Alternatives Research
Real Estate

February 2021

Marketing Material*

FRANCE REAL ESTATE STRATEGIC OUTLOOK

First Quarter

IN A NUTSHELL

_ Following a difficult year, the French real estate market is now well-positioned for recovery.

_ We remain positive on logistics, particularly urban locations around Paris, and we feel there is a strong case for residential.

_ The outlook for offices is less certain, although pricing for core product is holding up. The disruption to the retail sector continues, with the sector vulnerable to further price corrections.

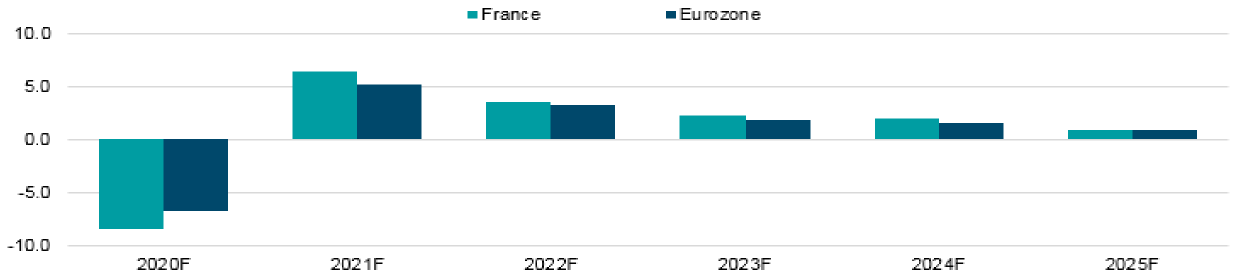
Following a difficult year, the French real estate market is now well-positioned for recovery. Logistics remains the top-performing sector, particularly in urban locations around Paris. The outlook for offices is increasingly uncertain in view of weak demand from occupiers, although pricing for core product is holding up. The disruption to the retail sector continues and high streets are increasingly vulnerable to further price corrections. Residential has performed well throughout the Covid-19 pandemic and we believe that demand is likely to remain strong over the next five years.

Rise in infections causing further lockdowns

With an easing of restrictions, third quarter GDP rebounded more quickly than expected as a result of strong household spending.[1] However, the growing number of infections in the fourth quarter and at the start of 2021 has resulted in further restrictions and a contraction in economic growth. Overall, GDP is likely to have fallen by more than 8% in 2020.[2]

[1] Oxford Economics, December 2020
[2] DWS, December 2020

GDP Growth (% P.A.)



Sources: DWS, Oxford Economics, December 2020. F = Forecast. There is no guarantee the forecasts shown will materialise. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Neither past performance nor any forecast are reliable indicators of future returns.

The rollout of vaccinations in France has been relatively slow, but is set to accelerate in early 2021. Assuming a successful rollout over the course of the year, an economic recovery should ensue. Over the next five years, we forecast economic growth in France to outperform the Eurozone average.

Weak office occupier market

While there are clear implications for the retail and logistics sectors as a result of Covid-19, it is still unclear how the office sector will be affected. In France, working from home was not the norm before last year, but this has quickly changed due to the pandemic. The fact that unions are negotiating with employers to ensure that working from home in the future will not be at the cost of employees' wellbeing and finances suggests that a change in the way of working is already foreseen.[3]

In view of this trend, the economic downturn in 2020, and ongoing restrictions to reduce infection rates, occupiers are exercising caution. Take-up in Lille, Lyon, and Paris for the first three quarters of 2020 was only around half that of the corresponding period in 2019.[4]

As a result, availability has increased. In Paris, the most marked rise in vacancy has been in La Défense, where the weakness in occupier demand has coincided with an influx of new completions. As supply and demand rebalance, we are expecting to see several years of rental decline in this submarket. The CBD market entered the crisis with historically low levels of vacancy and, despite an uptick in availability, we feel any rental correction in 2021 is likely to be short-lived.

Of the regional markets, we believe Marseille is likely to see the most limited rental correction as a result of Covid-19. This is partly because the market has not experienced significant rental growth in recent years, and rents are still relatively affordable. Constrained growth in supply over the next five years should also support rents.

The Lyon office market is boosted by a stronger regional economy than Lille and Marseille, but a high level of completions in 2020-21 is likely to dampen short-term rental growth.

