

A photograph of a modern, multi-story glass skyscraper at night. The building's facade is illuminated from within, creating a warm glow that contrasts with the dark exterior. The glass reflects the surrounding environment, and the building's sharp angles and lines are emphasized by the lighting. The image is set against a dark background, making the building stand out.

August 2018 / Research Report

EUROPE REAL ESTATE STRATEGIC OUTLOOK

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1 / Executive Summary

The European real estate market remains in good health. Trailing return indicators are running well above history while occupier fundamentals outside of the retail sector are buoyant. Despite growing unease about the state of the global economy and worries about Brexit, economic data has on the whole remained fairly robust. Lead indicators are positive, jobs are being created and the short-term outlook for GDP growth across much of Europe is still well above history.

Supported by a further acceleration in occupier demand, and few signs of a significant pick-up in development, we have on the whole revised up our outlook for rental growth over the next five years. However, as was the case six months ago, the outlook is frontloaded and with prime yields nearing a floor, total return will almost certainly be lower over the next five years when compared to the exceptionally high levels we've witnessed over recent years.

As ever, Europe remains a diversified market, with differing outlooks by city, country and sector. At the sector level we continue to favour logistics over office and retail. While we caution against the belief that all logistics assets will perform, as a whole, low vacancy and a structural shift in demand should drive rents for some time to come. At the country level, we still see the best opportunities in Finland, Benelux, parts of Spain and increasingly the CEE – particularly Warsaw.

While the short-term outlook may be good, a number of core markets are now looking fully priced. With prime office in the likes of Berlin and Paris CBD yielding just 3%, we see few attractive opportunities for acquisitions in this prime segment. Our key investment strategies are therefore a balance between markets we expect to outperform over the next five years, active asset management plays to benefit from the current strength of the occupier markets, and finally a focus on locations and market segments where we believe structural factors will offer excess performance over the longer-term.

All in all the outlook remains positive, and by focusing on both the structural and the cyclical, we believe investors should be able to achieve a return in excess of fixed income assets, and the European real estate market as a whole.

EUROPE REAL ESTATE KEY INVESTMENT STRATEGIES:

	Theme	Comment
Overweight	Logistics / Industrials	Top performing sector over the next five years. Focus on Urban Logistics, Last Hour facilities and XXL warehouse – particularly in France, Spain, Benelux and parts of the Nordics
	CE Europe	Prime office opportunities in Warsaw and more selectively also in Budapest
	Benelux and Helsinki	Core/Core+ opportunities in Helsinki and across the Benelux, including Rotterdam
	Theme	Comment
Active	Manage to Core	Seek to create value through asset management strategies such as the repositioning of older assets and the work out of unfavourable lease structures in cities such as Paris and Milan
	Speculative Development	Funding speculative developments for logistics and more selectively in supply constrained office markets
	Theme	Comment
Structural	Emerging Locations	Take additional risks by investing in emerging office locations close to the CBD, which are benefitting from long term structural growth drivers
	Affordable Residential	Focus on affordable residential in mature markets where supply-demand imbalances are increasingly found in the low to medium price segment
	New Living Segments	Changing lifestyle and demographic trends increasing accommodation requirements for residential segments such as purpose built student accommodation, aparthotels and senior living
	Defensive Retail	Urban shopping centres and retail parks with a strong immediate catchment and a mix of retail, food, leisure and service tenants. Alongside FOCs these should prove more defensive against online.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. There is no assurance that investment objectives can be achieved.

2 / The Economy

Europe entered 2018 with the wind at its back. The European Union had just grown at its fastest pace since 2007, and following a succession of upgrades the outlook for 2018 was for another year of robust economic growth. It is wrong to say that the wind has changed direction, but its drive has lessened. However, as we warned six months ago, as real estate investors we must be careful not to give too much weight to the short-term. Looking out five years we continue to see positive GDP growth, more jobs, and only a gradual tightening of monetary policy.

Economic sentiment weakened during the first half of 2018. On the back of rising trade tensions and the return of political risks in Italy, high frequency indicators have lost ground. Nonetheless, this has been a moderation of growth rather than a sharp slowdown. The exception to this has been the United Kingdom, where the outlook for growth has been cut back. However, even here recent data releases have suggested a fairly benign climate, particularly given ongoing Brexit concerns.

Having grown by nearly 2.6% in 2017, the Eurozone is projected to grow by just over 2.0% this year, and average 1.6% per annum over the next five years. The CEE, Ireland and to a lesser extent, Spain and Sweden are expected to outperform, while Italy should continue to lag behind.¹ The short-term outlook for the United Kingdom is weak as businesses hold off investment in the face of uncertainty. In the event of a well-managed Brexit, growth is projected to pick up going into the 2020s, leading to a five year annual average rate of 1.7% - although the odds on this have somewhat deteriorated.

Unemployment continues to fall sharply on the back of strong job creation. Already nearing pre-recession lows, the rate of unemployment across the European Union is projected to fall a further 100 basis points to around 6% by the early 2020s.² This improvement in the labour market is certainly a positive for the real estate market, supporting demand for space, particularly in the office sector. We are however conscious that with the likes of Germany near full capacity, this could moderate further jobs growth and in turn net absorption.

This moderation in demand will be most acute in those locations where demographic factors are also working against the growth in the labour market. This is not the case in the majority of major cities. In contrast to a rather modest 1% national average, Berlin's population is set to grow by almost 5% over the next five years.³

The fall in unemployment is starting to translate into a pickup in wage growth. In March, German public sector workers secured a 7.5% pay rise over the next two and half years, while in the same month U.K. wage growth moved to its highest level since 2015. Inflation reached 2% across the Eurozone in June this year, mainly on the back of higher energy prices, but with spare capacity falling, this raises the possibility of second round effects.⁴

In response to lower unemployment, higher inflation and a generally more stable economic environment, the ECB has started to wind down quantitative easing. In September it will cut in half its monthly €30 billion of asset purchases, before ending the programme in December. Beyond this, tightening is set to be gradual, with the first policy rate hike not expected until the second half of 2019.

