GERMANY REAL ESTATE STRATEGIC OUTLOOK

Mid-Year 2021

IN A NUTSHELL

_ Backed by economic recovery, the German real estate market is expected to see improving returns. Ongoing yield compression and the return of rental growth should sustain market performance.

_ Sector polarisation is starting to fade. Based on stabilising occupier markets, office and hotel investments are regaining importance, although our focus remains on residential and selective logistics, which continue to provide the highest risk-adjusted returns.

_ Given the favourable market sentiment, selective sales of older logistics and residential assets in weak locations should be considered, in addition to the disposal of long-let commodity office stock.

There is room for cautious optimism today. Vaccination rates in Germany are approaching the 50% mark,[1] the economic bounce back after the second lockdown earlier this year is gradually taking hold,[2] and sentiment among businesses and consumers is rising[3]. Nevertheless, there is still uncertainty around real estate markets.

While the logistics and residential sectors remain resilient and continue to rank highly on most investors' agendas, we remain cautious about retail and offices. Here we expect further divergence between prime and secondary stock within each sector, regarding both asset quality and micro-location. The German hotel market is starting to see higher demand from domestic tourism, although a full recovery is not yet on the cards.

Sector polarisation gradually eroding in the investment market

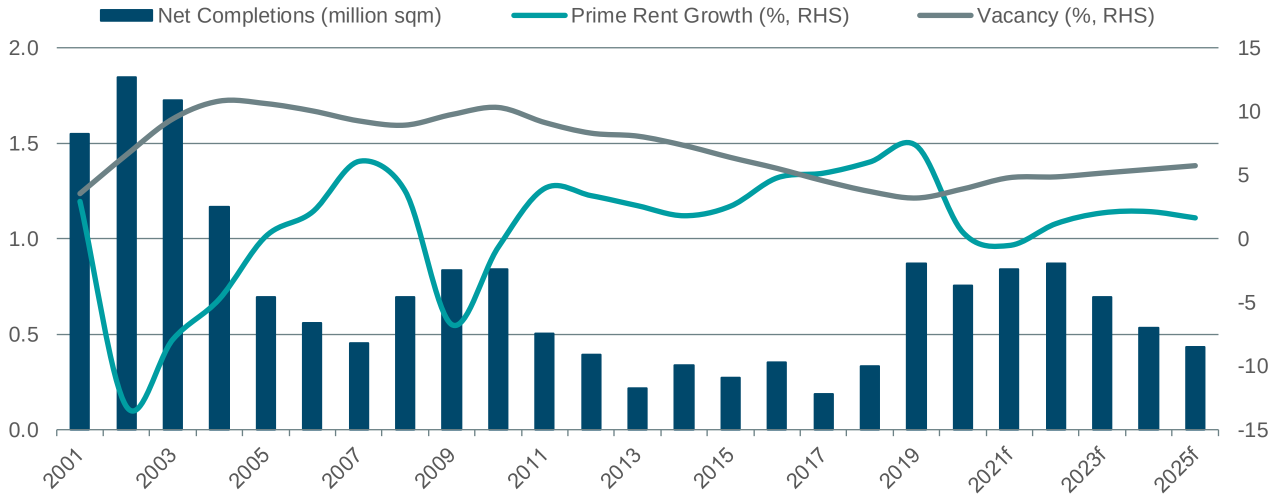
Throughout last year, there was a clear polarisation in investor sentiment towards different real estate sectors. This is gradually easing now. Given recent lockdowns and travel restrictions, the retail and hotel sectors were the clear losers in terms of sentiment and performance during the Covid-19 pandemic, while residential and logistics assets emerged as outperformers. Office properties were also disrupted, although occupier markets in Germany remained relatively stable.

[1] Bundesministerium für Gesundheit, July 2021 (full vacination)
[2] Desatis, July 2021
[3] GfK, Ifo Index, Eurostat, July 2021

Vacancy rates have only seen a moderate increase recent months, with Berlin, Stuttgart and Munich still standing below the 4% mark. Even in Frankfurt, a market with traditionally high vacancy, we expect vacant space to increase by only 100bps to around 8% by the end of this year, predominantly in inferior locations. Office rents haven't escaped the downswing unscathed, but on average we expect only a minor decrease in prime rents, with the top three German markets likely to retain their 2020 rent levels, before increasing again beyond 2021.

