Marketing Material*

THE CASE FOR EUROPEAN RESIDENTIAL

Stability, access and outperformance

IN A NUTSHELL

_ Thanks to its resilience, European residential was one of the best performing sectors throughout last year

_ Given strong market fundamentals, we expect rent growth in the private rented sector to remain a significant outperformer, showing the strongest growth rates of Europe's four main real estate sectors

_ Investor sentiment is expected to remain strong, both pushing transaction volumes up and prime yields further down. As a consequence, additional markets are expected to be unlocked for institutional investments, with some subsegments profiting in particular from changing structural demands

European residential expected to outperform

For a number of years, the residential rented sector has been rising up the agenda of many institutional investors. Not only has the sector recorded some of the highest returns in Europe over recent years, the perception of residential as a safe-haven investment was once again reinforced throughout the 2020 pandemic.

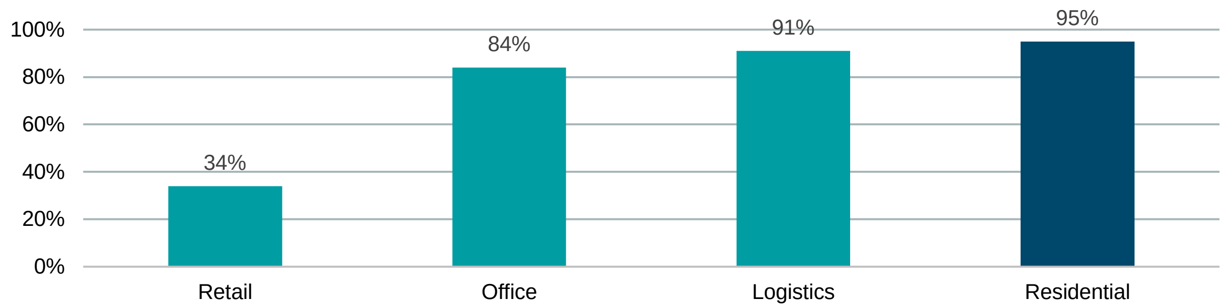
With strong fundementals and an increasing allocation of capital, our latest real estate forecasts show the residential sector providing some of the highest risk-adjusted return in Europe over the coming decade. Furthermore, with new residential markets opening up to institutional investment, the ability to access the market is also increasing, and with this we strongly believe the sector is well set to become a major part of the real estate universe.

Resilience throughout the cycle

Despite the economic fallout as a result of the Covid-19 pandemic, European residential markets have proven to be resilient over the last year, demonstrating the defensive characteristics of the residential sector. Whilst the picture undoubtedly varies by market, rent collection rates in the European residential sector have typically held up throughout last year, retaining pre-crisis levels of well above 90%. By comparison, commercial assets saw much larger falls in rent collection, particularly across the troubled retail and hotel segments, which have been severely impacted by national lockdowns, travel bans and ongoing social distancing measures.[1]

[1] Morgan Stanley, Listed companies, 2020

EXHIBIT 1: RENT COLLECTION RATES – SUMMER 2020

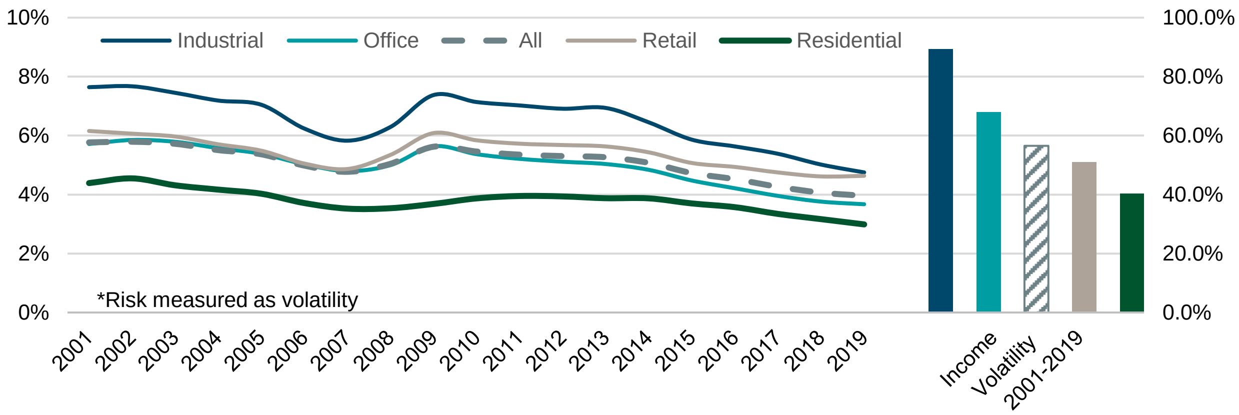


Source: Morgan Stanley, listed companies, August 2020

Positive risk-return profile supporting investor sentiment

The residential market has historically outperformed established commercial real estate sectors. Whilst income returns have typically been lower in comparison to other market sectors, income streams have generally proven more stable, while strong capital value growth has led to an outperformance of total returns. Indeed, according to MSCI, over the period 2001-2019 the residential sector was one of the top performing sectors with regards to total returns, second only to logistics.

EXHIBIT 2: INCOME RETURN & RISK*



Source: DWS, MSCI, February 2021

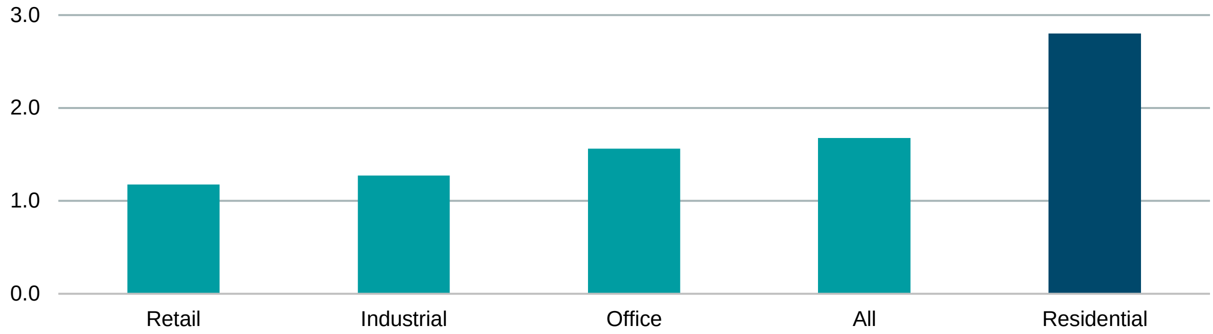
In addition, the residential sector has typically scored well on a risk-return basis, mainly thanks to a low level of income volatility and strong capital value growth.

