U.S. Real Estate Strategic Outlook

Mid-Year 2023

IN A NUTSHELL

— U.S. real estate has responded to higher interest rates. Market prices have dropped about 20% from their Spring 2022 peak. We believe that appraisal values will converge to market levels by year-end.

— Fundamentals are healthy (outside of the office sector), with vacancies near an all-time low (since 1988) and net operating income (NOI) growing briskly. A recent slowdown in the apartment and industrial sectors can be attributed to a post-COVID reset that we believe is largely complete.

— In our view, long-term interest rates are close to their peak and banking tremors will be relatively benign for core real estate financing. By extension, we believe that market cap rates have also essentially peaked, relieving pressure on valuations.

— We believe that fundamentals will soften modestly over the next year amid a mild recession and a wave of apartment and industrial construction, but then retighten in the second half of 2024 as the economy recovers and supply retreats. We believe investors looking through this dip will find opportunities to buy into strong long-term fundamentals at attractive yields.[1]

— COVID and its aftershocks have distorted sector and market dynamics. We believe that structural trends continue to favor industrial and residential property in the Sun Belt and Mountain West.

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

1 / Recent Performance

Rapid interest-rate increases since the end of 2021 — more than 500 basis points (bps) at the short end of the yield curve and 200 bps at the longer end — have reverberated through most asset classes, including real estate. [2] Appraisal-based NCREIF Property Index (NPI) values dropped 6.5% cumulatively in the fourth quarter of 2022 and the first quarter of 2023. [3] Other metrics indicate that as of mid-year 2023, market prices were down about 20% from their peak (more for Office, less for Industrial and Retail). [4] We believe that NPI valuations will converge to these lower levels over the balance of 2023.

Yet underlying fundamentals are generally strong: Vacancy rates held at an all-time low (5.3%) and NOIs jumped 7.4% (year-over-year) in the first quarter of 2023. [5] Vacancy rates remained at or near all-time lows in the apartment, industrial, and retail sectors, although they increased in the office sector. [6]

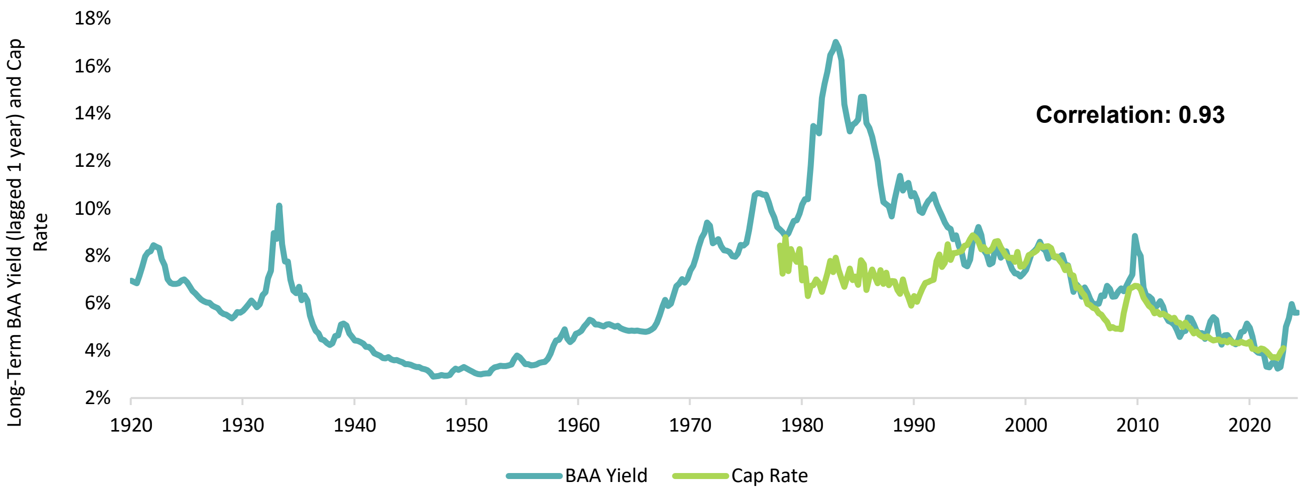
To be sure, there are signs of cooling. Demand growth for apartments turned negative last year and fell flat for industrial buildings in the first quarter of 2023, a slowdown not seen since the Global Financial Crisis (GFC). [7] Unlike then, the recent slide had little to do with the economy, in our view: 6.5 million jobs were created in the 18 months through June 2023, more than double the normal pace, reducing unemployment to nearly a 50-year low (3.6%). [8]Rather, it reflected a post-COVID reversion of consumer spending from housing (apartments) and goods ordered online (industrial) to recreational services. According to our analysis, this rebalancing is now largely complete (i.e., apartment demand and e-commerce have returned to pre-pandemic trends). [9]

[2] Federal Reserve. As of July 2023.
[3] NCREIF. As of March 2023.
[4] GSA. As of July 2023.
[5] NCREIF. As of March 2023.
[6] NCREIF. As of March 2023.
[7] CBRE-EA. As of March 2023.
[8] Bureau of Labor Statistics. As of June 2023.
[9] CBRE-EA (apartment demand); Census Bureau (e-commerce). As of June 2023.

2 / Real Estate Outlook

In the context of broadly healthy fundamentals, real estate's repricing over the past year was primarily driven by capital markets. Since 1993, appraisal cap rates have closely tracked long-term BAA bond yields, lagging by one year (see Exhibit 1). [10] Sharply higher interest rates imply an increase in cap rates toward 5.25% (from under 4%) — a correction that we believe has already occurred in the transactions market and will be reflected in valuations by year-end.

EXHIBIT 1: BAA YIELDS AND CAP RATES



Sources: Moody's (BAA yield); NCREIF (cap rate). As of March 2023

There are signs that market cap rates have reached a plateau. Treasury and BAA yields peaked in October 2022, oscillating within a lower range through the first half of 2023. [11] Inflation has steadily declined from 9% to 3%-5% (depending on the measure). [12] While it remains above the Federal Reserve's target (2%), perhaps leading to another one or two Fed Funds rate hikes, a flat 10-30-year yield curve implies that longer-term interest rates — and cap rates — will remain steady. [13]

To be sure, turmoil in the regional banking industry earlier this year has also raised the specter of a contraction in real estate credit. The concern is understandable, given that community and regional banks account for about a third of commercial and multifamily mortgage debt. [14] It seems reasonable that this segment could retrench amid deposit outflows and heightened regulatory scrutiny.

There is scant evidence of a credit crunch so far: After dipping slightly in the second half of March, outstanding bank real estate loan balances fully recovered in June. [15] Spreads on core real estate loans barely moved in the first quarter of 2023 (up slightly for commercial, down slightly for multifamily), remaining in line with historical norms (200 basis points (bps)) and well below COVID peaks (250-300 bps). [16] Still, a net 67% of senior loan officers reported a tightening of lending standards in the second quarter of 2023, on a par with Global Financial Crisis (GFC) and COVID peaks. [17]

[10] Moody's (BAA yields); NCREIF (cap rates). As of June 2023.
[11] Moody's (BAA yields); Federal Reserve (10-year Treasury yields). As of July 2023.
[12] Bureau of Labor Statistics (CPI); Bureau of Economic Analysis (PCE). As of June 2023.
[13] Federal Reserve. As of July 2023.
[14] Federal Reserve Flow of Funds; DWS calculations. As of March 2023.
[15] Federal Reserve. As of June 2023.
[16] CBRE. As of March 2023.
[17] Federal Reserve. As of May 2023.

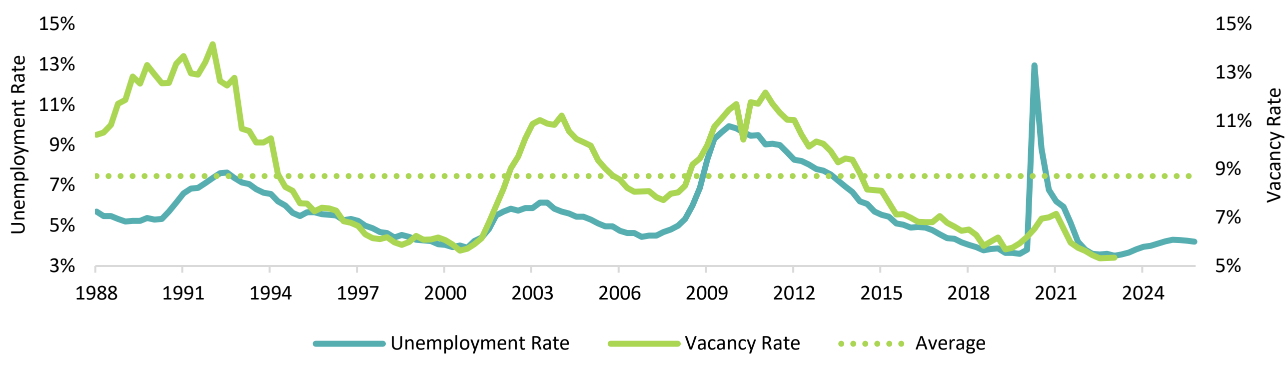
In our view, bank stresses will have limited effects on institutional-quality core real estate. Despite community and regional banks' considerable share of real estate lending, it is heavily concentrated in smaller assets. [18] We believe that any gaps in the institutional market will be quickly filled by larger banks, life insurers, and private credit, which together with CMBS and Government Sponsored Entities (e.g., Fannie Mae and Freddie Mac) account for two-thirds of mortgage lending. [19] However, there could be greater impacts on construction financing, where banks have traditionally played a significant role.

