new supply.

On the capital markets front, improving fundamentals have begun to translate into rising transaction activity. Investment sales reached \$60 billion year-to-date in October – a 24% increase over the same period in 2024 – and institutional buyers, who had largely stepped to the sidelines, have gradually returned, accounting for 20.3% of acquisitions compared with 19.6% last year. Large transactions above \$100 million have already exceeded full-year 2023 totals and are pacing to surpass 2024 levels.<sup>125</sup> These signals seem to suggest that pricing is moving closer to a clearing point and that the most acute phase of the bid-ask spread may have passed. Still, some owners continue to struggle: CMBS delinquency rates climbed to a cycle peak of 11.4% in August before edging lower to 10.8% in October,<sup>126</sup> and many owners continue to face refinancing pressures, elevated operating costs, and capital expenditure requirements associated with competitive repositioning. Anticipated Federal Reserve rate cuts through mid-2026 could provide incremental relief by reducing financing costs, supporting loan workouts, and fostering additional liquidity. Lower borrowing costs may also unlock deferred leasing investments, tenant improvements, and building renovations – areas where many landlords have been constrained by capital scarcity.

Despite mounting signs of improvement, we continue to underweight the office sector. In the near term, we expect vacancies remain cyclically elevated, cash flows to face ongoing pressure, and recovery trajectories potentially to continue to diverge widely across markets and asset classes. Many capital structures remain stressed, and it may take several years for stabilized income to materially improve. Over the longer term, however, we favor markets with strong structural growth drivers, including expanding tech ecosystems, robust job creation, and healthy demographic momentum. We favor assets with stable rent rolls, low near-term roll-over exposure, high credit tenancy, and limited capital expenditure requirements. The combination of cyclical improvement and structural supply scarcity may represent one of the most compelling long-term investment setups the office sector has offered since the early 2010s, particularly in segments where demand for high-quality space continues to outstrip new deliveries.

In summary, the U.S. office market is at an important turning point. Expanding tenant footprints, stronger return-to-office behaviors, a historic contraction in new development, and

record levels of inventory removal appear to be collectively shifting conditions in a more landlord-favorable direction. This momentum is likely to persist for several years given the depleted state of the construction pipeline. Consider navigating this transition with disciplined caution, emphasizing long-term positioning and strategies aligned with evolving workplace preferences and the growing premium for high-quality, future-ready office assets.

<sup>124</sup> CBRE-EA. As of September 2025.

<sup>125</sup> RCA. As of September 2025.

<sup>126</sup> Trepp. As of November 2025.

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# Self-Storage

## Outlook

The current state of the self-storage industry is characterized by strained demand and moderating supply, in our view. High prices and mortgage rates continue to hamper home sales, a key seasonal demand driver, reflected in the confluence of rising for-sale inventory numbers and stagnant home price growth.<sup>127</sup> Moreover, a divergence in financial strength between top- and bottom-tier wealth cohorts may have heightened price sensitivity to existing customer rent increases (ECRIs) across a large portion of the tenant base.<sup>128</sup> This relatively weak demand backdrop has extended lease-up timelines for projects delivered over the past two years, pressured operating performance across competing assets, and contributed to lower occupancy and NOI growth (Exhibit 15).

**Exhibit 15: Occupancy and Existing Home Sales**

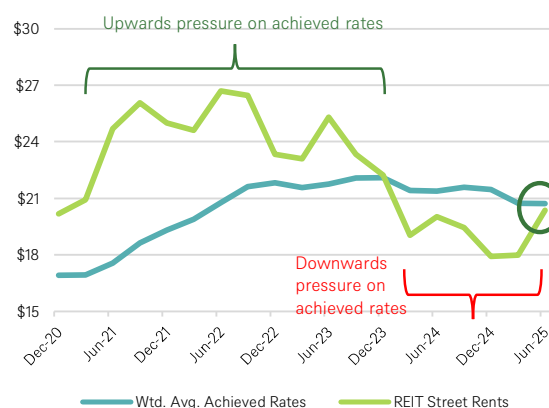


Source: NCREIF (Occupancy) and NAR (Existing Home Sales). As of September 2025.