Indeed, given typically greater tenant diversification in multi-let residential assets, the private rented sector offers investors a higher quality of income, alongside lower risk of default. The risk of tenant default in single-let retail, office or logistics assets tend to be higher, especially in times of economic stress. With regards to the volatility of income returns, residential investments have proven more stable, often outperforming the other commercial real estate sectors over the last two decades.[2] Given this and the sectors close correlation with inflation, it has been argued that residential has a number of (index-linked) bond like characteristics.

Past performance is not indicative of future returns

[2] MSCI, February 2021

EXHIBIT 3: RISK-RETURN-RATIO (2001-2019)



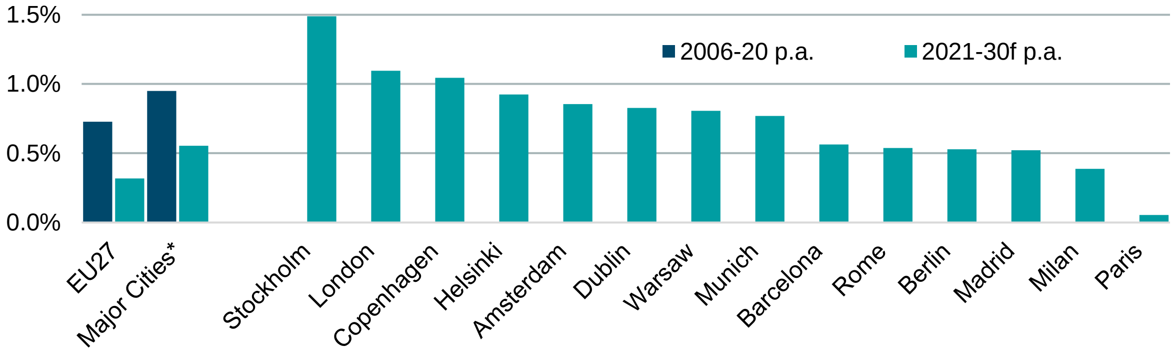
Source: MSCI, February 2021

Urbanisation and smaller households continue to fuel PRS

The private rented residential (PRS) market looks well positioned for growth, supported by positive long-term demand and supply fundamentals. On the demand side, whilst Europe's overall population growth is moderating, we anticipate major European cities will continue to grow by an average of 0.3% p.a. over the next decade.[3]

Importantly for the residential sector, however, in the younger, more mobile age groups, population growth is expected to exceed this average. Across key European cities, for example, the age band 20-24 years is forecast to increase by almost 0.9% p.a. over the same time period. Urbanisation, alongside intra-European migration, plays an important role here with major cities and economically sound regions continuing to attract students and young professionals.

EXHIBIT 4: HOUSEHOLD GROWTH 2021-30



Source: Oxford Economics, February 2021
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.

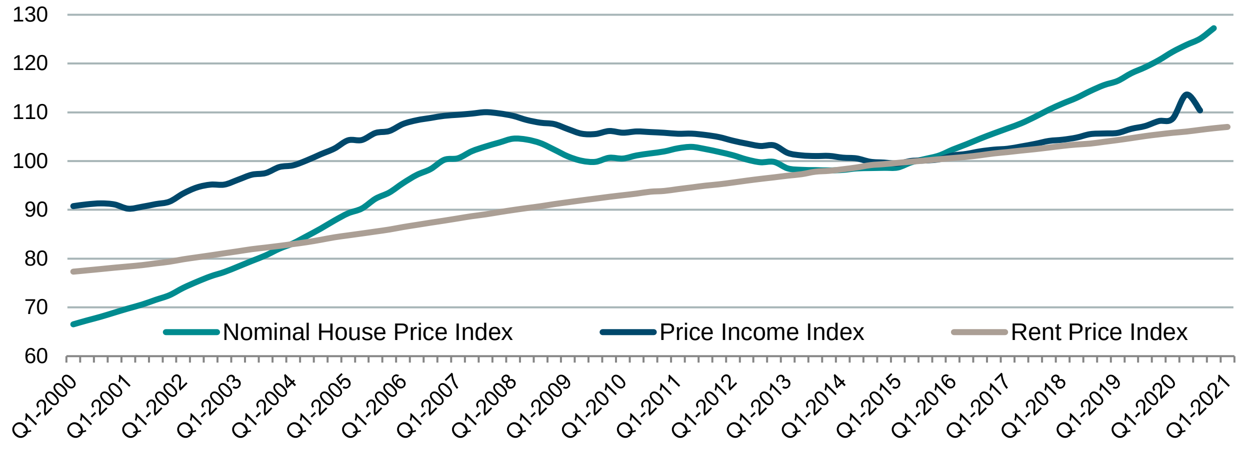
In total the number of households in major European cities is forecast to increase by an average of 0.6% p.a. over the next decade. Whilst this does represent a slow down on the previous decade, which saw around 1% growth p.a., the increase remains notable. The strongest levels of household growth are expected to be recorded in the Nordic cities and London, with growth rates almost double the European average. Alongside urbanisation, a key driver of total household growth is a decline in the number of people per household. Indeed, the trend of singularisation, which sees individuals choose to live on their own, is increasing across many European markets.

