Marketing Material *

January 2020 / Research Report

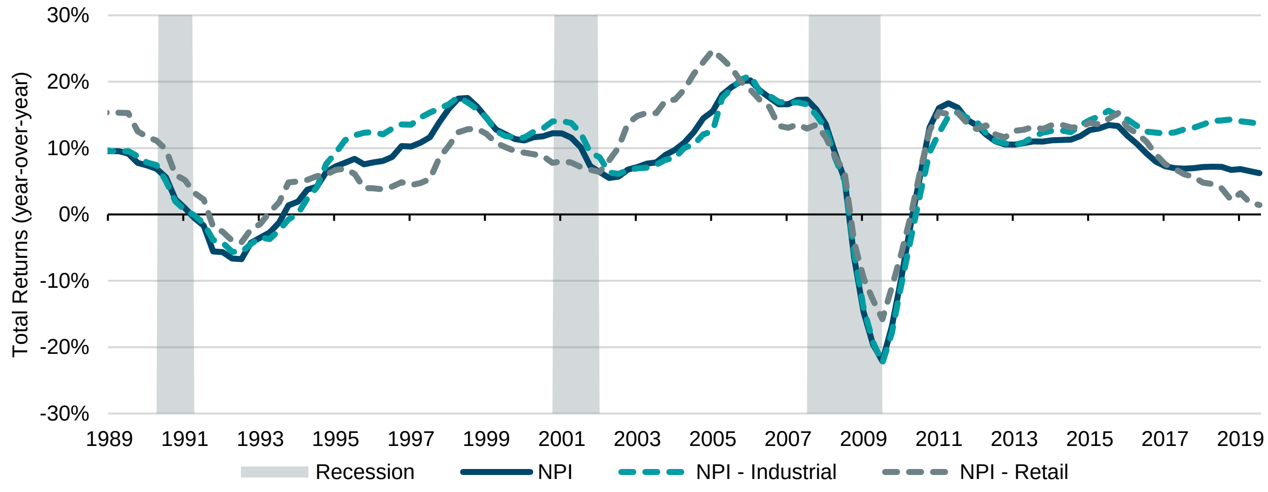
U.S. REAL ESTATE STRATEGIC OUTLOOK

Table of Contents

1 / Overview

2019 was a pivotal year for U.S. real estate. On the surface, not much changed: total returns of 6.2% (trailing four quarters) in the third quarter of 2019 were within the 6%-7% range that has prevailed since mid-2017.[1] Fundamentals were stalwart, with vacancies holding near a 30-year low and net operating income (NOI) increasing 5% (year-over-year, four-quarter moving average).[2] Yet favorable topline numbers masked sharp disparities: the gap between the best- and worst-performing sectors (Industrial and Retail, respectively) reached its widest level in 25 years (see Exhibit 1). Divergence was also notable across subsectors and geographies.

EXHIBIT 1: NCREIF Property Index (NPI) Total Returns



Past performance is not an indicator of future results. Some of the above information is a forecast or projection. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved.
Source: NCREIF. As of September 2019.

We believe that real estate performance will remain buoyant and may even pick up somewhat in 2020. Although trade disputes have weighed on exports and business investment (25% of GDP), low unemployment and interest rates should underpin housing and consumer spending (70%), sustaining occupational demand for real estate.[3] Meanwhile, supply should continue to gradually unwind from its 2017 peak. We therefore could expect vacancy rates to remain historically low, promoting sturdy NOI growth. Low interest rates might also attract additional capital into real estate from various sources, including levered private investors and yield-seeking institutions, fueling increased transaction activity and price appreciation.

To be sure, the drop in interest rates that has helped to bolster our near-term outlook is also symptomatic of medium-term risks. If history is a guide, the yield curve's inversion through the summer raises the specter of a recession in one or two years. While the curve steepened in the final months of 2019, this typically occurs in the later stages of a cycle when the Federal Reserve loosens policy. A recession would surely dent property demand. Yet relative to past cycles, and indeed many investment alternatives, U.S. real estate appears well positioned to withstand adverse economic pressures thanks to a moderate supply pipeline, reasonable valuations (relative to interest rates), and manageable debt burdens.

[1] NCREIF. As of September 2019.
[2] NCREIF. As of September 2019.
[3] Bureau of Economic Analysis. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

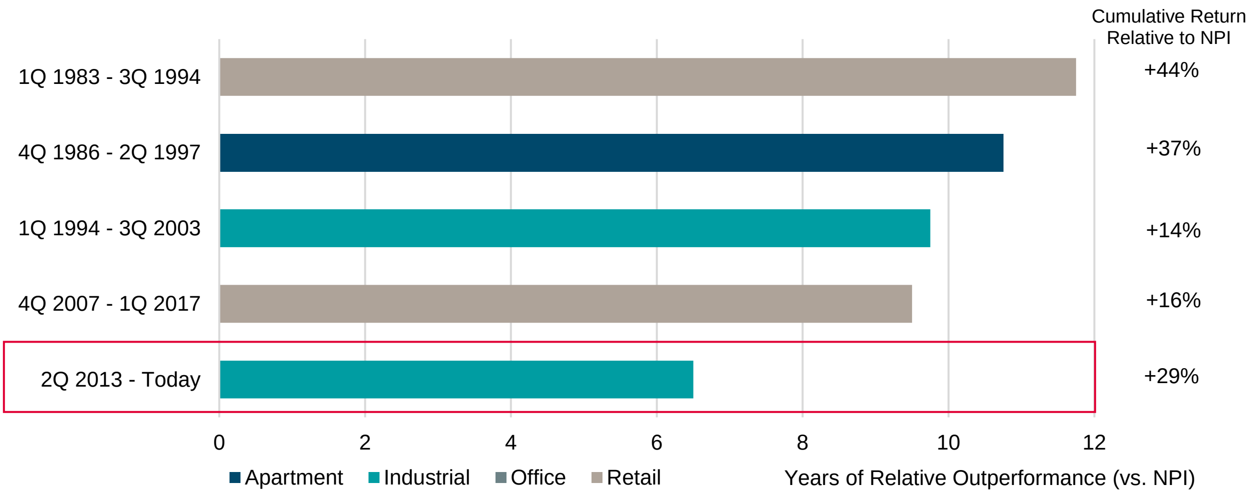
In the near term, capital infusions stemming from low interest rates might temporarily suppress divergent performance trends within the overall market. However, disparities will ultimately resurface, we believe, favoring property with robust underlying structural (rather than cyclical) drivers. This includes the industrial sector (supported by e-commerce) as well as technology- and growth-oriented markets.

1.1 Sector Allocations

While the outlook is generally positive, we believe that the shift from cap rate to NOI-fueled value growth will result in a wider divergence of real estate performance across sectors. In particular:

- Industrial (Overweight): Total returns of 13.6% (trailing four quarters) in the third quarter 2019 were more than double those of any other sector.[4] Evidence emerged of a modest slowdown: Net absorption slowed (payback from the previous year's efforts to front-run import tariffs) and vacancy rates ticked up for the first time since 2011 (although at 3.3%, they remained near the lowest level on record and well below their 30-year average of 8.2%).[5] Still, we believe that Industrial's strong performance has further to run. E-commerce growth shows no sign of abating, and suppliers continue to scramble to assemble the logistical capacity to provide same-day delivery of online orders and to recirculate higher levels of returns. Despite sharp increases of late, rents remain 11% below their 40-year average on an inflation-adjusted basis.[6] Moreover, the sector's six-year run of outperformance is still young by historical standards: Retail and Apartment each outperformed for more than a decade in the 1980s and 1990s (see Exhibit 2).[7] However, as construction picks up in a few inland distribution hubs (i.e., Chicago, Dallas, and Atlanta), webelieve that more supply-constrained coastal cities (e.g., Seattle, San Francisco, Los Angeles, and New York) will continue to outperform.

EXHIBIT 2: Sector Performance vs. NPI (1978-2019)



[4] NCREIF. As of September 2019.
[5] NCREIF. As of September 2019.
[6] CBRE-EA and DWS calculations. As of September 2019.
[7] NCREIF. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

- Office (Underweight): Having lagged behind for most of the past 10 years, the office sector has recently performed well, producing total returns of 6.5% (trailing four quarters) in the third quarter of 2019, second only to Industrial.[8] Owners realized substantial NOI gains of 5.1% in the third quarter (year-over-year, four-quarter moving average) as they rolled leases signed five or 10 years ago to higher market rates.[9] We believe that this trend will continue to lift the sector's relative performance over the near term. Moreover, strong office absorption (20% above last year's trend and nearly 50% above the 20-year average) amid a slowdown in job creation may suggest that a densification trend that had weighed on demand for several years has run its course.[10] Despite these positive signals, we are cautious due to constraints on future job creation amid low unemployment, an ageing workforce, and more restrictive immigration policies; the inherent volatility of the sector as we move into the later stages of the cycle; and office properties' onerous capital expenditure requirements. Even so, we favor several dynamic markets, including Los Angeles, Seattle, and Austin.

- Apartment (Market weight): Apartment total returns of 5.4% (trailing four quarters) in the third quarter of 2019 trailed the index.[11] However, outcomes varied significantly by segment: Garden apartments were among the best performing subsectors (8.1%), while high-rise apartments were among the worst (4.1%).[12] The fundamentals generally fared well: while the homeownership rate edged up to nearly 64.8% in the third quarter of 2019 (a post-crisis high) from a low of 62.9% in 2016, absorption nearly doubled the 20-year average thanks to strong household formation.[13] Coupled with receding supply, this pushed vacancies lower and produced a 6.9% increase (year-over-year, four-quarter moving average) in NOIs.[14] We believe that fundamentals will remain healthy in 2020, while lower interest rates will attract increased capital interest from levered investors. Segments facing less near-term supply pressure (well-located, garden-style product) and markets with strong population growth (e.g., Phoenix, Atlanta, and Florida) should continue to outperform.

- Retail (Market weight): Retail property performed poorly in the third quarter of 2019, generating a 1.4% total return (trailing four quarters).[15] E-commerce continued to challenge the sector, leading to more bankruptcies and store closures. Occupancies and NOIs stagnated. Malls, which typically have substantial tenant exposure to apparel and other goods that can be readily purchased online, delivered total returns of 0.4% (trailing four quarters).[16] Neighborhood and community centers, whose tenant mix typically features more in-demand services, including health care, dining, and fitness, performed only slightly better (3.6%).[17] In our view, this was largely the result of an indiscriminate investor reaction to retail generally: the fundamentals within the neighborhood and community segment were resilient, with vacancies (6.7%) resting below their 20-year average (7.2%).[18] We believe that well-located neighborhood, community, and power centers with a healthy tenant mix can provide income and recession protection to a portfolio. We also believe that dominant, Class A, trophy malls will survive and even thrive as recharged, entertainment-infused shopping destinations; however, the costs of re-tenanting defunct department and apparel stores to create experience-rich environments may drag on investment performance.

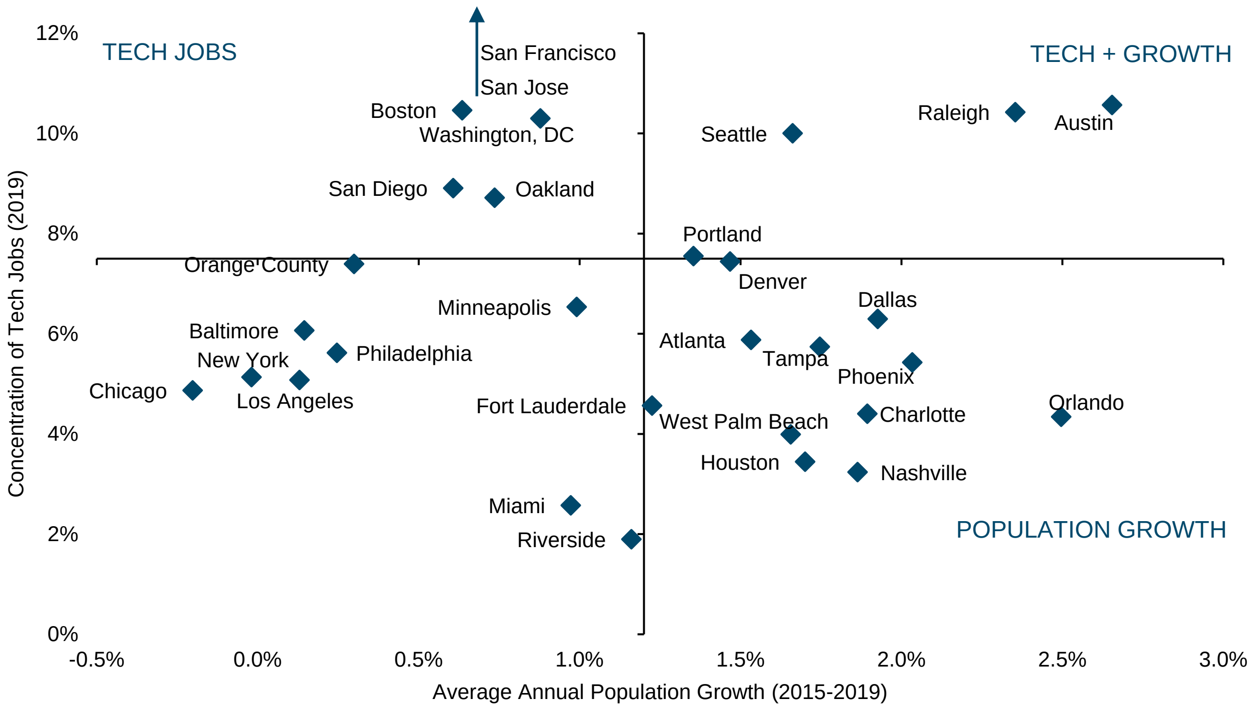
1.2 Market Allocations

Market-level performance hinges on several factors, including occupational demand, supply, and pricing. Over the long term we believe that supply — more specifically constraints on development — predominate, assuming at least a modest pace of population and economic growth. From a strategic perspective, we therefore generally favor the large, coastal, gateway cities (i.e., San Francisco, Los Angeles, New York, Washington D.C., and Boston), which tend to exhibit greater physical and regulatory barriers to new supply.

[8] NCREIF. As of September 2019.
[9] NCREIF. As of September 2019.
[10] CBRE-EA. As of September 2019.
[11] NCREIF. As of September 2019.
[12] NCREIF. As of September 2019.
[13] Census Bureau (homeownership rate); CBRE-EA (absorption). As of September 2019.
[14] NCREIF. As of September 2019.
[15] NCREIF. As of September 2019.
[16] NCREIF. As of September 2019.
[17] NCREIF. As of September 2019.
[18] NCREIF. As of September 2019.

However, over shorter time periods we believe that occupational demand, driven largely by the local economy, often plays a larger role. Over the next five years, we believe that these will largely consist of low-cost Sunbelt metros that can attract corporate relocations and domestic in-migration (e.g., Texas, Florida, Atlanta, Phoenix, and Nashville) and markets with significant exposure to the technology industry (e.g., San Francisco, Seattle, Portland, Austin, and Boston), in which America enjoys a global competitive advantage (see Exhibit 3).

