

Iberia Real Estate Strategic Outlook

Third Quarter 2022

IN A NUTSHELL

- Slowing economic growth and higher borrowing costs are likely to start a period of real estate price correction across Europe.
 - We remain positive on Spanish residential, although regulation poses a risk in some locations. Regional cities like Valencia offer attractive, affordable investment options. Social housing strategy through partnerships with local authorities can also provide stable returns as well as social benefits.
 - Strong growth in the over 70-year-old age cohort and foreign retirement population supports investment in the assisted living sector. We also see opportunities in the student housing sector due to the internationalisation and modernisation of higher education.
-

Across Europe, the first half of 2022 has been defined by rapidly rising inflation, weakening economic growth and changes to the geopolitical landscape. During the immediate post-Covid recovery, Southern Europe benefited from a resurgence in tourism, with visitor numbers in Spain looking particularly strong¹. Domestic demand, however, has been more muted. Employment data and short-term indicators point to robust momentum, yet the prospect of a Eurozone recession this winter, likely further monetary tightening, and the threat of persistently high energy inflation are all leaving their mark on the economic outlook.

Repricing of the real estate market

The Iberian real estate market is expected to face headwinds such as slowing economic growth and higher financing costs. Local government bond yields have increased sharply in a volatile fixed-income market and as a result, like elsewhere in Europe, a price correction in the Iberian real estate market is likely underway. At present, evidence of any price movement is largely anecdotal, but over the next 18 months we expect yields to move out across almost all sectors, and prime values to decline by around 10-15%. Property yields are now predicted to peak much earlier in the cycle than we had previously forecast, before edging lower again in the medium term as the economy recovers and investment activity returns. Towards the back end of the ten-year forecast period, our outlook for property yields remains largely unchanged.

Affordable and social residential our top picks

We remain positive on Spanish residential, and the sector is expected to perform well relative to the wider Pan-European residential market. Market fundamentals have strengthened in recent months and rents continue their upward trajectory. However, regulation remains a major concern in some markets, hence we continue to see the attraction of affordable residential. Within

¹ Oxford Economics, August 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. In 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. In 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.

this segment, we also see investment opportunities within larger regional markets – such as Malaga and Valencia – where the rental offering is still in an early stage of development, while good economic and demographic fundamentals support new developments. Looking ahead, we expect the strongest rental growth in Valencia and Barcelona.

The appeal of affordable housing is somewhat replicated in the social housing segment. Our experience in Spain has shown that through partnerships with local authorities in cities like Madrid, private equity real estate can play an important part in the provision of low-cost housing, while also meeting investor risk-return requirements. The appeal of social housing is clear: stable, government-backed and often CPI-linked income, as well as obvious social benefits.

Senior living and student housing attractive sectors

Operational residential assets such as senior living and student housing typically offer a 100-175 basis point yield premium over multi-family residential, with the size of the premium generally dependent on micro location, maturity of the market and security of rental income. At the same time, these sectors have many of the same safe-haven characteristics as the private residential sector, including low vacancy, continuous demand, and a lack of good-quality stock. The higher entry yield in part reflects additional operational and alternative use risk, but the combination of a higher income return and strong rental growth could result in attractive total returns for institutional investors.

The senior living market in Spain is set to benefit from rising tenant demand, given an ageing population. The number of people aged over 65 is expected to grow by nearly 40% over the next 15 years, compared to just a 5% increase in the overall population², while Spain also benefits from a relatively wealthy foreign retirement population. Our focus is on coastal markets such as Alicante, Barcelona, and Malaga, based on lifestyle preferences of both domestic and foreign retirees.

Purpose-built student accommodation (PBSA) is also an attractive sector, driven by growth in the domestic student population and by increasing international student mobility. PBSA is expected to perform well throughout the economic cycle, as student enrolment is typically inversely related to the economy: The tougher the job market, the more likely the decision to study. Spain and Portugal have seen growing demand for PBSA due to the modernisation and internationalisation of higher education, yet the student housing market remains immature and fragmented. Both countries have a lack of good-quality student accommodation, and current stock is often outdated and unsatisfactory.

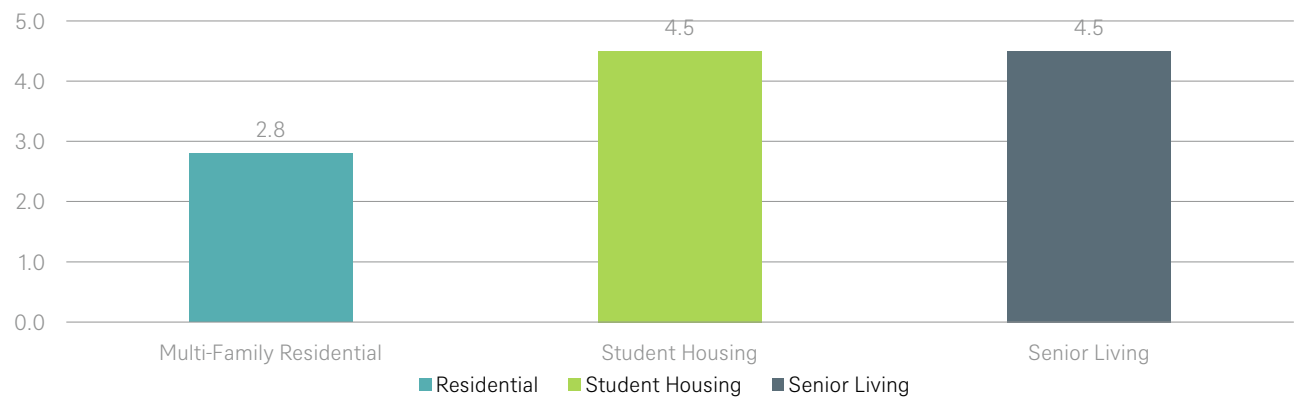
The number of PBSA beds relative to the full-time student population – also known as the provision rate – is estimated to be around 7% in Barcelona and Madrid, around four times lower than in mature markets such as London and Amsterdam. Provision rates in Spanish regional cities such as Valencia and in the major Portuguese cities are even below 5%³. Given demand from both domestically mobile and international students, a case can be made for both a mid-range and high-end student housing investment strategy.