High street values start to correct

The bounceback in retail spending when restrictions were eased in the third quarter of 2020 bodes well for a strong recovery in 2021. However, an increasing proportion of spend is likely to go through online channels, with the closure of physical stores in 2020 forcing an acceleration in sales diversion.

High street retail has been relatively resilient to the wider disruption within the sector until this year. In the second quarter of 2020, prime yields for high street assets in Paris moved out for the first time since 2011.[5] This is partly due to the fall

[3] Le Figaro, September 2020
[4] CBRE, December 2020
[5] CBRE, Q3 2020

in tourist numbers caused by Covid-19, but is also likely to be the start of a longer-term trend as in-store sales are eroded by the growth in online sales. Our forecast is therefore for retail to underperform over the next five years while values correct.

Logistics pricing reaches new highs

The logistics sector has benefitted from continued investor interest over the past year in anticipation of strong rental growth as a result of a structural shift towards online retail. Prime yields have now fallen below 4.00% – a historical low.[6] The low interest rate environment may support some further yield compression over the next three years but we expect the rate of compression to slow.

Paris and Lyon are the top-performing markets in our forecasts due to the strength of demand for new space and relatively constrained supply. Rental growth in Lille is likely to be limited by the extent of new completions expected in the next two years.

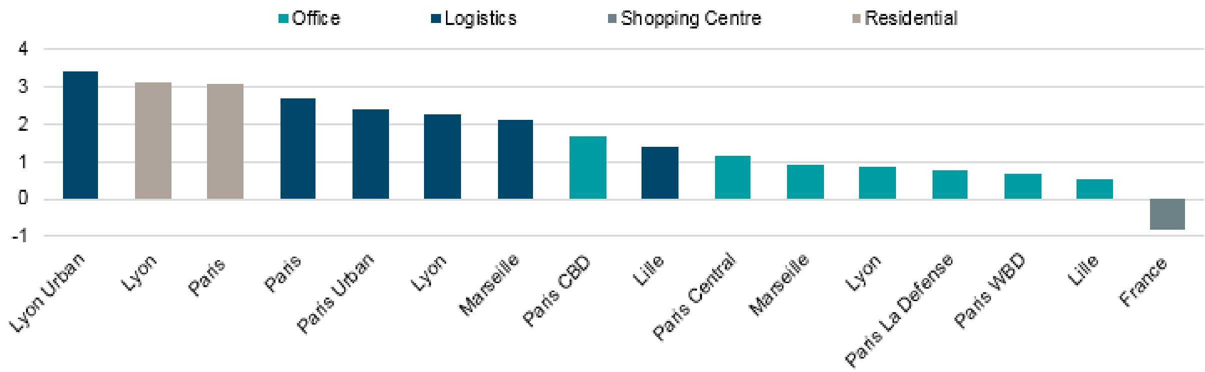
Potential in residential

We see an increasing focus on the private rented residential sector. The sector is becoming increasingly investable in France, although compared to the United Kingdom and Germany, there is still relatively little institutionally owned stock and ownership is fragmented. New housing construction has slowed over 2020 and this could support stronger value growth in the coming years.

The most favourable dynamics are in Paris, where a higher concentration of young professionals creates a natural demand pool for rental stock, and supply is constrained. In 2020 apartment prices in the capital are expected to have grown by around 6%.[7] We expect rental growth to have slowed in 2020, but would anticipate a swift recovery, with annual growth of over 3% from 2022 to 2025.[8]

In Lyon, we also expect strong rental growth of almost 3% per annum over the next 10 years due to a buoyant local economy and steady levels of new completions.

Prime Rent Growth by Sector (% P.A., 2021-25F)



Source: DWS, December 2020. F = Foecast. There is no guarantee the forecasts shown will materialise. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Forecasts are not reliable indicators of future returns.

Overall, we see the most attractive opportunities in the logistics and residential sectors this year. With yields still at low levels and uncertainty remaining around demand, our approach to office acquisition is likely to be more selective.

[6] CBRE, Q3 2020
[7] Notaires de France, October 2020
[8] DWS, December 2020

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

Important Information

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.

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 US and world economies and markets and may have significant adverse effects on the global real estate markets.

This marketing communication is intended for professional clients only.

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 regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.
This document may not be reproduced or circulated without DWS written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.
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.

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

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.

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.

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.

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.