EXHIBIT 3: POPULATIONS GROWTH VS. TECH CONCENTRATION



Source: Moody's Analytics. As of December 2019.

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2 / Real Estate Fundamentals

For U.S. core real estate as a whole, the fundamentals have rarely been stronger. At 5.9% (four-quarter moving average) in the third quarter of 2019, the all-property vacancy rate was near its lowest level in 30 years.[19] Vacancy rates were below their 30-year average in every major sector. NOI growth accelerated to 5% (trailing four quarters, four-quarter moving average) from 4% a year earlier.[20]

The strength of the market's fundamentals belied a slowdown in the broader economy. Festering trade wars, slower global growth, the fading of last year's tax cuts, and the lagged effects of past interest rate hikes combined to reduce the pace of GDP growth from around 3% in 2018 to 2% in 2019.[21] While the unemployment rate hovered near a 50-year low (3.5% in December), job creation slowed by 20% to 175 thousand per month.[22] Nevertheless, vacancies dropped in every sector except Industrial, where efforts to circumvent tariffs had inflated demand in 2018.[23]

Fundamentals were not strong everywhere: Vacancies at malls, hard-hit by store closures amid relentless e-commerce growth, nearly doubled since 2015 to 9.7% in the third quarter, within striking distance of its financial-crisis high (10.3%).[24] Mall cash flows correspondingly slumped, dragging down Retail NOI growth, despite greater resilience in the Power and Neighborhood and Community segments.[25] Rent growth was also soft in a few large apartment and office markets (i.e., Chicago, New York, and Washington D.C.) where job creation cooled and supply ramped up.[26] However, these were the exception to the rule; in general, fundamentals outperformed our expectations.

The near term outlook appears favorable. True, sagging corporate profits and investment, weakening business surveys (e.g., Institute of Supply Management manufacturing index), and leading indicators such as the yield curve point to an economic slowdown at best and a recession at worst.[27] However, we believe that strong momentum coupled with lower interest rates will keep the economy humming through 2020, reminiscent of the post-inversion expansion of the late-1990s. For real estate, a supportive economy should underpin occupational demand. Meanwhile, the construction slowdown that began in 2017 — owing in part to disciplined lending and labor shortages — should keep a lid on competitive new supply (see Exhibit 4).

[19] NCREIF. As of September 2019.
[20] NCREIF. As of September 2019.
[21] Bureau of Economic Analysis. As of September 2019.
[22] Bureau of Labor Statistics. As of December 2019.
[23] CBRE-EA. As of September 2019.
[24] NCREIF. As of September 2019.
[25] NCREIF. As of September 2019.
[26] CBRE-EA. As of September 2019.
[27] Bureau of Economic Analysis (corporate profits, investment); ISM (business surveys); Federal Reserve (yield curve). As of November 2019.
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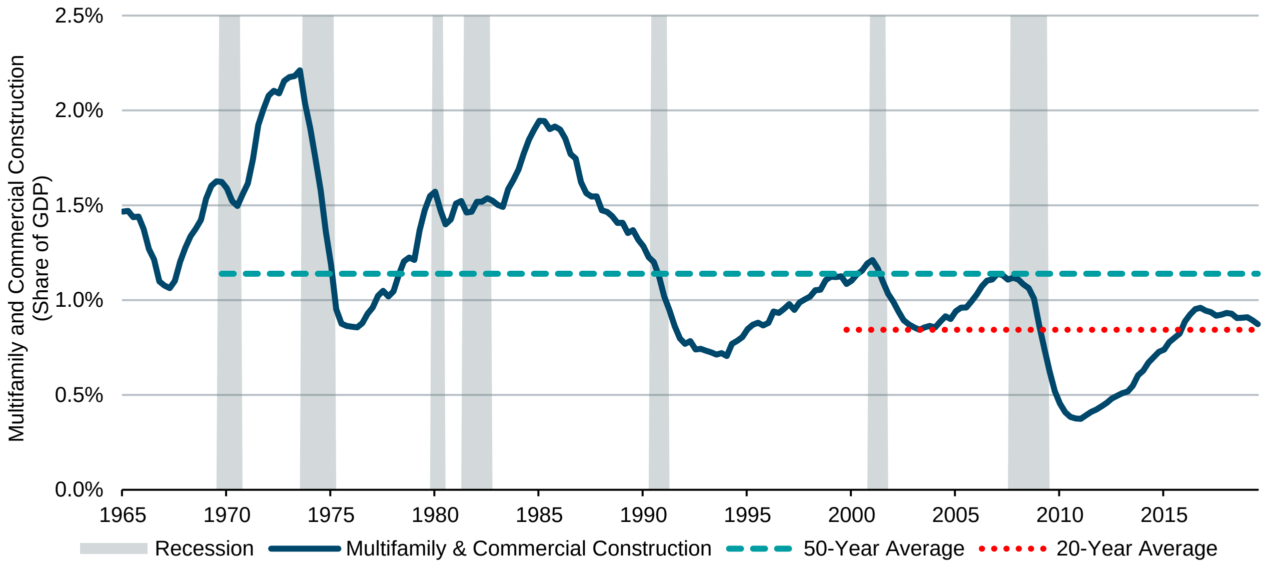
EXHIBIT 4: MULTIFAMILY AND COMMERCIAL CONSTRUCTION (1965-2019)



For illustrative purposes only. Past performance is not indicative of future results.
Source: Federal Reserve. As of September 2019.

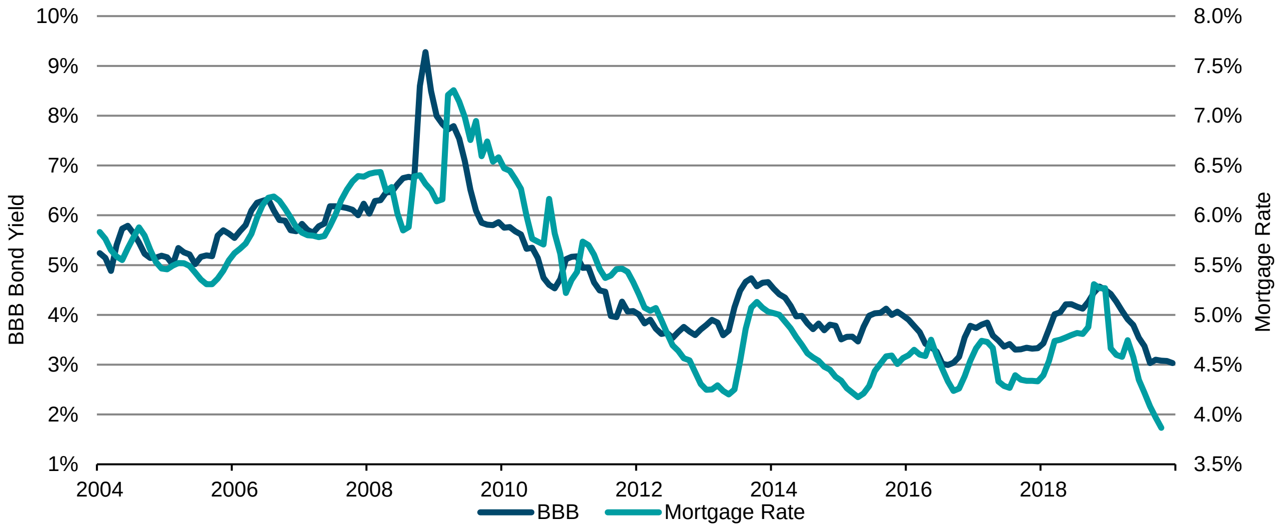
The outlook is more uncertain beyond this year. A buoyant stock market and resilient consumer spending have raised hopes that the economy is poised for a soft landing. There is a belief that central bank intervention has distorted the yield curve, diminishing its efficacy as a leading indicator. We are sympathetic to this view: Near-zero interest rates are historically unusual, and the economy does not exhibit the kinds of imbalances (e.g., inflation or asset bubbles) that have triggered past downturns. Still, given the yield curve's strong track record (having predicted each of the last seven recessions), we are reticent to discard it. In our view, it is prudent to anticipate a mild recession around 2021. Yet we believe that the real-estate repercussions will be limited, thanks to low current vacancies and a modest supply pipeline. Occupancies and NOIs might stagnate, but we do not anticipate them to materially deteriorate.

3 / Real Estate Capital Markets

Broadly speaking, the capital markets were generous to most asset classes in 2019, helped by a series of Federal Reserve interest rate cuts and the growing perception that rock-bottom rates were here to stay. Ten-year Treasury yields dropped 100 basis points and forward markets implied that they would remain below 2% through 2024.[28] Cheap money fueled a stock-market rally, with the S&P 500 rising 29%.[29]

Real estate participated in the capital market swings. Average mortgage rates for commercial and multifamily properties tumbled from 5.3% in December 2018 to 3.9% in October 2019 (see Exhibit 5).[30] Listed equity REIT prices jumped 24% during the year.[31] Real estate equity transaction volume of $570 billion in the third quarter (trailing four quarters) was near a record high and up 6% year-over-year.[32] Transactions data tentatively signaled modest downward pressure on cap rates, particularly in the apartment sector.

EXHIBIT 5: BBB Bond Yield and Average Multifamily and Commercial Mortgage Rate (2004-2019)



Source: Federal Reserve and Real Capital Analytics (RCA). As of December 2019.

Total returns for Giliberto-Levy (GL) senior mortgage index climbed to 10.9% (trailing four quarters) in the third quarter of 2019, their highest level since 2010, as sliding Treasury yields boosted valuations of fixed-rate debt.[33] Non-agency commercial mortgage backed security (CMBS) spreads continued to hover around 90 basis points, well below their 20-year

[28] Federal Reserve. As of December 2019.
[29] Standard & Poor's. As of November 2019.
[30] Real Capital Analytics. As of October 2019.
[31] NAREIT. As of December 2019.
[32] Real Capital Analytics. As of September 2019.
[33] Giliberto-Levy. As of September 2019.
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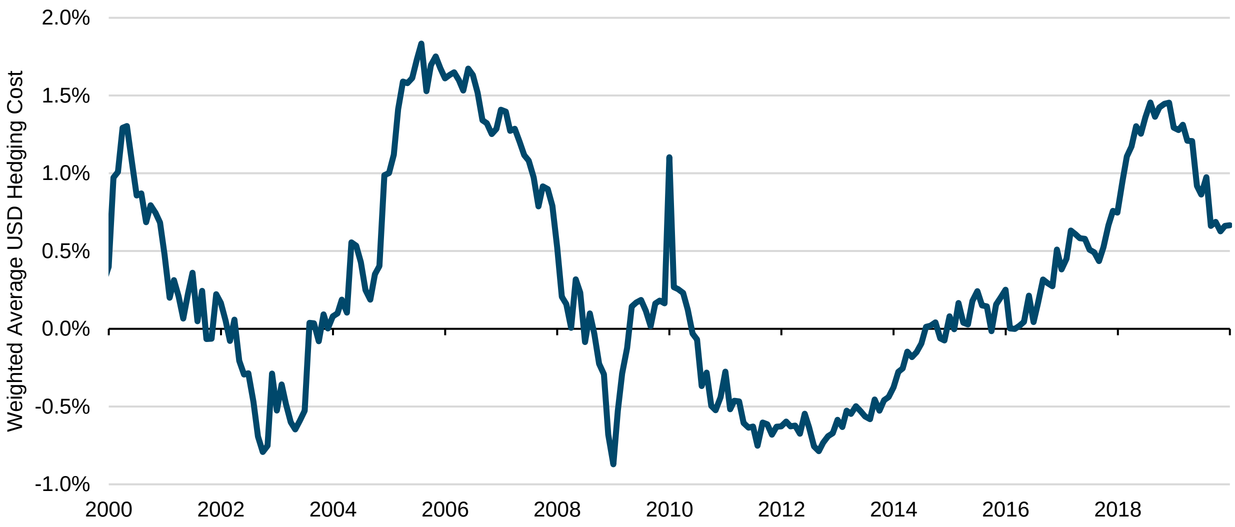
average (200 basis points) and only slightly above their pre-crisis lows (60 basis points).[34] Strong pricing was in part a reflection of healthy debt service conditions: delinquency rates remained near record lows for bank and insurance company loans (0.7% and 0%, respectively) and below historical averages (and heading lower) for CMBS loans (3.3%).[35]

While debt investment performance was robust, lending activity was mixed. The growth of commercial mortgage debt outstanding held at 6.3% (year-over-year) in the third quarter, within the 5%-7% range that has prevailed since 2015.[36] Lending activity was broad-based, led by government-sponsored entities (GSEs) and insurance companies with additional support from banks and CMBS originators.[37] Average loan-to-value ratios slipped to 60.4% in September from 61.9% the year before (and well below the 65% historical average).[38] The Federal Reserve also reported that banks continued to tighten lending conditions for real estate acquisitions and construction in the fourth quarter.[39]

We believe that capital markets will remain liquid and positive for valuations in 2020. In isolation, low interest rates and buoyant equity markets can provide support through multiple channels: domestic institutions (rebalancing mixed-asset portfolios and seeking yield alternatives), private levered investors (capitalizing on lower borrowing rates), foreigners (paying less to hedge dollar exposure; see Exhibit 6) and listed REITs (whose higher share prices deliver a lower cost of capital). Capital markets may cool when the economy and real estate fundamentals soften. However, we believe that transaction markets will remain active (about $500-$600 billion annually) and cap rates will remain stable in 2020, with downward pressure in some areas (e.g., Industrial) offsetting upward pressure in others (e.g., Retail).

EXHIBIT 6: U.S. Dollar Hedging Cost (2000-2019)



Note: EUR (40%), CAD (30%), CNY (15%), JPY (7%), GBP (5%), AUD (3%)
Source: RREEF Management L.L.C., Bloomberg and Real Capital Analytics (RCA). As of December 2019.

[34] Barclays Live. As of December 2019.
[35] Federal Reserve (banks); ACLI (insurance); Moody's (CMBS). As of September 2019.
[36] Federal Reserve. As of September 2019.
[37] Federal Reserve. As of September 2019.
[38] Real Capital Analytics. As of September 2019.
[39] Federal Reserve Senior Loan Officer Survey. As of December 2019.

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4 / Real Estate Performance

Total returns of 6.2% (trailing four quarters) in the third quarter of 2019 were down from the double-digit levels coming out of the crisis.[40] This is no great surprise: at the end of 2018, the Pension Real Estate Association (PREA) Consensus survey predicted that returns would drop to 5.7% in 2019.[41] Moreover, today's returns are arguably of better quality, driven by yield and NOI growth (supported by low vacancy rates) rather than cap rate compression, which cannot be sustained indefinitely.