² Eurostat, August 2022

³ DWS, Savills and Bonard, 2021

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.

Prime Net Initial Yield (%), 2021



Source: DWS, Savills, July 2022.

Urban logistics and Next Generation office

Logistics also appears to be resilient in the face of economic disruption, and with vacancy across most logistics markets running at record low levels, the short-term outlook remains one of rising rents. However, the sector is not without its difficulties: low-margin distribution businesses today are facing a wave of challenges, from rising costs to falling retail sales. Corridor logistics in Madrid also looks exposed to risks around supply, with few barriers to development and an already elevated vacancy rate. Barcelona on the other hand looks more likely to outperform, given exceptionally tight vacancy and limited availability of land, alongside its position as a port city.

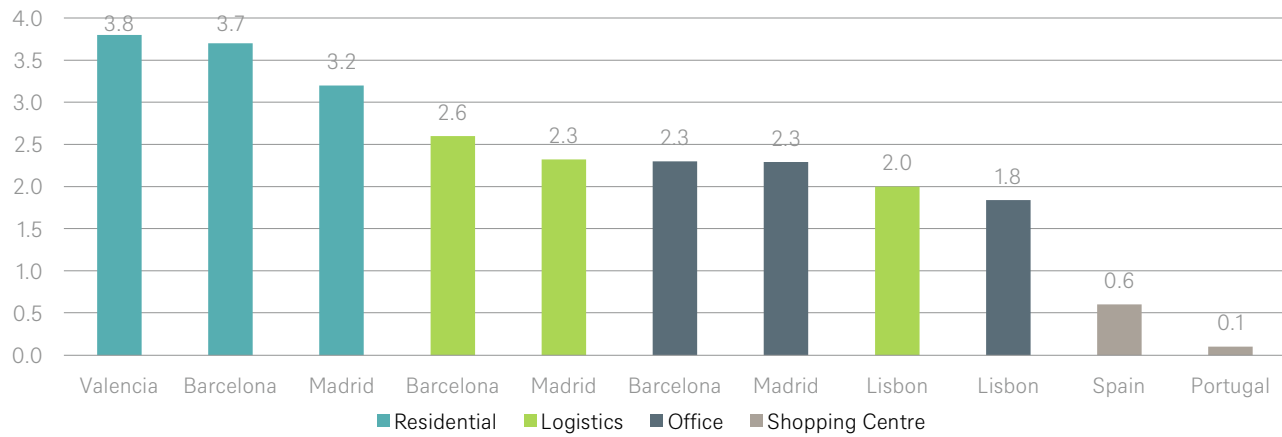
Coming from a low base, further growth in online sales could support demand for urban logistics more than elsewhere in Europe, where e-commerce supply chains are already established. Third-party logistics providers are likely to prefer locations closer to large cities given rising fuel costs, while there may also be an ESG angle to an urban logistics strategy in Spain, as occupiers in urban areas are increasingly turning to solar energy to power delivery fleets as a way to reduce air pollution. We would expect last mile logistics schemes in Barcelona to outperform Madrid, given the lower availability of supply within an hours' drive time and limited land availability.

The office sector looks to be less resilient. The market looks vulnerable to voids, with uncertainty over future demand in case of job losses. However, across many Iberian cities the availability of grade A space remains low. Therefore, we are cautious on acquiring prime office stock but could see opportunities to invest in well located, grade B stock, with a plan to refurbish into Next Generation space. We prefer Madrid over Barcelona in the near term, with the potential for rent growth in Barcelona held back by high new supply figures.

Iberian retail suffered greatly during the pandemic, although the sector is likely to recover some of this decline over the next five years. Regionally dominant and grocery-anchored retail in particular is expected to bounce back after next year, although most shopping centres in Iberia face vacancy risk and erosion of the local retailer base, and in general we expect rent growth to be weak over the ten-year horizon.

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.

Prime Rent Growth Forecast (2022-2031f, % p.a.)



Source: DWS, July 2022. Note: F= forecast. 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.

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.

Real Estate Research Team

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

Teams

Global

Kevin White, CFA
Global Co-Head of Real Estate Research

Simon Wallace
Global Co-Head of Real Estate 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

AUTHORS



Simon Wallace
Global Co-Head of Real Estate Research



Ruben Bos, CFA
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

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. (9/22) 081347_4