

EUROPEAN LOGISTICS: RISKS & OPPORTUNITIES

Second Quarter 2022

IN A NUTSHELL

- The European logistics sector has gone from strength to strength. Recent performance has been exceptional with both rental growth and total returns well-exceeding other property sectors.
- Our latest research view indicates a more selective and cautious view towards logistics given record-low yields and potential challenges to occupier fundamentals. After a run of yield compression and rental growth, we are aware of growing risks that could dampen future performance in some markets.
- We continue to favour the supply-constrained urban logistics sector and see the best opportunities in core+ and value-add strategies. Niche logistics segments such as cold storage, appear more insulated to supply and demand risks.

Logistics performance has been nothing short of exceptional

European logistics take-up reached its highest ever level over 2021, eroding vacancy rates to record lows and placing upward pressure on rental levels. Rental growth has been strongest in urban locations, averaging close to 4% per annum over the last decade, compared to 3.1% and 2.3% for residential and office, respectively.¹

Investor demand for European logistics has never been greater. Investment volumes reached a new high in 2021 and the sector accounted for circa 20% of total European real estate investment, a proportion typically closer to 12%.² With liquidity at an all-time high, logistics yields have fallen sharply, sitting just 25 basis points above offices at the end of 2021.³

Our outlook for European logistics remains solid, particularly in the short-term, but at current pricing parts of the logistics sector now look fully valued. In addition, we see growing risks to future performance and are therefore increasingly cautious around certain parts of the sector. This report will highlight three key risks that influence our investment strategies.

1.1 Supply Risk: Short and longer-term considerations

Short-term supply risks

With prime values in Europe doubling since the start of 2015 and low market vacancy, there is clear development incentive. As a result, logistics construction has soared in recent years. Ten years ago, logistics construction was running at about 2% of stock, by 2021 this figure had trebled at roughly 6% of total stock (see exhibit 1).⁴

¹ DWS, January 2022. Past performance is not a reliable indicator of future returns.

² RCA, March 2022

³ DWS, January 2022

⁴ PMA, CBRE, March 2022

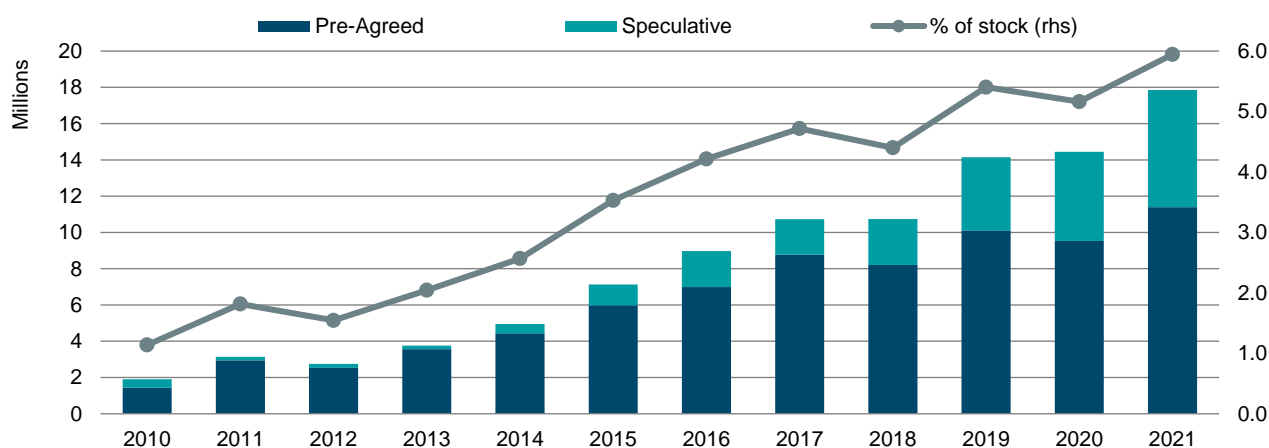
The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services. There may be references in this document which do not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

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

Marketing Material. In EMEA for Professional Clients (MiFID Directive 2014/65/EU Annex II) only; no distribution to private/retail customers. In Switzerland for Qualified Investors (art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA)). In APAC for institutional investors only. Australia and New Zealand: For Wholesale Investors only. **In the Americas for Institutional Client and Registered Rep use only, not for public viewing or distribution.** Israel: For Qualified Clients (Israeli Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 5755-1995). *For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda.