While signaling a possible end to cap-rate expansion, the yield curve also conveys another, less positive message. Ten-year Treasury yields are well below 3-month rates (as they have been since last summer), an inversion that has foreshadowed each of the past eight recessions, 1-2 years in advance. [20] Indeed, we believe that the economy will succumb to the dampening effects of high interest rates later this year.
A recession typically translates into weaker leasing as businesses and households retrench. This will coincide with near-record levels of building completions (in absolute terms, although not as a share of existing inventory) in the industrial and residential sectors, as projects delayed by supply-chain disruptions finally come to fruition. [21] This combination of inhibited demand and inflated supply will soften fundamentals over the next year, in our view.

Yet we believe that the slowdown will amount to no more than a soft patch. Labor markets are structurally tight (job openings outstrip available workers by a large margin). [22] Household finances are solid (financial obligations as a share of disposable income are near their lowest levels since the 1980s). [23] And after years of shortages, pent-up demand has backstopped the rate-sensitive auto and housing industries (vehicles sales jumped 20% year-over-year in June and home prices have been stable since January). [24] Meanwhile, real estate construction is sliding (down 13% since COVID) amid skilled-labor shortages, tighter financing conditions, and lower real estate prices, portending a significant supply pullback in the second half of 2024. [25]

Accordingly, we believe that vacancy rates, though rising, will remain well below historical norms, sustaining positive (albeit slower) rent growth (see Exhibit 2). The office sector (roughly 20% of the market) will struggle, as companies adapting to hybrid working reduce footprints into 2025. [26] But across the industrial, residential, and retail sectors, we expect that vacancy rates will begin to recede, and rent growth accelerate, in the second half of 2024 as the economy picks up and supply dwindles.

EXHIBIT 2: VACANCY AND UNEMPLOYMENT RATES



Source: Moody's Analytics (unemployment); NCREIF (vacancy). As of March 2023.

[18] MSCI. As of April 2023.
[19] Federal Reserve. As of March 2023.
[20] Federal Reserve (yield curve); National Bureau of Economic Research (recessions); DWS calculations. As of July 2023.
[21] CBRE-EA. As of March 2023.
[22] Bureau of Labor Statistics. As of June 2023.
[23] Federal Reserve. As of March 2023.
[24] Census Bureau (vehicle sales); Case-Shiller (home prices). As of June 2023.
[25] Bureau of Economic Analysis. As of March 2023.
[26] NCREIF (office share). As of March 2023.

The next year might be somewhat choppy, in our view, as improving capital markets collide with a soft patch in fundamentals. But conflicting signals are the hallmark of inflection points, where opportunities are often at their greatest. Fortune may favor the brave investor who can look through the dip, capitalize on attractive valuations, and ride the next cycle.

3 / Investment Strategy

COVID sent shockwaves through the real estate industry. Apartment and industrial demand initially boomed as homebound Americans diverted spending from recreation to housing and goods ordered online. [27] Rents in these sectors soared 16% and 26%, respectively, from 2019 to 2022. [28] Remote working also spurred migration to the Sun Belt and Mountain West: Apartment rents jumped by a third in Salt Lake City and Miami but fell 6% in San Francisco. [29]

Some of these shockwaves created undertows in COVID's aftermath. Apartment absorption turned negative in 2022, and while industrial demand held up better (possibly because space shortages had created pent-up demand), it stagnated in the first quarter of 2023. [30] From a geographical perspective, since early last year apartment rents are up nearly 10% in New York but flat in Phoenix. [31]

These swings are unusual for an asset class more typically given to long-term cycles. The challenge for investors is to distinguish the durable signal from the transitory noise. Notwithstanding the recent volatility, we believe that long-term structural forces — amplified by COVID — will continue to favor industrial and apartment properties over offices, and the Sun Belt and Mountain West over coastal gateways (although tech-hubs like Seattle and Boston may fare better). We also believe that after a tough decade, retail property is turning the corner.

Industrial (Strong Overweight)

A post-COVID normalization of spending patterns has dampened absorption, but we believe this correction is largely complete. [32] E-commerce growth has stabilized (up 8% year-over-year in the first quarter) and industrial demand ticked higher in the second quarter. [33] Structural drivers also remain intact: In our view, e-commerce penetration (i.e., as a share of retail sales) is poised to increase from 18% to nearly 30% by the end of the decade, while efforts to protect supply chains from geopolitical and other disruptions will accelerate the pre-COVID trend toward increased inventory accumulation. While the development pipeline is active (about 550 million square feet underway), inflation-adjusted warehouse construction spending is down 8% from its 2021 peak, and we expect that it will continue to recede due to tighter financing and lower prices. [34]

Residential (Overweight)

Residential demand cooled in 2022 as Americans shifted spending from housing to recreation. [35] However, this reset appears complete, in our view, as apartment absorption stabilized in the first half of 2023. [36] Looking ahead, we believe that Millennial household formation will drive housing demand, skewing toward rentals amid high mortgage rates and for-sale prices. The multifamily segment is facing a wave of COVID-delayed deliveries (adding 860 thousand units, or nearly 5% to inventory) over this year and next, but we expect it to taper later next year. [37] Moreover, the short-term supply bump will only make a dent in America's chronic housing shortage: Rental vacancy rates (across both single- and multifamily units) are near their lowest level since 1984. [38]

Retail (Overweight)

Retail conditions have continued to tighten, driven by the neighborhood and community (N&C) segment, where vacancies fell to their lowest level in at least 17 years. [39] Given that they are largely service-oriented, N&C centers are relatively insulated from e-commerce, and

[27] Census Bureau. As of June 2023.
[28] CBRE-EA. As of March 2023.
[29] CBRE-EA. As of March 2023.
[30] CBRE-EA. As of March 2023.
[31] CBRE-EA. As of March 2023.
[32] CBRE-EA. As of March 2023.
[33] Census Bureau (e-commerce); CBRE-EA (demand). As of June 2023.
[34] CBRE-EA (pipeline); Bureau of Economic Analysis (construction spending). As of March 2023.
[35] Census Bureau. As of March 2023.
[36] CBRE-EA. As of March 2023.
[37] CBRE-EA. As of March 2023.
[38] Census Bureau. As of March 2023.
[39] NCREIF. As of March 2023.

to the extent that they dispense goods (e.g., groceries), they can help to fulfill online orders (i.e., delivery or pickup from store). Because they are typically located in or near residential areas, they may also capture more sales as people move to suburbs and spend more of their workweek at home. Years of underperformance have also curtailed construction and kept yields at comparatively attractive levels. [40]

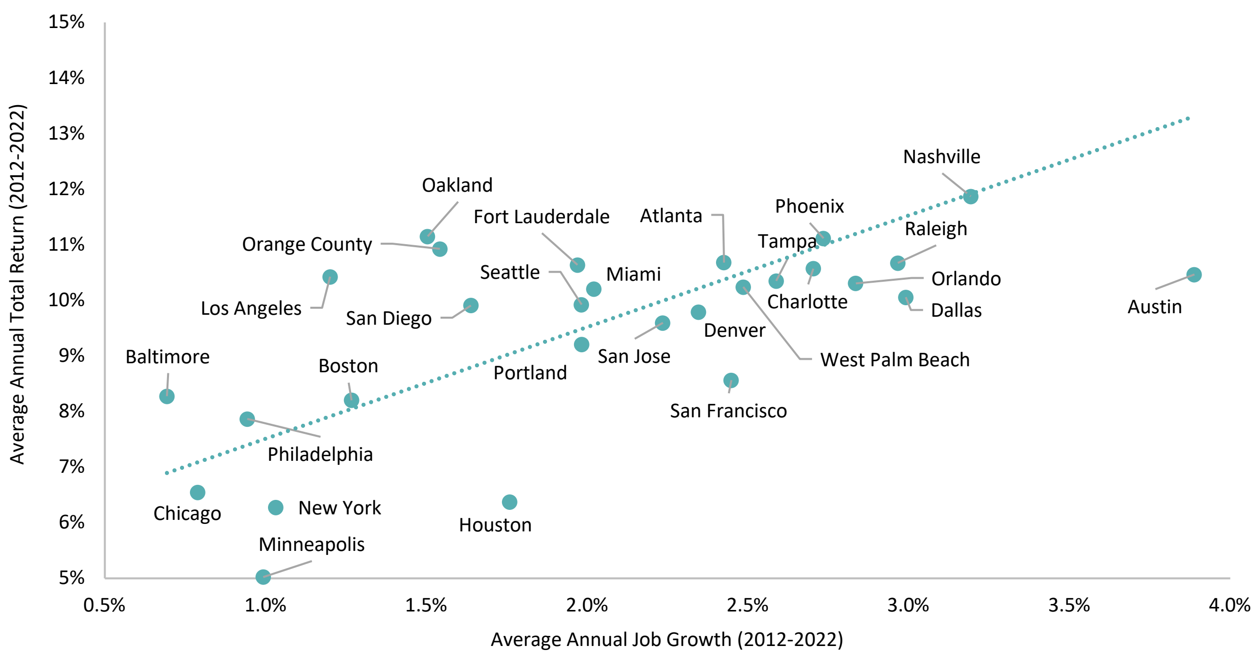
Office (Strong Underweight)

The office market continues to struggle. Vacancy rates have climbed to their highest levels since the early-1990s (above their Global Financial Crisis peak), as work-from-home and layoffs in the critical technology and financial industries have curbed demand. [41] Although we believe that employees will return to the office in greater numbers, hybrid work may leave a permanent mark on demand. Over time, this slack may be absorbed through job growth, particularly as construction shuts down and some existing buildings are converted to alternative uses (net deliveries are poised to plummet based on current pipelines). [42] However, this adjustment could take several years.