We believe that these dynamics will remain largely intact in 2020. Peaking supply should keep vacancy rates near today's historically low levels, sustaining NOI growth above inflation. Meanwhile, low interest rates will likely stimulate investor demand, keeping a lid on cap rates — and potentially pushing them slightly lower. This backdrop is consistent, we believe, with total returns averaging 6%-7%.

Recognizing the risks to the economy signaled by the yield curve, we are more cautious regarding the medium-term outlook. In the event of a recession, real estate would not escape unscathed. Nevertheless, we believe that it is well positioned to weather the storm, for several reasons: First, supply is generally under control. Second, despite historically low cap rates, valuations are reasonable relative to interest rates. Third, the industry is not saddled with an unsustainable debt burden. Accordingly, we believe that real estate returns should hold up well on a relative basis.

[40] NCREIF. As of September 2019.
[41] PREA. As of December 2018.
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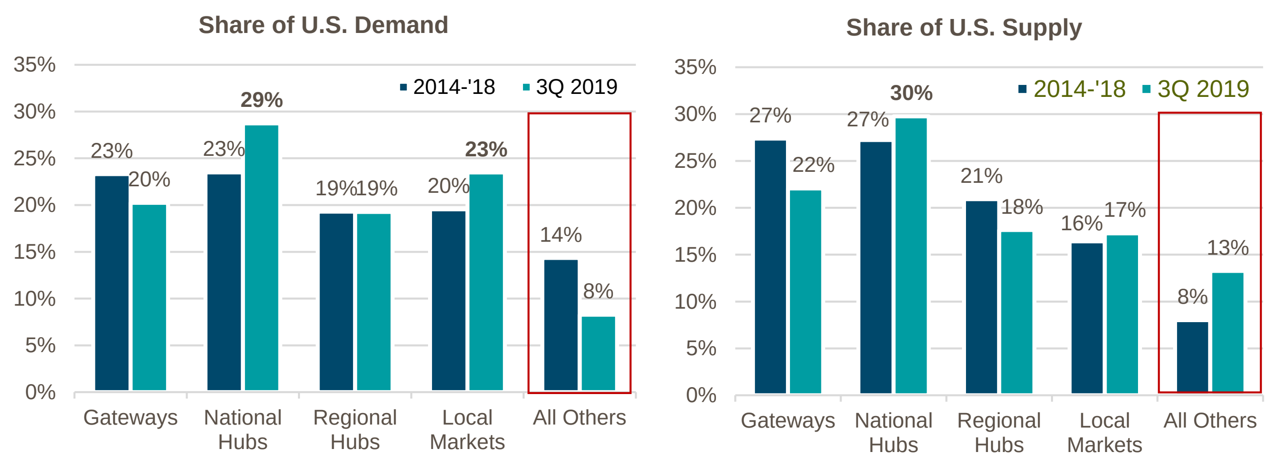
5 / Industrial Outlook and Strategy

5.1 Current Conditions

The U.S. industrial property market faced a test of its strength and durability in 2019, as economic risks heightened in the middle of the year and growth in the broader economy moderated. The threatened and enacted U.S. – China tariffs and associated political tensions left their mark on industrial property fundamentals. Total industrial space demand amounted to just 132 million square feet through the third quarter of 2019, less than half of 2018's total. We believe that in 2018, businesses pulled forward necessary and speculative inventories to avert price increases on imports from China, perhaps stimulating 10% to 15% of additional space demand in that year. We believe that even with a strong fourth quarter, total net absorption for in 2019 will total to only about 215 million square feet, or about 20% less than 265 million square foot annual average from 2017 and 2018. This moderation was experienced across most markets that comprise our Investable Universe, albeit to varying degrees.

Despite below-trend demand in the first three quarters of 2019, overall market fundamentals remained healthy. The national availability rate increased by only 10 basis points through the third quarter of 2019 (7.2%), and average market rents increased by about 4%. Fundamentals varied by location, reflecting both individual metro supply/demand dynamics and the impact of broader macro trends (trade tensions and the slowing economy). Deliveries through the third quarter of 2019 totaled 165 million square feet, broadly off the pace of 2018, when 248 million square feet was built. It was not lack of confidence that tempered new construction, but rather land constraints, increased costs and regulatory barriers (zoning/environmental restrictions). As a result, development has pushed to the expanding edges of larger population centers as well as to secondary and tertiary markets. Exhibit 7 below highlights the relative demand and supply shares in 2019 compared to the last five years, and between market types. Notably, the national hubs (Atlanta, Chicago and Dallas) captured a greater share of both demand and supply in 2019 compared to earlier in the cycle. The gateway markets (major port cities) captured a smaller share of demand and supply, due to structural vacancy limits and development constraints. Conditions were mixed across the regional hubs, but locally-driven markets had solid demand capture increases. All other markets (secondary/tertiary locations) saw a jump in development, but relatively weak demand, perhaps a late-cycle warning about drifting too far away from core.

EXHIBIT 7: DEMAND AND SUPPLY CAPTURE OF US MARKET GROUPS



Source: CBRE-EA and RREEF Management L.L.C.. As of September 2019. No assurance can be given that any forecast or target will be achieved.

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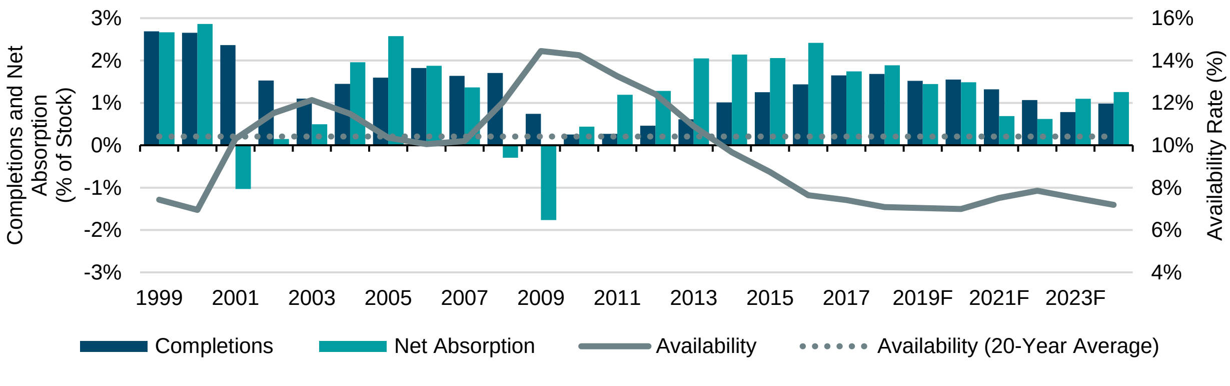
The industrial sector continued to post very strong investment performance, with total returns in the third quarter of 2019 of 13.6% (trailing four quarters), a staggering 740 basis points above the NPI average.[42] The industrial property sector has outperformed the NPI average by 510 basis points annually over the past five years, returning 13.7%. Investor demand and recent outsized rent growth continued to put downward pressure on going-in yields, fueling above-average total returns, including in several late recovery markets, such as Philadelphia, Orlando, Miami and Washington, DC. We maintain a favorable outlook for the sector due to relatively good NOI growth prospects, but performance is not uniformly strong across markets and total returns prospects are anticipated to moderate in the coming few years.[43]

5.2 Outlook and Strategy

Our outlook for U.S. industrial property market fundamentals remains upbeat in 2020, and on a relative basis, over the mid-term in the event of a shallow recession. That said, the pace of occupancy gain and rent growth is expected to moderate as new development adds competition in a greater number of markets, moderating future rent growth. Although there are good performers in all major regions, we are beginning to see rent growth differences materialize between regions, with lower barrier locations in the South and Midwest experiencing less rent growth than higher barrier locations in the West and Northeast, particularly in New York, New Jersey and Philadelphia. [44]

Current low vacancy rates, disciplined and/or constrained construction levels in large population centers, relatively persistent demand drivers (population and consumption growth), plus additive demand from e-commerce should help support relatively good fundamentals and returns. It is notable, however, that demand levels have moderated in since 2016. This downshift seems appropriate given a maturing economic cycle and slowing growth. Demand levels earlier in recovery were likely boosted by some level of pent-up demand following the Great Recession. Additionally, we believe that retailers and logistics providers have become more efficient in their warehouse usage. It also is a reminder that despite a lift from e-commerce, industrial sector fundamentals are cyclical, and subject to moderation and downtrends, as well as upswings. National supply and demand trends are forecast to reflect stable availability in the near term, but then reflect a more pronounced cyclical shift, where construction outpaces absorption in 2021 and 2022 (see Exhibit 8). Ultimately, compared to past cycles, our outlook reflects favorable market conditions. However, not all places will be winners; we forecast significant variation across markets.

EXHIBIT 8: INDUSTRIAL NET ABSORPTION AND COMPLETIONS % OF INVENTORY AND AVAILABILITY RATE (1999 – 2024)*



* Total for U.S. Sum of Industrial Markets (CBRE-EA)
Source: CBRE-EA (History) and RREEF Management L.L.C. (Forecast). Data as of December 2019.
Note: F = forecast. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

[42] NCREIF. As of September 2019.
[43]RREEF Management L.L.C. and NCREIF. As of September 2019.
[44] CBRE-EA, RREEF Management L.L.C.. As of September 2019.
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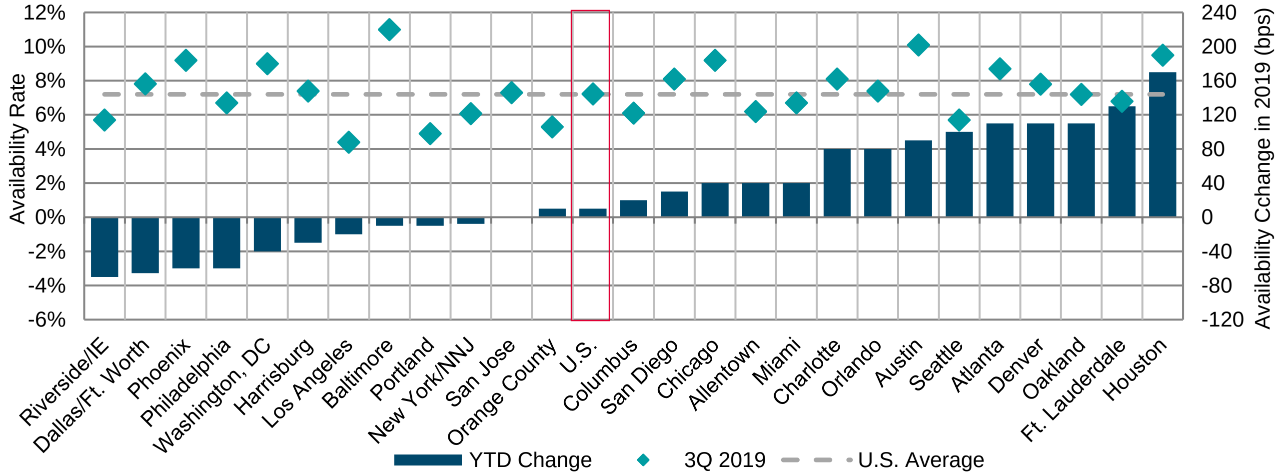
New development may be expected to add about 1.5% of stock per year through 2021. Space absorption is forecast to average about 1.1% during this period. Later in the forecast, the outlook represents a loss of traditional drivers plus a moderation of e-commerce drivers, resulting in total demand of about 0.6% annually in 2021 and 2022. We estimate that e-commerce related activity (and resulting supply chain reconfiguration in major population centers) has stimulated about one-third of total demand in this cycle. Our down-cycle outlook includes some resilience on that front compared to prior cycles.

Persistent development and moderating demand in the middle of our outlook is believed to temper rent growth potential, especially in the markets with the greatest supply pipelines. National totals remain within historical norms, but there is a potential for more competitive conditions across a greater number of markets compared to the past few years. This competition has already surfaced, with new supply softening trends in Atlanta, Chicago and Houston, while the more constrained and underserved markets like Los Angeles and New York have performed better with lower vacancy rates and higher rent growth.

THE CENTRAL THEMES THAT ARE SHAPING OUR 2020 INDUSTRIAL INVESTMENT STRATEGY:

A large majority of markets have performed well in this cycle from a return, vacancy and demand standpoint. Only two of 43 markets (St. Louis and Minneapolis) underperformed the NPI average return over the past five years. However, the tide of fundamentals improvements and capital markets gains that lifted nearly all markets in past years will likely be less robust and uniform in the future. The development pipeline continues at a steady pace, while the prospects of a cyclical end grows nearer. In the NPI, the West region and New York/New Jersey are clear outperformers, they have experienced the greatest rent growth with persistent demand and also have greater land constraints. That should support superior NOI growth prospects in coming years. A few later recovery markets such as Orlando, Philadelphia, Allentown and most recently Washington D.C. and Miami also should see good NOI growth support. Rent growth momentum in the lower-barrier markets like Chicago, Harrisburg and Houston, has faded with supply competition. This has fed less robust NOI growth, translating into lower returns, commonly 300 basis points lower than in the high-barrier markets.

EXHIBIT 9: AVAILABILITY RATE BY METRO AND CHANGE (YTD 3Q 2019)



Source: CBRE-EA. Data as of September 2019. No assurance can be given that any forecast or target will be achieved.
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Notwithstanding broad national trends, all markets do not necessarily move in a straight line. We may have got an early glimpse of this dynamic in the chart above (Exhibit 9), which measures availability across markets as of the third quarter of 2019, as well as the changes in availability year-to-date. Most markets maintained healthy availability rates (sub-8%) during the year, but three quarters of sub-par demand resulted in a wide range of metro changes (-70 to +170 basis points). This chart highlights that once uniformly good momentum had become decidedly mixed. The markets right of Orlando experienced significant deliveries in the face of weak or delayed demand. While these markets generally have good longer-term prospects, the past nine months of activity shows that development (even in higher barrier locations) can increase competition. Generally, we believe that the higher-barrier markets will perform better. They have smaller relative development pipelines and lower going-in vacancy rates, so imbalances can be corrected in less time. The markets in the middle of the chart have in fact been more stable and generally healthy, while the markets to the left (with the exception of Riverside and Dallas) are generally later recovery metros with varied performances.

Primary considerations for 2020 and ahead:

- Asset Fit & Location: It important to target appropriate physical features of industrial real estate for the market in which it sits. Class B properties can perform well in high-barrier locations, but are at a competitive disadvantage in lower-barrier locations. In this cycle, several features seem to have increased in importance, such as lower site coverage (with parking and loading implications), efficient circulation and trailer storage for bulk warehouses, and access to an appropriate labor pool. We believe that judicious asset targeting will garner better rent and occupancy prospects in a full cycle.

- Gateways: These markets, including the Los Angeles and New York regions, as well as Seattle and Oakland should continue to perform well in the near term. The development pipeline has been active in Oakland, Seattle and the New York region, but demand has also been strong, so the markets have maintained near-cycle low vacancy rates ranging between 1% and 4%. Future construction will also likely get more expensive due to increasing land and labor costs.