¹ Oxford Economics, June 2018

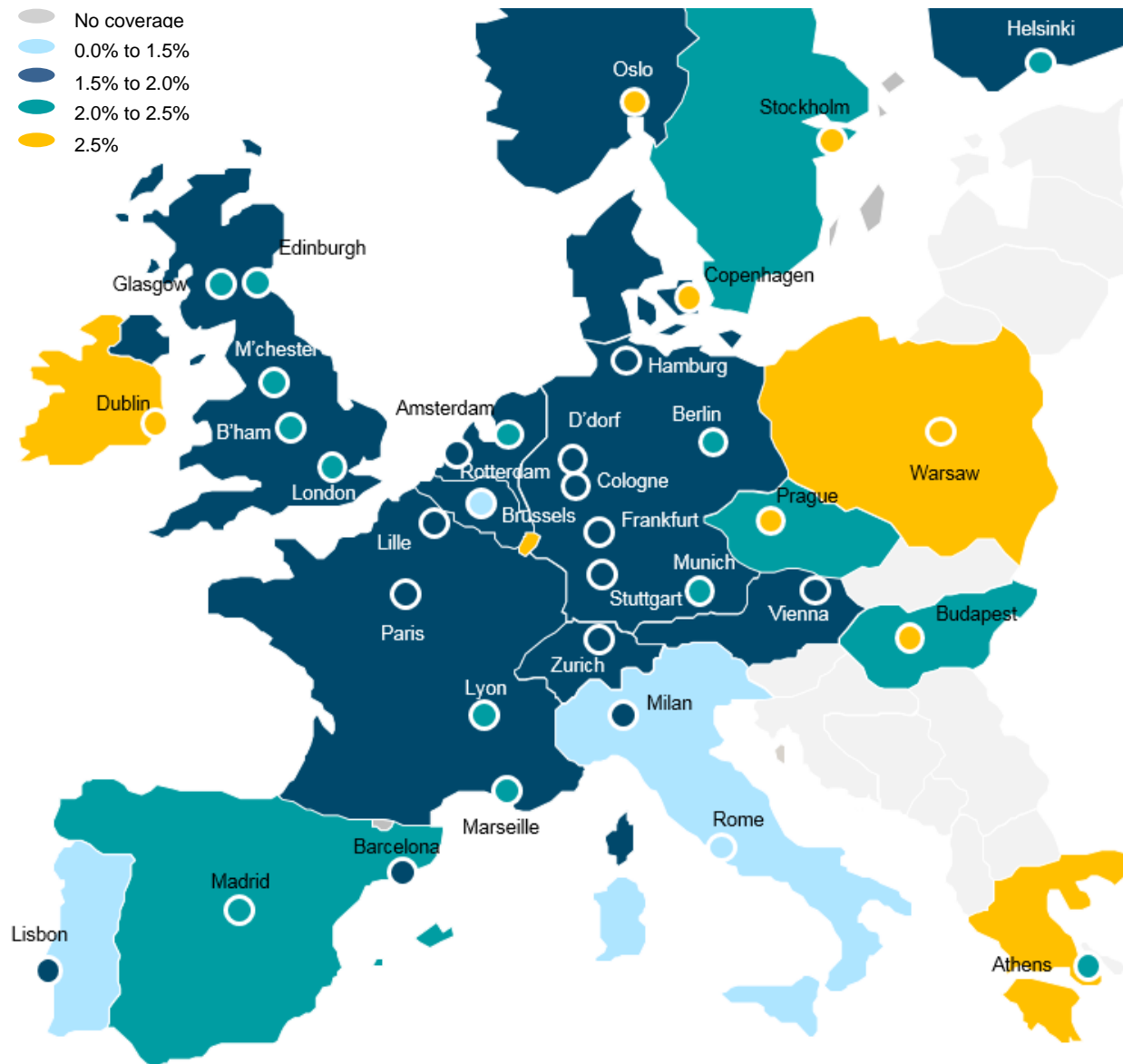
² Eurostat, June 2018

³ Oxford Economics, June 2018

⁴ Eurostat, June 2018

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EXHIBIT 1: COUNTRY AND CITY ANNUAL AVERAGE GDP GROWTH 2018 – 2022F



Source: DWS, Oxford Economics, Bloomberg. As at June 2018.
Note: f = forecast. There is no guarantee the forecasts will materialize.

The Bank of England is a step ahead of the ECB but slower growth at the start of the year put tightening on hold during the first half of 2018. While a rate rise did eventually take place in August 2018, the future path of monetary policy rests heavily on the outcome of the Brexit negotiations.

In general the outlook for Europe is one of robust but moderating growth and gradually tightening monetary policy. While perhaps less supportive of real estate return over the medium-term, it suggests that the current momentum in the market still has some way to run.

3 / Real Estate Performance

3.1 Occupier Fundamentals

So far any moderation in economic growth has not had a material impact on the demand for real estate space. As we were expecting at the start of the year, the first half of 2018 has continued to see robust levels of take-up across much of the industry.

Office: On the back of strong jobs growth, aggregate European office take-up when compared to the same period last year was up by 5% in the first quarter. Importantly this is not just churn. Businesses are expanding and taking additional space. With still only a surprisingly modest level of construction activity, vacancy fell to 7.7% by the end of the first quarter, down from 8.5% a year earlier. This is well below the ten-year average, and given an acute lack of high quality supply, prime rents continue to rise across most markets.⁵

The outlook for the next five years remains good, and while full employment and a growing appetite for development may curb office rental growth as we progress into the 2020s, in most locations outside of the United Kingdom, we have revised up our forecasts. In total we expect prime office rents to be rising at 2.1% per annum, with the next two years averaging around 3% per annum despite falls in Central London.

Madrid and Berlin stand out as our strongest rental markets, growing well in excess of 20% over the five years to 2022. In Berlin, vacancy rates are already exceptionally low at around 3%, while Madrid's prime rents remain 15% below their previous peak, despite a clear lack of quality space.⁶ Barcelona and the other top three German markets should also do well, while the Paris CBD continues to benefit from tight supply. However London is set to struggle over the coming few years, as higher availability and Brexit worries chip away at headline rents.

Logistics: Arguably the performance of the logistics sector has been even more impressive. With vacancy now averaging less than 5% it is not surprising that rental growth is running well in excess of history. Indeed with no overall growth in rents over the past fifteen years, the 2.2% annual rate we are projecting over the next five years is exceptional, particularly as logistics is now our top performing rental market.

While ecommerce operators have certainly been a key driver of demand, accounting for 16% of take-up in 2017, so far much of this take-up has been in Germany, the United Kingdom and Poland.⁷ When comparing the huge volume of space taken by Amazon in the United States to that of Europe, there certainly seems to be considerable room for further demand.

We need though to be careful not to ignore risks in the sector. While development activity is picking up, so far speculative development remains modest at less than 20% of completions. However not all locations have seen a rise in take-up and

⁵ PMA, April 2018

⁶ JLL Q1 2018

⁷ PMA, April 2018

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we do see vulnerabilities in export led centres should barriers to global trade increase. Finally, with non-e-commerce retailers still accounting for around 20% of total take-up, retail failures will likely impact parts of the market.⁸

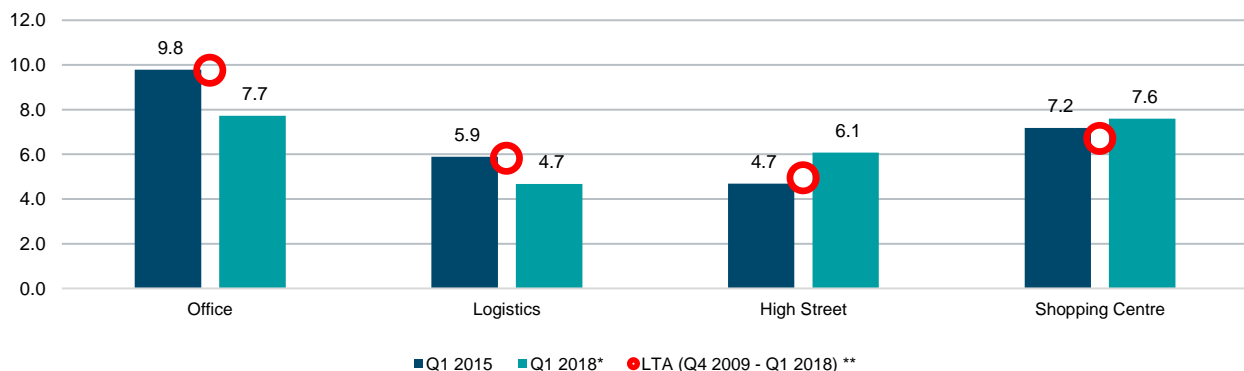
Overall however the outlook for big shed and urban logistics looks very good. At the city level Dublin, Madrid and Copenhagen are set to see some of the strongest rental growth. Copenhagen vacancy is exceptionally low, while Dublin lacks good quality space. Despite a large pipeline, vacancy in Madrid is only around 4%, and given our own recent experiences in the letting market, we have revised up our outlook considerably.⁹

Retail: In sharp contrast to the other two sectors, retail as a whole is performing poorly. Vacancy is rising and on both the high street and in shopping centres it now stands above the ten-year average. Despite a relatively favourable economic backdrop, the shift of sales online and the cost of reorganising operations across multiple channels has led retailers to scale back their store portfolios, and in some cases has led to the failure of the business.

This is not to say all retail locations are performing poorly. Many dominant shopping centres continue to report NOI growth, many major high streets are attracting high levels of footfall, while shopping centre rent growth in low penetration ecommerce markets such as the CEE and Southern Europe are still projected to rise at just over 2% per annum.

However, overall we have downgraded our outlook. On aggregate we see prime shopping centre rents rising annually by just 1.4% to 2022, and on balance the risks looked skewed to the downside.

EXHIBIT 2: VACANCY RATE BY SECTOR (%)



Source: PMA, JLL, Cushman & Wakefield, DWS, July 2018

Hotel and Residential: Looking beyond the three main traditional sectors, the occupier markets for hotel and residential look in good shape. Supported by the improving business climate and rising international tourist arrivals, the hotel market is seeing a solid increase in demand. Average occupancy reached 72% last year, up from 66% five years earlier¹⁰, while cities

⁸ PMA, April 2018

⁹ JLL, Q1 2018

¹⁰ STR, April 2018.

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such as Berlin, Dublin, Lisbon and London has seen a surge in RevPar levels in recent years.¹¹ Although the development pipeline has picked up, with an outlook for solid economic growth and rising tourist numbers – particularly from China – the market environment should remain favourable.

Demand for private residential is also growing. Building on a trend we've seen over recent years, demand for private rental apartments is increasing across many European markets. Driven by both reduced access to mortgage products and changing lifestyles, ownership rates across the European Union fell to around 69% in 2016, down from 73% in 2008.¹²

While permissions in the European Union to develop multi-family homes have increased slightly over recent years, in many countries there remains a persistent supply-demand deficit. Coupled with the recent falls in unemployment – particularly youth unemployment – and an outlook for increasing household disposable incomes, we believe that residential markets across major cities will continue to see low void rates and sustained rental growth.