Markets

In our view, relative performance hinges on several factors, but over extended periods, demand (supported by population, jobs, and spending) is the dominant driver (see Exhibit 3). Migration to the Sun Belt and Mountain West has seemingly cooled as provisionally remote employees have returned to gateway headquarters. But this migration did not start with COVID. For decades, and especially since the GFC, families (joining Baby Boomers and others) have moved in pursuit of lower costs and a better quality of life, and employers have followed suit. [43] The corollary is that higher-cost gateways face an uphill battle against population decline. Still, some of these markets stand a fighting chance. Despite recent cutbacks after a COVID hiring boom, we believe that the technology industry (including artificial intelligence, life sciences, and defense) will serve as a medium-term growth driver for Boston, Seattle, Silicon Valley, and Northern Virginia.

EXHIBIT 3: JOB GROWTH AND REAL ESTATE TOTAL RETURNS



Sources: Bureau of Labor Statistics (jobs); NCREIF (total returns). As of December 2022.

[40] CBRE-EA (construction) and NCREIF (yields). As of March 2023.
[41] CBRE-EA. As of March 2023.
[42] CBRE-EA. As of March 2023.
[43] Census Bureau. As of March 2023.

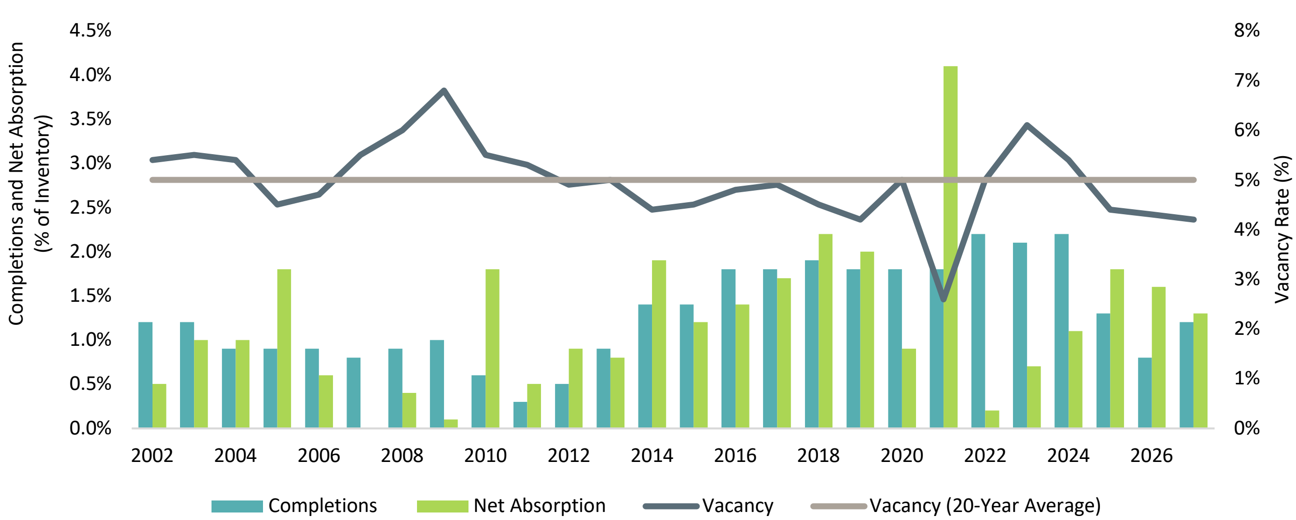
4 / Residential Outlook and Strategy

4.1 Current Conditions

The U.S. residential rental market is slowing down after an unprecedented run. Demand for rental housing reached historic highs in 2021 in response to pandemic-era effects on the nation's residential market, producing double-digit annual rent gains, while making the sector an attractive asset class for investors. [44] But the high prices and inflation concerns started to weaken demand from renters in the summer of 2022, many of whom were pushed to their financial limits by higher rents. In many markets, rent growth has exceeded the rise in incomes, especially in the coastal urban markets where rents are setting new records. The national housing crunch continues to support renter demand, which has been boosted by an annual drop in home sales as many prospective buyers still face challenges finding affordable homes, and sellers are also delaying putting properties up for sale in the current interest rate climate. [45]

After a volatile 2022, market fundamentals were relatively steady through the first half of 2023. Renter demand is holding up. Along with the sharp drop in existing home sales, which keeps renters in apartments and build-for-rent communities, demand is also being fueled by ongoing robust job growth and strong consumer balance sheets. [46] The strong performance of the residential sector coming out of the pandemic, coupled with the long-term need for housing has sparked a significant multifamily development cycle. [47] The growing supply has led the vacancy rate for DWS's 31 Investable Markets ("Investable Markets", "Investable Universe") to climb to 4.9% at mid-year, which is 180 basis points higher year-over-year. [48] As the vacancy rate has increased, rental rate growth has moderated. According to Yardi-Matrix, the average U.S. multifamily asking rent rose 2.6% in May year-over-year, decelerating from the 6.4% growth posted in 2022. The headwinds of a slowing U.S. economy and competition from a large amount of new supply are expected to be a near-term concern. The DWS House View is maintaining its overweight allocation to the residential sector based on strong structural demand drivers remaining in place long term.

EXHIBIT 4: RENTAL NET ABSORPTION AND COMPLETIONS AS A % OF INVENTORY AND VACANCY RATE (2002 – 2027)



Source: CBRE-EA (history); DWS (forecast). As of July 2023.
Note: Note: F = forecast. Aggregate of DWS's investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved..

[44] CBRE-EA, Yardi-Matrix, CoStar, and DWS. As of July 2023.
[45] National Association of Realtors, Moody's and DWS. As of July 2023.
[46] Moody's and DWS. As of July 2023.
[47] CBRE-EA, Yardi-Matrix, CoStar, and DWS. As of July 2023.
[48] CBRE-EA. As of July 2023.

The COVID-19 era of 2020-21 initiated a boost of population mobility – some temporary and some potentially lasting – that accelerated pre-existing patterns on where and how Americans live. The pandemic established new commercial real estate winners and losers by sector and geography. The growth of suburbs close to cities have emerged as the clearest winners, often gaining at the expense of the city centers they encircle. [49] Thanks to the game-changer that is flexible work, tech workers, bankers and managers in big cities are finding they are now only going into work three days a week and are content to have an extra 20- or 30-minute commute for more space and privacy. Demographic trends also reflect this shift as some 45% of millennials (aka urban hipsters) now plan to buy homes in the suburbs according to a recent Bank of America survey.

During the pandemic-era, the country witnessed a population migration away from large urban centers to the Sun Belt and Mountain West, with states such as Arizona, Florida, Texas, Georgia, and North Carolina attracting tens of thousands of new residents. [50] Since 2022, population migration patterns are approaching pre-pandemic trends, although many of the larger trends remain in place. [51] New census data shows that many of the fastest-growing cities remain centered in the Sun Belt and Mountain West region that benefit from multiple factors that make them appealing to new residents, from warmer climates to relative affordability and economic opportunity. Also, residential neighborhoods in the country's largest metros are experiencing a significant boost from residents returning to city centers even as the traditional CBD office markets continue to languish. [52] Large U.S. cities are seeing a population recovery from the worst of the pandemic even as remote and hybrid work reshapes urban centers.

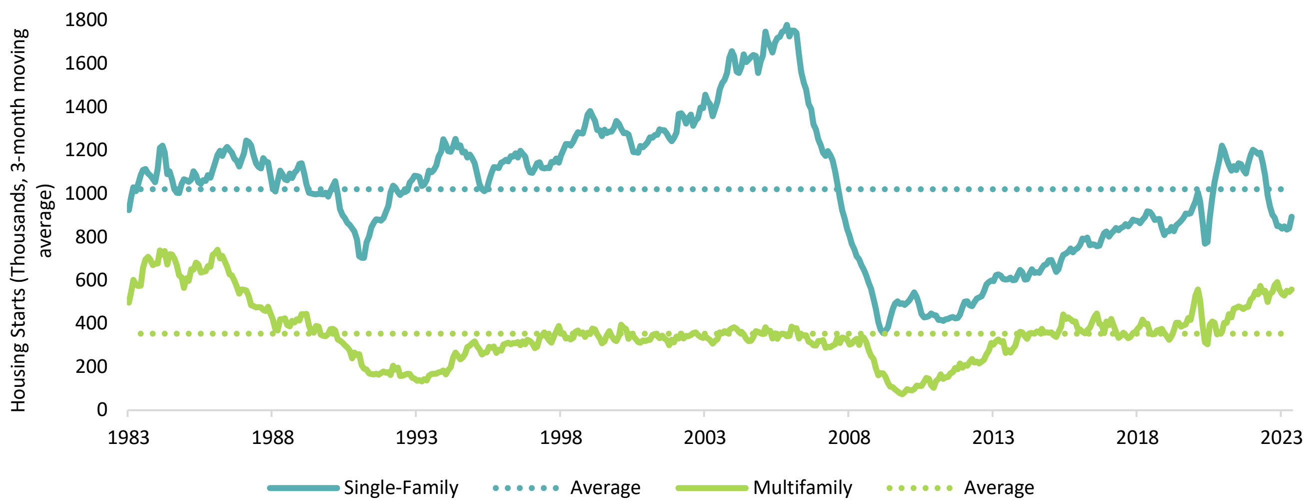
Between 2020 and 2022, 2.8 million new households were created as Americans emerged from pandemic, adding pressure to an already strained housing market. [53] Developers and investors responded to the shifting mobility and lifestyle trends by concentrating on the growing demand for suburban housing in Sun Belt and Mountain West markets. [54] As a result, the region has seen an outsized increase in development activity. In 2019, major Sun Belt and Mountain West markets accounted for 46% of new supply in the Investable Universe, but in 2023, this region's share of newly developed units will jump to 63%. [55] While the major Sun Belt hubs of Atlanta, Dallas-Ft Worth, Houston, and Phoenix have experienced previous surges in new construction during pre-pandemic growth cycles, a wave of new development has commenced in the region's fast-growing midsized markets. [56] Austin, Charlotte, Nashville, Jacksonville, Raleigh-Durham, Salt Lake City, and Orlando are all witnessing an unprecedented construction cycle. Completions combined with soft demand are weighing on market conditions. The average vacancy rate for the 18 Sun Belt and Mountain West markets was 6.2% at mid-year 2023; for comparison, the six gateway markets posted a mid-year average vacancy rate of just 3.9%. [57] Rent growth appears to be rotating out of the Sun Belt and Mountain West markets that produced some of the biggest gains during the pandemic. [58] Recent year-over-year growth is the highest in markets where increases have been more consistent, such as the northeast gateway markets of New York City and Boston. [59]