- National Distribution Hubs: The major national distribution hubs had varied performance in 2019, but should continue to perform well compared to historical averages. New supply competition will serve to dampen future occupancy gains and rent growth. Atlanta has become more competitive in the past year due to bulk warehouse development in outlying metro locations. Multi-tenant, local-serving warehouse should fare better. In our view, more disciplined investing may be warranted here, limited to new Class A assets in the primary West and Northeast corridors

- Regional Hubs: The regional hubs have performed well, particularly in the Northeast. Central Pennsylvania markets of Allentown and Harrisburg performed well early in this cycle, but Harrisburg has faded in the past year with increased competition. Allentown remains strong, with better proximity to New York being advantageous, while Harrisburg has had to compete more broadly in the Mid-Atlantic region. Nonetheless, we believe that over the longer term, Northeast region demand will continue to benefit these markets, providing for stable market-return performance.

- Local Markets: Local markets with strong economies and important technology drivers, as well as healthy housing markets should perform well. In this group we prefer Portland, San Diego, Denver, San Jose/San Francisco and Miami/Fort Lauderdale. Charlotte and Orlando, as key southeast locations are boasting strong economic growth and in Orlando's case, room for above average future rent growth.

- Class A Bulk Warehouse: Prices for large stabilized Class A bulk warehouse properties have increased markedly in recent years, commonly surpassing replacement cost. These assets, leased long-term to credit tenants, can provide stable cash flow, but may underperform NPI averages. Target Class A assets in core submarkets with higher land values and where in-place rents are below current market levels.

- Leasing-up / Development: Elevated macro-economic risks and supply competition should make investors more selective about timing beyond 2020. We believe that speculative development will be responsive to rising risks and moderate in coming years, but supply risks have risen in Chicago, Denver, Dallas, Houston and Atlanta. The demand/supply ratios are more favorable in New York/New Jersey, South Florida, Southern California, San Francisco Bay Area, Seattle and Portland. The expanding edges of Central Pennsylvania are also at risk of experiencing future imbalances.

- Small-Bay and Light Industrial: Prospects are very good for smaller multi-tenant warehouse properties, particularly in the Gateways and strong local markets, as supply has been limited and vacancy rates are at all-time lows for this segment. Despite being older and carrying some degree of functional obsolescence, smaller properties (less than 300,000 square feet in size) have outperformed larger ones in the NPI over the past few years, achieving stronger NOI growth as well.

6 / Apartment Outlook and Strategy

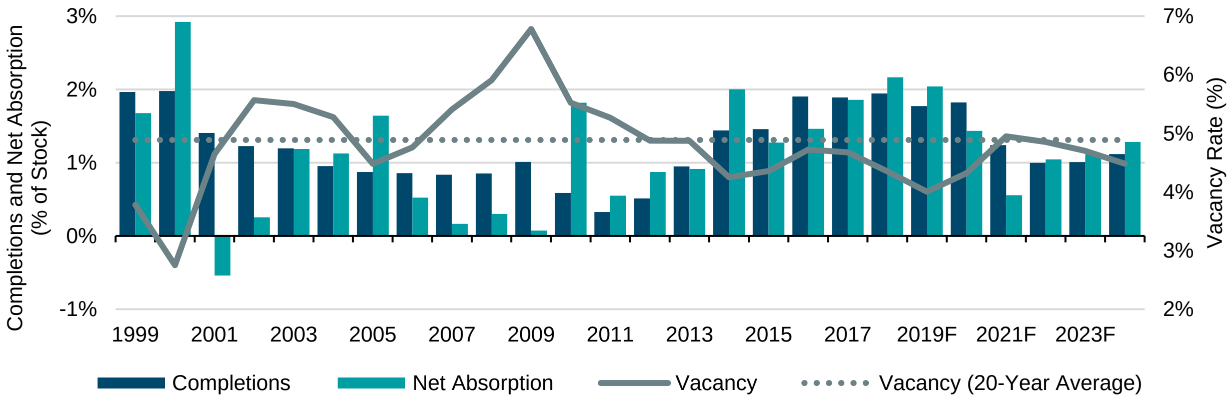
6.1 Current Conditions

Apartment fundamentals remain healthy. While a robust pipeline has maintained concern regarding oversupply, demand has continued to outpace inventory growth, with construction delays helping to set a more gradual pace of deliveries (see Exhibit 10). Even as construction starts were up 6.7% year-over-year in the third quarter of 2019, they remain in-line with the five-year average. Coupled with strong year-to-date absorption across DWS's 29 Investable Markets ("Investable Markets", "Investable Universe"),[45] these trends should help the market stay reasonably in balance over the near-term. Through the first three quarters of 2019, the depth of renter demand was clearly visible, with absorption totaling 226,000 units in those metros; that figure is only 18,000 units shy of the annual amount seen in 2018.

This persistent rental demand is being driven by strong job and population growth, as well as rising home prices. The result of these market dynamics was a U.S. vacancy rate at just 3.6% in the third quarter of 2019,[46] the lowest level achieved since mid-2001. While the structural drivers are strong, renter demand may be expected to decline as the economic expansion matures. The protracted completion schedule should allow for a gradual rise in vacancy rates. We forecast the overall vacancy rate to be in line with its long-term average of 5.0% by the middle of the forecast before recovering as construction recedes.

Land prices and construction costs also continue to rise. As a result, multifamily starts and permits have declined from their recent cyclical peaks (down 14.1% and 10.1%, respectively),[47] thus bringing needed discipline to the market. Debt and equity capital remain abundant, however, demonstrating that investor appetite for the sector's defensive nature mostly continues unabated. Investment activity may be expected to remain robust and competitive, as lower borrowing costs and stable NOI growth in the near-term should make investors willing and able to accept lower total returns.

EXHIBIT 10: APARTMENT NET ABSORPTION AND COMPLETIONS AS % OF INVENTORY AND VACANCY RATE (1999 – 2024)*



*DWS's 29 Apartment Investable Markets
Source: CBRE-EA (history); RREEF Management L.L.C. (forecast). Data as of December 2019.
Note: F = forecast. Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

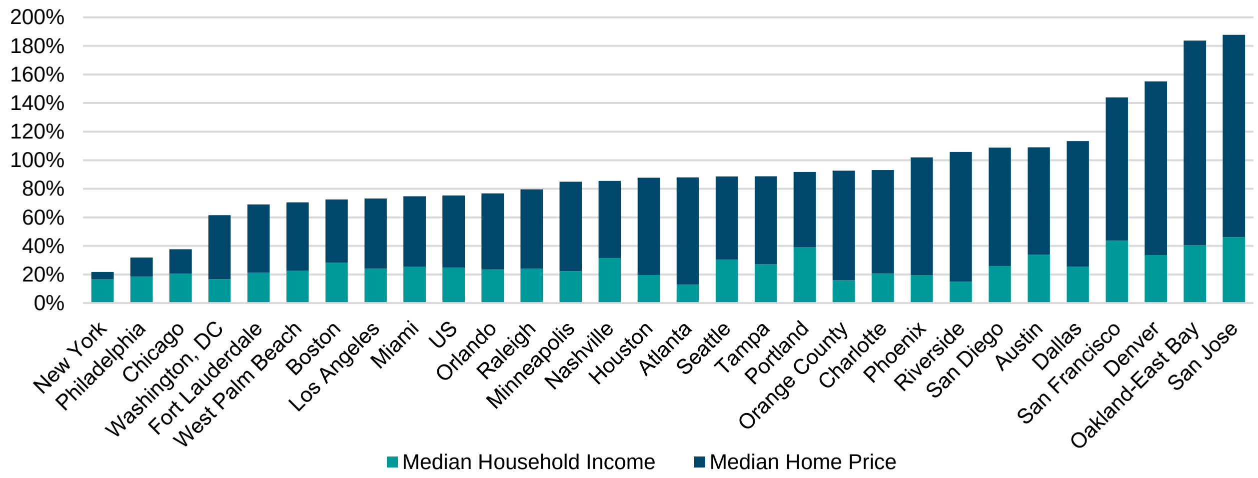
[45] RREEF Management L.L.C.: Apartment Investable Markets include 29 major metros in the U.S.
[46] CBRE-EA. As of September 2019
[47] Moody's Analytics. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

The apartment sector has averaged 3.8% annual effective rent growth since 2013, peaking at 6.5% in the third quarter of 2015. While rent growth has moderated since then, the market continued to show resilience in the third quarter of 2019. Solid fundamentals resulted in effective rent growth of 3.2% year-over-year across DWS's investable universe. This rent growth is not, however, consistent across product subtypes. Strong rent growth has been concentrated in garden-style apartments that have seen limited new supply in suburban markets. Most downtown submarkets continue to underperform due to the oversupply of luxury high-rise product and concessions capping effective rent growth at levels well below inflation. We believe that overall effective rent growth will average 2.7% annually through 2024, 40 basis points shy of the sector's historical average.

As of the third quarter of 2019, the cost of renting versus owning no longer favors apartments, despite home prices continuing to appreciate at a faster rate than rents. U.S. home prices have grown 50.4% cumulatively since 2008, primarily driven by a lack of new housing, especially entry-level homes.[48] However, a significant year-over-year decline in interest rates has made the monthly cost of owning a median-priced home in the U.S. more affordable than renting an apartment. Additionally, while developers have been mostly building more expensive homes due to high costs of construction, there have been recent signs of those costs waning, which will likely provide a favorable boost to starter-home supply; this already seems to be taking place as demonstrated by single-family starts climbing above 900,000 for the first time since the third quarter of 2007.[49]

Despite these positive developments for entry-level buyers, elevated land prices and skilled labor shortages will likely keep the supply pipeline fairly restrained. Furthermore, even as household income growth has made the cost of owning more affordable, its failure to keep pace with home prices (see Exhibit 11) as they surged above pre-recession peaks has not removed the most significant barrier to homeownership: insufficient savings. First-time homebuyers may be better able to afford the monthly payment now, but still do not have adequate funds for a down payment; in 2019, 30% of this group used down payment assistance from family and friends, and the median down payment was only 6%.[50] Combined with paying down student debt, these buyers will continue to find it very challenging to qualify for a mortgage. This lack of affordability, combined with limited new construction and a reduction of federal homeownership tax benefits, should all help support apartment demand.

EXHIBIT 11: CUMULATIVE GROWTH OF HOUSEHOLD INCOME AND HOME PRICES BY INVESTABLE MARKET (2008 – 3Q 2019)



Source: Moody's Analytics and RREEF Management L.L.C.. Data as of September 2019. Past performance is not indicative of future results.

[48] Moody's Analytics. As of September 2019.
[49] Moody's Analytics. As of September 2019.
[50] National Association of Realtors. As of November 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Headwinds facing first-time homebuyers, as well as demographic trends, continue to especially promote suburban apartment demand. Millennials continue to move out of cities in search of more space to raise young families, while paying down student debt and saving for down payments on homes. This cohort typically wants high-quality housing that maximizes space, offers outdoor living, is located near highly-ranked schools, and provides access to employment centers. Proximity to walkable neighborhoods and a highly-amenitized, mixed-use town center is also important. Another demographic shift, albeit still in the early phase, is Baby Boomers downsizing from large homes to apartments, motivated by a desire to eliminate high maintenance costs and property taxes, gain flexibility to be closer to children and grandchildren, and as empty nesters, enjoy a greater sense of community.

Investor interest in the apartment sector remains strong. Average apartment cap rates across the quality spectrum have remained relatively stable, just below 5% for the last five years,[51] but continue to compress gradually. Fundamentals remain weak in many downtown submarkets, yet they have not deterred investors who continue to seek trophy properties in prime urban markets. We estimate that the average going-in cap rate for Class A urban core product remains in the low-4% range, with many prime stabilized assets trading in the high-3% range.[52] Bolstered by positive demographic trends and limited new construction, garden-style product has seen stable rent growth and persistent cap rate compression, with its spread over mid/high-rise cap rates narrowing to nearly 50 basis points as of the third quarter of 2019; that is its lowest spread since 2011.[53] Low cap rates, coupled with decelerating NOI growth, has resulted in total returns ranging from 5.5% to 6.0% for Class A properties in prime locations.

Annual NCREIF Property Index (NPI) total returns for the apartment sector equaled 5.4% (trailing four quarters) in the third quarter of 2019 – a decline of 95 basis points from a year earlier.[54] Sector performance continues to be weighed down primarily by large, gateway markets that have seen an abundance of new supply (mainly luxury high-rise product). Western and Southeastern metros have been the primary outperformers, fueled by strong economic and demographic drivers: Riverside, Phoenix, Tampa, Orlando, Austin, Denver, Atlanta, Charlotte, and Orange County all produced total returns of 7% or more over the past year. In contrast, several slower-growth Midwest and Northeast markets, such as Chicago, New York, and Philadelphia exhibited total returns of less than 4%. Among apartment property subtypes, garden-style apartments were once again the top performers, returning 8.1% (trailing four quarters) as of the third quarter of 2019. Despite their popularity with investors, high-rise properties continued to lag behind, returning 4.1% over the same time period; this is not only well below the subtype's five-year average annualized return, it is also only half of the rolling four-quarter performance of garden-style product. In our view, high-rise properties will likely continue to underperform in the near term as significant supply gets delivered to the urban core.

6.2 Outlook and Strategy

Job and population growth, as well as rising home prices, should continue to sustain healthy renter demand in the near term. Another tailwind for demand should be solid income growth, allowing young adults still living with their parents to come off the sidelines and form new rental households. More than 14 million young adults nationwide — or 21.9% of people ages 23 to 37 — live with their parents, up from 12.7% in 2000.[55] This represents a large source of untapped rental demand for current and future housing supply. Solid job creation in 2019 ensured the unemployment rate of this renter cohort remained in line with its

[51] Real Capital Analytics and Altus. As of September 2019.
[52] RREEF Management L.L.C. and NCREIF. As of September 2019.
[53] RREEF Management L.L.C. and NCREIF. As of September 2019.
[54] NCREIF. As of September 2019.

[55] Zillow. As of May 2019.