3.2 Capital Markets

Investment: Following a record end to 2017 the investment market started 2018 slowly. Against expectations, this may well be a pause in proceedings rather than a sustained slowdown in demand. Indeed, there are plenty of reasons to believe that this is the case. Survey evidence remains supportive, dry powder is abundant, lending terms have loosened and the relative return from real estate still remains compelling when compared to other fixed income products.

When viewed on a twelve month rolling average, the majority of major European markets were still recording investment volumes in excess of a year ago. Nonetheless, with less than €50 billion transacted during the first quarter this was the weakest start to a year since 2014, and early evidence from the second quarter does not look particularly encouraging.¹³

Given that two thirds of investors responding to this year's INREV survey indicated plans to increase their European real estate allocations during the next two years, this suggests there could well be a growing mismatch between what investors are looking for and what is available on the market – particularly following recent yield compression.¹⁴

However, there does seem to have been a slowdown in fundraising. Every year since 2014 the first six months has seen around €20 billion of new capital raised to invest in European real estate, however this year that number fell to just €11 billion. Notably much of this reduction in fundraising was in the opportunistic and distressed space, reflecting perhaps recent signs of risk aversion as well as fewer opportunities for distress investment and at this point in the cycle.¹⁵

At the sector level, the slowdown in investment activity was fairly broad based. What is clear though is that there continues to be a shift in demand from the traditional sectors of office and retail to the industrial (logistics) and the 'Living' sectors of hotels and apartments. In the twelve months to the end of the first quarter 2018, transaction volumes in these sectors were running close to double their ten-year average.¹⁶

¹¹ PWC, May 2018

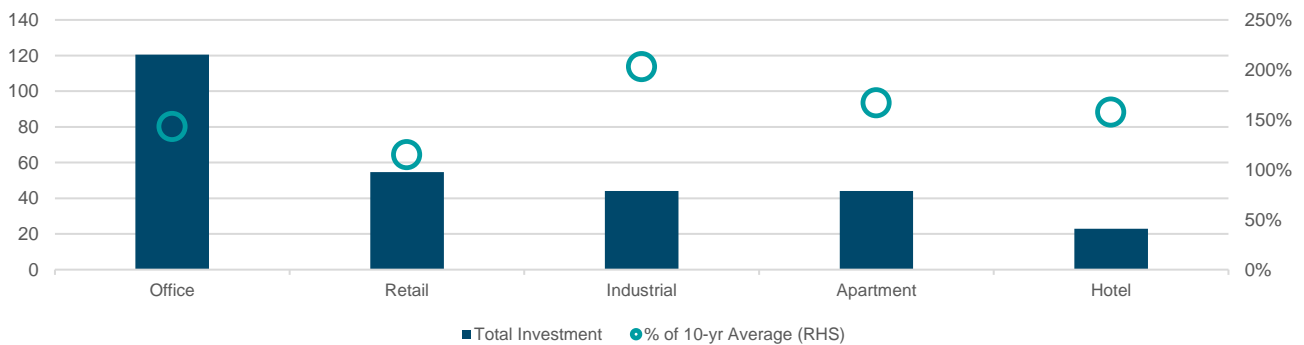
¹² Trading Economics, Eurostat, July 2018

¹³ Real Capital Analytics, July 2018

¹⁴ INREV, January 2018

¹⁵ Preqin, July 2018

¹⁶ Real Capital Analytics, July 2018

EXHIBIT 3: TRANSACTION VOLUMES IN THE FOUR QUARTERS TO END Q1 2018 (€ BILLION)

Source: Real Capital Analytics. As of July 2018.

Very few countries in Europe saw an increase in investment during the first quarter of the year. Despite all experiencing a decline, the usual suspects remained the most active markets during the first quarter, with the United Kingdom reclaiming its top spot from Germany, followed by France, the Netherlands and Spain.

The most notable exceptions to this were Ireland, Portugal, Belgium and Poland. Given the relatively small sizes of the first three, we need to be careful about reading too much into the quarterly figures. However for Poland we have observed a clear change in investor sentiment. With over €2.5 billion of deals completed in the quarter, activity was nearly three times higher than the same period in 2017.¹⁷

Pricing: While it seems reasonable to assume that investment volumes this year will be less than they were in 2017, we do not expect a price correction. Indeed, looking at the early evidence from the first half of the year, prime yields still look to be edging lower.

It is though increasingly likely that 2018 will be the last year where yield compression is a significant driver of performance. Prime yields are well below previous historical lows and the spread over the risk free rate is moving more in line with what we've seen in the past. Beyond this year, yields across most markets should stabilise and then start to edge higher as central banks withdraw liquidity. However this should be a very gradual process, with prime office yields rising just 40 basis points to 4.0% by 2022.

Our focus on prime performance doesn't always explain the full picture. Where the data is available, we see a number of cities recording a divergence in pricing between the performance of prime and average stock. In some cities this divergence has been striking. Since the start of the financial crisis for example, prime and average office values in Milan and in Amsterdam have moved apart by more than 50%.¹⁸ Often the divergence reflects differences in rental growth, opening up the possibility of convergence in those markets where Grade A vacancy is now in short supply.

Between sectors we believe that logistics and shopping centre yields will be broadly the same by the end of the decade. This marks a considerable change. Whereas in the years before the financial crisis prime logistics yields were broadly 100 basis points above shopping centres and offices, at 4.8% today the spread over offices is similar but just 10 basis points above that of shopping centres. It's of no surprise that prime shopping centres have tended to underperform in recent years.

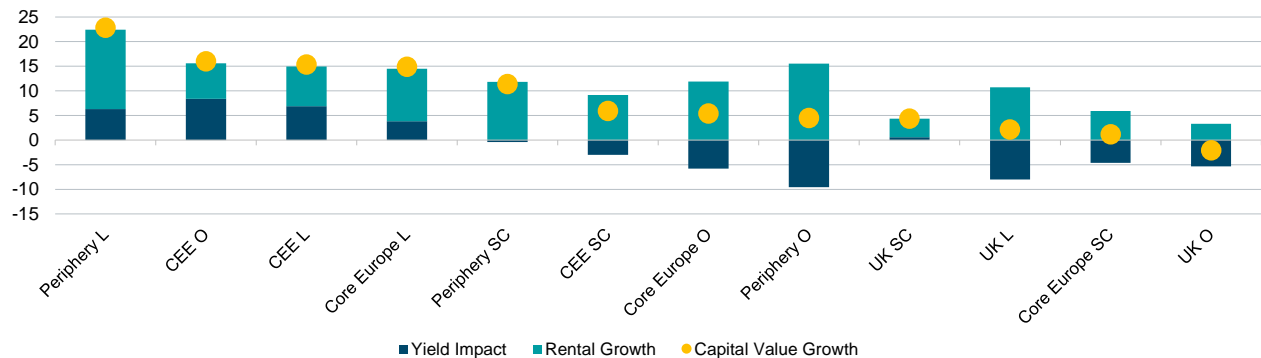
¹⁷ Real Capital Analytics, July 2018

¹⁸ DWS, June 2018, PMA, May 2018

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On average European capital values are expected to grow by a total of around 6% in the five years to 2022. This growth is expected to be frontloaded as in time the expected expansion of yields will act as a drag on performance. Nonetheless with many markets still experiencing robust levels of rental growth, this will certainly moderate any loss in value.

EXHIBIT 4: DRIVERS OF CAPITAL VALUE GROWTH (2018-22F, %)



Source: DWS. As of June 2018.

Note: f = forecast. Projected returns are based on compounded basis. There is no guarantee the forecast returns shown will materialize. Country returns are stock-weighted based on city level data. As such, the performance and forecast shown represent hypothetical and simulated performance, which has many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. No assurance is made that forecast returns will be achieved.

The exception to this is the United Kingdom, particularly the Central London office market. Having already seen values fall by around 10% over the past two years, we expect prime London offices to fall further this year and next. In total this peak to trough decline of around 20% is less than previously expected, principally reflecting the positive impact overseas capital has had on prime yields. Beyond 2019 we do see values recovering, however with the outlook clouded by Brexit there remain clear risks around any forecasts for U.K. performance.

3.3 Returns and Market Calls

Although prime returns do look to have peaked, the market remains in rude health and should continue to offer strong returns at least throughout this year and into 2019. However beyond this performance is likely to moderate.

Recent performance: The strength and momentum in today's market was confirmed by both MSCI and INREV during the first quarter of the year. The MSCI Pan-European Property Index and INREV Quarterly Index both recorded an annual return of near 10%, well in excess of the levels recorded over the past five and ten years.¹⁹

At the national level, both Germany and France are recording returns well in advance of recent history, and while the U.K. market did slow sharply during the first quarter, annual returns are only slightly below the all fund average.