[3] Oxford Economics, February 2021

Falling owner occupation reflecting changing demand and necessities

Over the last decade owner occupation has been in decline. Whilst this trend has been relatively subdued on a European level, some markets such as the Nordics, the United Kingdom and Spain, have recorded fairly notable declines in ownership rates.[4] Falling owner occupation has been driven by a number of factors, such as a greater desire for flexibility.

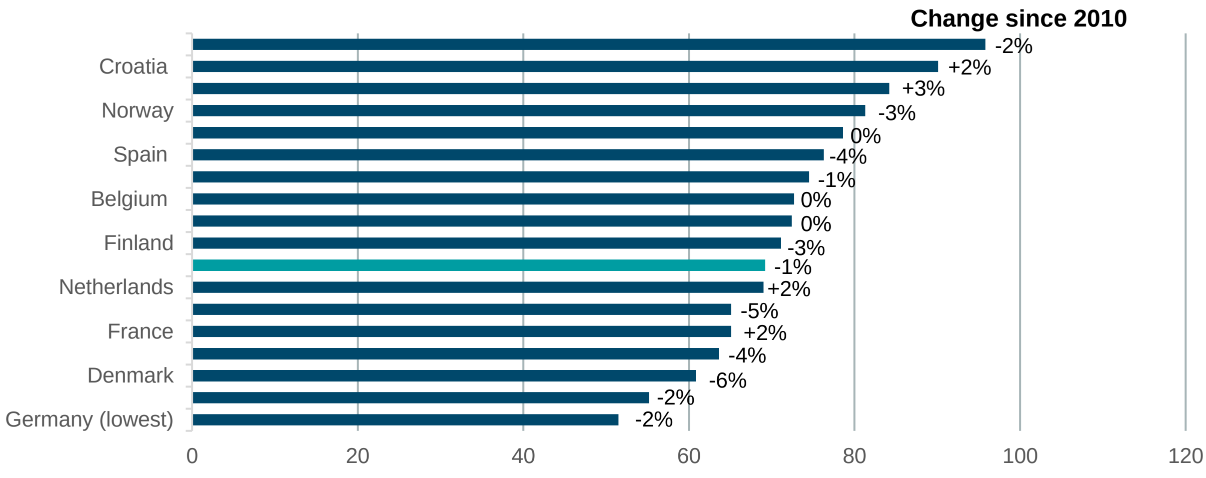
EXHIBIT 5: RENT & PRICE INDICES – EUROZONE (Q4/2020)



Source: OECD, April 2021

However, perhaps most importantly, purchase affordability constraints, as a result of rising house prices and significantly higher deposit requirements, have led to more people renting for longer. This trend is particularly evident in markets such as the United Kingdom, the German top-7 cities and the Dutch Randstad region, where house prices have increased significantly and are now well above the pre-GFC level.[5] As such, owner occupation is typically lower in major cities compared to the national average.

EXHIBIT 6: OWNERSHIP RATIOS 2019



Source: Eurostat, February 2021

[4] Eurostat, February 2021

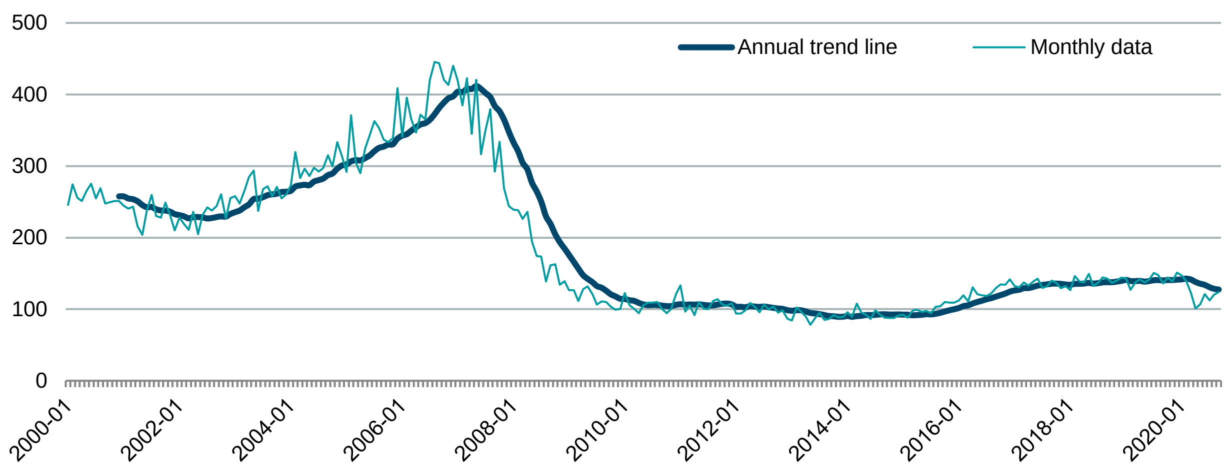
[5] Hypostat, November 2020, OECD February 2021y

Persistent gap in supply and demand increases pressure on rental markets

Across many European cities, residential supply has failed to keep pace with demand. Indeed, with regards to multifamily, permissions for new development halved in the wake of the GFC and despite government efforts in many countries, development has remained at relatively low levels for the last decade. The pandemic has only exacerbated this issue, with the number of new permissions falling over 2020.[6] As a result, we anticipate a dampening effect on residential completions in the next 2-3 years, further widening this imbalance in supply and demand.

One notable exception to this development picture, however, has been the Nordic markets. Copenhagen, Stockholm and Helsinki all recorded an increase in supply from 2016, reaching a peak in 2018/2019.[7] Nevertheless, supply has since plateaued and recent permissions data suggests there will be a drop back in completions. Elsewhere, Warsaw and the French markets of Paris, Lyon and Marseille have similarly recorded relatively higher levels of completions in recent years. This was also the case for German markets, where supply gradually edged up, especially in the city of Berlin. By comparison, in the Spanish cities of Madrid and Barcelona, as well as London and Birmingham in the United Kingdom or the Randstad region in the Netherlands, recent development has increased as well, but generally remained more constrained compared to previous peaks.

