Deutsche Asset Management

Thought Leadership

RREAL Insights

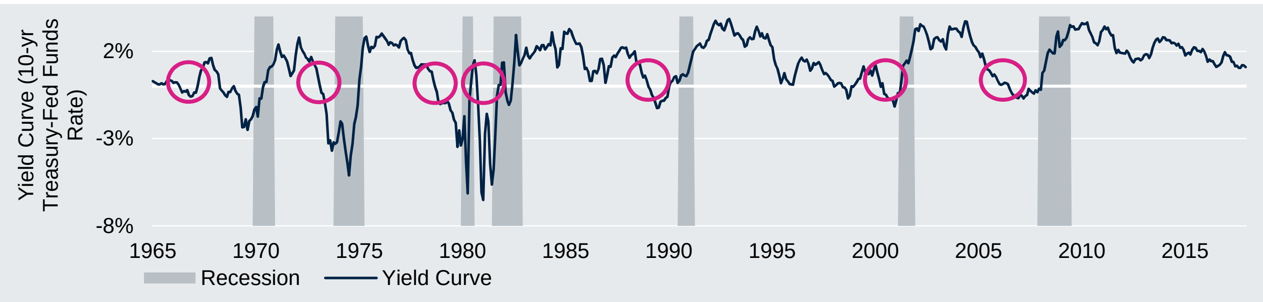
February 2018

The Outlook for U.S. Real Estate: 2018 & Beyond

The 2018 outlook for U.S. real estate is bright, in our view. The economy gathered substantial momentum in 2017, a trend that might accelerate with additional support from recently-enacted tax reform and improving global conditions.

1 **Risk of recession is low.** Real estate returns are highly correlated to the economy. Leading indicators such as the yield curve suggest that the likelihood of a recession, which would undermine occupational demand, is low, at least for the next two years.[1]

Yield Curve (10-Year Treasury Yield – Fed Funds Rate) and Recessions (1965–2017)



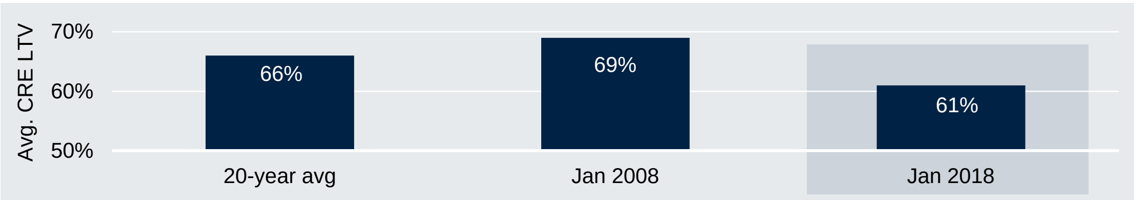
For illustrative purposes only. Past performance is not indicative of future results. Source: Federal Reserve as of 12/31/17.

2 **Construction appears to be peaking** amid increasing supply constraints.[2] Increased but peaking supply has neutralized certain sectors such as apartments nationally and offices in some gateway cities, but with vacancy rates sitting near 15-year lows, rental growth should match or exceed inflation in most markets.[3]

3 **Valuations high, but relatively attractive.** Valuations are not inexpensive, however; they appear attractive relative to those of other risk assets such as corporate bonds.[4] After a 20% run-up in U.S. stocks in 2017, it is also quite likely, that many investors are under-allocated to real estate.

4 **Tax reform, a boon to real estate.** Tax cuts will provide a stimulus to the economy, which is a positive for Corporate Real Estate (CRE) broadly. Total cost over 10 years is $1.5 trillion on a static scoring basis, but the net cost will depend on the boost to economic growth. A 20% deduction on pass-through income included in the tax reform package should attract additional inflows from taxable investors. In addition, the doubling of the standard deduction and mortgage and state and local tax (SALT) deduction caps could incentivize apartment renting over homeownership in high tax/high-cost areas.

5 **Reasonable leverage.** The industry is not saddled with unsustainable debts that could otherwise cause or exacerbate a downturn (as occurred, for example, during the early-1990s savings-and-loan and the 2008–09 financial crises).[5]



Source: Real Capital Analytics as of 12/31/17.

[1] Federal Reserve, as of January 2018.
[2] Census Bureau (multifamily); Dodge Data & Analytics (commercial), as of December 2017.
[3] NCREIF, as of December 2017.
[4] NCREIF (cap rates); Federal Reserve (bond yields), as of December 2017.
[5] Federal Reserve, as of September 2017.

Please note certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered by this presentation report may differ materially from those described. The information herein reflect our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein. Certain Deutsche Asset Management investment strategies may not be available in every region or country for legal or other reasons, and information about these strategies is not directed to those investors residing or located in any such region or country.

Deutsche AM Distributors, Inc.
222 South Riverside Plaza Chicago, IL 60606-5808
www.deutschefunds.com service@db.com
Tel (800) 621-1148