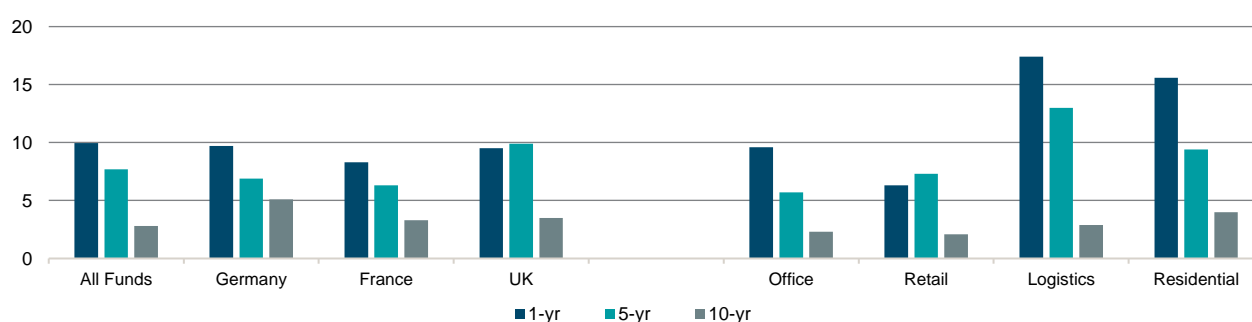
¹⁹ INREV, MSCI, June 2018. Please see Exhibit 10 and Exhibit 11 in Appendix section for historical returns.

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In line with our previous overweight calls on the Dutch and Finnish markets, both continue to do exceptionally well. In the year to March, the INREV index showed that the Dutch market recorded a return of 15.9%, while Finland surged to 21.2% - although notably the majority of Finnish funds on the index are value add.

Both indices support our long-held view that investors should be increasingly targeting logistics and residential, and remain cautious towards retail. Over the twelve months to March 2018, INREV showed a residential return of 15.6% and an Industrial return of 17.4%, compared to just 6.3% for retail.²⁰

EXHIBIT 5: ANNUAL FUND LEVEL RETURNS TO Q1 2018 (%)



Source: INREV, June 2018

Note: Past performance is not indicative of future results.

Return outlook: As mentioned, we do believe that real estate returns will now start to moderate. It was interesting to note that despite the strength of the year to date returns, both MSCI and the INREV saw returns slow in the first quarter, when compared to the last three months of 2017. While it would be wrong to use one quarter of data to confirm a trend, it adds to the moderation we've seen in investment volumes, the slight reduction in economic outlook and the rise in global interest rates.

We have however slightly upgraded our outlook for returns over the 2018 to 2022 period. Reflecting the continued momentum in the market that we're seeing so far this year, we've brought our prime return outlook for 2018 up from around 8% to 11%, and our five year average figure from 5.2% to 5.4%.

This level of return may look modest when compared to the near 13% return recorded over the past five years, but it should be remembered that over the past five years the market was in a recovery phase following the dual impacts of the global financial crisis and the 2012 Eurozone crisis.

The level of return we're forecasting is closer to historical returns, and while we do anticipate some capital value growth in the five years to 2022, the bulk of the return will be driven by income. With 10-year German Bunds currently yielding less than 0.5% there remains a clear case for investing in real estate, however a number of markets are moving towards a more mature phase in their cycle. Our preferred target strategies are therefore increasingly focused on specific segments and sub-markets.

Across sectors and counties we expect a considerable range of returns over the coming years. Not every country is at the same point in the cycle, while structural changes are certainly influencing the relative performance between sectors.

²⁰ INREV, MSCI, June 2018. Please see Exhibit 10 and Exhibit 11 in Appendix section for historical returns.

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We expect some of the highest returns to be recorded across the Periphery and the CEE. While admittedly some of the higher risk markets in Europe, with prime logistics returns in these regions set to be around the 9% mark, and CEE offices and Periphery shopping centres offering a return in excess of 7%, this level of performance should open up some interesting opportunities.

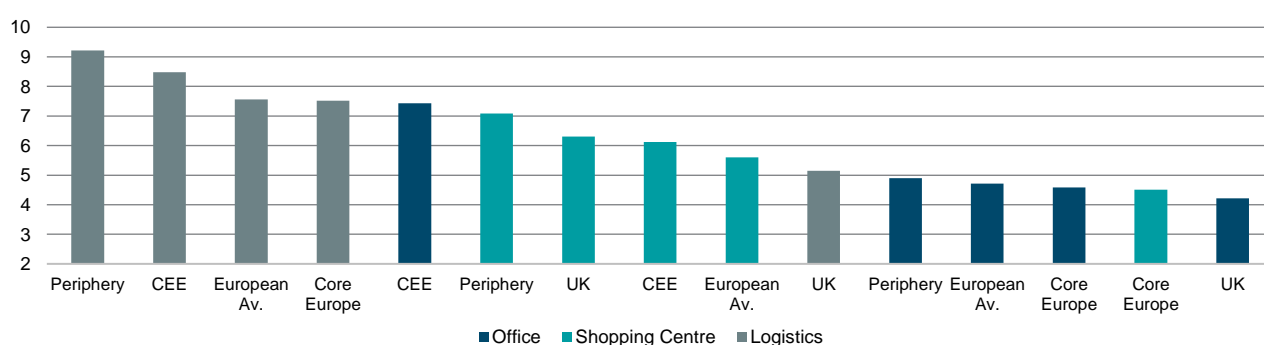
Core Europe is generally offering lower future returns but even here the outlook for the logistics sector looks very strong. With a yield above offices and competition for the best space driving up rents, prime logistics in the likes of Paris, Brussels, Helsinki and Copenhagen should strongly outperform the European average.

Overall the office sector is set to be the weakest performer. With an average return of 4.7%, this is around 100 basis points below that of shopping centres and 300 basis points below our outlook for logistics. Nonetheless, even in offices we see a range of returns from a low of 1.3% in Stockholm to a high of 8.8% in Marseille.

This is not to say that we don't see opportunities in offices. As mentioned in the previous chapter, in a number of cities there's been a clear divergence between prime and average offices, opening up opportunities to invest in non-prime stock at attractive values.

Furthermore, it's clear to us that retail risks are elevated. Perhaps not fully captured in the forecasting process, the sector does look to be moving up the risk curve with higher voids, shorter leases, weaker tenant covenants and increased asset management requirements. In part this has been reflected in the widening yield spread over offices. The current disruption to the market may well create opportunities in time, but for now we're cautious and as has always been the case with shopping centres, we're keenly aware that performance between centres varies greatly.

EXHIBIT 6: PRIME TOTAL RETURNS BY SECTOR AND REGION (2018-22F, %)



Source: DWS, July 2018

Notes: f = forecast. There is no guarantee the forecast shown will materialise. As such, the performance and forecast shown represent hypothetical and simulated performance, which has many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. No assurance is made that forecast returns will be achieved.

Below, we summarise our market-level calls for the three main commercial sectors over the next two and five years from mid-2018. It is worth noting that these calls are made within and not between sectors. If compared against an all property average, the share of overweight calls in the logistics sector would certainly increase given the strength of this market.

As before, these numbers are based on our forecasts for prime property performance and also account for market risk. The table provides some guidance on market selection, as well as an indication of market timing for European real estate investors. However, the recommendations are not all encompassing within the real estate investment universe and therefore should be viewed in conjunction with the strategic themes shown in this document.

EXHIBIT 7: PRIME TOTAL RETURNS BY SECTOR AND REGION

Market	Office ▼		Shopping Centres* ◀▶		Logistics ▲	
	2-yr	5-yr	2-yr	5-yr	2-yr	5-yr
Finland	▲	▲	▲	▲	▲	▲
Belgium	▲	▲	▲	▲	▲	▲
Netherlands	▲	◀▶	◀▶	▲	◀▶	◀▶
Spain	▲	◀▶	◀▶	◀▶	▲	▲
Poland	▲	▲	◀▶	◀▶	◀▶	◀▶
Regional France	◀▶	▲	▼	◀▶	◀▶	◀▶
Paris	◀▶	◀▶	▼	◀▶	▲	▲
Regional UK	▼	▲	◀▶	▲	▼	▼
Germany	◀▶	◀▶	▼	◀▶	◀▶	◀▶
London	▼	◀▶	◀▶	▲	◀▶	▼
Sweden	▼	▼	◀▶	◀▶	◀▶	◀▶
Italy	▼	▼	▼	▼	▼	▼

▲ OVERWEIGHT ◀▶ NEUTRAL ▼ UNDERWEIGHT

Source: DWS, July 2018.