EXHIBIT 7: MULTI-FAMILY PERMISSIONS – EU27



Source: Eurostat, February 2021

With regards to existing residential supply, the picture varies significantly across Europe. The United Kingdom, Ireland or Poland stand out as countries with lower levels of residential stock relative to their populations.[8] As such, this could indicate additional demand for dwelling stock and greater room for the average household to become smaller. Therefore, these markets could benefit from stronger household formation, although influencing factors like cultural habits or the average age of a population could limit this trend.

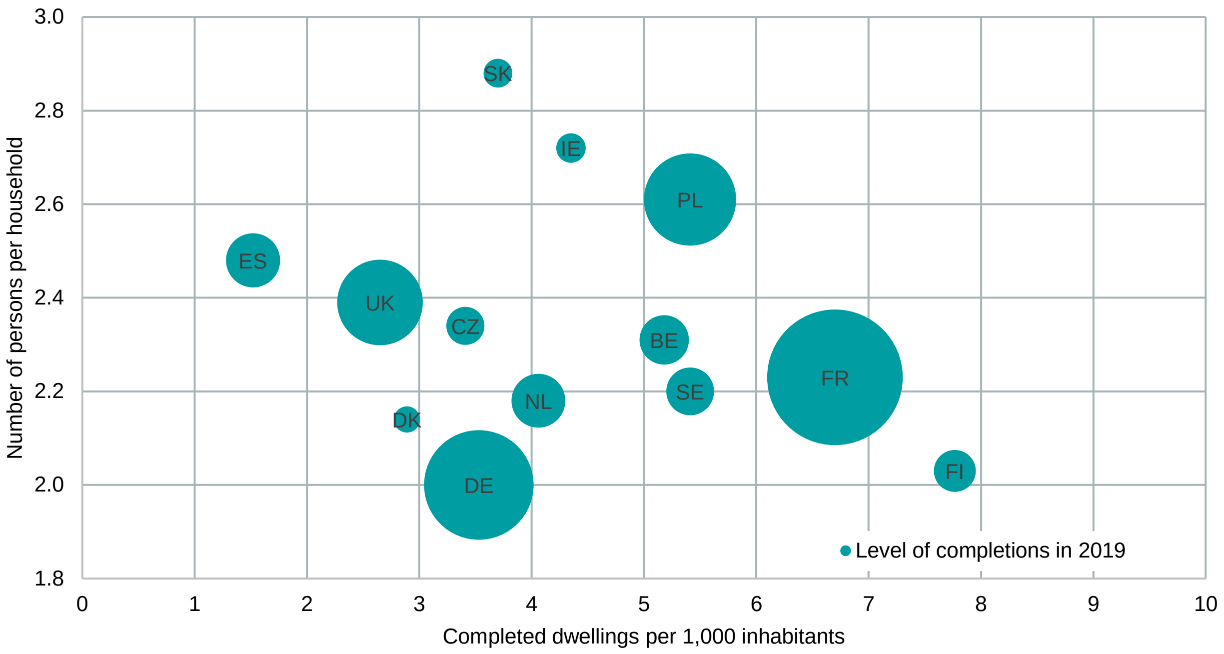
On the other hand, France or Germany have a much higher existing supply to population ratio, suggesting lower numbers of people per household and advanced singularisation. As such, these markets could be more limited when it comes to future demand growth. However, as the case of Spain suggests, the number of second homes could distort this analysis, as the average number of people per household is above the European average here as well.[9] At a city level, however,

[6] Eurostat, February 2021
[7] Statistics Finland, SCB, Statbank, February 2021
[8] Deloitte, July 2020
[9] Oxford Economics, April 2021

housing stock is often more constrained relative to total population, despite smaller household sizes. Hence, this indicator has also limitations when analyzing residential market vacancy at a city level.

Capacity constraints in the construction industry, alongside scarcity of available land plots and often lengthy planning processes, are further constraints on residential supply. As such, given ongoing population growth and solid demand, on the whole the European market is still characterized by a notable demand-supply imbalance.

EXHIBIT 8: COMPLETIONS & STOCK – SELECTED COUNTRIES



Source: DWS, Deloitte, July 2020, Oxford Economics, April 2021

In both Germany and the Netherlands, for example, available stock has trended down by around 80 basis points over the last decade. As such, vacancy is exceptionally low, standing at 2.8% in Germany and 1.5% in the Netherlands. Furthermore, the supply picture is often more constrained in major agglomerations. In cities such as Munich and Frankfurt, for example, market-active vacancy is virtually non-existent at well below 1%.[10]

A comparison to commercial real estate sectors highlights the extremely tight supply picture in the residential sector. On average, across Europe office vacancy rates stand at around 7%, whilst European logistics vacancy averages just over 5%.[11]

[10] CBS, empirica, November 2020

[11] Property Market Analysis, DWS, December 2020

Positive rent growth despite the pandemic

Given the persistent supply-demand imbalances across European cities, many markets have recorded strong rental growth over recent years. Even in 2020, in the midst of the pandemic, our latest estimates show prime rents growing by an average of 0.5% across Europe's major markets.[12]

Whilst the pandemic did have a negative impact in some markets, much of the rental decline was confined to the luxury end of the market, with inner city, centrally located stock tending to underperform the wider city. Indeed, we saw residential vacancy in some city centre submarkets increase sharply over 2020 as short-term holiday and corporate lets were put back onto the rental market. Landlords were forced to temporarily lower their rent expectations in order to attract tenants and as such, some submarkets, such as Westminster in Central London, recorded annual rental decline of more than 10%.[13]

However, with solid market fundamentals and a supply-demand imbalance prevailing in all of the aforementioned markets, we anticipate any slowdown in rent growth will be temporary, as healthy rental growth accelerates over the coming years.