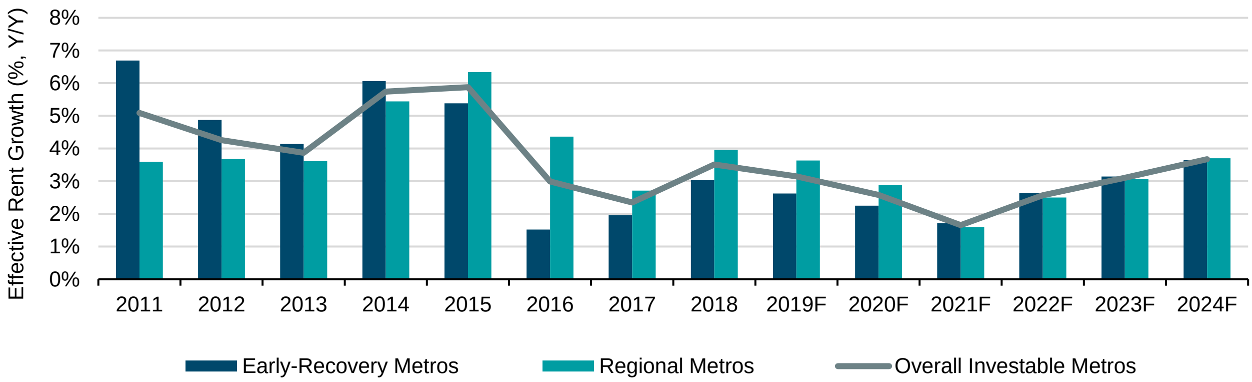
cyclical low at 3.5% in December.[56] With two-thirds of this age group living in rentals, they are a dominant force supporting apartment demand, and a steady job market will likely empower more of them to move out on their own; evidence of this trend can be found with the number of single-person households at a record high, while the number of married households are at a record low.[57]

While starts have been stabilizing, construction already underway is likely to push vacancy rates modestly higher. New deliveries to the investable markets are projected to average over 180,000 units per year in 2020 and 2021, well above their long-term average of 114,000 units per year. Upward pressure on vacancies imay cause effective rent growth to moderate further, though we still project rent growth to average 2.6% over the next year. New supply could recede in the outer years of the forecast, placing fundamentals in balance and resulting in vacancy rates and rent growth in line with their long-term averages of 5.0% and 3.1%, respectively.

Many of the apartment markets that experienced the strongest effective rent growth coming out of the Great Recession remain among the weakest (see Exhibit 12). These metros are also some of the largest, and have therefore had an outsized effect on national performance. In the third quarter of 2019, early recovery markets like Chicago, Dallas, and New York, all trailed the U.S. average. On the other hand, regional markets like Austin, Orlando, Riverside, Atlanta, Phoenix, Tampa, Nashville, and Charlotte all exceeded the U.S. average. Given our expectations for rent growth to moderate over the next few years, investment strategy should focus on stabilizing cash flow within apartment portfolios; buying modern product with limited CAPEX exposure, optimally targeting developers with strong track records in a given market.

As many large coastal markets are exhibiting decelerating effective rent growth, the late-recovery Sunbelt and regional West Coast markets, particularly in the suburbs, should continue to bolster national rent growth over the next several years. The factors that are driving economic growth – favorable demographics, better workforce quality, lower cost of living, and pro-business climate – arebelieved to remain in place. These economies are also much more diversified now, giving investors the confidence to move out on the risk spectrum in search of higher total returns. Metros such as Austin, Riverside, Orlando, Phoenix, and Tampa may likely outperform based on strong economic and demographic drivers. Raleigh is forecasted to outperform driven by a robust job market and continued in-migration. Also, given the vibrancy of its tech-driven economy, San Francisco should continue its upward growth trajectory.

EXHIBIT 12: EFFECTIVE RENT GROWTH (2011 – 2024)



Source: Axiometrics and RREEF Management L.L.C.. Data as of December 2019.
Note: F = forecast. Past performance is not indicative of future results.
Early-Recovery Metros: Austin, Boston, Chicago, Dallas, Denver, Houston, Los Angeles, New York, Oakland, Philadelphia, San Francisco, San Jose, Seattle, Washington DC.
Regional Metros: Atlanta, Charlotte, Fort Lauderdale, Miami, Minneapolis, Nashville, Orange County, Orlando, Phoenix, Portland, Raleigh, Riverside, San Diego, Tampa, West Palm Beach.

Slowing rent growth and rising vacancy, combined with very low yields, will likely limit the apartment sector's ability to produce outsized total returns relative to the other main property types. Given that many prime apartment markets are fully valued, investors continue to move out on the risk spectrum in search of yield, remaining attracted to higher-risk value-add strategies. Although we believe the prime markets should be viewed as strategic long-term performers, elevated pricing in these locations should continue to constrain total returns in the near term. While certain markets are not considered favorable currently, we should bifurcate forecasted performance within the investable markets between downtown and suburban. Investors will likely continue to outperform the index in inner-ring suburban markets with limited new supply, particularly with assets that are near highly-rated schools, public transit, employment centers, and a well-amenitized town center. Conversely, assets in downtown urban core submarkets will likely continue to underperform the index due to oversupply, low cap rates, and limited NOI growth in the near-term.

The central themes that are shaping our apartment strategy include:

- Urban Core Remains in Play, but Forecastt Near-Term Underperformance: Supply pipelines for Class A, luxury high-rise apartments remain robust in most prime urban core markets. While construction delays are helping many of these markets manage the flow of new luxury product, it is important to exercise discipline where oversupply remains a concern, rent growth is either flat or negative, and yields are low. The presence of concessions in such markets, often one to two months of free rent, to lease vacant units has put a sub-inflationary cap on effective rent growth. With NOI growth weak and cap rates low, this will likely lead to continued underperformance. Only the best-located properties with modern designs and unique amenities should be considered. Investors should focus on acquiring properties that offer an urbanized lifestyle with proximity to grocers, parks/trails, and nightlife to help distinguish themselves from their competitive sets. If capital markets adjust to softening fundamentals in the urban core, there may be opportunities to acquire prime assets.

- Value-Add Strategy Continues to Flash Red: The window to execute a successful renovation strategy in order to achieve higher yields is almost closed. Due to sustained investor demand for Class B product late in the cycle, cap rates on these properties have greatly compressed, diminishing the attractive premium over Class A product. High construction costs have also significantly increased the risk of this strategy, given the large capital expenditures required for upgrading properties of this vintage. The ability to earn an acceptable return on cost is largely dependent on achieving sizeable rent premiums, a difficult task in this slowing NOI growth environment. Therefore, it is critical to understand the kinds of renovations for which residents are willing and able to pay a premium, so as to avoid over-improving properties and minimize cash flow volatility.

- Fundamentals and Demographics Continue to Support a Suburban Strategy: Limited new construction in suburban markets, coupled with increasing demand for more space from ageing Millennials, has helped sustain garden-style apartment performance. While homeownership is still the goal, the relatively more affordable option in the near term is likely to rent apartments, as student debt and limited savings make it difficult to qualify for a mortgage. Also, given that many jobs remain in the urban core, there is a strong preference for a shorter commute, both to work and to urban lifestyle options, amongst this renter cohort. To capitalize on these trends, suburban properties should meet very specific investment criteria, foremost being that they should be in highly-rated school systems, and have proximity to employment, public transit, and a highly-amenitized town center.

- Student Housing Remains Attractive Late in the Real Estate Cycle: Over the long-term, cap rates and NOI growth for purpose-built student housing and market-rate apartments should deliver similar returns (assuming no large differences in capital expenditures). However, what separates student housing is that it is less cyclically sensitive than apartments, because NOI growth is less volatile. Therefore, given that we are in the mature phase of the real estate cycle, where rent growth has moderated and supply levels remain elevated for market-rate apartments, the diversification benefits and steady cash flow profile of student housing become even more compelling. Now considered institutionalized, capital continues to flow into this asset class because it offers investors downside protection during any potential slowdown in the U.S. economy. This sustained demand for student housing has led to continued cap rate compression, with core, purpose-built properties at large Tier 1 universities currently trading at cap rates in the low- to mid-4.0% range, in line with Class A market-rate apartments. Strategically, investments in this sector should target the current supply-demand imbalance at Tier 1/Power 5 universities, where demand for purpose-built, pedestrian-to-campus student housing is robust, but high barriers-to-entry keep availability low. The primary focus should be on acquiring infill properties at schools with limited supply pipelines. Such properties should offer students a walkable commute to campus, a strong amenities package, and close proximity to the area's main corridor of nightlife and retail options. Properties located less than a mile from campus have demonstrated the strongest pre-leasing velocity, most stable rent growth, and highest stabilized occupancy levels.

6.3 Special Feature: Rent Control

Rent control policies are laws that cap rents and are usually implemented with the stated purpose of improving housing affordability by preserving the supply of existing affordable housing for low- and middle-income families, limiting disruptions caused by rapid rent increases, and protecting tenants from unjust eviction. Approximately half of U.S. rental households (over 21 million) spend more than 30% of their income on housing and are thus considered "cost-burdened".[58] As housing affordability continues to worsen across the country, state governments are intervening with rent control legislation. In 2019, coastal states like New York, California, and Oregon passed sweeping rent control bills to combat the ongoing affordability concerns of their residents; while bills in Illinois and Colorado did not pass, they are gaining political momentum.

Over the short-term, these rent control bills might improve local tenant affordability. In the long run though, restricting the ability to raise rents will likely reduce the willingness of landlords to maintain existing rental properties, and ultimately diminish the quality and quantity of housing available. It would then be reasonable to believe a capital markets reset is possible, resulting in higher yields and lower values. However, as outlined below, the impact of recent rent control reform will likely vary by market given the different terms and conditions set forth by each state's legislature.

New York: This legislation impacted rent-regulated apartments only. These changes to rent-regulation laws are permanent and will not sunset without an act of the state legislature to repeal or terminate them. The main highlights of the bill were both implementing stricter rent caps and removing the ability to mark rents to market. The caps for rent-controlled tenants were made equal to the average of the five most recent Rent Guidelines Board annual rent increases; these caps are at or currently below inflation depending on lease term.[59] More restrictive rent caps were also placed on major capital and individual apartment improvements. Other major highlights include repealing the vacancy and longevity bonuses: the vacancy bonus gave landlords the ability to raise rents significantly each time a unit became vacant, while the longevity bonus allowed rents to be raised by additional amounts based on the duration of the previous tenancy. The vacancy and luxury deregulation provisions were also repealed, meaning it is no longer possible to convert a rent-stabilized unit to market-rate once its monthly rent passes a certain threshold, or if the tenant passes a certain income threshold.

In terms of the bill's impact, tenant affordability will likely improve in the short-term, but long-term, lower rent caps will make it less attractive for landlords to invest capital into rent-regulated properties and will ultimately diminish the quality and quantity of housing available. From a capital markets perspective, lower NOI forecasts could lead lenders to be more selective and scale back on financing, leaving investors with more limited, and thus more expensive, financing options; this will likely result in driving prices lower and yields higher. The market has already seen some of this play out as deal volume has slowed and cap rates have expanded year-over-year: deal volume is $1.2 billion below the five-year average and cap rates are 38 basis points above the five-year average.[60] This could lead to a potential buying opportunity as prices reset; however, limits on financing will likely translate into lower CAPEX given that stronger restrictions on rent growth will make it more difficult to generate an acceptable return on cost.

[58] U.S. Census. As of September 2019.
[59] NYC Rent Guidelines Board. As of December 2019.
[60] Real Capital Analytics. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

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Further downside risk exists in the form of a Senate bill labeled as the “Good Cause” eviction bill, which would ensure good-standing tenants in any market-rate apartment would be legally entitled to lease renewal and prevent eviction for not paying an “unconscionable” increase in rent: unconscionable is defined as an annual increase of more than 150% of regional CPI. This would essentially be a backdoor rent cap on market rate apartments because tenants would not have to pay any additional rent beyond that threshold, as they could not be evicted on those grounds. This bill is currently in the Senate Judiciary Committee, and while it is still supposedly several votes shy of the total number required to pass, there is clearly positive momentum for more comprehensive rent control. In the near-term, investors will likely take a wait-and-see approach to see whether the bill gains more traction; if passed, it would likely have a negative impact on liquidity and pricing, but could also present a potential buying opportunity once prices reset.

California/Oregon: In California, the latest rent control legislation does not apply to apartments built within the past 15 years and has a sunset provision of 10 years. Also, the new state rules do not overrule local rent control laws. The bill’s main provision was that rent hikes for existing tenants are limited to 5% plus inflation, though that total cannot exceed 10%. Landlords can however reset rents higher when tenants vacate a unit. The bill was sold as striking a balance between protecting existing tenants from large rent increases and predatory evictions, while still allowing owners to earn an acceptable rate of return. The legislation also exempts single-family homes, townhomes and condos, except when owned by corporations or REITs. Regarding Oregon, the only major difference compared to California is that its measure provides a higher rent cap at 7% plus inflation; however, it still cannot exceed a total of 10%.

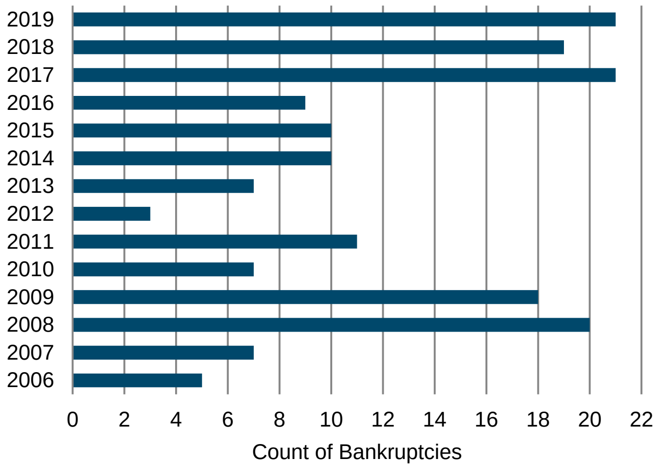
In terms of the bills’ impact, modern, core product should not be adversely impacted by the new legislation given the 15-year rolling exemption based on vintage. Investors will still be able to execute on value-add strategies given the mark-to-market capabilities on vacant units, and that the rent caps on existing tenants are not overly restrictive. While this should help preserve the quality and quantity of housing available, rent caps on existing tenants and higher construction costs will likely force landlords to their sharpen pencils even more on CAPEX to earn a suitable return on cost. Further downside risk exists in that there could be further tweaks to policies that make them even more tenant-friendly and properties that are currently exempt from rent control could see values fall as the exemption period expires.

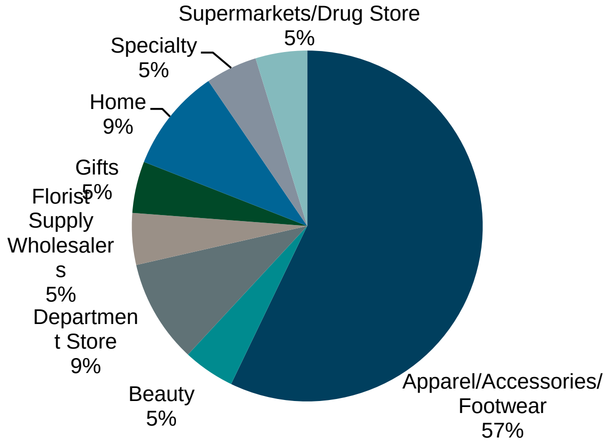
7 / Retail Outlook and Strategy

7.1 Current Conditions

The evolution of retail continues to challenge the retail property sector as store closures, bankruptcies, and liquidations ramped up during 2019. By year-end 2019, 21 U.S. retailers filed bankruptcy, up from 18 in 2018 (see Exhibit 13).[61] Over the same period, retailers announced approximately 9,300 store closures and 4,400 store openings. This compares to 5,900 closures and 3,300 openings for the full year in 2018, according to Coresight Research.[62] A majority of these store closures are the result of systematic store fleet re-organization efforts, bankruptcy, and subsequent liquidation proceedings. What's most notable are the six second-time bankruptcy filers and the concentration of apparel, accessories, and footwear retailers under duress, which has the most impact on malls across the U.S.