Note: *Shopping centre forecasts made at the national level. There is no guarantee the forecast shown will materialise. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Past performance is not indicative of future results.

Overall we see the highest risk adjusted returns in Finland and Belgium. Having lagged the rest of Europe in its economic recovery, Finland is growing strongly and creating jobs, which in turn is pushing down vacancy, supporting rental growth and yield compression. Belgium on the other hand is benefitting from being a relatively low risk country but with a 50 basis point yield over the rest of Core Europe.

Germany and France are in a more advanced stage of the cycle. In both, most cities are typically offering a return that comes in slightly below the European average. However there are exceptions to this. Parisian logistics is looking attractive as operators compete for the best space to serve the metropolis, while the French regional office markets are still offering a combination of low vacancy and a yield premium of at least 100 basis points over Paris. Across the German Top 7 office markets prime yields in the low 3s are generally prohibitive, however Frankfurt with its potential for a Brexit bounce on balance looks the most attractive.

Retail in both markets is going through a soft patch, with rising vacancy and falling rents. With an underweight call over the coming two years, but a neutral call over the entire five year forecasting horizon, this does suggest that following a re-pricing these markets may start to offer more attractive opportunities, however as ever these would be on a highly selective basis.

Spain and the Netherlands continue to offer good opportunities, but having experienced exceptional returns over the past three to four years, in some cities pricing is starting to look less attractive.

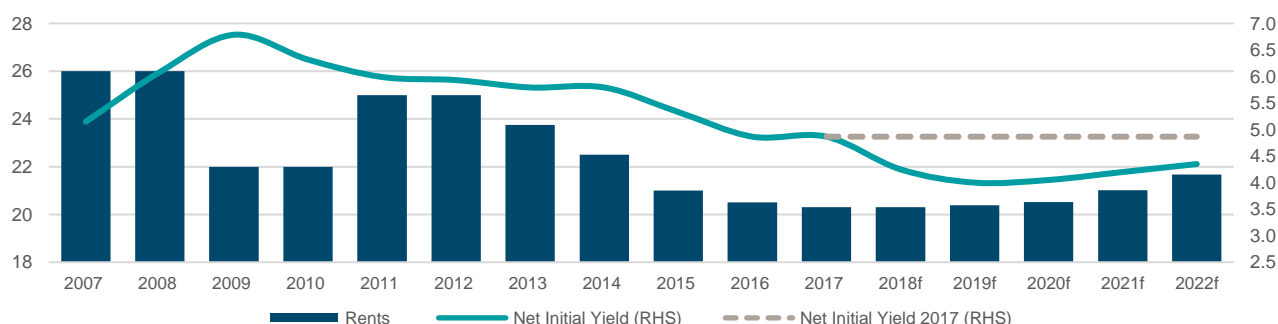
Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

On balance Rotterdam is looking slightly more attractive than Amsterdam. While total office vacancy in Rotterdam is much higher, there is certainly a lack of good quality vacant space in the city centre, and with a prime yield spread of more than 100 basis points over Amsterdam, we believe this more than compensates for the additional risk.

In Spain the projected pace of rent growth should see the country continue to outperform over the next two years, however with prime office yields in the likes of the Madrid CBD edging towards the 3% mark this is making investment in prime stock difficult – particularly for investors underwriting for more than five years. The exception to this is logistics. Given the rental pressure we're seeing on the ground, we've significantly revised up our projections, leading to an overweight call on the sector in both Madrid and Barcelona.

Having had a 'Prepare to Move' call six months ago, the upturn in the Warsaw office market has occurred faster than we were expecting following the recent rise in investment activity. Nonetheless, with the rents looking like they've reached a floor and with still a considerable yield premium over the German Top 7, we project prime returns will be almost double the European average over the coming five years.

EXHIBIT 8: PRIME WARSAW OFFICE MARKET (RENTS IN € AND SQM PER MONTH; YIELDS IN %)



Source: PMA, DWS, July 2018

Notes: f = forecast. There is no guarantee the forecast shown will materialise. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Past performance is not indicative of future results.

Finally we had hoped to have more clarity around Brexit by now, but this is not the case. As such our U.K. outlook remain subject to a high degree of uncertainty. Indeed it is in part this uncertainty that is slowing the economy and leading to the expected period of underperformance over the coming two years.

On balance we still believe that the United Kingdom should be able to secure an orderly transition and free-trade agreement with the European Union – although the probability of this outcome has lessened in recent months. On this basis, the United Kingdom underperforms over the next couple of years, before entering a recovery phase going into the 2020s.

Notably, we have removed our 'Prepare to Move' call on the London office market. The long-term case for investing in London is unchanged, and indeed analysis produced by the U.K. government supports the view that London should be resilient even in the face of a 'No Deal' Brexit. However, with overseas capital helping to hold up real estate values over recent years, we no longer see as strong a case for getting ready to deploy.

As expected, regional U.K. cities have so far been more resilient to Brexit and we expect the office markets in the likes of Manchester and Edinburgh to outperform London over the next five years. The U.K. retail sector does look relatively attractive on a yield basis but given the many high profile business failures this year, we are certainly cautious and would restrict investment in this sector to a very limited number of locations and formats.

EXHIBIT 9: IMPACT OF BREXIT

	Relationship close to the EU	Comprehensive trade deal	No deal (WTO)
Transition Period (includes e.g. prolongation of Art.50)	A1 Softer Brexit (e.g. customs union agreement or even EEA membership) 20%	B1 Smooth Brexit (Prolonged EU membership until min. end 2020 followed by a CETA++ / Association Agreement like trade-deal) 50 %	C1 Smooth but hard Brexit (e.g. trade-deal negotiations / or implementation fails, transition to WTO) 10 %
No Transition Period	A2 Soft Brexit (e.g. EEA) or Exit from Brexit 5 %	B2 Regular Brexit (e.g. withdrawal agreement includes future trade deal) → judged as technically impossible 0 %	C2 Cliff edge, hard Brexit (e.g. negotiations fail in 2018 bc. of e.g. UK domestic political or EU crisis) 15 %
Hard Brexit in a wider sense			
Probability	A1 + A2: 25%	Base Case: 50%	C1 + C2: 25%
Definition	Brexit in which the United Kingdom stops being a member of the European single market and gets full control of its own law-making and immigration - not a precise definition given the various possible outcomes.	Based on red lines drawn by the United Kingdom and the "no arbitrage" conditions of the EU, we expect an outline on the future relationship to be agreed on by autumn 2018 followed by a successive implementation in domestic law by Q1 2019.	Major domestic political crisis (e.g. no confidence vote / new elections); this could further translate into negotiation failure and the United Kingdom slipping out with no deal reached (also within a transition period).
Economics Impact	<p>According to government studies, if EEA membership is retained, the impact on trend GDP growth would be modest.</p> <p>Positive impact on near-term confidence, supporting consumption and business investment.</p> <p>Stronger pound weighing on short-term inflation, but bond yields rise in anticipation of faster growth and monetary tightening.</p>	<p>Near-term growth subdued, averaging 1.4% in 2018/19. Consumption and investment remains muted.</p> <p>Under a comprehensive Free Trade Agreement, this still leads to a significant reduction in trend growth.</p> <p>Bank of England likely to take a very gradual approach to monetary tightening.</p>	<p>Immediate shock to financial markets and economic activity. Risk of recession.</p> <p>Large reduction in trend growth as commercial barriers increase, and the United Kingdom becomes less attractive to foreign direct investment.</p> <p>Bank of England responds aggressively. Bond yields may fall but risk premiums on other assets likely to rise.</p>
Short-term Impact on U.K. Real Estate	<p>Lower risk premium reduces the yield spread over other European markets.</p> <p>Improved business and consumer confidence. Potential for a release of pent up occupational demand.</p> <p>Most positive impact on London having already seen prices correct.</p>	<p>Rental decline and outward yield shift in Central London in short-term – particularly for non-prime stock.</p> <p>Regional markets relatively resilient.</p> <p>Retail weak on consumer caution but industrials still outperform on the back of structural change.</p>	<p>Significant risk of rental and capital value decline across all sectors.</p> <p>Central London most exposed but regional offices also impacted by higher yields and rental decline.</p> <p>Long let assets with secure income to outperform.</p>
Long-term Impact on U.K. Real Estate	<p>With growth reverting to trend, occupier and investment markets normalise.</p> <p>The United Kingdom, and in particular London retain their position as a top investment destination in Europe.</p>	<p>Following a period of relative underperformance, the market stabilises as the economy adjusts.</p> <p>Central London more attractive than the regions given previous adjustment, reduced pipeline and most resilient economy.</p>	<p>U.K. market typically re-prices quickly, although transition may prolong this. Relative pricing and weaker sterling sees the return of international capital.</p> <p>Trend rental growth less. London outperforms national average given its appeal as an international desintation.</p>

Source: U.K. Government, January 2018, PMA, DWS, July 2018

Notes: f = forecast. There is no guarantee the forecast shown will materialise. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Past performance is not indicative of future results.

