GLOBAL REAL ESTATE STRATEGIC OUTLOOK

First Quarter 2022

IN A NUTSHELL

_ Global real estate is in decent shape. Recovery began in late 2020 and has gained momentum over the past year. The outlook is not without challenges, but we see the recovery having some way to run.

_ Inflation has the potential to be both a challenge and an opportunity. Tighter monetary policy may curb demand growth, but the sector looks well positioned from a relative pricing perspective.

_ Improving market fundamentals support active asset management such as in the development of industrial and residential, selective office refurbishment, and possibly the repositioning of urban retail.

_ We favour investment strategies focused on urban industrial assets, suburban and new market residential, student and senior housing, and next generation office space in high productivity locations.

Market Outlook

The global real estate market is in decent shape. Following a short downturn, recovery began in late 2020 and has gained momentum over the past year. As economies reopened and occupier fundamentals improved, the attractiveness of real estate pricing reasserted itself, leading investors to return in numbers. Transaction volumes increased, yields hit new record lows, and with renewed rental growth 2021 saw returns move above historical average levels.[1]

Although the United States was by far the strongest performing region last year, both Europe and Asia Pacific also recorded higher returns. Indeed, we saw a far greater divergence in performance between sectors than between geographies. Once again industrial and residential were the top performing sectors, followed by office and then retail. And while all saw returns move higher, with industrial returns thought to have averaged around 25%, the range of returns across the sectors are likely to have reached a record high.

We expect many of these trends to remain in place through to the middle of the decade. The recovery still has some way to run, and while rental growth rather than yield compression is likely to be an increasingly important driver of returns, overall, the sector looks well positioned.

The outlook will not be without challenges. The pandemic isn't over, and even when it is, the economic effects will be felt for several years to come. The recent return of restrictions and a sharp fall in sales over the usually busy Christmas period, will

[1] GREFI, January 2022

only add to the challenges faced by a beleaguered retail sector, while the resumption of home working once again raises question marks over the future of office.

Historically we've found GDP growth to be one of the best predictors of real estate performance, and overall, we see another year of strong and above-potential growth across all three regions. However, there are short-term risks to this outlook. If aggressive monetary tightening in response to today's inflation combines with planned reduction in fiscal stimulus, there is certainly a risk that economic growth will come in below expectations.

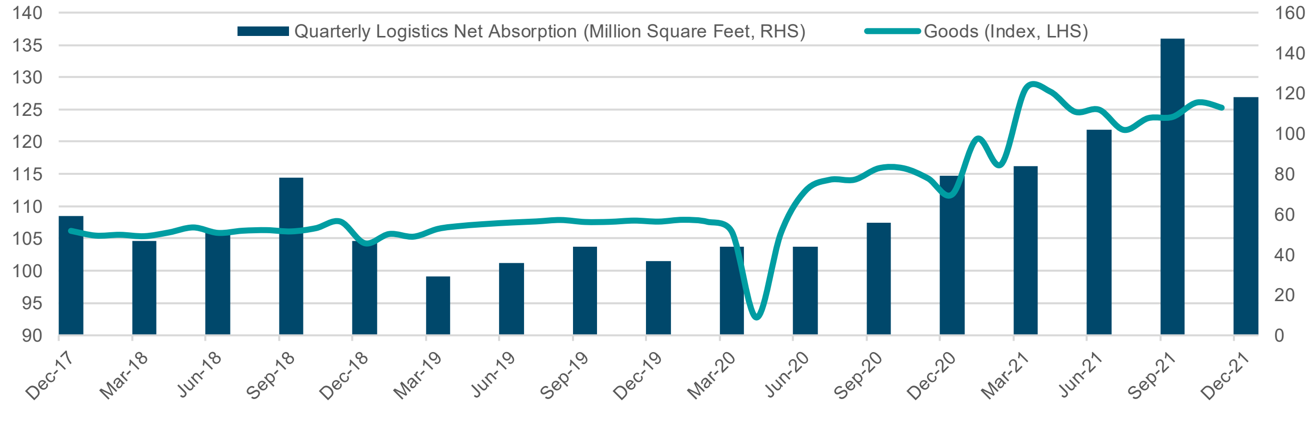
Inflation has the potential to be both a challenge and an opportunity. It's not unusual to hear real estate referred to as an inflation hedge, however, this statement lacks nuance. In Europe (ex. UK) most rental income is indexed against some form of inflation; and thereby the short-term relationship is quite clear. This is not the case for much of the rest of the world, where often the relationship between inflation and real estate will rest on the ability of a landlord to raise rents at the end of a lease – easier to achieve in the supply constrained industrial and residential sectors, than in most shopping centres.