EXHIBIT 13: 2019 MAJOR RETAIL BANKRUPTCIES





Source: CBRE-EA (History) and RREEF Management L.L.C. (Forecast). Data as of December 2019.

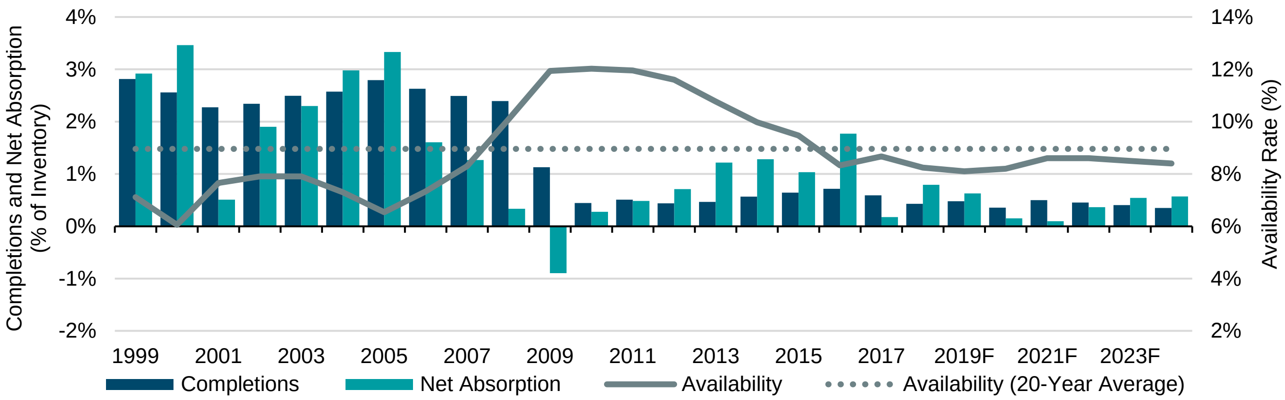
Durable, top-down economic drivers – continued job gains, modest income growth, and a historically tight labor market – continue to support elevated consumer confidence. Both core retail sales (total sales excluding motor vehicle, parts and gas) and nonstore retailer sales grew 3.3% and 11.5%, respectively, year-over-year as of November 2019.[63] While the pace of growth amongst the major categories varied, sales at restaurants, motor vehicles and parts dealers, sporting goods, hobby, musical instrument, and book stores increased. Year-over-year sales declines were reported at department stores, clothing stores, electronics and appliance stores, and health/personal care stores.[64] Even as the backdrop for consumer spending remains mostly positive, headwinds for retailers and property owners persist.

[61] DWS, Company Filings, and Coresight Research. As of December 2019.
[62] Coresight Research. As of December 2019.
[63] Unites States Census Bureau. As of December 2019.
[64] Unites States Census Bureau. As of December 2019.

Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Overall this transition period has been disruptive, however, fundamentals for neighborhood and community centers continued to exhibit resilience during 2019. The availability rate for grocery-anchored centers amongst DWS's Investable Markets ("Investable Markets")[65] ended the third quarter of 2019 at 8.1%, marking a measured decline of 20 bps year-over-year, according to data from CBRE-EA (see Exhibit 14). At its current level, the availability rate stands 90 bps below its 20-year average of 9.0%, and 400 bps below its post-recession peak of 12.1%. The lack of ground-up construction has been a positive in the face of elevated store closure activity. Deliveries in 2019 are forecast to reach 9.2 million square feet (MSF), 64% below their 20-year historical average.[66] Net absorption outpaced a subdued construction pipeline, totaling 11.4 MSF during the trailing twelve-month period ending September 2019. Year-over-year weighted average rent growth across the Investible Markets averaged 3.4% as of the third quarter of 2019, with all but three (New York, San Francisco, and Washington D.C.) recording rent growth. Miami, Charlotte, and Oakland recorded the largest increases of 7% or higher over the same period.[67]

EXHIBIT 14: RETAIL (NEIGHBORHOOD & COMMUNITY CENTERS) NET ABSORPTION AND COMPLETIONS AS % OF INVENTORY AND AVAILABILITY RATE (1999 – 2024)*



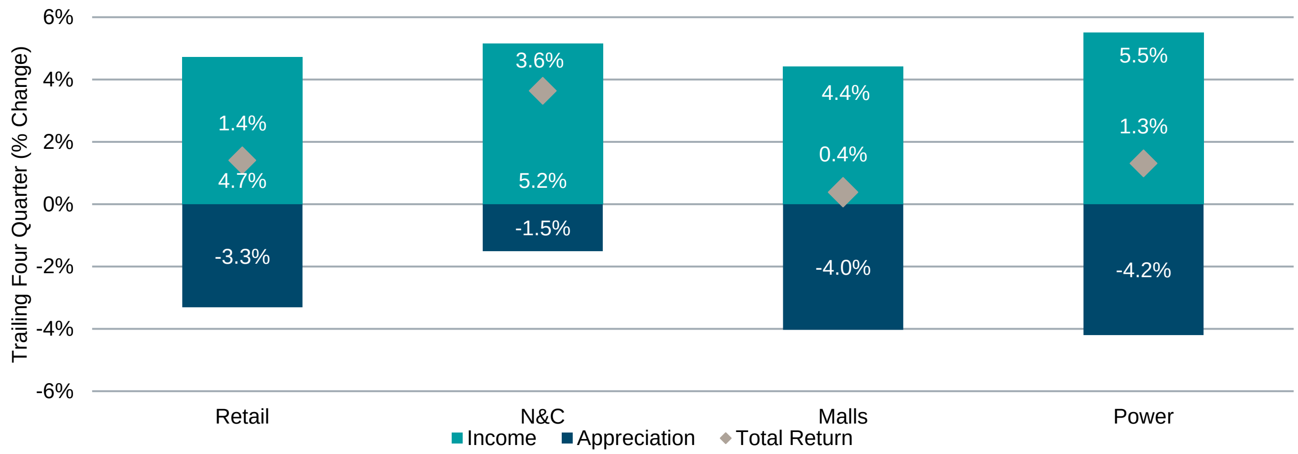
*DWS's 28 Retail Investable Markets
Source: CBRE-EA (History) and RREEF Management L.L.C. (Forecast). Data as of December 2019.
Note: F = forecast. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

Retail's travails continue to weigh on total returns for the retail property subtypes in the NCREIF Property Index. As of the third quarter of 2019, NPI-Retail returned 1.4% over the trailing-four quarters and underperformed the overall NPI benchmark by 480 basis points (see Exhibit 15). Across the sector, negative appreciation eroded returns. Within Retail, decelerating performance is largely due to the falling valuations in the mall sector. Regional and Super Regional malls, which typically have substantial exposure to recent closers and other vulnerable apparel tenants returned 0.4% over the trailing four quarters. Both Power and Neighborhood and Community centers produced strong income returns, although negative appreciation reduced Power total returns to 1.3%. Fundamentals for Neighborhood and Community centers, anchored by grocery, daily-needs retail and in-demand services, including health care, dining, and fitness, continued to show resilience, and returned 3.6% year-over-year, outperforming the other retail sub-property types.[68]

Mall properties have dragged on metros with outsized exposure to underperforming assets, particularly in Atlanta, Chicago, Denver and New York. Conversely, Florida, Texas and the Pacific Northwest are regions where strong population and job growth have translated to better performance. Nashville, another high-growth market, produced the strongest total return over the trailing four quarters. [69]

[65] DWS DWS Retail Investable Markets include 28 major metros in the U.S.
[66] CBRE-EA. As of September 2019.
[67] CBRE-EA. As of September 2019.
[68] NCREIF. As of September 2019.
[69] NCREIF. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

EXHIBIT 15: NCREIF TOTAL RETURNS FOR RETAIL SUB-PROPERTY TYPES / INCOME AND APPRECIATION



Note: "N&C" denotes Neighborhood and Community centers. "Malls" includes both Regional and Super Regional malls.
Source: NCREIF and RREEF Management L.L.C.. Data as of September 2019. Past performance is not indicative of future results.

The retail landscape has been a challenge for investors to navigate. Exposure to 'at-risk retailers' – those most likely to go bankrupt and/or systematically close stores – and the capital needed to backfill tenants or reinvigorate properties can be substantial hurdles to add value or preserve capital. As a result, Super Regional and Regional malls, larger centers with oversized boxes, may have a fragile outlook compared to Neighborhood and Community centers, which has recently translated into weaker forward looking or appraisal-based values. With limited pricing transparency, the few trades for high-quality malls and larger properties (valued over $100 million) have pointed to limited liquidity and potentially lower valuations. In the near term, there may be a risk of further value write-downs by appraisers due to cap rate expansion, which could be more severe for out of favor property subtypes than for smaller, grocery-anchored neighborhood centers. That said, the performance of individual centers will be uneven and depend on quality of the real estate, the growth potential of tenant sales, and the asset's position in the market. Centers anchored by dominant grocery, discount, or daily-needs tenants may reduce sales volatility during a downturn in the economy

7.2 Outlook and Strategy

Our outlook for the retail property sector calls for a gradual increase in the availability rate as the cycle matures and retailers rebalance. New construction is forecast to remain subdued with deliveries consistently below historical levels through the five-year forecast. While supply-side effects will be in check, tempering demand will likely exert upward pressure on the availability rate during the midterm of the forecast period.[70] We anticipate physical store rationalization to persist between finding appropriate store fleets and downsizing sales floors to an efficient store prototype. Rent growth across the Investable Markets is believed to average 1.96% annually from 2020 to 2024, which is comparable to our year-end 2018 forecast.[71] We anticipate modest but healthy sales growth in the near term. Economic fundamentals that sustain consumer health and retail sales may diminish as we advance into the mature phase of the cycle. Slowing job or income growth, weakening consumer confidence, diminishing "wealth effects" from the housing or stock market, and price increases on goods, housing or healthcare could signal caution for consumers and exert pressure on discretionary spending.

In the near term, we anticipate the disruption to continue, and 2020 may prove to be yet another transition year for "on-the-cusp" retailers working through competitive issues, restructuring debt, right-sizing prototypes, monetizing store portfolios, and

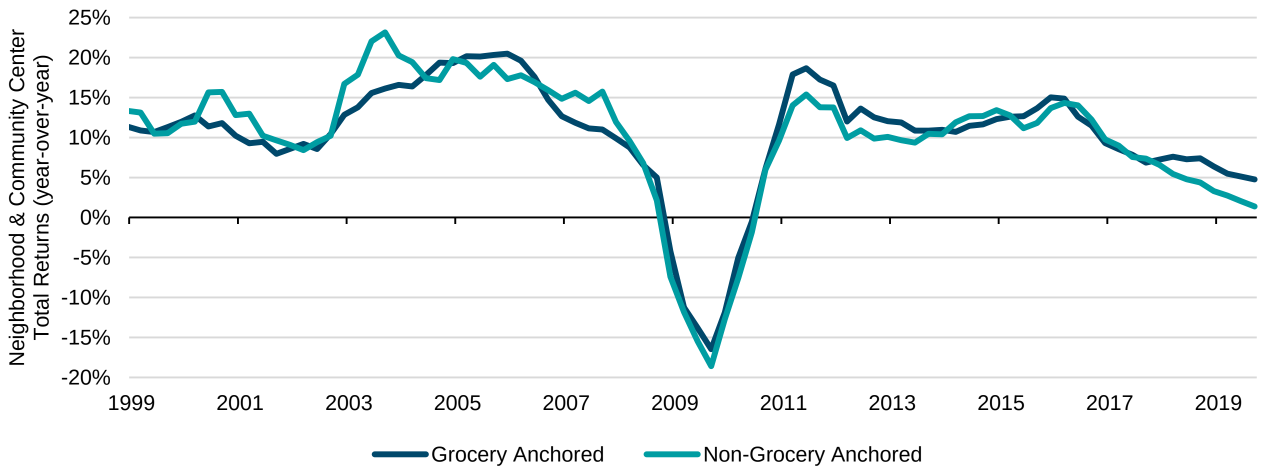
[70] DWS (forecast). As of December 2019. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.
[71] RREEF Management L.L.C. (forecast). As of December 2019. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

growing sales in an omnichannel model. Reaching profitability in e-commerce, implementing technology, and refining the supply chain continue to be the most pressing near-term issues that will further separate the survivors and thrivers. While broad-based closures may slow after 2020, it is difficult to predict how far retailers are from reaching equilibrium and determining the appropriate store count to grow sales and reach customers. This sector has always been “Darwinian” as the evolution of brand lifecycles has ebbed and flowed with changing consumer tastes and preferences. Though this reckoning has hastened, most shopping centers will continue to evolve and adapt if they can continue to meet the changing needs of their core customers.

The accelerated shift of in-store sales to online remains the most obvious threat for retail property markets. We continue to forecast high-quality retail real estate to perform over the long term, but yields will remain relatively low, particularly for dominant, high-quality assets. For the most part, our retail portfolio strategy has not changed. There are still opportunities for investment in the sector. Continue to seek dominant, core properties anchored by credit, high-volume retailers on long-term leases, in areas of solid demographics. Well-leased properties can potentially provide stable income and downside protection to a portfolio during a downturn. The criteria for new acquisitions is more explicit than ever before, where trade area strength, asset and physical property characteristics, and tenant selection are critical. While it may appear risks in this sector are skewed to the downside due to structural shifts, the omnichannel model needs physical retail real estate to fuel it.

We continue to lean into grocery-anchored centers that provide in-demand services and daily needs. Over the long term, grocery-anchored, neighborhood and community centers (our proxy for necessity-based retail) have outperformed non-grocery anchored shopping centers over multiple time series (see Exhibit 16).[72] Since 2018, the performance gap has widened. To be sure, centers with a grocer have lower cap rates — by perhaps 25 to 50 bps depending on grocer credit quality, co-tenancy and market influences. However, the combination of a strong grocer with discount, dollar, health and wellness, and personal services may be a barrier to online competition. Overall, we may expect these particular segments to continue to see sales growth, repeat customer traffic, and outperform relative to other retail segments such as apparel, soft goods, and general merchandise.

EXHIBIT 16: NCREIF TOTAL RETURNS FOR NEIGHBORHOOD & COMMUNITY RETAIL, ANCHORED BY GROCERS VERSUS NON-GROCERY ANCHORED CENTERS



Source: NCREIF and RREEF Management L.L.C.. Data as of September 2019. Past performance is not indicative of future results.
Notes: Properties characterized as containing a grocer tenant are reported to NCREIF by contributing managers and are subject to change.