Summary: European real estate is enjoying a sustained period of above average returns. The future may be one of more moderate performance, but between cities and across sectors there are clear differences in outlook. Whether it be a focus on logistics, the continued upswing in Iberia, the return of Warsaw, or the continued outperformance of Finland and the Benelux, opportunities to outperform the market are quite apparent.

Germany	<ul style="list-style-type: none"> — Lower return outlook as prime yields close to, and in Berlin below, the 3% mark. Neutral market call. — Frankfurt offices overweight with potential for stronger than expected rent growth due to Brexit.
France	<ul style="list-style-type: none"> — Attractive office opportunities in parts of Central Paris, plus growth locations such as the Paris North East and Saint-Denis. — Strong performance from the logistics sector, particularly in Greater Paris where growing ecommerce penetration and competition for space is pushing up rents.
U.K. & Ireland	<ul style="list-style-type: none"> — Brexit uncertainty persists. Short-term underperformance and value decline in Central London. Recovery expected from the early 2020s. — Irish economic and population growth supporting residential, logistics and some residential in Dublin. Office to underperform on the back of new supply and affordability constraints.
Southern Europe	<ul style="list-style-type: none"> — Falling vacancy and strong jobs growth driving rents across Madrid and Barcelona. Logistics sector one of the top performers across Europe. — Underweight call on Italy. Political risks, weak economic growth and low prime yields a drag on performance. Stronger jobs growth in Milan creating opportunities to target average stock.
Benelux	<ul style="list-style-type: none"> — Top performing region. Rotterdam outlook edging ahead of Amsterdam. Brussels providing an attractive yield for a low risk market with solid rent growth.
Nordics	<ul style="list-style-type: none"> — Strong recovery in Helsinki expected to continue. Upgrade in our outlook for Stockholm although affordability pressures and rising interest rates a risk to office performance.
Central & Eastern Europe	<ul style="list-style-type: none"> — After a deep downturn Warsaw office market has entered its recovery phase. Yields falling while rental growth set to return next year.

4 / Office Market

Current Conditions: Faster employment growth supported take-up activity in the first quarter of 2018, increasing by 5% year-on-year, following a record performance in 2017. Paris has maintained its upwards trend while the German cities have been constrained by a lack of space.²¹ London continued to surprise on the upside, albeit partly due to a surge in demand from flexible office operators like WeWork, which represented 12% of total take-up in 2017.²²

Healthy demand and a contained pipeline have sustained further falls in office vacancy rates which at 7.7% are now at their lowest point in a decade. Grade A supply remains scarce in sought-after CBD and inner city locations. While development starts have edged higher in recent years, they are well off the levels seen in the previous cycle.²³ In this context, prime rents increased again in the first quarter of 2018. Putting aside further correction in Warsaw and London, most markets registered prime rental growth over the last twelve months, with double-digit increases in Brussels, Berlin, Stockholm and Milan.²⁴

Outlook and Investment Strategies: Office-based employment growth should sustain tenant demand across Europe over the next five years. However, with certain markets nearing full employment and average space per worker still trending lower, net absorption is set to be lower than what we've seen in the recent past. With development activity anticipated to rise, we are forecasting a gradual pick up in overall vacancy from the end of the decade. However, the supply response has been more limited than expected at this point of the cycle, with speculative development still relatively low.²⁵

Over the period 2018 to 2022, European office rents are anticipated to grow by an average of 2.1% per annum, exceeding the aggregate level for the past decade. A combination of job creation and lasting undersupply in most central sub-markets in the near term, should continue to put further upwards pressure on prime rents.

German and Southern European cities still rank high in the list for rental growth, the latter benefiting from improving market conditions and prime rents that are still way below their previous peaks. In contrast, affordability issues and supply are a concern in Dublin and Stockholm, while Brexit continues to weigh on our outlook for Central London.

The office sector looks to be in a mature phase of its cycle. With prime yields in the likes of Paris and Berlin hovering around 3%, and values in many markets well above previous highs, we see less room for growth. Nonetheless, the market is not without opportunities. Cities such as Warsaw are projected to substantially outperform the market, and with Grade A vacancy near record lows, more active strategies across the continent are also looking attractive.

	Theme	Comment
Office Strategies	Emerging Locations	Office in non-established central locations of growing parts of major cities such as London, Paris, Stockholm and Berlin. Focus on well connected locations with a high degree of vibrancy.
	Manage to Core	Many major markets are recording low Grade A vacancy and a marked divergence between prime and average pricing. This is supportive of repositioning well-located secondary stock in the likes of Milan and Paris.
	Overweight Markets	Although the sector is underperforming, cities in the Netherlands, regional France and Warsaw are projected to outperform the all property average.

²¹ JLL, May 2018

²² PMA, March 2018

²³ PMA, May 2018

²⁴ JLL, May 2018

²⁵ PMA, January 2018

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5 / Retail Market

Current Conditions: The first half of 2018 has not been an easy one for the retail sector. Many occupier markets are showing signs of stress while real estate investors are extremely cautious. These difficulties for the sector are most clearly visible in the vacancy figures. Where the vacancy rates for office and logistics are trending down and well below history, both shopping centre and major high streets are seeing an increased number of empty units.

France and Germany have been hard hit. In both cases prime shopping centre rents fell last year after a sustained period of lower footfall and rising vacancy. This comes despite a relatively accommodating economic backdrop. Perhaps the most visible signs of tension have been in the United Kingdom. This year has seen failures and store closures return with a vengeance. Harried by rising costs and online competition, failures affected an estimated 1,900 stores in the year to June, while traditional anchors such as Marks & Spencer and House of Fraser have announced extensive closures.²⁶

To varying degrees this picture is present across much of Core Europe. However, Southern Europe and the CEE are still tending to outperform. With much lower levels of ecommerce penetration, generous welfare payments in Poland and rising disposable incomes in Iberia, footfall and rental growth have been well above the rest of Europe.

Outlook and Investment Strategies: Retailing conditions are set to be difficult for the foreseeable future. As retailers transform their business models, demand for floor space will be under pressure, pushing up vacancy and keeping a lid on rental growth. The best space will attract tenant demand, but even here we see less competitive tension, and in turn prime shopping centres are projected to record annual rent growth of just 1.4%.

There is a risk of tarring all retail with the same brush. The sector may be struggling but this does not mean all retail will underperform. Despite the ubiquitous transfer of sales online, in-store growth in Ireland, Poland, Czechia and Spain are set to be robustly positive for the next five years. Furthermore, the supply pipeline is dwindling. Since the financial crisis net additions have slowed by around half, and over the next five years we expect little more than 1% growth per annum.

While high streets have been the outperformer in the past, with vacancy now edging higher and prime yields at 3% we tend to see fewer opportunities. Retail parks on the other hand continue to attract demand, offering tenants affordable and flexible space which works well with their transforming needs.

In time the retail sector will find its footing, but it will almost certainly look and feel very different from the past. Retail may be the wrong term. More and more space is being turned over to alternative uses such as leisure and fitness, food and beverage and various other services. Landlords will need to provide a much higher level of service to both retailers and consumers, working in partnership with their tenants to maximise and understand the value of the store. The additional cost of this will make some retail locations unviable, but there are already many examples where this works well.

	Theme	Comment
Retail Strategies	Integrated Urban	Grocery anchored centres that are well integrated into the urban community and cater for frequent, small-basket shops. Focus on areas of gentrification in major cities such as London, Berlin and Paris.
	Retail Parks	New generation proving attractive to retailers and consumers. Strong demand from value, bulky and traditional high street retailers. Focus on urban, affordable, flexible and accessible space, with options for alternative use in places such as Paris, London and Dublin.
	Factory Outlets	Less sensitive to online migration and increasing focus on experience and a full-day shop. Options to reposition first generation outlets or target new markets with growing consumer demand.

²⁶ Centre for Retail Research, July 2018

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6 / Logistics Market

Current Conditions: Demand across Europe for logistics remains strong with take-up at record levels and investment appetite high.²⁷ Occupancy is being supported by a combination of a cyclical economic recovery and structural drivers. An improving labour market driving private consumption and a pickup in global trade has contributed, despite the latter now under pressure from the threat of growing trade tensions. The unrelenting march of ecommerce, the key structural driver for logistics demand has continued to re-define supply chains and has driven requirements for XXL distribution and e-fulfilment centres, last hour facilities and last mile assets such as parcel delivery centres.