On the back of an expected economic recovery, falling unemployment and an aging demographic, many European markets are anticipated to record healthy household disposable income growth over the coming years[14], further supporting residential rental growth. With prime rent growth forecast to average more than 3% per annum over the next decade, the European residential sector is expected to outperform all other major commercial real estate sectors.[15]

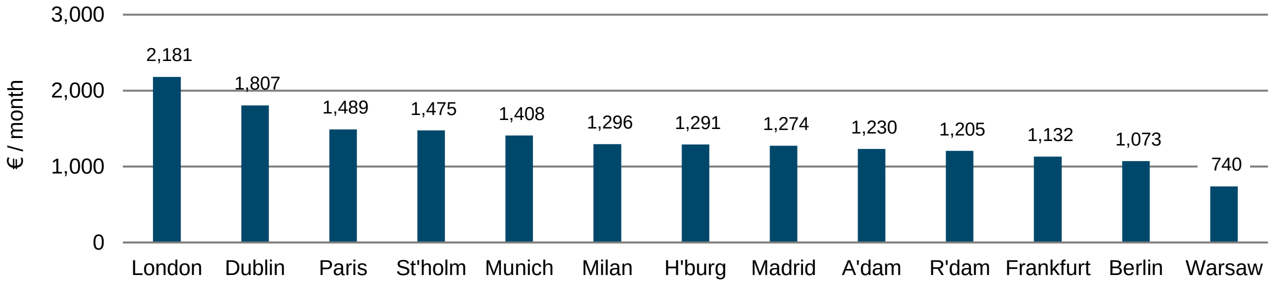
Increasing affordability constraints trigger tighter regulation

Over the last decade, affordability constraints have become increasingly evident in mid-market residential schemes. Whilst there is no set definition of what is deemed affordable, and it can vary significantly by market, rental levels that exceed 40% of a household's disposable income are generally considered unaffordable, whilst rents at 30% of a households disposable income, affordable.

That being said, affluent regions in Europe with average disposable incomes well above the European average, such as London or Dublin, could see higher affordability thresholds, given potentially higher savings ratios and more static costs for daily needs.

Nevertheless, evidence would suggest that rental stock has been becoming increasingly expensive and new build assets can often well exceed the 40% affordability cap. Given governments have thus far failed to incentivise developers to increase supply to required levels, regulation is increasingly seen as a solution to ease pressure in the rental market.

EXHIBIT 9: ESTIMATED AFFORDABLE RENT LEVEL



Source: DWS, Oxford Economics, December 2020

[12] DWS, December 2020
[13] Zoopla, February 2021
[14] Oxford Economics, April 2021
[15] DWS, December 2020

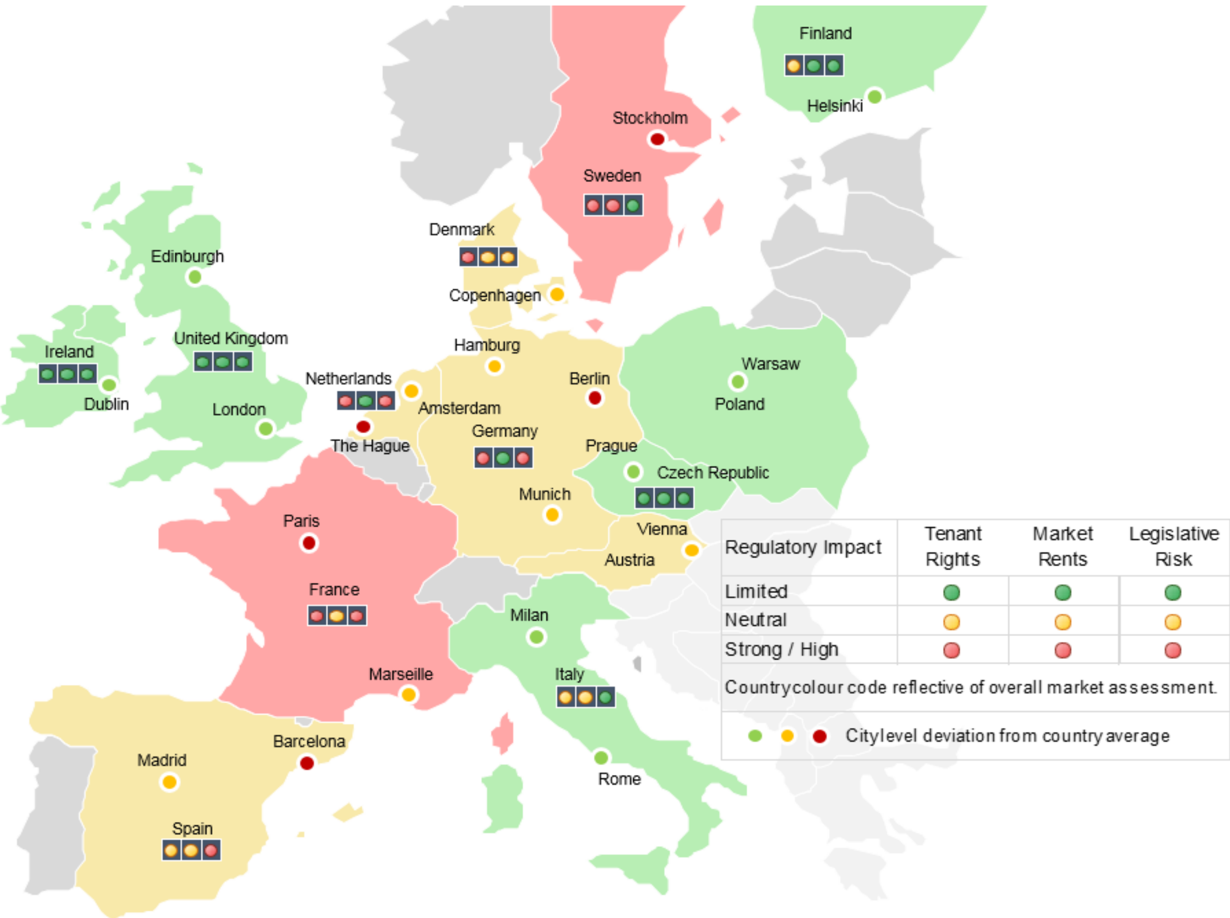
Regulation focused on investor restrictions – double-edged sword?