Rising construction costs are also proving to be a challenge. Developers have seen a sharp increase in construction inflation over the past twelve months, facing labour shortages, covid restrictions, and reduced access to increasingly expensive materials. While this has not led to widespread failures in the construction sector, it has delayed and increased the cost of development projects. On a more positive note, much of this may prove to be temporary, while curbs to the development pipeline will reduce new supply, potentially putting upward pressure on rents in the future.

The move to net zero carbon is likely to produce a more sustained impact of construction costs. The development of real estate is exceptionally carbon intensive, and while we are likely to see environmental improvements in the manufacturing of materials like steel and concrete, there is a high probability that higher carbon prices will have a long-term impact on the cost of delivering real estate. With changing tenant demands and tightening regulation in favour of energy efficient buildings, buildings with the highest environmental credentials could be well placed to achieve a sustained rental growth premium over the market average.

Looking forward, industrial tops our rental growth outlook, with particularly strong expectations for the United States. This very much reflects a continuation of recent years, and while the recent jump in take-up may well have been exaggerated by the pandemic and supply shortages may ease slightly by the middle of the decade, low vacancy, economic recovery, ecommerce growth and a realignment of supply chains leaves the sector well placed for rental growth. It is important not to be complacent though. Many locations have seen a surge in development, so far easily absorbed, but if sustained could pose a medium-term challenge for less constrained, non-urban locations.

US PERSONAL CONSUMPTION OF GOODS AND LOGISTICS NET ABSORPTION (INDEX: 01/01/2015 = 100)



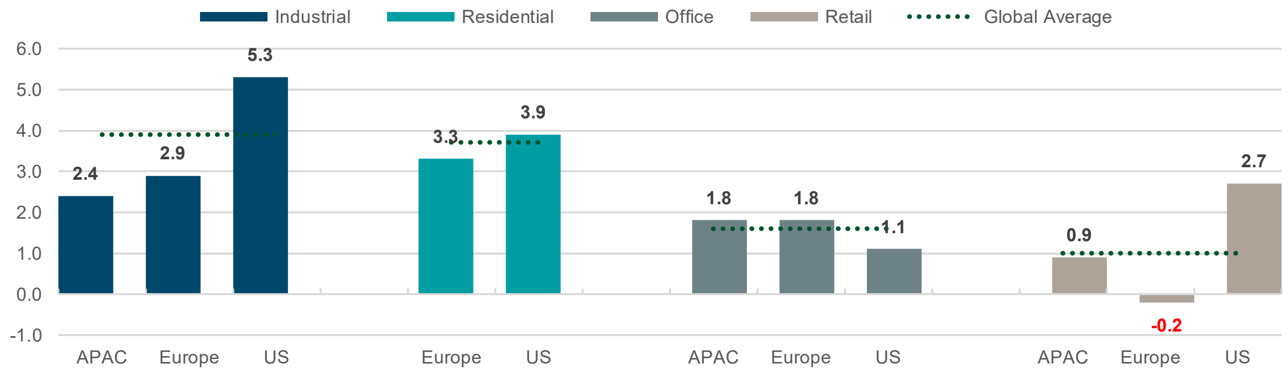
Source: DWS, CoStar, National Association of Realtors, Macrobond, January 2022

The rental outlook for residential comes a close second. Across much of the United States and Europe demand drivers are positive. Demographics, barriers to home ownership, lifestyle changes and a recovery in disposable incomes are all expected to drive demand for rental property. While new supply is increasing, particularly in some US cities, rising construction costs and today's exceptionally low vacancy rates suggest that oversupply is only a minor risk. Investors should closely monitor regulatory risk when underwriting above inflation rental growth, particularly in Europe, but in most cases, we see rents rising broadly in line with disposable incomes, thereby maintaining current levels of affordability.