Despite the increasingly difficult financing environment for developers, multifamily starts (which include apartment and condo projects) jumped 40% year-over-year in May to a seasonally adjusted annualized pace of 624,000 (See exhibit 5). [60] Multifamily starts continue to be elevated in 2023 because developers are breaking ground on legacy projects where they already have capital commitments in place from banks and equity partners. [61] Boosted by a persistent shortage of previously owned houses on the market and a sharp decline in prices from last year's lofty levels (the median new house price saw around a 9% drop in May from a year ago), sales of new single-family homes surged over 12% in May from April, and up 20% from a year ago. [62] With sales rebounding, single-family housing starts totaled 997,000

[49] U.S. Census Bureau. As of July 2023.
[50] U.S. Census Bureau. As of July 2023.
[51] U.S. Census Bureau. As of July 2023.
[52] CBRE-EA and U.S. Census Bureau. As of July 2023.
[53] U.S. Census Bureau. As of July 2023.
[54] Yardi-Matrix, CBRE-EA, U.S. Census Bureau, and DWS. As of July 2023.
[55] Yardi-Matrix, CBRE-EA and DWS. As of July 2023.
[56] Yardi-Matrix, CBRE-EA and DWS. As of July 2023.
[57] CBRE-EA. As of July 2023.
[58] Yardi-Matrix and CBRE-EA. As of July 2023.
[59] Yardi-Matrix and CBRE-EA. As of July 2023.
[60] Yardi-Matrix and CBRE-EA. As of July 2023.
[61] Arbor Realty Trust. As of July 2023.
[62] U.S. Census Bureau and National Association of Realtors. As of July 2023.

units in May, up 18.5% from the prior month but down 6.6% from a year earlier. [63] A recent survey showed the National Association of Home Builders/Wells Fargo Housing Market index in June rose above the midpoint mark of 50 for the first time since July 2022 as a dearth of previously owned homes supported new construction. [64] The index has rebounded by 77% since last December and is quickly approaching its pre-pandemic average.

EXHIBIT 5: U.S. HOUSING START TRENDS FOR SINGLE- AND MULTI-FAMILY PRODUCT TYPES



Sources: Moody's Analytics; DWS. As of July 2023.

While multifamily developers are still getting projects out of the ground, they are not pulling permits for new deals at the same pace. [65] Construction financing is more challenging now and requires more equity, creating a financial headwind to the nation's developers. Multifamily developers have the added challenge of trying to find equity and debt at the same time new supply is elevated and rent growth is slowing. The Fed's most recent senior loan officer survey showed roughly 75% of respondents reported tightening loan standards for commercial real estate development (which includes multifamily). [66] Outside of the pandemic period, this is the most rapid tightening seen since the Great Financial Crisis. The American Institute of Architects, which tracks billings for architectural services, noted "business conditions softened further at firms with a multifamily residential specialization in May, falling to the lowest level in two years." Multifamily architectural billings declined for an 11th consecutive month – essentially ensuring a likely drop in future starts.

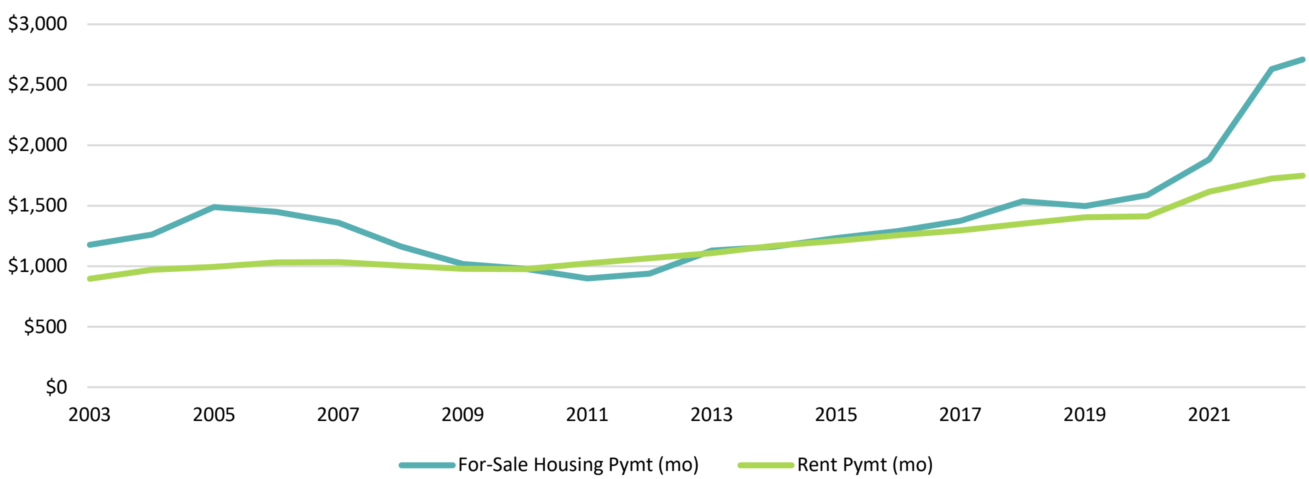
Despite steady performance, the increase in capital costs has injected pricing uncertainty into the market and muted sales activity. [67] Lagging sales volumes and the high cost of debt have consequently impacted unit prices: The average price-per-unit for multifamily is down around 15% in May from a year earlier. [68] Falling prices are now reflected in the NCREIF Property Index (NPI) with the apartment sector posting a total return of -0.4% (trailing four quarters) in the first quarter of 2023 – its first negative return since the Global Financial Crisis. [69] Markets that benefited from post-pandemic demographic trends remained resilient, while the major tech markets on the West Coast were some of the biggest laggards, potentially reflecting the impact of the recent waves of tech layoffs in these high-cost markets. Among apartment property subtypes, garden-style assets continued to reap the benefits of post-pandemic migration trends to the suburbs, posting a positive 2.2% return. On the other hand, the more urban high-rise property subtype realized an annualized return loss of -1.9%.

[63] U.S. Census Bureau, Moody's Analytics and Arbor Realty Trust. As of July 2023.
[64] U.S. Reuters / National Association of Home Builders/Wells Fargo Housing Market index. As of July 2023.
[65] U.S. Reuters / National Association of Home Builders/Wells Fargo Housing Market index. As of July 2023.
[66] U.S. Federal Reserve, As of July 2023.
[67] Yardi-Matrix and CoStar. As of July 2023.
[68] Yardi-Matrix. As of July 2023.
[69] NCREIF. As of March 2023..

4.2 Outlook and Strategy

While American mobility trends and lifestyle preferences shift over time, affordability challenges and low inventory of homes remains a consistent theme across the DWS Investable Universe. These challenges will continue to support rental demand for all types of housing. Ageing Millennials continue to drive housing demand in the suburbs as they start to raise young families, driving the need for larger, modern living spaces and highly rated schools — and now, given flexible work-from-home trends, space for a home office as well. While homeownership remains the goal for Millennials, the more affordable option remains rental housing, both garden-style and build-for-rent communities. Existing home sales have fallen nationwide over the past year because higher mortgage rates have weighed on home-buying demand and supply has been limited. [70] Many people who want to move are effectively trapped in their houses because they do not want to trade a sub-3% mortgage for an over 6.5% mortgage. The supply of homes on the market for sale represented a 3.0-month supply in May 2023 (a balanced market is six months of supply). [71] The gap between the monthly payment for newly purchased single-family home versus rent peaked in the third quarter of 2022 at 37% but remains elevated at 35% in June 2023 (a premium to of $960 per month) (See Exhibit 6). [72] Americans need housing, but there is a shortage that won't likely be corrected in the next five or six years.

EXHIBIT 6: FOR-SALE HOUSING PAYMENT VS. RENT PAYMENT



Note: For-sale housing payment includes an assumed 20% down payment, prevailing interest rate, property taxes & insurance.
Sources: Yardi-Matrix, Moody's and DWS. As of July 2023.

While multifamily fundamentals are solid with demand and rent growth picking up during the first half of the year, the nation is in the midst of a supply surge. [73] When the large number of new apartments under construction is completed, it will expand the Investable Markets existing total inventory by about 5.2%. [74] This inventory will be delivered over the next three to four quarters. New supply, coupled with an uncertain economic outlook will likely lead the Investable Market vacancy rate to climb to around 6.0% by late 2023. [75] While rents won't likely drop significantly, they are not likely to grow very much either. Sun Belt and Mountain West markets are becoming somewhat overbuilt with additional inventory coming online and therefore will be most at risk for further rent deceleration. While multifamily starts remain elevated, we expect that may soon change. Developers face significant challenges in both the debt and equity markets, an environment that will stall or kill many development projects. That suggests a material slowdown in completions by 2025, which in turn, creates opportunity for those with a longer-term view. Short term risks aside, investors will likely continue to outperform the benchmark by targeting affluent, inner-ring suburbs of Sun Belt and Mountain West markets that have limited housing supply, strong population

[70] National Association of Realtors. As of July 2023.
[71] National Association of Realtors. As of July 2023.
[72] Yardi-Matrix, Moody's and DWS. As of July 2023.
[73] Yardi-Matrix, CBRE-EA, CoStar & DWS. As of July 2023.
[74] Yardi-Matrix, CBRE-EA and DWS. As of July 2023.
[75] DWS Forecast. As of July 2023.

growth, and diversified economies. Investors should continue to be very selective in the gateway markets, focusing on tech-driven metros like Boston and Washington, DC (particularly Northern Virginia).