[72] NCREIF. As of December 2019.

Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

EXHIBIT 17: EXCESS TOTAL RETURN FOR NEIGHBORHOOD & COMMUNITY RETAIL WITH GROCERS

	GATEWAY MARKETS	REGIONAL MARKETS	REST OF COUNTRY
1-Year	4.75%	1.39%	+ 3.37%
3-Year	6.33%	4.35%	+ 1.98%
5-Year	8.78%	7.36%	+ 1.43%
10-Year	10.19%	8.93%	+ 1.26%
20-Year	9.86%	9.64%	+ 0.21%

Source: NCREIF and RREEF Management L.L.C.. Data as of September 2019. Past performance is not indicative of future results.
Notes: Properties characterized as containing a grocer tenant are reported to NCREIF by contributing managers and are subject to change.

Additionally, the combination of grocery-anchored retail and high-growth regional markets, characterized by diverse economic drivers fueling expansion, population and income growth, generally outperformed compared to major gateway markets and smaller tertiary markets. Regional growth markets have sustained a longer growth cycle, allowing for availability to compress to new lows. Historically low levels of new construction, combined with robust population and job growth has led to stronger fundamentals. Cap rates in regional markets may still have additional room to compress on the back of healthy demand and the combination of population and income growth.

The strategic themes and implications that reinforce our retail portfolio strategy include:

- Grocery-Anchored Retail: Continue to overweight Class A neighborhood and community centers anchored by the area's top traditional or specialty grocer. This segment will likely continue to offer the most attractive risk-adjusted returns in the near term. Dominant neighborhood and community centers with a healthy tenant mix will continue to perform and can offer income through the real estate cycle. While online grocery in the U.S. is forecasted to grow at an above average rate over the five-year forecast, at 3% online grocery spending should remain a relatively low share of total online sales when compared to electronics, books, and apparel. Constraints on operating capital and logistics networks remain significant challenges to service grocery delivery profitably.

- Power Centers**:** There may be select opportunities to acquire high-performing centers that are potential tactical income plays due to higher going-in yields. Acquire well-configured centers, anchored by best-in-class omnichannel retailers that can absorb new uses and shrinking store prototypes; however, asset, location, and tenant selection are critical. Income returns for this product type continue to outperform other categories of retail and may be able to provide durable income due to the structure of flat, long-term leases with fixed-rate options. Over time, we believe these centers can serve as last-mile or consumer service centers in the right locations.

- High Street Retail: We continue to believe in the power of cool streets and urban shopping destinations that offer compelling experiences for shoppers and branding opportunities for retailers. This type of brand discovery and engagement cannot be imitated online. Focus on the collection of top assets in the prime international shopping districts. Build out high street retail portfolios selectively to fulfill portfolio considerations, diversify income, manage lease expirations, and mitigate some downside risks of NNN lease investments.

- Malls**:** Maintain an underweight to mall investments. The near term outlook and income profile have been downgraded. Valuation metrics in this segment are pointing to continued value declines for lower quality properties. Elevated store closures, rising capital expenditures, tenant improvement costs, and potentially waning tenant demand adds pressure to NPI returns for both Regional and Super Regional malls. While we believe dominant, Class A and A+, trophy malls will flourish as renewed and vibrant retail destinations, the capital needed to reimagine properties will drag on investment performance in the near term.

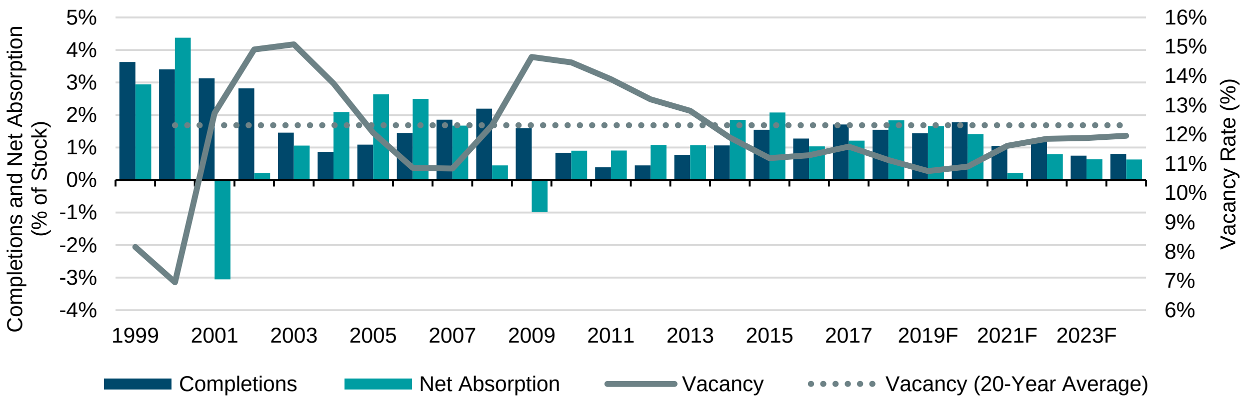
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

8 / Office Outlook and Strategy

8.1 Current Conditions

U.S. office sector performance continued at a healthy pace in 2019 with the sector entering the new decade on solid ground. Worries of rising interest rates, slowing economic growth, an escalating trade war, and an aging bull market were prevalent a year ago. Yet, with the Fed cutting rates three times in 2019, buoyant investor and occupier market confidence continued as financial markets reached new highs. More than 151,000 jobs were added monthly on average during the first three-quarters of 2019 and the unemployment rate reached a cyclical low of 3.5% in November 2019.[73] As the economic expansion continues, labor market conditions could tighten further. With healthy business confidence, especially in tech-related industries, office-using employment gains may continue in 2020 and fuel steady office demand. Still, the rate of job growth may be expected to moderate compared to recent history. The U.S. economy is operating near full capacity and the search for talent is becoming increasingly difficult given the scarcity of available qualified workers. Metros such as Austin, Dallas, and Houston may be expected to lead in office-using job growth over the five year forecast, while growth in the large core markets such as New York, San Francisco, Washington D.C. and Los Angeles could be expected to lag the nation.

EXHIBIT 18: OFFICE NET ABSORPTION AND COMPLETIONS AS % OF INVENTORY AND VACANCY RATE (1999 – 2024)



Source: CBRE-EA (history) and RREEF Management L.L.C. (forecast). As of December 2019.
Note: F = forecast. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

U.S. office market fundamentals were solid in 2019 (see Exhibit 18). Vacancy rates across DWS's 21 Investable Markets ("Investable Markets")[74] continued to tighten in the first three quarters of 2019, averaging more than 150 basis points below their 20-year historical average. Markets with high exposure to tech (e.g., San Francisco, San Jose, Seattle and Austin) recorded some of the lowest office vacancy rates across the nation.

Despite economic uncertainty and talent shortages, office leasing was strong in 2019. Occupancy gains were largely driven by technology, finance and co-working, capturing more than 40% of total leasing activity in 2019.[75] At the market level, net absorption was strongest in tech-oriented and mid-sized metros including the San Francisco Bay Area, Austin and Charlotte, where net absorption surpassed 3% of inventory (vs. 1.7% for the DWS Investable Markets).

[73] Bureau of Labor Statistics. As of November 2019.
[74] DWS: Office Investable Markets include 21 major metros in the U.S.
[75] JLL. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Co-working demand was relatively healthy the first half of the year, but eased in the third quarter given mounting concerns around one of the industry's key players. While the co-working concept is firmly established, demand from co-working will bear close monitoring going forward. The model of engagement between landlords, tenants, and co-working operators will continue to evolve in 2020 as the risk tolerance of tenants and landlords decreases. Partnerships or service agreements between landlords and co-working operators may drive co-working space expansion in 2020, allowing landlords more insight into and control over co-working operations in their buildings. Moreover, tenant demand for co-working will likely remain strong in 2020 as companies weather headcount uncertainty and decentralized workforces. Speed, flexibility and low initial capital outlay will remain major drivers of co-working office demand in 2020 and beyond.[76]

Healthy office demand is projected to continue into 2020. Net absorption is projected to reach 44 million square feet (1.4% of stock) across DWS's Investable Markets in 2020, representing the sector's 11th consecutive year of positive net absorption. The densification of office space – placing more workers into less space – persists, extending more pressure on net absorption.[77] Today, tenants require 15% to 20% less space than prior to the last recession and employers are packing more workers into smaller space.[78] By reducing overall net absorption, densification creates a meaningful drag on the office fundamentals. Therefore, markets will need more employment growth than in previous cycles to compensate for increased space utilization. However, we are starting to see a pushback from employees who are seeking more privacy and fewer distractions in a competitive labor market.[79]

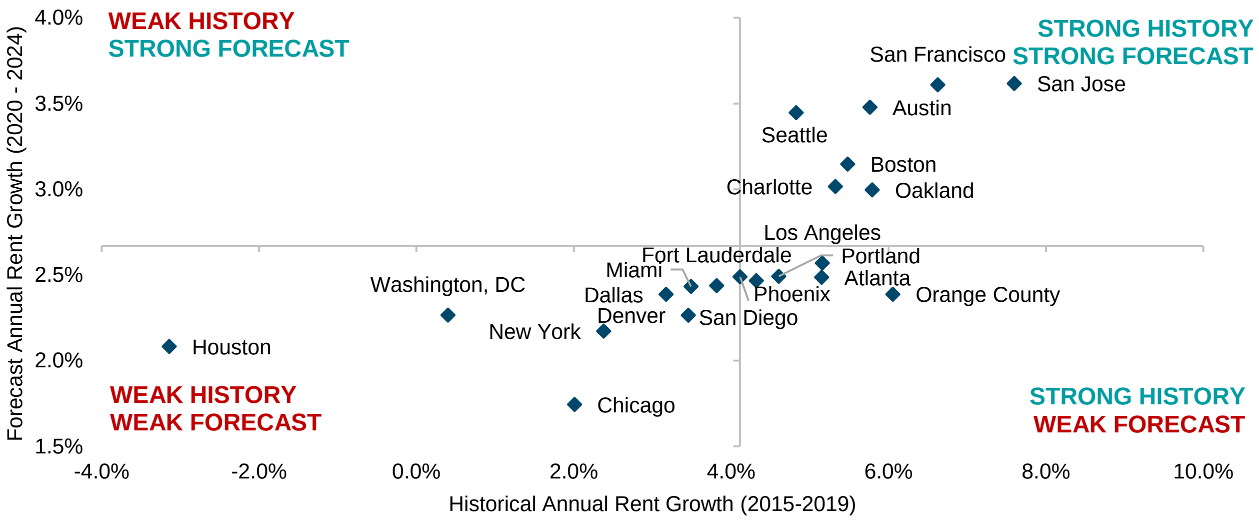
Relatively disciplined construction activity has supported the office sector during the current economic cycle. Yet, spurred by healthy office fundamentals and continuing flight-to-quality as firms favor new, modern space in amenity-rich office nodes, construction activity could remain fairly active in the near-term. Our forecast calls for more new supply over the next year as big projects in select metros are delivered. It should be noted, supply is not evenly distributed across metros. Construction is highly concentrated in a few high-demand and tech-oriented markets, notably San Jose, San Francisco, Seattle, Austin, and Charlotte; as well as in large, core markets such as Chicago, Washington D.C. and New York. Given increasing construction costs and tightening lending standards, speculative construction activity is projected to slow by the middle of the forecast, limiting widespread supply concerns and likely keeping vacancy rates in balance.

The office sector posted robust rent gains relative to other property types in 2019. Effective rents grew by more than 4% annually across the nation in the third quarter of 2019[80], above those in the apartment, retail and industrial sectors. While the rent increases are likely to continue over the forecast, the pace is projected to slow as market conditions become more competitive. Concessions are starting to outpace asking rents: Triple-digit tenant improvement allowances are now commonplace not only in Washington D.C. and Houston for CBD Class A space, but in certain pockets of Chicago and Midtown Manhattan.[81] Moreover, rent growth varies widely by market. Tech-centric markets such as the San Francisco Bay Area, Austin and Boston have been the best performers over the past year, followed by regional markets like Atlanta, Charlotte and Phoenix. Seattle has been among the most heavily supplied markets during the current economic cycle, but still has produced strong rent growth rates thanks to the tech sector's continued expansion.

Office rent growth is forecasted to moderate from the 3-4% annually over the past five years to a 2%-3% annually over the next five years as office demand loses steam alongside the broader economy (see Exhibit 19). We believe metros with an expanding tech presence and strong population growth will outperform the nation. Those include markets in the West Coast and emerging markets such as Austin, Charlotte and Atlanta. New York, Washington D.C. and Chicago likely to produce weaker rent growth due to high current vacancy levels, active construction pipelines, and a modest demand outlook.

[76] CBRE. As of September 2019.
[77] Newmark Knight Frank. As of September 2019.
[78] Green Street Advisors. As of March 2019.
[79] Newmark Knight Frank. As of September 2019.
[80] CBRE-EA. As of September 2019.
[81] JLL. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

EXHIBIT 19: OFFICE RENT GROWTH (ANNUAL, % YEAR-OVER-YEAR)



Source: CBRE-EA (history) and RREEF Management L.L.C. (forecast). As of December 2019. No assurance can be given that any forecast or target will be achieved.

8.2 Outlook and Strategy

The office sector has performed well in 2019, producing healthy rent gains and strong total returns. Solid performance may continue in the near-term, followed by modest growth as the sector advances through the late-growth phase of the real estate cycle. Although near-term office fundamentals will likely remain healthy, rent growth to moderate by the middle of the forecast.