Across Europe, tighter rental regulation laws are becoming increasingly evident. In Germany, a rent control was introduced in 2015, allowing federal states to limit rent growth in supply-constrained markets. Following this, the controversial "rent cap" was introduced in Berlin in 2020, capping rents in around 1.5 million dwelling units or almost 80% of existing stock.[16] The German federal high court declared the local law unconstitutional for formal reasons in April 2021, as it violates national law.[17] However, the ruling did not concern fundamental matters, hence it could resurface latter this year, especially with both, the German general election and state election for the senate of Berlin being scheduled for autumn 2021.

But tighter residential regulation is a hot topic elsewhere as well. In the Netherlands, municipalities have been granted the right to set up local rental regulation, whilst it was decided to increase transfer tax and pause rent indexation in 2021.[18] Furthermore, the Catalan regional government also implemented rent regulation in 2020.[19] Tighter regulation is generally a stabilizing element in local markets, helping to prevent excesses on the opportunistic end of the investment market. Whilst examples from the Nordics show that markets with a clear set of transparent and enforceable rules can work, if regulation is too erratic and restrictive, it can limit much needed supply and disrupt necessary and balanced rental growth.

EXHIBIT 10: EUROPEAN RESIDENTIAL REGULATION

Landlord perspective for new built, less regulated market segments and regions



Source: DWS, CBRE, Newsec, official websites, 2021

[16] Senatsverwaltung für Stadtentwicklung und Wohnen Berlin, RIWIS, 2020
[17] Senatsverwaltung für Stadtentwicklung und Wohnen Berlin, April 2021
[18] Rubens Capital Partners, February 2021
[19] DOGC, September 2020

Going forward, we expect more national and local governments may introduce rental regulations. A further regulatory tightening could happen in markets like Germany or the Netherlands, while the role out of existing regulation is likely in additional French cities. While this could mean tighter returns for some investors in the short term and higher obstacles for new investors to enter local markets, it shouldn't prevent experienced, core, long-term investors with a selective market approach from successfully operating in this environment.

EXHIBIT 11: EUROPEAN RESIDENTIAL REGULATION

Landlord perspective for new built, less regulated market segments and regions

Market	Tenant Rights			Market Rents			Legislative Risk	Overall Assessment
	Tenancy Length	Termination	Eviction	Initial Rent Setting	Rent Cap	Rental Growth		
UK	+++			+++			+	7
	+	+	+	+	+	+		
Ireland	++			++			+	5
	+	+	0	+	+	0		
Czech Republic	++			++			+	5
	+	+	0	+	+	0		
Finland	0			++			+	3
	-	+	0	+	+	0		
Italy	+			+			+	3
	0	+	0	+	+	-		
Spain	+			+			-	1
	0	+	0	+	+	-		
Denmark	---			0			+	-2
	-	-	-	+	0	-		
Nether-lands	---			++			-	-2
	-	-	-	+	+	0		
Germany	---			++			-	-2
	-	-	-	+	+	0		
France	--			0			-	-3
	0	-	-	+	0	-		
Sweden	---			--			+	-4
	-	-	-	-	0	-		
Reading Example: *- (negative) 0 (neutral) + (positive) summed up in each subcategory and for the overall assessment*	Typical tenancy agreement for institutional landlords.	Possibility to terminate contract.	Eviction rights for landlords	Ability to freely set rent level	Rent caps in place	Ability to freely increase rents	Potential regulatory changes	
	- = unlimited 0 = in between + = 1-2 years	- = strict / automatic renewal 0 = limited + = automatic termination	- = lengthy process 0 = process + = easy eviction	- = strict rules 0 = average + = no limitations	- = strict cap 0 = soft cap / vaguely defined + = no limitations	- = strict indexation 0 = ample indexation + = no limitations	- = risk of further regulation + = no major changes expected	

Source: DWS, CBRE, Newsec, official websites, 2021

Ongoing institutionalisation is driving European residential markets

Over the last decade, PRS investment volumes have increased significantly and the residential investor base has not only broadened, but widened considerably as well. Over 2020, PRS transaction volumes accounted for 20% of the European market, increasing from 10% in 2010. Over the same time period absolute volumes have quadrupled to total more than €50 billion.[20] In recent years, the most notable increases in investment volumes have been recorded in maturing PRS markets such as the United Kingdom and Spain.

[20] Real Capital Analytics, February 2021

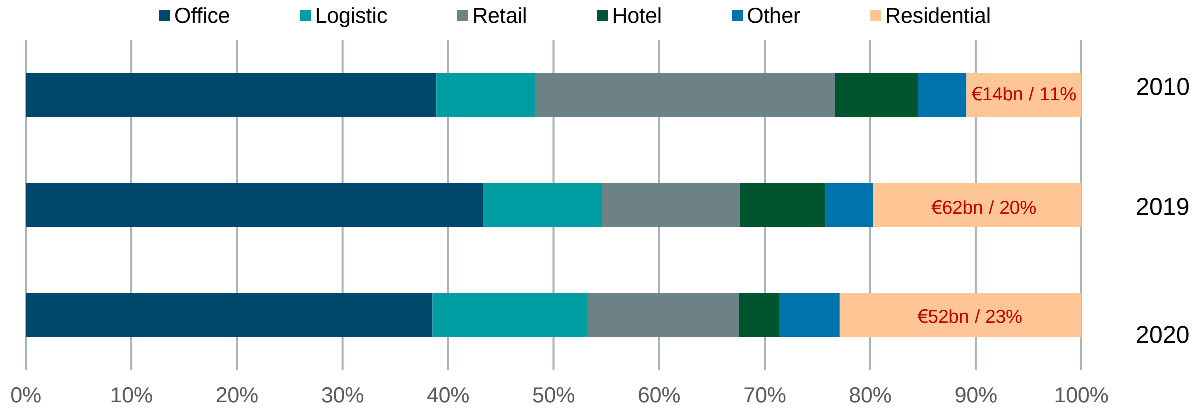
In these markets, the investor and operator landscape is becoming increasingly professional and efficient, leading to easier market access and falling gross to net income ratio. In established PRS markets such as Germany or the Netherlands, however, where transaction volumes have been high for a number of years, access to product is becoming increasingly difficult.