Much of this supply has been built on a pre-agreed basis, but the volume of speculative development has risen sharply, equating to 36% of all delivered space over 2021, compared to roughly 20% between 2015 and 2019.⁴ Despite low vacancy, significant levels of development elevate short-term supply risks, particularly in corridor locations in the CEE countries, particularly Poland, parts of Spain (Madrid) and the UK (Midlands).

EXHIBIT 1: EUROPEAN LOGISTICS COMPLETIONS (MILLIONS SQM)



Source: PMA, CBRE, April 2022

Includes Belgium, Czech Republic, France, Germany, Italy, Netherlands, Poland, Spain & UK

Long-term supply risks: Limited barriers to development in certain locations

In logistics, a supply picture can be very volatile and factors such as land availability and planning process influence a market's supply risk. Lille, for example, has seen significant spikes in vacancy in recent years, peaking at 11% in 2020.⁵ Whilst much of this new supply has since been absorbed, land availability remains high and limited barriers to development imply future vacancy remain a threat.

There are barriers to development such as rising building costs driven by inflationary pressures, alongside growing ESG considerations, such as biodiversity. However, given the level of occupier and investor appetite, speculative development is expected to remain elevated in the short to medium term, particularly in those locations with fewer barriers to supply.

In recent years, exceptionally strong levels of demand have more than absorbed the higher levels of speculative supply. However, should supply continue to increase or demand moderate over the coming years, we could see a risk of higher vacancy rates.

1.2 Demand: Is it sustainable at current levels?

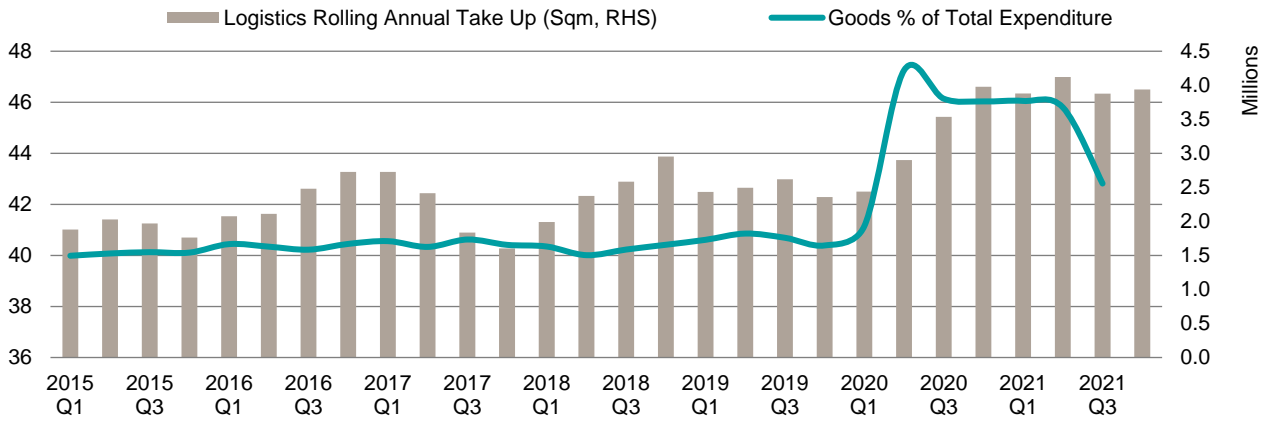
Over the pandemic, logistics demand was exacerbated by the strong growth in goods consumption as consumers replaced spending on services, such as eating out and holidays, with the purchase of physical items. As restrictions have loosened, a rebound in service-based consumption has been evident and the proportion of expenditure on goods has dropped back (see exhibit 2).⁶ As this rebalancing continues, logistics demand could revert to more average levels of take up.