Across almost all sectors, the US market is expected to see some of the highest rental growth over the coming five years. In addition to industrial and residential, this is notably the case for retail. Unlike Europe and APAC where we see further rental decline over the next few years, in the United States we forecast annual rental growth of 2.7% over the next five years. Somewhat reflecting the composition of the index in favour of well performing neighbourhood centres, over the past year we've also seen a robust recovery in physical retail in the United States, including a fall in vacancy.

This stands in stark contrast to the office sector. All regions have seen a rise in office vacancy since the start of the pandemic, but vacancy is now close to 17% in the United States, compared to just 9% in Europe and 10% in APAC.[2] This is reflected in an annual rental growth outlook of just 1.1% in the United States, well below Europe and APAC. In all cases the regional outlook masks wide differences between cities and asset quality. Fast growing and high productivity tech hubs are set to outperform the regional average, while best-in-class space looks better placed.

PRIME RENTAL GROWTH BY COUNTRY AND SECTOR (% PER ANNUM, 2022-26F)



Source: DWS, Macrobond, December 2021
Notes: f = forecast. 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.

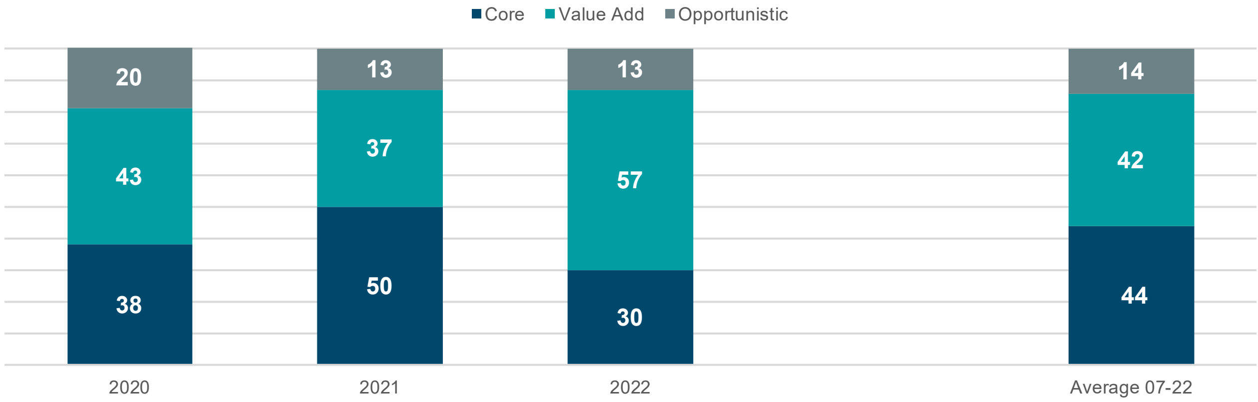
Higher interest rates could have a direct impact on real estate pricing. While history shows a comparatively weak relationship between government bond and real estate yields, many investors will use this as a gauge of relative value. Despite an estimated 10 basis point fall in global real estate yields last year, and the recent run-up in risk free rates, in most locations the spread between the two is still above history.