See Exhibit 7 for central themes that are shaping our residential strategy:

EXHIBIT 7: DWS RESIDENTIAL STRATEGY

Suburban Growth Story is Compelling	Suburban rental demand should continue to benefit over the long term from ongoing migration trends, demographic tailwinds, evolving lifestyle preferences, and significant barriers to homeownership; all pre-pandemic demand drivers that remain in place. The development of more urbanized suburbs and the ability to work from home should support rental demand over the long term as well, and lead to outperformance. In terms of asset selection, investors should focus on modern, well-amenitized garden-style and mid-rise apartments, as well as build-for-rent communities. These properties should be located near jobs, well-rated schools, and neighborhood amenities. Also, given demographic trends and the strong demand for more space, investors should target larger floor plans and an abundance of open and outdoor amenity space.
Student Housing Remains Resilient	At Tier 1/Power 5 universities, demand is expected to remain strong for modern, purpose-built properties that are walkable to campus and have bed-bath parity. As was the case pre-COVID, as well as throughout the pandemic, modern product that is walkable to campus continued to see the highest occupancy levels this past school year, as well as the strongest pre-leasing velocity and rent growth for the upcoming school year. [76]
Relative Underperformance in Urban Core	High-rise properties have seen improved performance recently as residents return to city centers. However, large supply pipelines, ongoing migration to the suburbs, work-from-home trends, and an increasingly high cost of living continues to drive relative underperformance. Long term though, performance in the urban core is expected to stabilize as supply comes more into balance with demand and the impact of hybrid working becomes better understood. Gen Z is also expected to backfill Millennials as they graduate college and seek out a live-work-play lifestyle.
Structural Housing Shortage Signals Need for Development	The rising costs of debt and construction are headwinds to new development currently, but investors should look through that and focus on the strength of the sector's long-term demand drivers and an ongoing shortage of all types of housing, estimated to be between two to four million homes [77] .

Source: DWS. As of July 2023.

[76] Yardi Matrix. As of July 2023.

[77] Fannie Mae. As of July 2023.

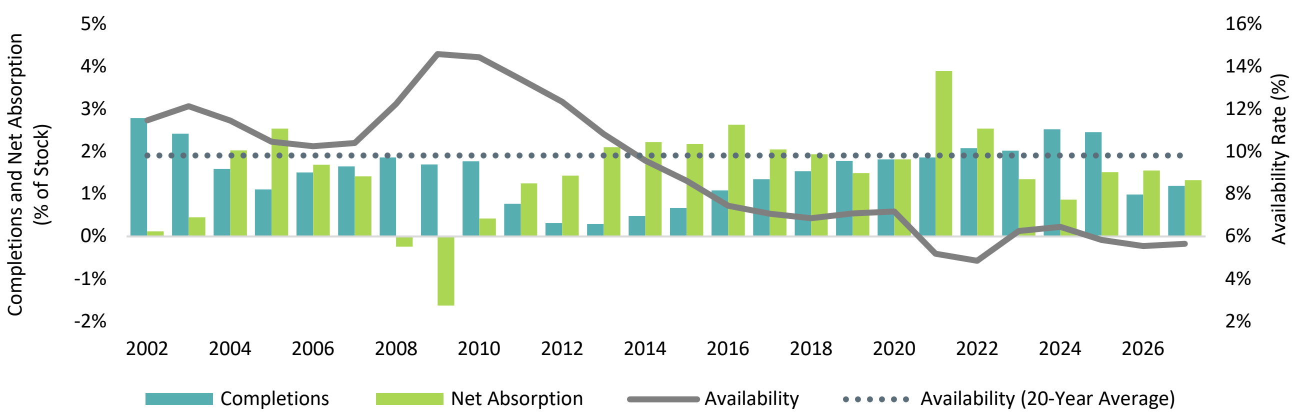
5 / Industrial Outlook and Strategy

5.1 Current Conditions

A near-term recession outlook as well as the normalization of COVID-era trends, has begun to cause a downshift in property market fundamentals [78], which we believe will continue in the near term. The rapid and outsized ramp-up of warehouse demand during the past two years, which totaled more than one billion square feet, and was roughly equivalent to four years of typical growth-cycle demand, has now abated. [79] After 106 million square feet of net absorption in the fourth quarter of 2022, new demand in the first two quarters of 2023 measured only 40 million square feet.[80] This was the weakest first half since 2010. Within the 50 largest metropolitan markets, 30 posted positive absorption while 20 markets posted negative absorption (modest levels) so far in 2023. The notable exception has been strongly negative in Los Angeles (-8.8 MSF). Construction deliveries in the first half of 2023 totaled 204 million square feet.[81]

We believe weaker demand so far in 2023 has been the result of space occupiers pulling forward demand to accommodate their logistics needs in the face of the volatile conditions during the Covid-response years in 2021 and 2022. Despite a demand pause so far in 2023, property market fundamentals have generally remained healthy, aided by a few factors; resilient economic growth (strong employment), persistently tight vacancy rate conditions (compared to long-term averages) and generally a dearth of modern warehouse stock. The U.S. availability rate increased 70 basis points to 5.8% in the second quarter of 2023, while vacancy lifted 80 basis points to 3.9%, both were well below their long-term averages of 9.8% and 6.7%, respectively.[82] It is difficult to characterize market rent movements with data, but we believe that similar to the pace of demand, rent growth momentum has moderated in the past two quarters. Even so, we estimate that year-over-year market rent gains averaged about 12%.[83]

EXHIBIT 8: INDUSTRIAL NET ABSORPTION AND COMPLETIONS AS % OF STOCK AND AVAILABILITY RATE (2002 – 2027)[78,79]



Source: CBRE-EA (history) and DWS (forecast). As of July 2023.
Note: Note: F = forecast. (1) Forecast for US top 54 markets. There is no guarantee the forecasts shown will materialize. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

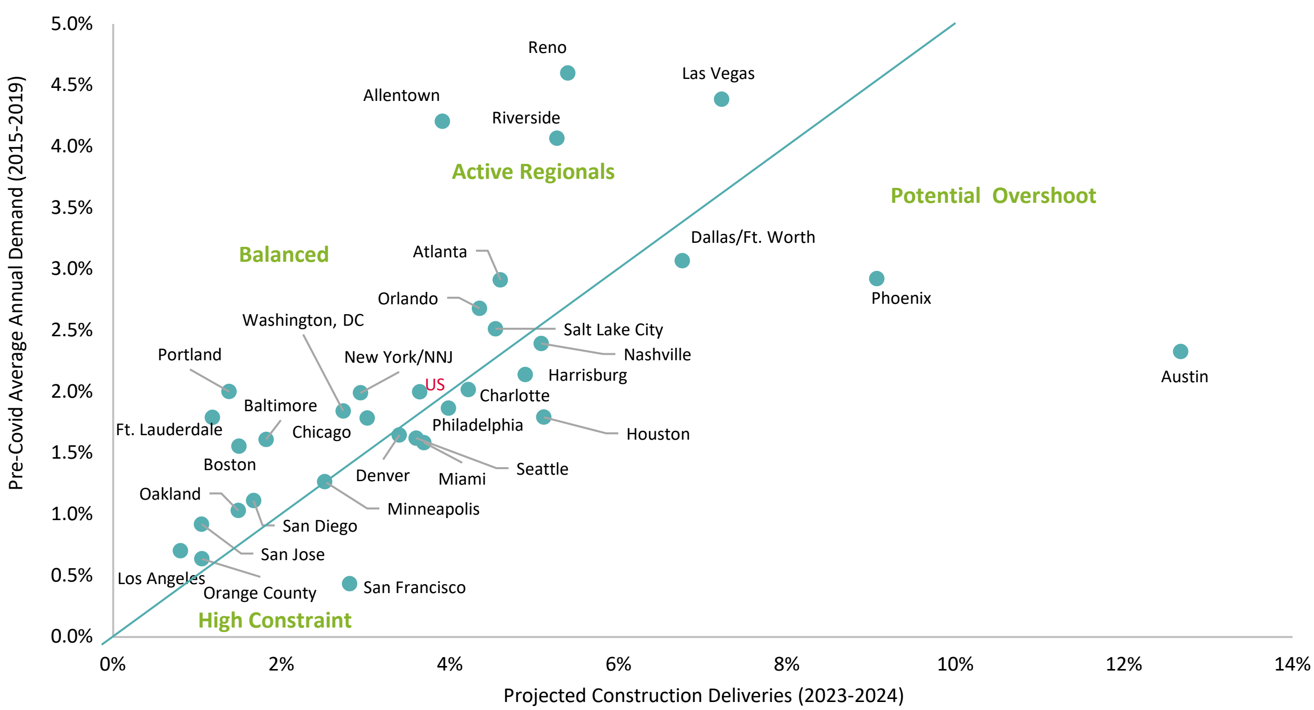
Despite near-term economic risks and capital markets uncertainty, the industrial sector is forecast to be a resilient performer compared to other downcycle periods from the past three decades. Pre-leasing in new deliveries through April 2023 was about 42%. [84] Construction

[78] CBRE-EA. As of June 2023.
[79] CBRE-EA. As of June 2023.
[80] CBRE-EA and DWS. As of June 2023.
[81] CBRE-EA. As of June 2023.
[82] CBRE-EA. As of June 2023.
[83] CBRE-EA and DWS. As of June 2023.
[84] CoStar and DWS. As of June 2023.

deliveries measured about 206 million square feet through the second quarter of 2023.[85] The near-term development pipeline contains about 550 million square feet with expected deliveries in 2023 and 2024.[86] These projects were about 30% pre-leased as of April 2023. Demand is still flowing to new development, but at a notably slower pace in the first half of 2023. The pipeline is larger compared to recent years, but the composition across markets reveals only a few where there could be elevated risks of near-term imbalances. For the most part, we believe that our investable universe of markets will have balanced alignment between expected new supply and annual demand potential over the next few years. In some markets, interrupted construction activity could provide for timely new investment opportunities if demand patterns recover to past norms.