⁵ CBRE, March 2022

⁶ Eurostat, March 2022

In addition, growing concerns around inflation and the cost of living is placing further pressure on consumer spending as household incomes are squeezed. The retail sector accounts for almost half of logistics take up, hence a decline in consumer spending would likely impact logistics demand.

EXHIBIT 2: UK PERSONAL CONSUMPTION OF GOODS AND LOGISTICS DEMAND

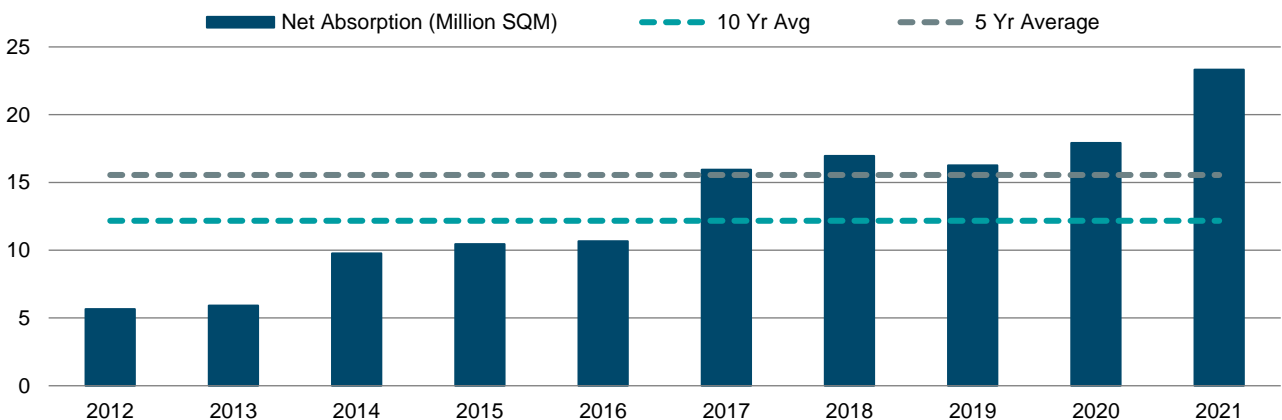


Source: CBRE, ONS February 2022

E-commerce firms have aggressively expanded their European logistics footprint in recent years. In markets such as Spain and Italy, this will likely continue as e-commerce continues to grow from a relatively low base. However, in more mature markets, this heightened level of new demand is unlikely to prove sustainable longer-term. Indeed, in the United Kingdom, Amazon now plan to moderate the level of future logistics floorspace. In addition, we could see the release of older, legacy units back onto the market, thereby increasing the supply of secondary logistics units.⁷

In 2021, we believe that logistics net absorption could have been artificially elevated due to a temporary shift in consumer spending on goods. If net absorption would revert back to the 5-year average, the much higher levels of (speculative) supply could pose a risk and create upward pressure on vacancy rates.

EXHIBIT 3: EUROPEAN LOGISTICS NET ABSORPTION



Source: CBRE, February 2022

⁷ CoStar, January 2022

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 International GmbH.