Alongside the improving occupational market, we're seeing these yields stimulate investor interest in real estate. Not only have transaction volumes increased, but investors are also reporting an increased appetite for the sector. The recent INREV Investor Intentions Survey showed 61% of respondents reporting plans to increase their allocation to real estate over the next two years. We also see an abundance of dry powder. According to Preqin, closed ended funds now have over $400 billion, ready to deploy into global real estate strategies, a record high.[3]

[2] NCREIF, PMA, JLL, December 2022
[3] Preqin, January 2022

With economic recovery, increased liquidity and rising core prices, investors are also showing a willingness to move up the risk curve. Again, looking at the INREV survey, most global investors reported a preference for Value Add over Core, a notable reversal from this time last year.[4]

INVESTMENT STYLE PREFERENCE (% OF RESPONDENTS)



Source: INREV, January 2022
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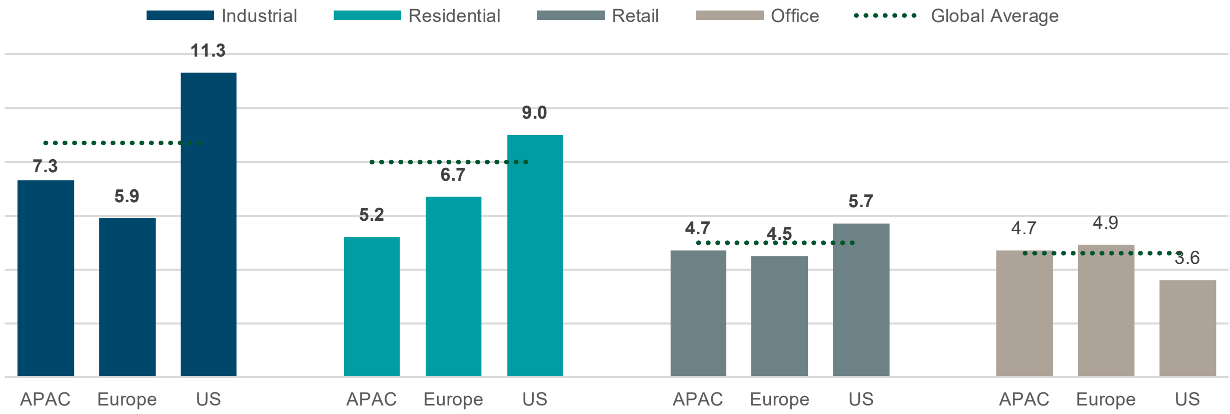
Looking forward we forecast global real estate will record an annual total return of around 6% over the next five years. On a local currency basis, the United States is set to be the top performing region, with Europe and APAC recording a similar level of return. Clearly though this masks considerable differences between cities, sectors, and strategies.

We continue to see industrial as our top performing sector, but where in recent years there has been a broad consensus on this across all three regions, this is no longer the case. In Europe, where industrial yields are closing in on 3% and well below the market average, the return outlook has slipped behind residential. Globally residential is also still one of our top performers, sitting only slightly behind industrial, and topping the hierarchy in Europe. With long-term structural challenges, we're more cautious on office and retail. We still expect to find opportunities in these sectors, but in general we favour reducing exposure and taking a highly focused approach.

REAL ESTATE TOTAL RETURN (% PER ANNUM, 2022-26F)