While we expect demand to be subdued in 2026, there are reasons for cautious optimism over the medium-term. First, year-over-year growth in move-in rates turned positive in September 2025 for the first time in 34 months.<sup>129</sup> Second, REIT data indicates that street rental rates have finally converged to achieved rates; for almost two years they were significantly lower, putting pressure on revenue whenever a customer departed (while aggressive ECRIs on those remaining generally maintained achieved rates) (Exhibit 16). These two trends could imply that move-in rates have bottomed out

and reset to current levels of supply and demand. Third, while certain income brackets are pressured, the roughly three-year decline in rates has reduced cost-to-income ratios significantly, making the option to store more affordable: Green Street estimates the cost-to-income ratio at 1.7%, much lower than the 2012 to 2019 average of 2.3%.<sup>130</sup> Additionally, while home sales are down, self-storage is a beneficiary of a plethora of demand drivers across a range of demographics. For example, lack of space is cited as the number one reason for the need for storage.<sup>131</sup> With hybrid work here to stay and existing residential inventory largely not tailored to work-from-home needs, in our view, we expect this demand to persist.<sup>132</sup>

**Exhibit 16: REIT Achieved vs Street Rates**



Source: NCREIF (Occupancy) and NAR (Existing Home Sales). As of September 2025.

Though the outlook for near-term demand is murky, the supply side of the equation seems favorable. The development pipeline has pulled back meaningfully amid weaker operating fundamentals. Year-over-year, both the planned and prospective pipelines have contracted – down roughly 10% and 19% respectively – signaling fewer projects moving toward construction and ultimately fewer deliveries likely in the coming years.<sup>133</sup> At the same time, deferred and abandoned projects have risen sharply, further limiting the volume of supply expected to reach the market.<sup>134</sup> Finally, construction starts are down by more than 30% since their peak in 2023 and are now around their pre-COVID average.<sup>135</sup> We expect this combination of low supply growth and gradual recovery in demand to position the asset class well over the medium term.

<sup>127</sup> Realtor.com and Zillow. As of October 2025.

<sup>128</sup> Moody's Analytics. As of September 2025.

<sup>129</sup> Yardi Matrix. As of September 2025.

<sup>130</sup> Green Street. As of September 2025.

<sup>131</sup> Storage Cafe. As of April 2025.

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<sup>132</sup> Kastle Work From Home Barometer. As of September 2025.

<sup>133</sup> Yardi Matrix. As of November 2025.

<sup>134</sup> Yardi Matrix. As of November 2025.

<sup>135</sup> Yardi Matrix. As of November 2025.

## Appendix 1: U.S. House Portfolio

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

Sector	ODCE Weights	House Portfolio	Active Bet (vs ODCE)	Range
Residential	31%	36%	+5%	31% - 41%
Industrial	35%	39%	+4%	34% - 44%
Office	18%	8%	-10%	3% - 13%
Retail	10%	15%	5%	10% - 20%
Other	6%	2%	-4%	0% - 7%

Note: ODCE weights calculated as gross real estate value at ownership share. Totals might not add up to 100% due to rounding.  
Sources: NCREIF; DWS. As of September 2025.

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## Appendix 2: Regional Allocations

The DWS House Portfolio represents our opinion of the allocation by region and division for core portfolios in the United States which we believe would outperform the NFI-ODCE. We develop the House Portfolio as an unlevered portfolio of properties without regard to tax consequences. The House Portfolio is formulated using both quantitative and qualitative modeling, integrated with our House View. The resulting weights, we believe, aid in providing long-term risk-adjusted out-performance to our house portfolios versus the market as a whole and against relevant benchmarks and indices. The analysis focuses across all four regions and their divisions. The following table summarizes our conclusions on weightings in comparison with the NFI-ODCE.

Region	Division	Key Markets	ODCE Weights	House Portfolio	Active Bet (vs ODCE)	Range
East	Total		30%	26%	-4%	21% - 31%
	Northeast	Boston, New York	21%	17%	-4%	12%-22%
	Mideast	D.C., Charlotte, Raleigh	9%	9%	0%	4%-14%
Midwest	Total		6%	2%	-4%	0% - 7%
South	Total		22%	34%	+12%	29% - 39%
	Southeast	Florida, Atlanta, Nashville	14%	22%	+8%	17%-27%
	Southwest	Texas	8%	12%	+4%	7%-17%
West	Total		43%	38%	-5%	33% - 43%
	Pacific West	California, Seattle	35%	26%	-9%	21%-31%
	Mountain West	Phoenix, Las Vegas, Denver	8%	12%	+4%	7%-17%

Note: ODCE weights calculated as gross real estate value at ownership share. Totals might not add up to 100% due to rounding.  
Sources: NCREIF; DWS. As of September 2025.