1.3 Tenant Risk: Thin profit margins and increasing costs

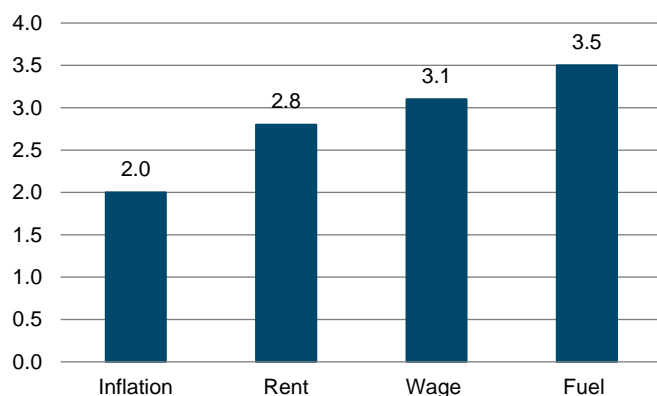
The third-party logistics (3PL) sector is an extremely important component of the European logistics market, typically accounting for over a third of total logistics take up. However, the market is highly fragmented and extremely competitive, with smaller local and regional 3PLs consistently accounting for more than 70% of total 3PL take up.⁸

The largest 3PL occupiers in Europe, typically international in nature, recorded an average net profit margin of 6% over 2020. Comparatively, average net profit margins for more regional distribution firms were below 4%.⁹ Smaller 3PLs tend to have lower credit ratings and are judged to be more prone to corporate failure and pose higher tenant risk.

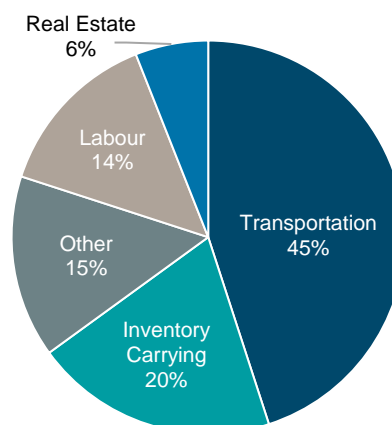
Costs associated with logistics operations have risen significantly over recent years. Looking forward, wage, rent and fuel increases are expected to outstrip inflation over the coming five years, squeezing logistics operating margins further.⁹ However, real estate typically accounts for only 6% of total logistics costs, a very small proportion compared to both labour (14%) and transport (45%).¹⁰

Considering notable growth in fuel costs, location selection for 3PL tenants will likely increase in importance and we expect firms will look to locate closer to end consumer to save on transport costs. This is an important factor when considering our logistics strategy around urban and Last Hour / Last Mile logistics.

EXHIBIT 4 & 5: COST GROWTH 2020-2025 (GERMANY, %) & TYPICAL LOGISTICS COSTS



Source: DWS, Oxford Economics, February 2022



Source: Savills, ISG Supply Chain Practice, February 2022

What does this mean for our investment decisions?

Logistics yields are now so low that at current pricing we find that some investors are having to underwrite exceptionally strong future rental growth to meet return targets. Whilst we expect continued elevated rates of rental growth over the next five years, it is unlikely very high level of growth can be sustained over the longer term, particularly in corridor logistics where we see short and long-term risks to supply. However, urban logistics in supply-constrained markets will likely continue to outperform and we also see opportunities for outperformance in niche segments such as cold storage.

⁸ PMA, February 2022

⁹ Income Analytics, February 2022

¹⁰ Savills, ISG Supply Chain Practice, February 2022

Urban Logistics

Urban logistics concerns warehouse stock within close proximity to a city's main ring road, used to service 'Last Mile' deliveries straight to the consumer. The sector is not new to our strategic calls given the typically supply-constrained nature of urban locations and competing, often higher value, land uses. Our most recent Research house view assumes average rental growth of 3.2% p.a. over the 10-year forecast, compared to 2.0% in corridor locations.¹¹

The structural drivers and additional rental growth in this segment mean lower yields could be more justifiable. However, accessing core standing assets is often challenging and it is difficult to build scale. With that in mind, we see the best opportunities in a value add or active asset management approach, such as the repositioning of older light industrial stock, or in some cases the conversion of redundant retail space to last mile or last hour logistics.