Source: DWS, January 2022

[4] INREV, January 2022

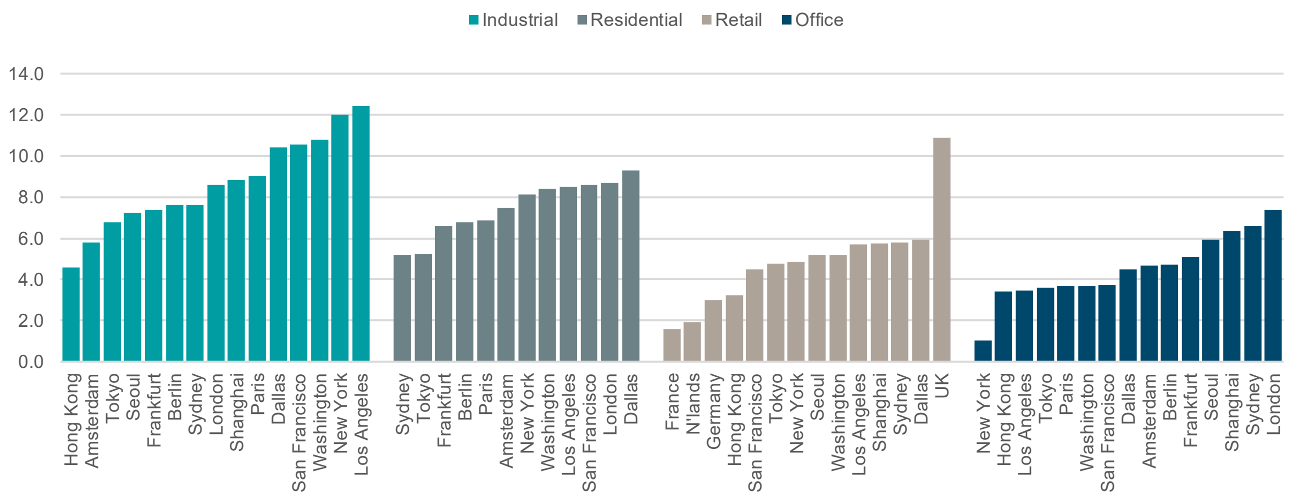
Investment Strategy

Selecting the five largest markets in each region by investment volume, we see that US cities dominate our outlook for the industrial sector, with the like of Los Angeles and New York forecast to offer an annual return of around 12% for the next five years. The office markets across the major US cities remains firmly out of favour, but we see better opportunities in residential. Of these major cities, Dallas is set to be one of our top performing residential markets, although in general we see the best US residential opportunities in smaller Sunbelt and Mountain West cities such as Pheonix and Salt Lake City.

Having been held back by several years of Brexit negotiations, London real estate bounced back strongly in 2021 and looks well set to be one of the top performing cities globally over the coming years. Paris is more muted, although urban logistics in the French capital is forecast to be some of the best performing in the region. With prime yields in Germany some of the lowest in the world, the outlook for the likes of Frankfurt and Berlin is relatively modest, although for overseas investors able to benefit from potentially considerable hedging gains, Germany's low vacancy office and logistics markets could prove attractive.

In APAC, we see a robust performance for Sydney as the city bounces back from a deep pandemic-induced market correction. This is in contrast with Seoul, which having recorded annual average office and industrial returns of around 20% over the past two years, now looks fully priced. We have a similarly modest outlook for Tokyo, where low yields and a moderating rental outlook in the office sector are proving a drag. However, like Germany, hedging gains may help some international investors.

REAL ESTATE TOTAL RETURN BY CITY AND SECTOR (% PER ANNUM, 2022-26F)



Source: DWS, January 2022
Note: European logistics markets (ex. Amsterdam) reflects urban locations

Active management: While we continue to see relative value in core real estate, at current yield levels some investors are finding it increasingly difficult to meet their return targets. Given improving market fundamentals, we see increasing value in active asset management, whether through re-leasing, refurbishment, or development. We would caution against seeking yield without the support of strong underlying fundamentals. For example, while some prime UK shopping centres may be offering a yield of over 8% and may achieve a high return, often these centres come with major downside risks concerning vacancy, falling rent and rising capex requirements.

Active management looks most attractive in the development of industrial and residential, selective office refurbishment, and possibly the repositioning of urban retail for alternative use. While we would tend to shy away from taking on location risk, in the fast-growing sectors we are seeing the emergence of new investable locations.

Urban industrial and new investable markets: We continue to favour investment in urban industrial assets. Restricted supply, same-day delivery and the continued growth of ecommerce are all expected to support added rental growth in these locations. Given high demand and often smaller lot sizes, gaining access to urban industrial investments can be difficult, and indeed with yields tending to be lower than the market average, some investors may look to take on a more active approach to this strategy, developing new stock, or redeveloping aging industrial and retail space.