Exhibit 9 below compares the pace of expected construction deliveries in 2023 and 2024 across markets, to their average annual pace of demand (as a percent of stock) from 2015 through 2019 (pre-COVID). This comparison highlights the potential for vacancy rate increased in Austin, Phoenix and Dallas/Fort Worth, as well as in Houston and Harrisburg (if demand remains sub-par). It also highlights that most markets have development pipelines that are in relative balance compared to their recent historical demand levels, so one weak year of demand may translate moderating vacancy and rent trends and not pose significant downside pressure on occupancies and rents. There are also a group of markets (Allentown, Riverside, Reno and Las Vegas), where slowing construction and typically high demand levels (regional drivers), could materialize into performance upside.

EXHIBIT 9: PROJECTED CONSTRUCTION DELIVERIES IN 2023 – 2024 VS. PRE-COVID ANNUAL AVERAGE DEMAND



Source: DWS, CoStar and CBRE-EA. As of July 2023.

In our view, beyond cyclical drivers, the longer-term secular trends that have supported warehouse demand in the past decade remain in place. In fact, supply chain resiliency efforts may be a new plus for demand that may partially offset maturing growth of e-commerce sales. Additionally, we believe that the U.S. still has a structural deficit of modern logistics facilities in and around our large population centers

[85] CBRE-EA and DWS. As of June 2023.
[86] CoStar and DWS. As of June 2023.

and also in some smaller fast-growth markets. E-commerce growth and the emergence of rapid 1-day/same-day delivery has stimulated demand for local logistics more broadly across markets.

We continue to believe that new supply will be absorbed at a pace that keeps market conditions in relative balance, despite recession or moderated economic growth. We believe that our target markets will hold up relatively well. In the land-constrained coastal gateway markets, construction has been moderate,[87] so we believe the risk of oversupply is low. There have been space givebacks in Los Angeles and Northern New Jersey, for instance, but we believe that this will be a temporary dynamic and that structural and cyclical drivers will be renewed after relatively softer market conditions in 2023 and 2024. We estimate that the pace of obsolescence alone requires about 150 million square feet per year of new supply and demand. [88]

In our view, an important support of near-term investment performance should come from strong mark-to-market activity in new leases and renewals. Market rents on average are about 35%-40% higher than five years ago, with coastal high-barrier markets able to increase rents significantly more than that.[89] Potential income growth is compelling, exhibited by the 13.3% NOI growth in the subsector over the past four quarters and 9.1% average NOI growth over the past five years.[90]

Investment sales volume of industrial properties have slowed dramatically in 2023. After peaking at $79.5 billion in the fourth quarter of 2021, and averaging about $39 billion per quarter during in 2022,[91] activity in the first quarter of 2023 was modest, with dollar volume and square footage sold falling 52% and 35%, respectively.[92] Preliminary figures indicate about $19.3 billion and $13.7 billion of closed transactions, respectively, in the first and second quarters of 2023 .[93] There were $103.5 billion of transactions in the past four quarters, down about 49% year-over-year.[94]

The industrial sector returned 2.4% in the trailing four quarters as of first quarter 2023. Appreciation returns reversed to -4.3% in the fourth quarter and -1.7% in the first quarter of 2023. Income returns of about 0.8% per quarter offset some of the value declines. [95] Record high NOI growth was estimated at 13.3% (year-over-year) in the first quarter. [96] Appreciation returns across markets generally ranged from about -5% to -7% during the past two quarters, however, some smaller and secondary markets, such as Richmond, San Antonio and Wilmington underperformed this range, posting double-digit capital value write-downs.[97] Current value cap rates in the NPI industrial subsector have risen about 40 basis points, to 3.7%, since the second quarter of 2023.[98]

Top performing markets in the NPI over the past year were Los Angeles, Orange County, Riverside, Reno, and Phoenix in the west, Miami and Fort Lauderdale in the southeast and Baltimore, Washington DC and Philadelphia in the Northeast. The worst performers in our investable universe of markets over the past were Houston, Denver and Allentown.

5.2 Outlook and Strategy

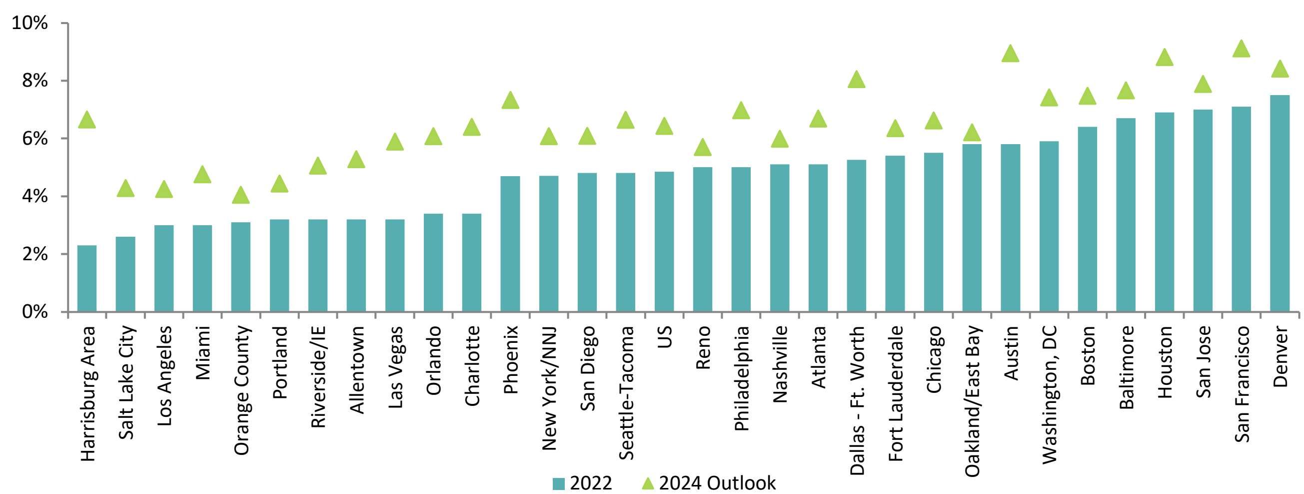
The industrial property market appears headed for a soft patch in 2023, but like it has done over the past decade, we believe the sector will remain resilient over the next six quarters and should be positioned for good performance over the longer term. There are several factors that should support the sector in the near term: In our view, low vacancy rates across most markets should reinforce stable if not rising rent, keeping choices for existing tenants limited (especially at infill locations). We believe that continued pre-leasing activity within

[87] CBRE-EA and DWS. As of June 2023.
[88] DWS and CBRE-EA. As of June 2023.
[89] CBRE-EA and DWS. As of June 2023.
[90] NCREIF. As of June 2023.
[91] Real Capital Analytics. As of June 2023.
[92] Real Capital Analytics. As of June 2023.
[93] Real Capital Analytics. As of June 2023.
[94] Real Capital Analytics. As of June 2023.
[95] NCREIF. As of March 2023.
[96] NCREIF. As of March 2023.
[97] NCREIF. As of March 2023.
[98] NCREIF. As of March 2023.

the speculative development pipeline will temper rising vacancy trends. In our view, structural drivers, including e-commerce, post-COVID resiliency measures, and the need to replace aging and obsolete US industrial stock, will continue to support demand.
Long-term pluses reinforce our favorable long-term view of the industrial sector, but cyclical ones suggest that the market environment will soften in coming quarters as new construction deliveries outpace absorption. We expect that demand will be modest in 2023 and 2024, measuring about 150 million square feet per year, just about half of the super-charged pace that was exhibited in the seven years prior to 2021. [99]

We expect that the development pipeline, totaling more than 400 million square feet in 2023 [100], will outpace new demand and cause the national availability rate to rise. But, on a 16 billion square foot industrial base, the projected increase would be modest, peaking at about 6.5% in 2024.[101] This is 330 basis points below the 20-year average.[102] Cautious capital markets and elevated financing costs are expected to constrain new development activity in 2024 and 2025, further aiding a relatively soft landing for the sector. Our investable universe of markets is expected to maintain healthy availability rates, well below their long-term averages and allowing for relatively balanced market conditions. However, as shown in Exhibit 10 below, several markets, notably Austin, Dallas/Ft. Worth, Harrisburg and Phoenix, are forecast to see softer or at least bifurcated market conditions in the near term, due to outsized construction pipelines.

EXHIBIT 10: AVAILABILITY RATES ACROSS MARKETS (2022 VS. THE 2024 OUTLOOK)



Source: DWS; CBRE-EA, as of July 2023.

In our view, favorable supply and demand dynamics should allow for continued healthy vacancy and rent conditions, with forecasted rent growth decelerating from the 12%-14% averages achieved in 2021 and 2022, to a 1%-3% average through 2024. We expect that some markets will outperform this in 2023 but there could also be instances where rents (after surging in 2022), step back in some markets if imbalances to occur. We believe that rent growth should accelerate again in 2025 as economy activity and demand picks up.