In Europe's largest cities such as London, Paris and Berlin, we see solid opportunities for Last Hour logistics, given exceptionally constrained supply and large population catchments within the wider metropolitan areas. In smaller markets, such as Birmingham or Cologne, Last Mile' or 'urban' stock will likely offer greater opportunity for outperformance over Last Hour given the relatively higher availability of development land outside of these city's main ring roads and lower competition from other asset classes. In both cases, tenant covenant is of importance and we should look to target larger 3PLs with solid profit margins.

Cold Storage

Another part of the logistics market that we think looks attractive is the cold storage sector, supported by solid demand and supply fundamentals. Fueled by consumer preferences for convenience, growth in online grocery in Core Europe is supporting demand for cold storage, particularly in markets such as UK, Belgium and the Netherlands. More recently, the storage of medical products has been a driving force behind temperature-controlled storage. We would expect the strongest demand for this type of product in Europe's largest manufacturers of pharmaceuticals, namely France, Italy and Germany.

Given the nature of the cold storage sector and the relatively high build costs, the segment is more insulated to the risks of over-supply that we see for regular dry storage in corridor markets. In addition, given often extensive tenant-borne investment in the fit-out of the building, cold storage tenants tend to be "Stickier" and typically commit to longer leases at higher rental levels.

Given the supply constrained nature of the market, we anticipate rental growth to be at least in line with prime corridor logistics over the forecast period, with the potential to outperform given the supply constrained nature of the market. While the previous yield premium over traditional corridor logistics has narrowed in recent years, yield convergence is anticipated to continue as institutional capital recognises the long-term potential of this part of the market.

Summary

The logistics sector has enjoyed an exceptionally strong run and at present fundamentals behind the sector remain solid. However, there are risks facing the sector, most notably around supply, the sustainability of demand and the credit worthiness of 3PL tenants. With that in mind, we now view the European logistics market with more caution. We still have a positive view on urban logistics, although this is now more of a tactical play and we see greater opportunities in moving toward active strategies, taking on development and (re)letting risk. In addition, niche logistics, in particular cold storage, offers the potential for outperformance vs. dry storage in corridor markets over the coming years.

¹¹ DWS, December 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

Global Co-Head of Real Estate Research

Simon Wallace

Global Co-Head of Real Estate Research

Gianluca Minella

Head of Infrastructure Research

Americas

Brooks Wells

Head of Research, Americas

Liliana Diaconu, CFA

Office Research

Ross Adams

Industrial Research

Joseph Pecora, CFA

Apartment Research

Ana Leon

Retail Research

Sharim Sohail

Property Market Research

Europe

Ruben Bos, CFA

Property Market Research

Tom Francis

Property Market Research

Siena Golan

Property Market Research

Rosie Hunt

Property Market Research

Carsten Lieser

Property Market Research

Martin Lippmann

Property Market Research

Asia Pacific

Koichiro Obu

Head of Real Estate Research, Asia Pacific

Natasha Lee

Property Market Research

Hyunwoo Kim

Property Market Research

Seng-Hong Teng

Property Market Research

The authors



Simon Wallace
Global Co-Head of Real Estate Research



Rosie Hunt
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 International 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, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

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 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 do business. The DWS legal entities offering products or services are specified in the relevant documentation. 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 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 investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models, and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness, or fairness of such information. All third-party data is 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. Detailed information on risks is contained in the relevant offering documents.

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 does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, including the United States, where such distribution, publication, availability, or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

© 2022 DWS International GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated by the Financial Conduct Authority (Reference number 429806).

© 2022 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

© 2022 DWS Investments Hong Kong Limited

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 International GmbH.

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2022 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

© 2022 DWS Investments Australia Limited

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

For investors in Taiwan: This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed, and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction, or transmission of the contents, irrespective of the form, is not permitted.

© 2022 DWS Group GmbH & Co. KGaA. All rights reserved. (4/22) 089332_1

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 International GmbH.