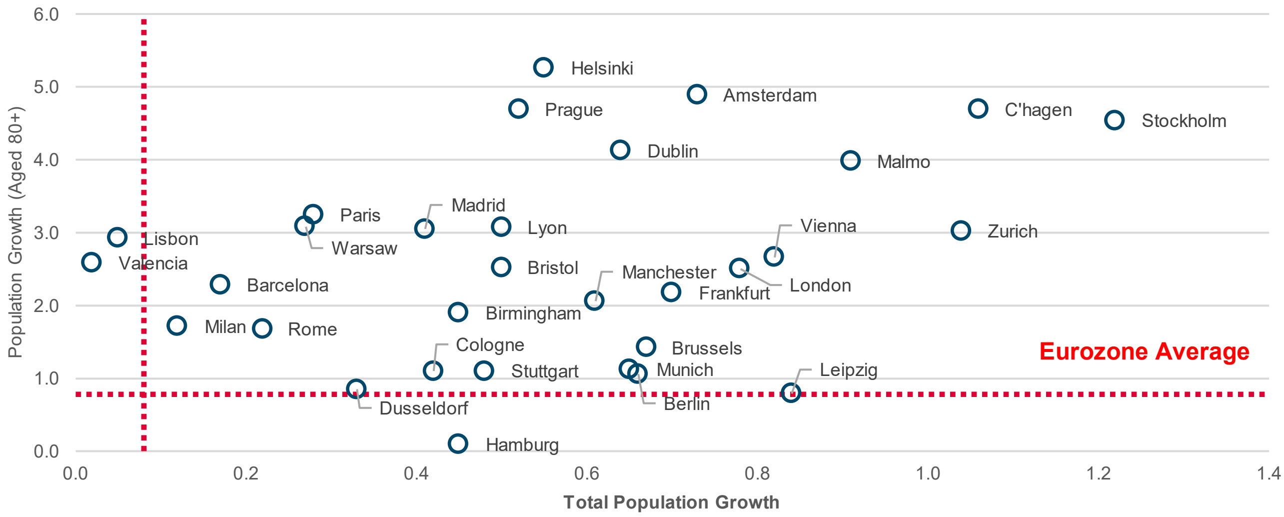
In addition, we see an expansion in the number of investable markets. This is particularly true for the United States and North Asia. In places such as Busan in Korea or Salt Lake City in the United States we see strong occupier demand supporting leasing, rental growth, and the opportunity to deliver new core space into these smaller markets.

Living strategies: We are particularly attracted to affordable residential in suburban locations and strongly growing regional cities. Whether it be the pandemic, demographics, affordability or changing patterns of work, the suburbs of major cities in Europe such as London, Paris and Madrid and the U.S. Sunbelt look well placed for growth, while fast growing cities like Manchester and Leipzig should also benefit from increasing liquidity targeting European residential.

Having seen mixed performance during the pandemic, the long-term demand outlook for operationally intensive residential segments such as student and senior housing also looks strong. Tier 1 university student housing has remained resilient, with strong pre-leasing for modern, walkable product, while senior housing is set to benefit from rising tenant demand and increased investor interest given the aging population, with the emerging and undersupplied assisted living subsector expected to expand over the next ten years.

Development will often be needed for these strategies but given current supply demand imbalances and a positive demand outlook, the development of well specified, energy efficient and affordable space, is likely to be accretive to returns without a significant increase in risk.