On a positive note, office transaction volumes in the second quarter were on the rise again – in absolute terms and as a share of total investments. This trend was led by a growing number of large transactions, showing revived investor interest. In general we remain cautious on the office sector, but we do see opportunities. It's still too early to fully understand all aspects of Covid-induced market change, particularly with regard to remote working, but we are optimistic regarding flexible, state-of-the-art office solutions in prime or emerging locations.

GERMAN TOP SEVEN OFFICE OCCUPIER MARKET



Source: DWS, Oxford Economics, June 2021. F = Forecast. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not indicative of future returns.

In addition to the gradually improving sentiment towards offices, hotels are also undergoing a recovery. The return of tourist demand should push occupancy rates higher, particularly for budget hotels in tourist destinations. This type of product, backed by strong operator covenants is re-emerging as an investment theme. Even select retail subsegments with more stable demand patterns, both from a tenant and consumer perspective, are receiving renewed investor attention. Although we are not recommending investments into retail yet, the sector polarisation is increasingly eroding, generally bringing investment themes, micro-locations and individual solutions or concepts to the fore.

Selective sales in outperforming residential and logistics

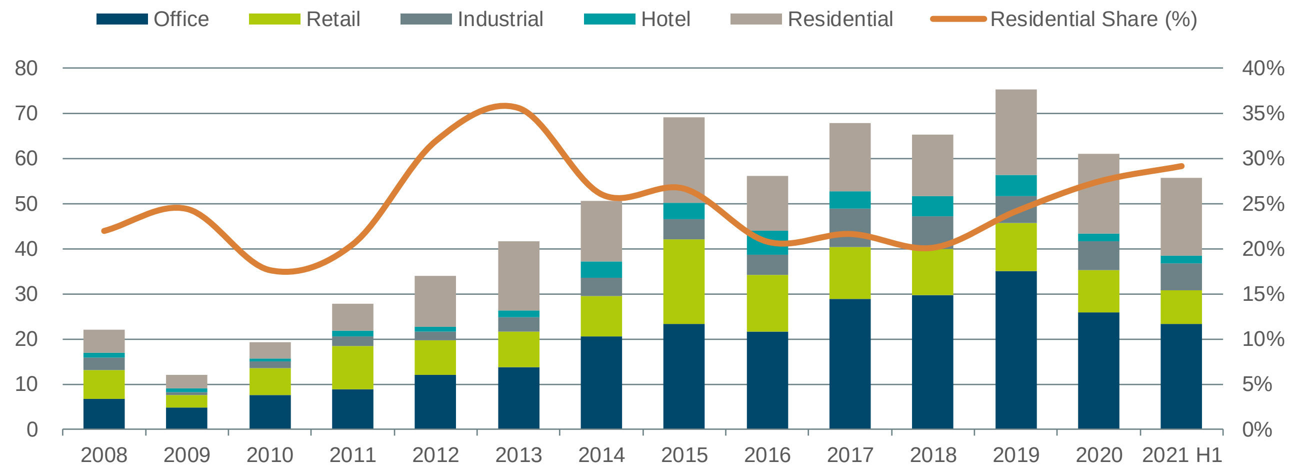
At the moment, residential investments rank highly on investors' agendas. Although an established investment sector in Germany, the share of residential transactions within total investment activity is increasing, reaching almost 30% in the first half of 2021. In line with that, pricing is increasingly sharp, a trend we expect to continue for some time. On the occupier side, demand and supply are still not fully balanced, leading to ongoing rent growth, especially in major agglomerations, where vacancy is virtually non-existent. Despite uncertainty around regulation and a gradual supply reaction, we expect rents to increase by more than 3% p.a. in Germany's top seven cities over the next decade. As a consequence, the residential sector remains our top performer.

While sales of long-let commodity office stock seem intuitive, disposal of residential or logistics assets is less obvious, especially since we expect these sectors to be the top performers in Germany. However, logistics supply is increasing, with stock under construction once again standing above four million square metres at mid-year 2021. For now, vacancy rates are still oscillating around the low 3% range at a national level,[4] indicating strong tenant demand and a balanced market.