Combined with a resurgence in manufacturing, this has helped to drive vacancy down to 5%, well below the 11% observed in 2009.²⁸ While supply has ticked up in markets such as Madrid, this has not been enough to dampen rent growth given the outsized demand for logistics space.

Outlook and Investment Strategies: Of the three main sectors, logistics is by far our top performer over the next five years. While yields have compressed, the relative income return, coupled with our outlook for rental growth leads us to forecast return outperformance. Almost all markets outside of the United Kingdom and selective German cities are expected to see returns in excess of the all property average.

At the city level we see the highest returns in Paris, Madrid and Barcelona, Dublin and parts of the Nordics. Given their size Madrid and Paris certainly stand out in terms of opportunities. Paris should follow London's lead where competition for space has driven rents to record high levels, and while development activity has been strong in the Spanish capital, the recovery in the economy has supported a surge in demand and led us to a significant upgrade in our rental outlook.

With space scarcity becoming a major issue, the segment is seeing innovative solutions come to the fore. We are beginning to see the growth of multi-storey logistics, long established in the Asia-Pacific, in the major urban cities of Europe. In Paris, Segro is building a ramped multi-storey logistics facility which has been let to IKEA eleven months ahead of practical completion.²⁹

We may also see the growth of underground logistics facilities, already established in the U.S. with plans submitted for a scheme in West London. In addition conversions of out of town office and retail spaces facing structural vacancy to logistics may well become a growing feature of the market.

Investors ought to be aware of tail risks such as technological obsolescence (automation, driverless vehicles), changing consumer preferences and habits (peer-to-peer sharing) and the growth of on-demand warehouse and logistics providers. A deterioration of the political, social and regulatory environment along with the threat of a global trade war which will likely impact on port-linked logistics markets more significantly should be considered.

	Theme	Comment
Logistics Strategies	Last Hour	Well-connected 'Last Hour' assets that can be suitable for fast delivery to a large catchment within one hour HGV drive time.
	Last Mile	Last-mile urban cross-docked customer or parcel delivery centres. Acquire and refurbish older, well-located industrial stock and benefit from alternative land use in places such as London and Amsterdam.
	XXL Distribution	Focus on 50,000 square metre plus units in key hubs such as Madrid and Paris, in markets with low but fast growing ecommerce penetration.

²⁷ JLL, March 2018, CBRE, March 2018

²⁸ JLL, July 2018

²⁹ Reuters, "Segro To Deliver Distribution Hub For Ikea in Paris", February 2018

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7 / Residential Market

Current Conditions: The European residential market brings an important defensive element into investors' portfolios. As such, it is characterised by a less cyclical occupier demand for housing with much lower void risks compared to commercial sectors. Hence it is typically also less exposed to market corrections. As more commercial segments move into a mature cycle, the downside protection of the residential market will be welcomed by an increasing number of investors.

The European residential market remains diverse and fragmented, differing significantly in size across markets. The total number of rented residential units varying significantly across all of the countries of Europe. While this may be mainly due country size, it also reflects a wide range in ownership rates, which stand between 45% and 95%. However, in a number of countries, rental markets are gaining in importance, with ownership rates falling in the likes of Spain and the United Kingdom.³⁰

This general increase in demand for rentals is mainly due to affordability constraints but also due to more flexible work-life concepts. Moreover, the absolute number of households is often increasing, as regional migration and immigration into gateway cities is creating demand, often resulting in persistent undersupply. While this has led to an increase in construction volumes, albeit often from a low level, it has not prevented rent levels from rising. Notable examples of this trend are Berlin (9%), Amsterdam (9%) and Barcelona (10%), where rents increased significantly in 2017.³¹

Outlook and Investment Strategies: The trend towards a more institutionalised asset class is expected to persist in the coming years, with the investor universe growing in size and depth. While Germany still accounts for the majority of transactions, other markets are expected to increase their market share. There is already strong evidence of this in Spain, Ireland, the United Kingdom and France.³²

In the occupier market we expect to see ongoing rental growth, although at a somewhat slower pace. Increasing construction volumes will in time ease pressure on rents. More importantly, affordability constraints are likely to limit rental growth in those markets which are approaching the 40% threshold of net income. However, as demand is still strong and often outpacing supply, we expect 'Evasion strategies' in the short to medium term, with tenants substituting lower rents for travel time (commuting) or quality (cheaper fittings, emerging locations) or size (smaller flats, flat shares).

Investors should still find that additional exposure to the residential sector contributes to portfolio outperformance. This will most likely manifest during the next downturn in the cycle. With vacancy levels likely to remain low in most major city markets, the relative stability of cashflow should be a key driver of performance. We expect portfolio allocations to residential will continue to rise over the coming years and believe a focus on Germany, the Netherlands, Spain, Ireland and Finland will support outperformance. We generally expect affordable stock to outperform, as we are aware that some segments like Luxury/High-End (New Built) in some markets could become subject to oversupply and market saturation.

	Theme	Comment
Residential Strategies	Affordable in established markets	Major agglomerations and key regional cities often benefit from a strong appeal among the younger population, supply shortages and lower replacement costs. Focus on affordable.
	Defensive in new markets	Some residential markets are becoming more institutionalised, featuring strong rental growth and further price increases. Focus on markets with strong economic and demographic growth.
	Emerging locations	Locations with strong transport links, good amenities and below prime rents outside the city-centre.

³⁰ Eurostat, 2018

³¹ Eurostat, JLL, 2018

³² RCA, 2018

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8 / Private Debt

Current Conditions: The lending market for private real estate financing remains attractive, not only measured against its typical benchmark, bbb+ corporate bonds, but also when compared against direct real estate. As discussed in the previous sections of this report, investors are starting to contemplate the prospect of rising interest rates. Our forecast for direct real estate suggests that narrowing spreads between net initial yields and government bonds and rising financing costs will eventually be a drag on performance going forward. In contrast, floating-rate loans which represents a sizeable segment of private real estate debt, offer notable benefits that make them a strategic investment opportunity. The most relevant of these include some protection from rising interest rates.

Senior: While net initial yields for most prime direct real estate have edged lower, senior lending margins have stayed fairly stable for prime property across most European markets over the past six months. Senior margins are typically still quoted between 75-200 basis points for core real estate, with the most mature markets like the German Top 7 (75-125 basis points), Paris (80-135 basis points) and Brussels/Amsterdam (100-150 basis points) are at the lower end of the spectrum, while London (125-175 basis points), Warsaw, Milan and Madrid (150-200 basis points) all trade at notable premiums.³³

Mezzanine: This market segment has been dominated by the United Kingdom for a number of years. It remains by far the largest, but elsewhere demand for mezzanine loans has also increased substantially. Mezzanine LTVs range between 50-80% in most European office markets, with London (up to 75%) being slightly lower. Margins differ substantially, with coupons more often reflecting the characteristics of the individual property rather than a market average. Germany (500-600 basis points) is priced again at the lower end, followed by Paris and London between (600-650 basis points) for prime property. However, once you leave the very prime end of the market, margins quickly move above 10%, as most lenders still avoid any additional risks.

Outlook and Investment Strategy: Unlike for direct real estate, it remains more challenging to run a strategic allocation regime for the private debt markets. Access to specific country/sector combinations is often restricted and investors may only secure deals on an opportunity led basis. Investors should therefore pay strong attention to the mix of the individual asset characteristics to achieve the best possible fund diversification.

Nevertheless, similar to our strategies for direct real estate, the prime, and traditional segments are looking less attractive against growth sectors like student housing and hotels or office properties with curable deficiencies in strong locations. This is where competition from other lenders is less, and where creditors with strong local market knowledge can benefit significantly from widening margins, which are often almost 100-200 basis points higher than prime.

Despite ongoing Brexit uncertainty, the U.K. market still offers good opportunities, although extra caution should be had, particularly for mezzanine. The retail sector in particular looks weak, with very few lenders willing to provide financing outside of the very best schemes.

	Theme	Comment
Private Debt Strategies	Senior	Focus on Core properties outside the prime segment in France, Italy, Spain and the UK. Among Offices, consider emerging segments like Student housing, PRS and Hotels.
	Mezzanine	Strong focus on asset selection rather than market allocation. Given rising market uncertainty, be more careful in the UK, despite it being the largest market.