POPULATION GROWTH AND OLD AGE POPULATION GROWTH BY EUROPEAN CITIES (% PER ANNUM, 2022-31F)

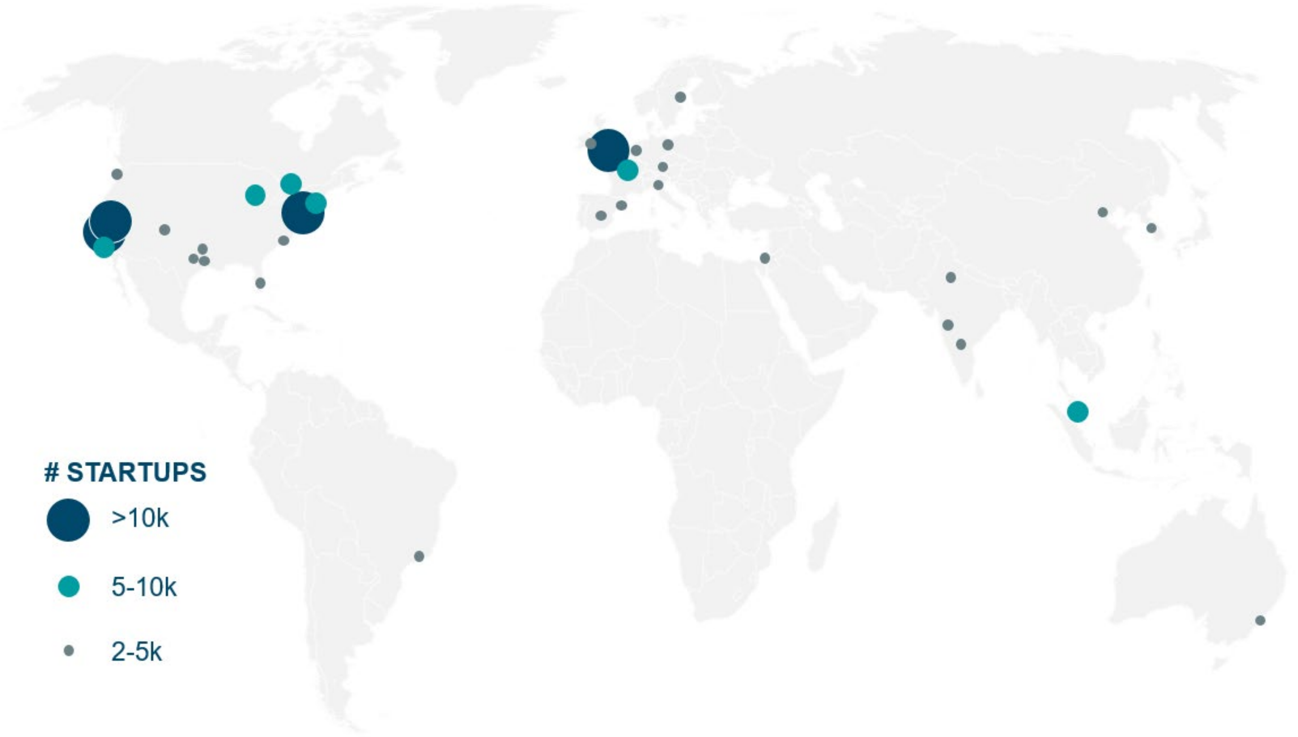


Source: DWS, Oxford Economics, January 2022
Notes: f = forecast. No assurance can be given that any forecast will materialise. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Office refurbishment in high productivity clusters: We are cautious about the office sector but still see opportunities to deliver best-in-class, next generation office space in high productivity and technology focused cities. In our view, next generation office includes collaborative, flexible and commute worthy space that enhances brand and allows occupiers to meet their carbon reduction targets. We're already starting to see evidence of market polarisation, as corporate occupiers look to take less space, but of a better quality. According to Savills, Grade A space accounted for 93% of all take-up in London last year.[5]

Delivering high specification space is expensive and will need to be reflected in higher rents. While taking on less space will somewhat allow for higher rents, we also expect that in high productivity cities, with a bias towards fast growing technology hubs, there will be a greater range of tenants who will be both attracted to, and able to afford this kind of office. This leads us to favour this strategy in cities such as Seattle, Boston and Austin in the US, London, Paris, and Berlin in Europe, and Sydney and Seoul in APAC.

TECH COMPANY START-UPS BY CITY



Source: dealroom.co, January 2021

[5] Savills, January 2022

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