We believe that the Northeast and Mid-Atlantic regions will perform relatively well in the near term, as they remain starkly underserved by modern logistics facilities, have smaller development pipelines, and have more stable local economies. [103] In south Florida, we believe that Miami will be a star performer, having reached a record low 1.5% vacancy rate and achieving about 20% rent growth in the past year. [104] There are 10 markets (about one-third of our investable universe) that currently have vacancy rates below 3%. They may have market

[99] CBRE-EA and DWS. As of June 2023
[100] DWS and CoStar. As of March 2023.
[101] CBRE-EA and DWS. As of March 2023.
[102] CBRE-EA and DWS. As of March 2023.
[103] DWS, CBRE-EA and Moody's Analytics. As of March 2023.
[104] CBRE-EA and DWS. As of March 2023.

rent upside in coming quarters if demand is stronger than we expect.[105] Conversely, there are a few higher risk markets with sizable development pipelines where conditions could get more competitive, especially for bulk warehouses outside of core submarket locations.
See exhibit 11 central themes that are shaping our industrial investment strategy:

EXHIBIT 11: DWS INDUSTRIAL STRATEGY

Strong Relative Performance	Strong rent gains in the past two years, plus our projections of even modest or flat rent growth, should enable industrial landlords to continue to benefit from strong mark-to-market opportunities in their rent rolls. In our view, this potential NOI boost is the strongest among the NPI subsectors and should help offset broader capital markets trends and still fuel strong relative returns.
Rolling out Logistics Capacity in Emerging Regional Hubs	Our current market selections in the Mountain West, Northeast and Southeast regions have performed well, absorbing new stock as it was completed, however, in our view, moderating absorption the new supply pipeline in recent months has heightened near-term risks.[106] Our long-term outlook is favorable and supports maintaining an active build-to-core strategy, current risks warrant greater selectivity. We should target differentiated sites with long term advantages in the face of new competition in 2023/2024.
Rent Growth Interrupted	While rent gains may decelerate, flatten or decline as new supply to outpaces demand in 2023, we believe that this will be a temporary dynamic with stronger trends being renewed by 2025, so continue to look for new core investments prime locations that have the best mid-term market-to-market rent opportunities.
Large Population Centers Underserved by Modern Logistics	We maintain strong convictions for the prospects of large coastal metropolitan areas on the west coast as well as those that serve the large Northeast region, supported by the need for greater logistics capacity. Additionally, Miami has been a late recovery market that now has very strong fundamentals.[3] Despite lagging performance in the NPI for the past cycle, we believe it will be a very strong relative performer in the future.

Source: DWS. As of July 2023.

[105] CBRE-EA and DWS. As of March 2023.
[106] CoStar and DWS. As of March 2023.

6 / Office Outlook and Strategy

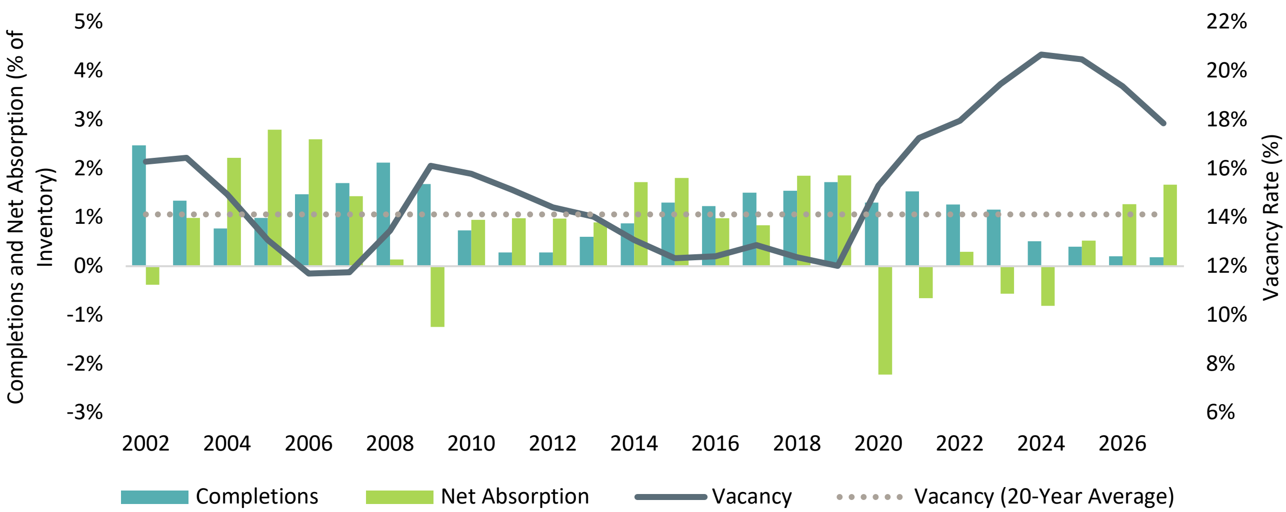
6.1 Current Conditions

The office sector continues to face challenges. Leasing activity has been weak, driven largely by the anticipated economic slowdown, a cyclical factor, as well as remote work, a secular trend. Though the U.S. economy continues to be resilient, approximately 75% of S&P 500 companies are forecasting lower earnings.[107] With slowing growth, companies are focused on cost control, reducing headcount and taking less or reducing their office space. In addition, capital market volatility on the heels of recent bank failures drives companies to be more cautious in capital outlays.

With a growing recession threat, leasing volume fell to 39 millon square feet in the first quarter of 2023, the third consecutive quarter of decline and 10% lower than the pre-COVID peak.[108] Moreover, 2022 was a record year for lease expirations. An estimated 400 millon square feet of leases expired nationally. While expiration volume will slow moderately in 2023, it will remain elevated over the next three years with roughly one third of leased space set to expire between 2023 and 2026.[109]

Tech and life science users, the highest sources of demand over the last decade, are increasingly more focused on profitability, cost reduction and capital preservation, which will likely lead to further near-term negative net absorption in the sector. The concentration of user demand strength in 2023 is, broadly, alternative asset managers, private equity, venture and hedge funds. These companies are growing their teams and usually lease higher quality space. [110]

EXHIBIT 12: OFFICE NET ABSORPTION AND COMPLETIONS AS A % OF INVENTORY AND VACANCY RATE (2002 – 2027)



Source: CBRE-EA (history); DWS (forecast). As of July 2023.
Note: Note: F = forecast. Aggregate of DWS's investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

Office vacancy levels are close to 18% across our Investable Markets and stand at highs not seen in more than two decades.[111] Given weak demand prospects and a recessionary economic environment, we expect vacancy levels to increase further over the forecast, exceeding 20% by 2025.[112]

[107] WSJ. As of July 2023.
[108] JLL. As of July 2023.
[109] CBRE-EA. As of July 2023.
[110] BXP. As of July 2023.
[111] CBRE-EA. As of July 2023.
[112] DWS. As of July 2023.

While the return to office continues to improve, in-office attendance remains low compared to pre-COVID. The current frequency of in-office work is about three days per week across the markets we track and no city is back to the levels of urban work activity that existed in 2019. Commute times are playing a role; markets with longer commutes tend to have a lower in office attendance. [113]

Major employers, including the Federal Government, have announced return to work schedules and specific policies, increasing the days expected in the office. In addition, job postings for remote positions are declining. In January 2023, remote positions reflected 12.5% of new job postings on LinkedIn, after peaking at 21% in February 2022. [114] Full or significant remote work is more frequently allowed and practiced for support workers across industries in areas such as accounting, IT and HR. This segment of the workforce does not as commonly occupy Class A assets, putting more pressure on the market for lower quality buildings.

Weak fundamentals, higher interest rates and a slow return to offices have undermined the sector's investment performance. Total returns continued to deteriorate and were the weakest among major property types in the first quarter of 2023 (-8.7% on a trailing four-quarter basis), amid high vacancies and concerns over the effects of remote work.[115] Suburban office fared better than CBDs (-5.5% vs. -11.3%, respectively), although both suffered.[116]

U.S. transaction volume for office assets slowed materially in 2023 to $14.3 billion in the first two quarters, down 66% year-over-year. The reduction was by no means an office-specific trend. Transaction volume across all assets was also 59% lower over the same period.[117] Real estate values have reset down due to higher capital costs, and sellers have so far been unwilling to accept lower prices, creating a bid-ask gap common in declining markets. Mortgage financing for office is challenging to arrange and available for only the highest quality leased assets and sponsors.

6.2 Outlook and Strategy

In our view, overall office vacancy rates will remain elevated over the near term and above historical averages until return to office becomes broader-based. Effective rent losses are expected to continue as long as vacancies are elevated and competition from less expensive sublet space lingers. Rising costs of capital will increasingly hamper landlords' ability to offer large concession packages, which could push market rents toward (lower) effective rents, particularly for aging product.

Despite a recent uptick in office completions, the construction pipeline continues to contract nationally. There are 116 MSF of new offices under construction, representing 1.8% of stock.[118] Our forecast expects the pace of office deliveries to moderate starting 2024 as weak fundamentals and tighter financing curtail construction. Notably, while many traditional office projects have been canceled or placed on indefinite hold, life science properties continue to be built. Demand for new lab space remains solid, despite the slowdown in venture capital activity. The property type is immune to remote work and for the most part is purpose-built. There are more than 120 buildings with at least some life science components underway nationwide. Much of the new lab space currently being developed is in the top life science markets in the country: Boston, San Francisco, the Bay Area and San Diego.[119]

Office-to-residential conversion momentum is growing in many markets. There are estimates that conversions will not have a meaningful impact on either office or residential fundamentals.[120] Nevertheless, office to residential conversions have multiple benefits. First, they help repurpose the obsolete office stock and address the shortage of housing common in most core metros. Second, conversions would create more appraised value and more tax revenues for cities. Lastly, converting an existing building versus tearing it down and building something new creates much less embodied carbon. The reason why the trend will likely unfold slowly is that there are big challenges in

[113] US Census, Kastle Systems, DWS. As of July 2023.
[114] JLL. As of July 2023.
[115] NCREIF and BLS. As of July 2023.
[116] NCREIF and BLS. As of July 2023.
[117] RCA. As of July 2023.
[118] JLL. As of July 2023.
[119] Yardi-Matrix. As of July 2023.
[120] Costar. As of July 2023.

doing conversions. First, buildings have to be empty, and there are not many office buildings that are fully empty. Second, physical characteristics are very important, particularly the property's bay depths and access to light and air. Very large floor plate buildings may not good candicdates for conversions. And lastly, economics: Most office buildings today are not appraised or valued at a level where conversions are economically feasable.

