The Outlook for U.S. Real Estate: 2018 & Beyond

The 2018 outlook for U.S. real estate is bright, in our view. The economy gathered substantial momentum in 2017, a trend that might accelerate with additional support from recently-enacted tax reform and improving global conditions.

1 Risk of recession is low. Real estate returns are highly correlated to the economy. Leading indicators such as the yield curve suggest that the likelihood of a recession, which would undermine occupational demand, is low, at least for the next two years.1

2 Construction appears to be peaking amid increasing supply constraints.2 Increased but peaking supply has neutralized certain sectors such as apartments nationally and offices in some gateway cities, but with vacancy rates sitting near 15-year lows, rental growth should match or exceed inflation in most markets.3

3 Valuations high, but relatively attractive. Valuations are not inexpensive, however; they appear attractive relative to those of other risk assets such as corporate bonds.4 After a 20% run-up in U.S. stocks in 2017, it is also quite likely, that many investors are under-allocated to real estate.

4 Tax reform, a boon to real estate. Tax cuts will provide a stimulus to the economy, which is a positive for Corporate Real Estate (CRE) broadly. Total cost over 10 years is $1.5 trillion on a static scoring basis, but the net cost will depend on the boost to economic growth. A 20% deduction on pass-through income included in the tax reform package should attract additional inflows from taxable investors. In addition, the doubling of the standard deduction and mortgage and state and local tax (SALT) deduction caps could incentivize apartment renting over homeownership in high tax/high-cost areas.

5 Reasonable leverage. The industry is not saddled with unsustainable debts that could otherwise cause or exacerbate a downturn (as occurred, for example, during the early-1990s savings-and-loan and the 2008–09 financial crises).5
Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries. In the U.S., Deutsche Asset Management relates to the asset management activities of RREEF America L.L.C. Key Deutsche Asset Management 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 investment committee and may not necessarily be the views of any other division within Deutsche Asset Management.

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 Deutsche Bank AG or its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. Neither Deutsche Bank AG 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 Deutsche Bank Group, 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 Deutsche Bank AG or its affiliates’ 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.

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 Deutsche Asset Management’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.

Deutsche Bank AG, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be used or relied upon, by any taxpayer for purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances.

Investment products offered through Deutsche AM Distributors, Inc. Advisory services offered through Deutsche Investment Management Americas, Inc.

For Institutional Use and Registered Rep Use Only. Not for Public Viewing or Distribution

Deutsche AM Distributors, Inc.
222 South Riverside Plaza Chicago, IL 60606-5808
www.deutschefunds.com service@db.com
Tel (800) 621-1148

© 2018 Deutsche Asset Management. All rights reserved. R-054898-2 (2/18)