Looking forward, we see the emergence of new residential markets with strong opportunities for growth. For example, whilst competition is still limited and transaction volumes remain relatively low, markets in Central Europe for example are beginning to see increasing levels of interest, particularly from overseas investors, as obstacles to market entrance are eroding. Unlike more mature residential markets, owner occupation is still dominant and the PRS segment only evolving. At the moment, it is still focussed on major hubs and mainly confined to smaller units in central locations, which are predominantly targeting young and mobile age groups.

In addition, across most markets in Europe, investment opportunities for existing stock are scarce and investors tend to focus on new built assets. This is also having a positive effect on sustainability and ESG topics, as both increasing investor awareness, but also a general government push into this direction improve the quality of new developments. Especially in less mature and emerging residential markets, such as Central Europe, Spain or Ireland, forward purchases and forward funding agreements currently dominate.

However, the "investible residential universe" is also growing on a European level. New developments of multifamily homes are often snapped up by institutional funds, while institutional holdings, not always professionally managed, are gradually transferred into the realm of professional investment vehicles. With residential investments only accounting for 6% of the INREV ODCE fund universe, market estimates by MSCI suggest an investible universe of around 18%, which clearly indicates room for further growth as well.

EXHIBIT 12: EUROPEAN TRANSACTION VOLUME BY SECTOR



Source: Real Capital Analytics, February 2021

Investor interest expected to push yields lower

The average prime yield for European residential currently sits at just below 3%. Having seen a slight compression during 2020, the residential sector has some of the lowest yields of all real estate sectors. Despite this, investor interest has never been higher, with the sector topping the latest INREV Investment Intentions Survey.[21]

[21] INREV, January 2021

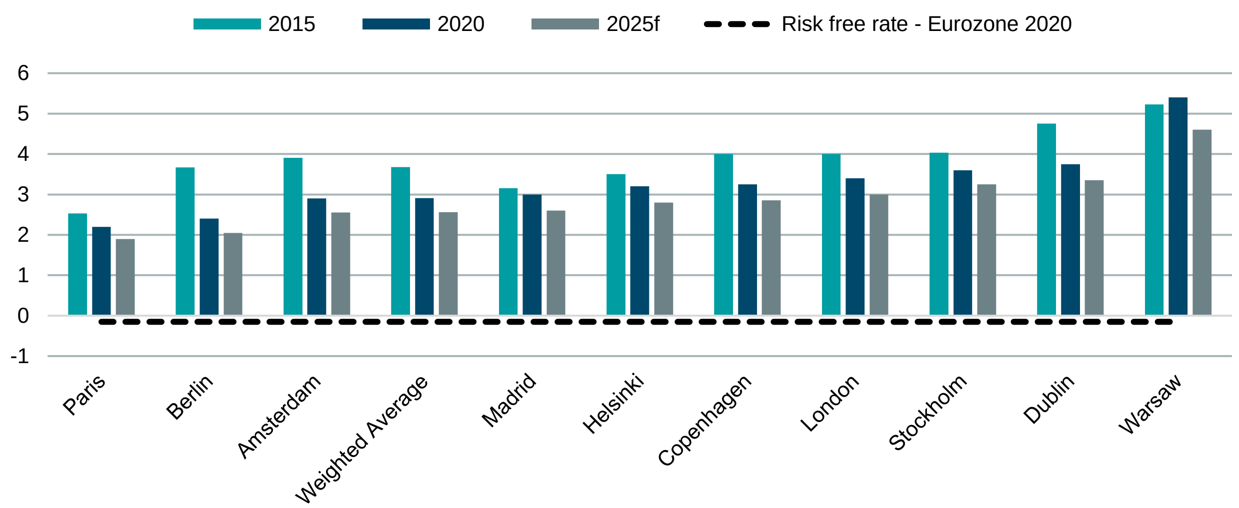
In addition to an ongoing yield premium over the risk-free rate, benefitting the whole of the real estate sector, the combination of income stability and expected value growth are likely pushing residential up the investor hierarchy. While we have heard some describe the residential sector as having bond-like characteristics due to its stability of income, given our expected level of rental growth, this seems too modest a comparison.

Furthermore, with structural concerns also weighing on the office and retail sectors, which have historically formed the largest parts of many real estate portfolios, we suspect many investors see residential as an attractive area to reweight their portfolio. Given the growth of institutional quality stock across Europe, this is now a viable option.

In addition, pricing is far from uniform across the continent. For those investors looking for a higher yield, markets such as the United Kingdom, Ireland and the Nordics are tending to offer a yield premium of around 100 basis points over Core Europe.

Given this level of investor interest, we continue to see yield compression adding to capital value growth, with prime yields falling an estimated 40 basis points in the five years to the end of 2025.

EXHIBIT 13: YIELD LEVELS ACROSS MARKETS



Source: DWS, December 2020
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.

Underlying trends make the difference

As previously mentioned, the European residential sector is currently high on the agenda of many institutional investors. Indeed, during times of market stress the defensive and resilient character of the residential sector often comes to light, with the recent Covid-19 crisis proving no exception. Established markets, such as the Netherlands, Germany and the Nordics, are perceived as more stable and provide existing, cash-producing stock, albeit returns are often lower in these markets.

On the other hand, in maturing markets such as Spain, the United Kingdom and Ireland, pricing is attractive and stock can be accessed at higher yields. However, given increasing competition in these markets, the “window of opportunity” for excess returns is beginning to close. Looking forward, our overall outlook for the European residential sector is positive in both absolute terms and relative to other market sectors. Nevertheless, we believe there are specific residential sub-sectors that will likely outperform.