³³ DWS, July 2018

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

9 / Listed Market

Current Conditions: After a strong pick up in logistics in 2017, the sector continued to outperform all European markets (Segro returned 18% year-to-date). Retail is still facing its underlying challenges with Unibail trading on a 11% discount to its spot NAV. London Office has been overall flat in the first months of the year. German Residential remains in a good shape thanks to the low bond yield environment with Deutsche Wohnen returning 16% year-to-date.³⁴

So far in the year there has been only one transaction in the market. Vonovia made an offer on a Swedish Residential company Victoria Park and at the same time made its first move towards the international markets. Vonovia's earlier bid on Buwog has now been completed and the companies are fully merged. Within the retail space, Klepierre's offer on Hammerson was rejected in early April, while the Unibail and Westfield combination has entered the execution phase. The EPRA total return index recorded a gentle return of 3.2% year-to-date, outperforming the Stoxx 600 Index that came up at +1.1% over the same period.

Outlook and Investment Strategies: There seem to be some promising investment opportunities in Europe. Valuations remain attractive and the low interest rate environment in the Continent supports further performance. Furthermore, most of the companies in the real estate securities universe report improving or at least flat like-for-like rental growth.

The vast majority of the U.K. companies have been trading on significant discounts since Brexit. The overall sentiment around the London office market and future occupancy levels remain slightly pessimistic, which is partly reflected in the current share price. Given these valuations in the United Kingdom there is scope for further M&A activity, however such opportunities are quite limited in terms of strategic fit. Hammerson and Intu's unsuccessful merger have refocused investors on the wide discounts. It is difficult to see share price acceleration from mid-year levels given a subdued direct property market and concerns around interest rate hikes. Smaller companies that are operating in less cyclical business, such as student housing or PRS are expected to deliver the strongest NAV growth and should report appealing earnings growth.

In the Continent, we should see continued strength in the office market. Its positive performance last year has so far been sustained and we expect fair earnings growth going forward especially in France, Germany, Spain and Scandinavia. While the share performance will probably be affected by sentiment on interest rates, fundamentals should be strong enough to ensure satisfactory returns. Offices trades on a small discount but is underpinned by steadily improving rental growth.

German Residential has a very sound basis with solid like-for-like growth and continued yield compression but as a sector its correlation to bond yields might bring some anxiety. The main risks, after all, lie in market rent regulation and politics, which could potentially imply some negative headlines on further rent controls especially in the most penetrated areas. Retail remains our least favourite sector due to the increasing risk of ecommerce. Nonetheless, we believe that the best quality shopping centres should be able to attract footfall and sustain the underlying operating numbers. The growth of secondary asset owners is expected to be much more muted.

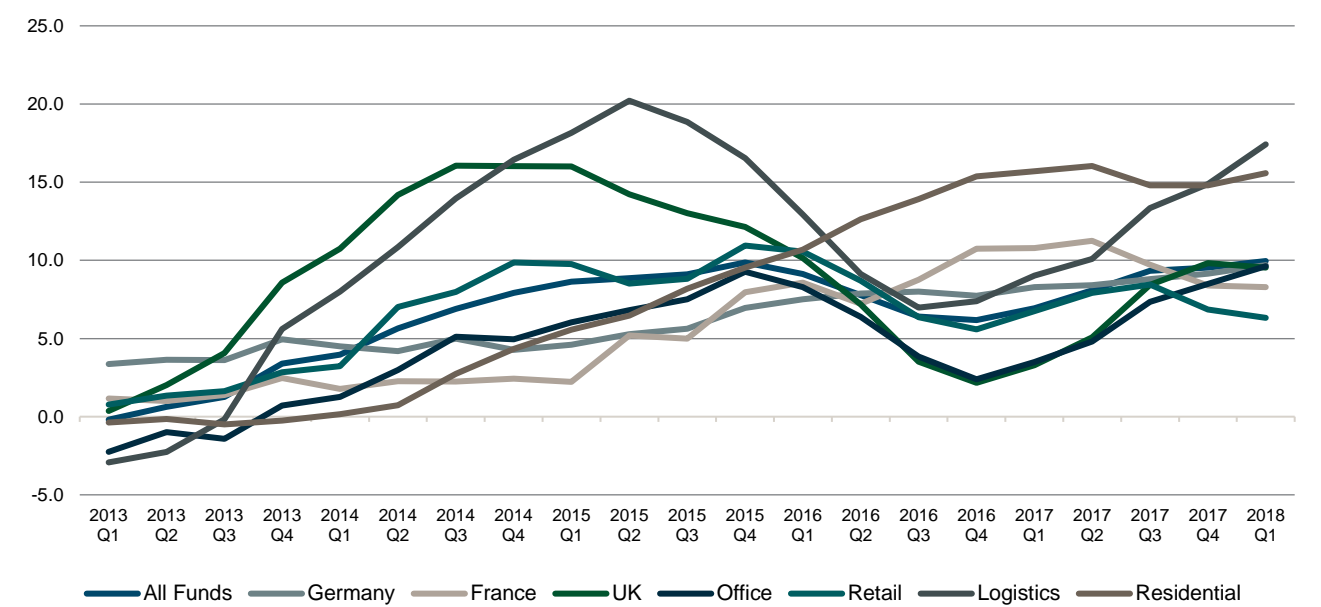
	Theme	Comment
Listed Market Strategies	United Kingdom	Deep value in the well-capitalised and defensively-positioned U.K. Large Caps may drive further opportunistic M&A/activist activity and further return of capital.
	Continental Europe	Growth at a reasonable price – we expect office companies in Paris, Germany and Spain to be towards the top of the performance list.
	Non-cyclical alternatives	We expect student accommodation, healthcare and residential companies to deliver above-average earnings growth, higher dividends and ultimately superior returns.

³⁴ Bloomberg, As of 10 July

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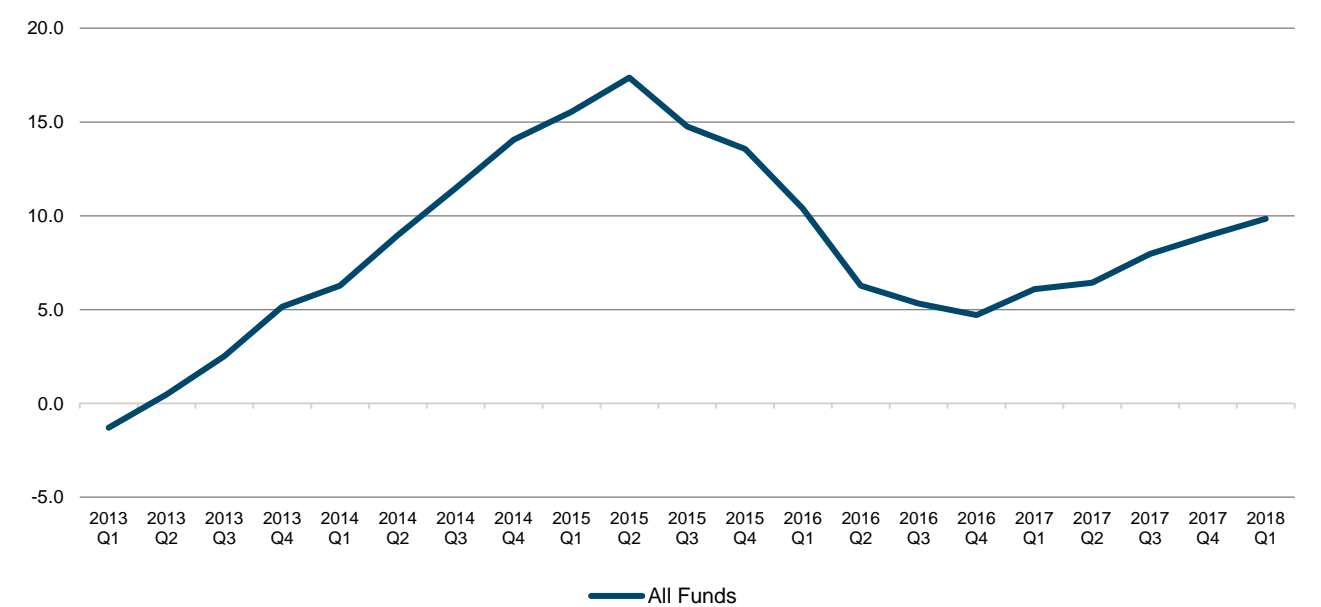
10 / Appendix

EXHIBIT 10: HISTORICAL INREV FUND LEVEL RETURNS, ROLLING ANNUAL AVERAGE TO Q1 2018 (%)



Source: INREV, June 2018
Note: Past performance is not indicative of future results.

EXHIBIT 11: HISTORICAL MSCI FUND LEVEL RETURNS, ROLLING ANNUAL AVERAGE TO Q1 2018 (%)



Source: MSCI, June 2018
Note: Past performance is not indicative of future results.

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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. Nonperforming 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.

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