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## Appendix 3: Real Estate Target Markets

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

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

### Investable and Target Markets

	<div> <span>↑ Overweight</span> <span>↓ Underweight</span> <span>↔ Market Weight</span> </div>			
Market	Residential	Industrial	Office	Retail
<b>EAST - Northeast</b>				
Allentown		↑		
Boston	↔	↔	↔	↔
Harrisburg		↑		
New York	↓	↔	↔	↓
Philadelphia	↓	↔		↓
<b>EAST - Mideast</b>				
Washington D.C.	↓	↑	↓	↔
Raleigh	↑	↑		↑
Baltimore		↔		
Charleston	↑			↑
Charlotte	↑	↔	↑	↑
<b>SOUTH - Southeast</b>				
Atlanta	↑	↑	↑	↑
Ft. Lauderdale	↑	↑	↑	↑
Jacksonville	↑			↑
Miami	↑	↑	↑	↑
Nashville	↑	↑	↑	↑
Orlando	↑	↑		↑
Savannah		↔		
Tampa	↑	↑		↑
West Palm Beach	↑			↑
<b>SOUTH - Southwest</b>				
Austin	↑	↓	↑	↑
Dallas	↑	↑	↑	↔
Houston	↔	↔	↓	↔
<b>MIDWEST</b>				
Chicago	↓	↔	↓	↓
<b>WEST - Mountain West</b>				
Denver	↔	↓	↔	↑
Las Vegas	↔	↔		↔
Phoenix	↑	↑	↔	↑
Reno		↔		
Salt Lake City	↑	↔		
<b>WEST - Pacific West</b>				
Los Angeles	↓	↓	↓	↔
Oakland	↓	↔	↔	↔
Orange County	↔	↓	↔	↔
Portland	↓	↔	↓	↓
Riverside	↔	↓		↔
San Diego	↔	↓	↔	↑
San Francisco	↓	↓	↓	↓
San Jose	↔	↔	↔	↔
Seattle	↔	↓	↔	↑

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## Appendix 4: Performance over the past 5 Years (12-month Periods)

	9/24-9/25	9/23-9/24	9/22-9/23	9/21-9/22	9/20-9/21
Expanded NCREIF Property Index (NPI)	4.7%	-3.3%	-8.0%	16.0%	12.0%
Residential	5.3%	-2.6%	-7.2%	18.2%	13.1%
Industrial	4.5%	-0.8%	-5.4%	34.6%	32.1%
Office	1.9%	-11.5%	-16.3%	3.7%	5.2%
Retail	7.0%	2.2%	-1.3%	6.4%	0.7%
Other	7.1%	1.1%	-1.0%	17.9%	12.3%
Residential: Apartment	5.3%	-3.0%	-7.6%	18.2%	13.4%
Residential: Student Housing	4.6%	4.5%	1.3%	15.6%	6.4%
Residential: Single Family Rental	4.0%	-1.4%	-5.4%	34.4%	N/A
Residential: Manufactured Housing	11.6%	9.0%	9.2%	N/A	N/A
Office: CBD	2.3%	-15.1%	-21.0%	0.7%	2.6%
Office: Suburban	3.9%	-7.3%	-13.9%	6.7%	8.4%
Office: Urban	0.2%	-11.8%	-16.5%	3.7%	5.0%
Office: Secondary Business District	0.8%	-10.2%	-12.5%	3.9%	7.4%
Office: Life Science	-1.1%	-8.3%	-6.3%	16.9%	22.6%
Office: Medical Office	5.7%	-0.5%	-2.8%	9.3%	11.1%
Industrial: Warehouse	4.5%	-1.1%	-5.7%	34.7%	32.4%
Industrial: Specialized	6.1%	2.3%	-2.3%	33.4%	29.2%
Industrial: Flex	4.1%	0.7%	-2.5%	33.8%	29.9%
Industrial: Manufacturing	7.1%	-2.3%	-1.4%	30.7%	32.0%
Industrial: Life Science	-0.3%	-3.4%	-2.1%	16.4%	20.0%
Retail: Mall	6.9%	2.1%	-2.1%	5.4%	-2.4%
Retail: Strip	8.0%	3.5%	0.8%	8.6%	4.9%
Retail: Street	1.7%	-5.9%	-8.9%	1.2%	-1.8%
Other: Self-Storage	6.1%	-0.2%	-2.3%	31.0%	22.2%
Other: Senior Housing	9.2%	-1.0%	-1.3%	4.0%	3.6%
Other: Other	7.8%	4.2%	-1.4%	10.3%	9.7%

	9/30/2025	9/30/2024	9/30/2023	9/30/2022	9/30/2021
NASDAQ Composite Index	24.6%	37.6%	25.0%	-26.8%	29.4%
S&P 500 Index	16.1%	34.4%	19.6%	-16.8%	28.1%
FTSE NAREIT All Equity REITs	-1.7%	34.4%	3.2%	-16.6%	37.2%

Sources: NCREIF, Bloomberg, NAREIT, and DWS. As of September 2025.

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