Affordable residential in growing metros

The first of these outperforming sub-sectors is affordable residential. As previously mentioned, the affordability of rental stock is a growing concern across many metropolitan areas. Having been underserved by the institutional market in the past, we now see this as an important part of the residential sector from both a risk-return and an ESG perspective.

While the expected return from this investment isn't substantially higher than the market average, we believe that this part of the market is particularly defensive, showing high occupancy levels throughout the cycle. With rental levels positioned at affordable levels, these assets cater for a broad range of potential occupiers, while reducing the risk to tenants during periods of economic stress. When positioned in economically sound agglomerations, with positive population growth, excellent connectivity and attractive local amenities, the appeal of these units is clear.

Although the pandemic has further shifted the focus on occupier demand to less central locations, the major cities are still expected to experience population growth across both inner and outer districts. Within this strategy we therefore see demand for both smaller, more centrally located units, as well as larger housing in commuter locations – more on this in the next section.

While it would be wrong to underwrite a growth in rent well in advance of that of disposable income – which would clearly erode affordability – over the long-term this suggests that affordability should be maintained if rents progress at a pace slightly in advance of inflation. Coupled with a high and stable occupancy, as well as an increasing appetite from institutional investors, this part of the market looks well positioned for future performance.

Commuter locations benefitting from COVID-induced market changes

In particular we favour well-connected commuter locations, situated within the first ring around major cities. Examples of such locations include Maidenhead to the west of London, Oranienburg north of Berlin or Getafe in the first ring around Madrid. In recent years, demand in commuter locations has been strong, benefitting from suburbanisation. Often coming off a lower rent level, these locations are often deemed more affordable and looking forward we anticipate growing residential space requirements, triggered by the Covid-19 pandemic, will continue to drive demand.

Indeed, given the expected continuation of at least part time home-working and therefore more infrequent trips to the office, renters may increasingly seek larger residential accommodation while accepting fewer but longer commuting times. Furthermore, anticipated investments into infrastructure projects such as broadband and social infrastructure, as well as family friendly environments further increase the attractiveness of these commuter locations. Given increasing demand from both tenants and investors alike, alongside lower rental levels, we anticipate rental outperformance in commuter locations. In addition, we expect lower entry pricing could well lead to above average yield compression.

Maturing Co-living segment

Whilst yet to reach full market maturity, we have a positive outlook on the co-living sector. Although this sub-sector undoubtedly experienced some challenges during the Covid-19 pandemic, the long-growth potential is still intact, especially in the light of resurfacing migration trends and persistent urbanisation.

At the moment, the concept of service oriented, shared residential spaces are focused primarily at "students and starters" and therefore, whilst many schemes are established, occupancy rates are often volatile. However, going forward, we expect more diverse offerings are likely to encourage the expansion of the co-living tenant base into other age bands, such as elderly living, thereby providing a more stable income stream.

What's more, the co-living sector could not only see additional demand on the investment side, given generally higher entry yields. It could also attract more tenant demand from contingency workers or long-distance commuters. As work pattern and commuting habits are also changing, tenants possibly require even less space for the shorter amount of time they spend in their secondary residence during the workweek.

Conclusion: positive outlook and further potential

The residential rented sector has proved its resilience during the current economic downturn and looking forward, our outlook for the sector remains very positive. Indeed, given the continuation of urbanisation in major cities, against an often constrained supply picture, we expect the European residential market to achieve the strongest rental growth of the four main sectors we forecast. In addition, falling home ownership rates and growing disposable household income further support the case for continued rent growth.

With regards to the investment market, investor sentiment in the residential sector is strong, and with an ever growing and increasingly international investor base, we anticipate transaction volumes will continue to increase beyond just the established markets, thus opening up new investment opportunities. At the same time, prime yields are trending down in the mid-term, further strengthening the outperformance of our selective investment themes.

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
kevin.white@dws.com

Simon Wallace
Co-Head of Real Estate Research & Strategy
simon.wallace@dws.com

Gianluca Minella
Head of Infrastructure Research
gianluca.minella@dws.com

Americas

Brooks Wells
Head of Research, Americas
brooks.wells@dws.com

Liliana Diaconu, CFA
Office Research
liliana.diaconu@dws.com

Ross Adams
Industrial Research
ross.adams@dws.com

Ryan DeFeo
Property Market Research
ryan-c.defeo@dws.com

Ana Leon
Retail Research
ana.leon@dws.com

Joseph Pecora, CFA
Apartment Research
joseph.pecora@dws.com

Europe

Tom Francis
Property Market Research
tom.francis@dws.com

Siena Golan
Property Market Research
siena.golan@dws.com

Rosie Hunt
Property Market Research
rosie.hunt@dws.com

Martin Lippmann
Property Market Research
martin.lippmann@dws.com

Florian van-Kann
Property Market Research
florian.van-kann@dws.com

Aizhan Meldebek
Infrastructure Research
aizhan.meldebek@dws.com

Asia Pacific

Koichiro Obu
Head of Research & Strategy, Asia Pacific
koichiro-a.obu@dws.com

Natasha Lee
Property Market Research
natasha-j.lee@dws.com

Seng-Hong Teng
Property Market Research
seng-hong.teng@dws.com

Hyunwoo Kim
Property Market Research
hyunwoo.kim@dws.com

The authors

Simon Wallace

Co-Head of Real Estate Research & Strategy

Martin Lippmann

Research Analyst

Important information

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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.

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Non-performing real estate investment may require substantial workout negotiations and/ or restructuring. Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

Investments in Real Estate are subject to various risks, including but not limited to the following:
_ Adverse changes in economic conditions including changes in the financial conditions of tenants, buyer and sellers, changes in the availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses;
_ Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
_ Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;
_ Changes in the relative popularity of property types and locations;
_ Risks and operating problems arising out of the presence of certain construction materials; and
_ Currency / exchange rate risks where the investments are denominated in a currency other than the investor's home currency.

An investment in real estate involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

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.

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