Co-working is likely to continue to grow, notwithstanding occasional setbacks among individual providers: According to CBRE, flexible office inventory is projected to grow by 13% in 2020 (vs. 23% in 2019) and should total approximatively 87 million square feet by year-end 2020.[82] Separately, while remote working has gained popularity over the past decade — 43% American employees worked remotely in 2017[83] — some major companies are reportedly bringing workers back into the office in an effort to improve productivity. Collaboration hinges on well-developed personal relationships; while remote workers might be highly efficient with individual efforts, nothing builds collaborative relationships better than being physically present.[84]

Near-term supply is likely to remain elevated in select tech-oriented markets (Austin, San Jose and San Francisco) and large core markets (New York, Chicago and Washington D.C.). The impact of active development will likely cause overall vacancies to rise, but remain healthy compared to historical levels. The sector's traditionally high cap-ex burden and low yields across U.S. core markets and major CBDs are restricting return projections. Fortunately, current office rents are still at discount to market rates (~10%)[85], creating prospects for more NOI growth relative to other property types. Going forward, investors will

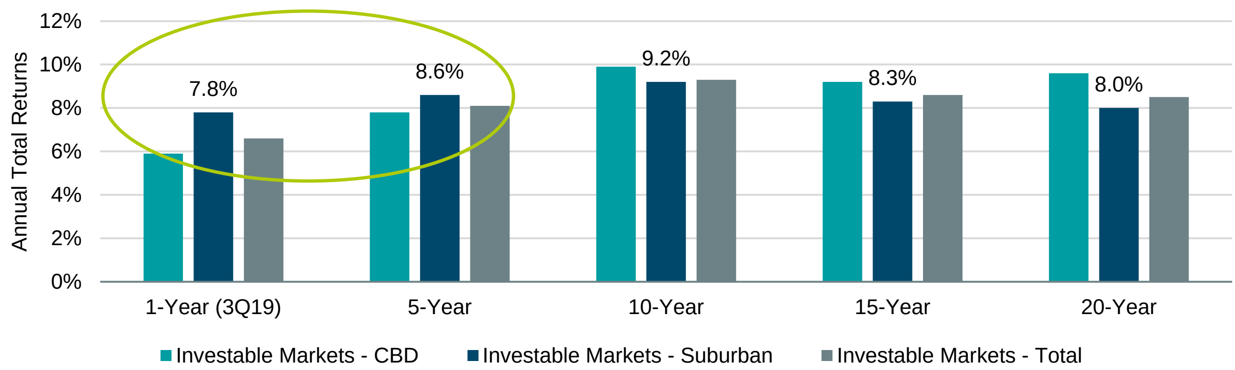
[82] CBRE. As of September 2019.
[83] Gallup. Survey as of December 2017.
[84] Society for Human Resource Management. Drawbacks to Working at Home. As of May 2019.
[85] Altus. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

likely remain cautious and selective as it relates to new investment opportunities. Stable rent roll and limited tenant risk are recommended as well as higher quality assets with long-term leases and low near-term capital requirements.

The central themes that are shaping our office strategy include:

- High Density Prime Suburban Office Nodes: We believe that there are opportunities in select suburban nodes with urban-type amenities. These select suburbs include locations with ample transit connections, vibrant neighborhoods offering a wide range of amenities, adjacent to major employment centers, and proximate to large concentrations of highly skilled workers. With low yields, rising capital expenses and decelerating demand, total returns in early-recovery gateway markets have moderated. Recently, employers have expanded into prime suburban nodes to access a young workforce relocating in search of affordable housing with urban-type amenities. NPI data shows that suburbs have outperformed CBDs of late, although these results are skewed by a few large underperforming markets (New York, Chicago and Washington, DC) (see Exhibit 20).[86]

EXHIBIT 20: SUBURBAN OFFICE RETURNS BEAT CBD RETURNS (% YEAR-OVER-YEAR)



Source: NCREIF and RREEF Management L.L.C.. As of September 2019. No assurance can be given that any forecast or target will be achieved.

- Supply-Constrained Regional Metros: High rent growth across tech and early recovery markets may moderate further relative to their recent history, while regional metros, particularly in the high-growth Sunbelt markets, will likely continue to outperform. These are late-cycle metros with strong demographic and office-using employment prospects, as well as affordable business and housing costs. Oversupply could be a risk in these markets, but given the near-term supply and demand balance, we think that there could be opportunities in markets such as Austin, Atlanta and Charlotte where rent growth is likely to outperform the Investable Markets average.[87]

[86] NCREIF and DWS. As of September 2019.
[87] RREEF Management L.L.C.. As of September 2019.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

- Knowledge-Based and Innovation Metros: Life sciences, technology, and other innovative industries are long-term growth drivers for the U.S. economy and a major force in the office sector. Strong educational institutions are vital to fostering innovative ecosystems that will attract talent and generate office demand. We believe that markets that boast global connectivity, a well-educated workforce, and an appeal to knowledge workers will perform well over the long run. Examples include Boston, Seattle, the San Francisco Bay Area, and Austin. New York and Chicago may also benefit from these dynamics, particularly in certain submarkets, even as they contend with other challenges (e.g., a lagging financial sector and fiscal pressures).

- Medical Office: Medical office could offer stability and diversification to a traditional office portfolio as healthcare services are in demand irrespective of the economic cycle.[88] Over the long term, the growing need for medical services at all ages and among aging baby boomers likely to continue generate demand for medical office. Our strategy calls for investments in high-quality medical office facilities proximate to hospitals and in suburban areas or medical corridors where care can be delivered in an outpatient facility close to large patient population. These are medical office facilities that offer specialized services (e.g., dialysis centers, ambulatory surgery centers, etc.).

[88] NCREIF, MSCI and RREEF Management L.L.C.. As of September 2019.

Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

9 / Environmental, Social, and Governance (ESG) Outlook

As the topic of ESG continues to grow in importance, the key considerations and implications for real estate have begun to morph and expand, transforming the way that ESG is assessed among properties. In addition to the continued emphasis on greater energy efficiency and reduced emissions, investors and managers are shifting attention to physical climate risk: the exposure of properties as well as communities to the acute impacts of climate change. Social topics such as health and wellness have emerged as another area of interest within real estate. Crucially in both cases, the challenge lies in obtaining data points to assess portfolios with respect to these topics and also underwrite the value of improvements.

9.1 Physical Climate Risk

The past several years have seen a rise in both the frequency and intensity of natural disasters. According to the National Oceanic Atmospheric Administration, the total cost of natural disasters since 2016 has topped $450 billion in the U.S. alone, and 2019 marked the fifth year in which the country experienced 10 or more billion-dollar natural disasters, including storms, droughts, and wildfires. Alongside the acute risks posed by natural disasters is the long-term effects of sea level rise, which are reshaping the risk profile of many coastal areas. In addition to the traditional issues of flooding, there are new risks that have emerged around heat stress and access to water that can also impact property. And while property insurance can be a tool to mitigate the direct losses, it is important to consider the indirect impacts to tenants and the potential long-term effects of the continued exposure to climate related stresses.

In order to address these issues, investors are beginning to assess their exposure to physical climate risk and explore potential investments in resilience. However, there are challenges in addressing these issues for a few reasons. First, it can be difficult to obtain accurate data on exposure to floods and other risks. While the Federal Emergency Management Agency (FEMA) provides granular flood mapping data across the U.S., the maps are based on historical flooding data and cannot provide forward-looking scenarios based on the predicted effects of sea level rise, which can push storm surges further inland and expand the areas at risk for persistent flooding. However, new private-sector data providers and tools have arisen to help better model these exposures at the portfolio level and also drill down to understand the risks and mitigation opportunities and the building level. Some cities have helped to facilitate this process by sharing more data and tools on exposure and resilience plans. For instance, the city of Boston, partnering with a climate data provider, has created a publically available mapping tool which provides detail on areas at risk in 2030 and 2050 due to sea level rise, precipitation, and rising temperatures.

The second challenge is understanding how to underwrite the cost of these risks and the value of resilience measures. Unlike energy efficiency measures, where energy costs can be calculated based on historical energy usage, it is not possible to predict when these events could likely occur and thereby predict potential losses. Also, the benefit of resilience is based on the potential loss avoidance as well as the reduced risk of down-time, both of which are difficult to value. While the impacts on real estate pricing still remain to be seen, the issue has become more prominent with the growing number of extreme weather events, and the availability of data and tools to assess exposure.

9.2 Health and Wellness

While much of ESG programming to date has focused on key environmental issues, social topics, such as health and wellness have grown in prominence. Health and wellness encompasses both the design features in a building as well as policies implemented and operation measures in place that can improve the quality and comfort of the built environment for tenants and communities. The topic of health and wellness has already become a growing feature for office markets, driven by open-space floor plans, co-working, and as part of a corporate tenant strategy to attract and retain employees. These principles are also influencing the design of other property types as well, particularly within the residential sector. The topic has also given rise to certification programs, such as the WELL standard and Fitwel. While the overall number of certified properties are small, many investors are pursuing these certifications alongside traditional LEED and other designations during the construction or renovation phase of a project as a way to attract tenants.

However, challenges still lie in understanding the value of these improvements. First, it is difficult to benchmark the wellness of a buildings similar to its energy efficiency as there are numerous metrics, which are often qualitative in nature. And while certifications can be used to demonstrate health and wellness credentials, some buildings will not be able to achieve certification status without significant capital investments. However, these programs do provide a potential set of standards to score buildings across a key set of metrics. In addition, evolving sensor-based technologies which can track factors such as air quality and temperature can allow for ongoing monitoring of a standardize set of quantitative metrics. Secondly, it can be a challenge to value the benefit of these measures because they typically accrue to the tenant and require substantial data from tenants on how these measures are improving outcomes such as employee health, absenteeism, and productivity. While precise return on investments may not be possible, strategies that better enhance tenant-landlord data sharing on health and wellness can help to align objectives and provide more incentives to undertake these measures.

Appendix 1: U.S. House Portfolio

The DWS House Portfolio represents our opinion of the allocation by property sector for core portfolios in the United States which we believe would outperform the NFI-ODCE. We develop the House Portfolio as an unlevered portfolio of properties without regard to tax consequences. The House Portfolio is formulated using both quantitative and qualitative modeling, integrated with our House View. The resulting weights, we believe, aid in providing long-term risk-adjusted outperformance to our portfolios versus the market as a whole and against relevant benchmarks and indices. The analysis focuses on the four major property sectors and excludes hotels. The following table summarizes our conclusions on weightings in comparison with the NFI-ODCE. The analysis results in an active overweight to the industrial sector, a market weight to the apartment and retail sectors, and an underweight to the office sector.

Sector	NPI Weights	ODCE Weights	Research Perspective	House Portfolio	Active Bet (vs ODCE)	Range
Apartment	25%	26%	– Tax reform, high home prices sustaining demand. – Multifamily construction appears to be peaking. Single-family homebuilding historically low. – Moderately defensive through market cycles.	26%	0%	21% - 31%
Industrial	18%	18%	– Benefits from expanding U.S. population and job gains as well as e-commerce, housing production, and trade. – Speculative construction is rising but with low vacancies, solid rent and NOI growth forecasted in near term – Smaller & mid-sized warehouses poised to outperform. – Flex/R&D is recovering, but limited to the west region.	28%	+10%	23% - 33%
Office	35%	35%	– ODCE in-place rents approximately 10% below market, supporting healthy NOI growth. – Office-employment strong, but limits to further growth amid low unemployment. – Cyclically volatile sector.	30%	(5%)	25% - 35%
Retail	21%	16%	– Returns losing momentum, led by Malls. – E-commerce restraining store openings, but convenience and service (health, fitness, dining) retail expanding. – Lack of new supply cushioning fundamentals. – Long duration leases provide stable income.	16%	0%	11% - 21%
Other	0%	4%	N/A	0%	(4%)	0%

(1) NPI weights calculated as gross real estate value excluding ownership share. ODCE weights calculated as gross real estate value at ownership share.
Sources: NCREIF and DWS. As of January 2020.

Appendix 2: Real Estate Target Markets

Investible Metros: We screened top U.S. metros, which represent 86% of the NCREIF Property Index, and identified the investment markets for each property sector that we believe have the best prospects during the market cycle or a portion of it. This metro selection is based on property market size, liquidity, growth characteristics, income, historical returns and other factors indicative of future performance. The list of these metros remains generally static, although some metros may be added or subtracted over time due to structural market changes.

Target Investible Metros: These are a subset of the universe of investible metros and include markets that we believe may outperform or market perform during the next three to five years.

INVESTIBLE AND TARGET MARKETS

↑ Overweight ↓ Underweight ↔ Market Weight

Market	Apartments	Industrial	Office	Retail
Atlanta	↔	↔	↑	↑
Austin	↑	↔	↑	↑
Baltimore		↓		
Boston	↔		↔	↔
Charlotte	↔	↔	↑	↑
Chicago	↓	↓	↓	↓
Dallas	↓	↓	↔	↑
Denver	↔	↔	↓	↔
Fort Lauderdale	↔	↔	↔	↔
Houston	↑	↔	↔	↔
Los Angeles	↔	↔	↔	↔
Miami	↓	↑	↔	↔
Minneapolis	↔			↓
Nashville	↑			↑
New York	↓	↑	↓	↓
Oakland / East Bay	↔	↑	↔	↔
Orange County	↔	↔	↔	↔
Orlando	↑	↑		↑
Philadelphia / Central PA	↓	↔		↓
Phoenix	↑	↔	↔	↓
Portland	↓	↑	↔	↑
Raleigh	↑			↑
Riverside	↑	↔		↔
San Diego	↑	↔	↓	↔
San Francisco	↓	↔	↔	↔
San Jose	↔	↔	↔	↔
Seattle	↔	↑	↑	↑
Tampa	↑			↑
Washington DC	↔	↔	↓	↔
West Palm Beach	↑			↔

Source: RREEF Management L.L.C.. As of January 2020.
Forecasts are not a reliable indicator of future performance. Forecasts arebased on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Appendix 3: Performance over the past 5 years (12-month periods)

	9/18-9/19	9/17–9/18	9/16–9/17	9/15–9/16	9/14–9/15
NCREIF Property Index (NPI)	6.2%	7.2%	6.9%	9.2%	13.5%
NPI-Apartment	5.4%	6.3%	6.2%	8.5%	12.0%
NPI-Industrial	13.6%	14.2%	12.8%	12.5%	15.6%
NPI-Office	6.5%	6.9%	5.7%	7.5%	13.1%
NPI-Retail	1.4%	3.9%	6.1%	11.0%	14.4%
NPI-Apartment: High-Rise	4.1%	4.9%	4.9%	7.0%	10.8%
NPI-Apartment: Low-Rise	5.8%	7.2%	6.7%	9.1%	12.1%
NPI-Apartment: Garden	8.1%	9.3%	8.6%	11.1%	14.2%
NPI-Office: CBD	5.9%	6.3%	5.5%	7.2%	13.9%
NPI-Office: Suburban	7.5%	7.6%	6.1%	7.9%	11.9%
NPI-Retail: Malls	0.4%	2.5%	6.1%	12.1%	15.4%
NPI-Retail: Power	1.3%	5.1%	5.4%	8.3%	12.6%
NPI-Retail: Neighborhood & Community (N&C)	3.6%	5.8%	6.5%	11.0%	13.3%
NPI-Retail: N&C Grocery Anchored	4.8%	7.4%	6.9%	11.5%	13.7%
NPI-Retail: N&C Non-Grocery Anchored	1.4%	4.4%	7.4%	12.2%	11.8%
Giliberto-Levy Senior Mortgage Debt	10.9%	0.8%	2.7%	5.8%	4.0%
	12/18-12/19	**12/17-12/18**	**12/16-12/17**	**12/15-12/16**	**12/14-12/15**
S&P 500 Price Return	28.9%	-6.2%	19.4%	9.5%	-0.7%
NAREIT All Equity Price Return	24.0%	-7.9%	4.5%	4.8%	-1.0%

Sources: NCREIF, Giliberto-Levy, S&P Global, NAREIT and DWS. As of December 2019.

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