We forecast prime logistics assets, including urban logistics, to achieve rent growth of 2% per annum on average over the next decade, well in excess of historical performance. Nonetheless, strong demand and subsequent rent growth might not apply to all sub-segments and micro-locations. While last mile locations at the edge of major agglomerations as well as e-commerce-linked assets remain sought after, corridor locations tilted towards the manufacturing industry or 3PLs might not always be first choice. Given the strong sector performance, disposal of older stock in these locations is advisable.

Moreover, new supply will likely constrain rent growth in the years ahead, making it harder to achieve return targets at current pricing. With ongoing yield compression, which reached 35 basis points in 2020 alone, and an expected additional 30 basis points in 2021, this target will be even more difficult to achieve.

TRANSACTION VOLUMES BY SECTOR (€BN)



Source: RCA, July 2021. 2021 H1 shows 12-month rolling total.

We have a particularly positive view on certain residential investment themes. Responsible residential investment, which combines ESG considerations with better affordability, is one of these. Well-connected commuter locations as well as key regional cities feature lower rental levels, while typically benefitting from positive socio-economic demand trends. Coming from a different starting level, stronger rent growth and above-average yield compression are pushing returns.

We also favour co-living opportunities across the life cycle. Shared space in flexible, service-oriented co-living concepts are well established for young tenant groups and going forward, not only do we expect the number of students and young professionals to increase, we also see a growing number of long-distance commuters and intra-European migrants looking for similar short-stay and flexible housing solutions in inner city locations.

In addition, elderly living is becoming more prominent in the field of co-living. Within the next decade, one in four people will be at retirement age. In addition to Europeans getting older and living in good health, they are also more affluent, spending more on housing, while being increasingly receptive to new senior housing solutions.[5] Some shared living concepts are still in their infancy, but we firmly believe they are gaining in importance.

And finally, as well as acquisitions, and in light of the emergence of new residential concepts, the disposal of older stock will become more important. The strong sentiment towards the sector in general presents an opportunity for portfolio optimisation by considering sales in economically and demographically less favourable regions.

[4] JLL, 2021 Q2
[5] ING, 2019, Oxford Economics 2021

Research & Strategy—Alternatives

OFFICE LOCATIONS:

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

Frankfurt
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

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

New York
875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

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

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

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

TEAM:

Global

Kevin White, CFA
Co-Head of Real Estate Research & Strategy

Simon Wallace
Co-Head of Real Estate Research & Strategy

Gianluca Minella
Head of Infrastructure Research

Americas

Brooks Wells
Head of Research, Americas

Liliana Diaconu, CFA
Office Research

Ross Adams
Industrial Research

Ryan DeFeo
Property Market Research

Ana Leon
Retail Research

Joseph Pecora, CFA
Apartment Research

Europe

Tom Francis
Property Market Research

Siena Golan
Property Market Research

Rosie Hunt
Property Market Research

Martin Lippmann
Property Market Research

Aizhan Meldebek
Infrastructure Research

Asia Pacific

Koichiro Obu
Head of Research & Strategy, Asia Pacific

Natasha Lee
Property Market Research

Seng-Hong Teng
Property Market Research

Hyunwoo Kim
Property Market Research

The authors

Simon Wallace
Co-Head of Real Estate Research & Strategy

Tom Francis
Property Market Research

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Source: DWS Investment GmbH

IMPORTANT INFORMATION

For North America:

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

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

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

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

An investment in real assets 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.

War, terrorism, economic uncertainty, trade disputes, public health crises (including the recent pandemic spread of the novel coronavirus) and related geopolitical events could lead to increased market volatility, disruption to U.S. and world economies and markets and may have significant adverse effects on the global real estate markets.

For Investors in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the [document – may need to identify] contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For EMEA, APAC & LATAM:

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they operate their business activities. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS Group, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

The document was not produced, reviewed or edited by any research department within DWS and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other legal entities of DWS or their departments including research departments.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this document. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/ or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document. Past performance is not guarantee of future results.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information. All third party data are copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of any investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to any transaction.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. DWS or persons associated with it may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or