While we currently maintain an underweight view to the sector, long term, we continue to favor metros with an expanding tech and life science presence and strong job and population growth. Those include mature markets like San Jose and Boston, as well as Sunbelt markets such as South Florida, Austin, Charlotte, Nashville, Dallas and Atlanta. Core gateway markets such as San Francisco, New York, Washington D.C., Los Angeles, and Chicago are expected to produce weaker performance due to high vacancy levels and lagging demand.

Going forward, we remain cautious in the near-term as it relates to office investments. As market conditions improve and values adjust, we would consider pursuing opportunities that offer attractive pricing for properties that would be well-positioned for the sector's expected recovey. Stable rent roll and limited tenant risk are recommended, as well as higher quality assets with credit leases and low near-term capital requirements. As we move beyond the pandemic, we believe that office space will adapt to new tenant preferences as it has done historically.

7 / Retail Outlook and Strategy

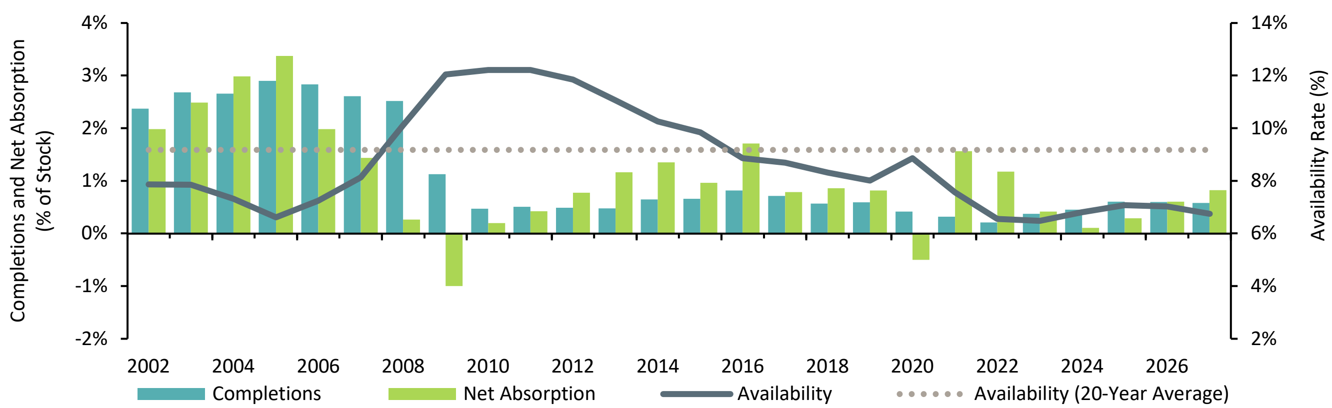
7.1 Current Conditions

Retail sector fundamentals continued to strengthen in the first half of 2023. U.S. consumer confidence and retail sales remained healthy. So far, the U.S. economy has proved quite resilient despite high inflation and interest rates. The labor market remains robust with the unemployment rate near historic lows and job openings still elevated.[121] Households have thus far been able to withstand the high-inflation era by dipping into savings and credit and by trading down to discount items, without pulling back on overall spending. Moreover, near-term headwinds have not yet deterred retailers from seeking out the value that physical retail locations provide in terms of profitability and customer acquisition over the long term.[122]

While leasing momentum remains positive, bankruptcy announcements have increased from last year. There have been nine major retailer bankruptcy announcements so far in 2023 compared to only ten total in 2022.[123] Despite the rising incidence of bankruptcies, year-to-date opening announcements are running comfortably above closing announcements. Experiential spending remains a bright spot within retail with meaningful growth in spending on accommodation, food and beverage, theaters, arcades and amusement parks. Pickleball-focused concepts are aggressively expanding across the nation.[124]

Robust demand from discount, grocery, food and beverage, and wellness tenants is pushing vacancies to historic lows. Net absorption trended positive so far in 2023, and totaled approximately 23 million square feet over the previous four quarters (or 0.8% of total inventory). As a result, the availability rate declined by 60 basis points year-over-year, falling to 6.7%. (The last time the market was this tight was in 2006.) The differentiator is the lack of new construction in conjunction with the rebalancing of retail tenants. Deliveries averaged less than 0.5% of total inventory annually since 2010.[125] With virtualy no new supply on the horizon, we expect healthy fundamentals to persist in the near term. Our market rent forecast for grocery-anchored centers over the next five years averages 2.4% annually.[126]

EXHIBIT 13: RETAIL NET ABSORPTION AND COMPLETIONS AS % OF STOCK AND AVAILABILITY RATE (2002 – 2027)

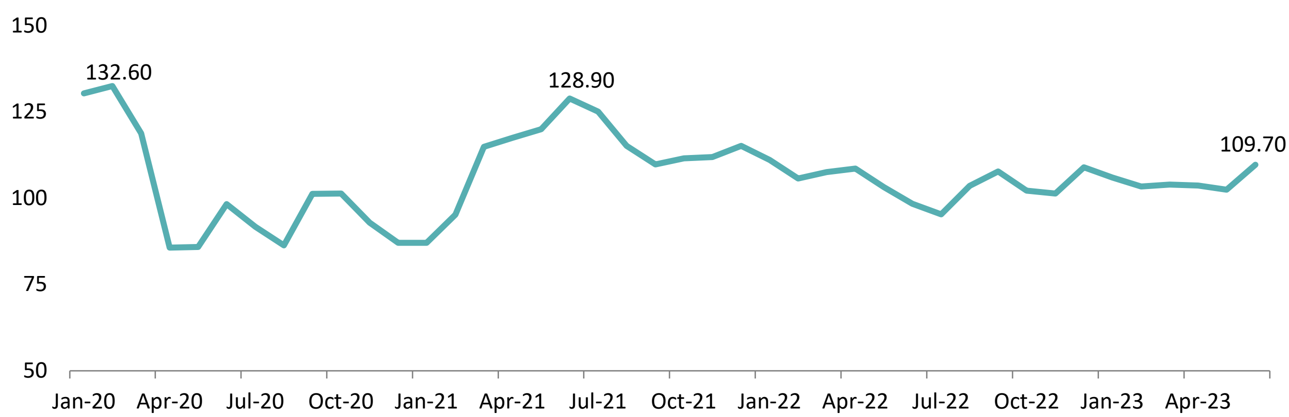


Source: CBRE-EA (history) and DWS (forecast). As of July 2023.
Note: Note: F = forecast. (1) Forecast for Neighborhood and Community centers. (2) Aggregate of DWS's Investable Universe of markets. There is no guarantee the forecasts shown will materialize. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.Note: Note: F = forecast. Aggregate of DWS's investable universe of markets. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved.

121 BLS. As of July 2023.
122 Cushman & Wakefield. As of July 2023.
123 JLL. As of July 2023.
124 JLL. As of July 2023.
125 CBRE-EA. As of July 2023.
126 DWS. As of July 2023.

It's been a rollercoaster ride for consumers since the onset of the pandemic. The consumer sentiment index fell in June 2022, just as inflation hit a high of 9.1%, then improved as easing prices in recent months lifted consumers' spirits. Despite rising prices, consumers have not been holding off on spending. Still, higher interest rates are making it more costly for households to borrow money and for businesses to invest in their operations or in expansion. Shoppers are trading down to lower-cost store brands, buying fewer home goods, and spending more on services (housing and utilities), healthcare, travel and entertainment. We expect that spending on experiences such as dining, travel, fitness, and entertainment will increase further. Consumers are likely to continue to behave more thoughtfully, yet continue to spend on household priorities.

EXHIBIT 14: CONSUMER CONFIDENCE INDEX (INDEX 1985=100, SA)



Source: Moody's Analytics. Seasonally adjusted. As of July 2023.

Near-term risks to the outlook include inflation and an overhang of excess inventory — particularly in the apparel, furniture, home goods, and department store segments. However, the outlook for necessity-based retail remains solid. Over the forecast periord, we expect the results of retail's transformation in post-pandemic buying patterns to benefit neighborhood & community centers. Structural and demographic trends should continue to support spending if economic drivers remain supportive. Migration from cities to the suburbs, population growth in lower-cost markets, and more flexible workplace strategies should continue to sustain demand at suburban shopping centers.

7.2 Outlook and Strategy

Strengthening fundamentals and reinvigorated retailer health have led to improving investment performance. Total retail returns were 1.0% in the first quarter of 2023 (trailing four quarters), ahead of Residential (-0.4%) and Office (-8.7%), and registered the sixth positive quarter since 2019. Neighborhood (3.4%), community (2.6%), and power centers (3.7%) outperformed while malls, which comprise about half the index, generated the weakest returns.[127] Retail as a sector has undergone transformative changes as it has adapted to e-commerce and changing consumer preferences. With a majority of the distress worked through the system, the sector is on a sustainable tradjectory. Open-air and grocery-anchored shopping centers have been the beneficiaries of renewed demand and are likely best positioned over the long term. At the same time, apparel and lifestyle-oriented centers will likely continue to feel secular pressures over time and will require substantial investment to remain relevant.

The outlook has become more uncertain, but household spending has been resilient and consumer sentiment is healthy. Some shoppers are pulling back on discretionary goods such as apparel, electronics and furniture. Dwindling savings and higher interest rates may soon impact households' ability and willingness to increase spending. Additionally, retailers have their own set of anxieties to deal with as the supply chain chaos of last year may have led to an overcorrection in terms of inventory accumulation. While this dynamic is most acute for

[127] NCREIF (NPI). As of March 2023.

large general merchandise operators, there is speculation that many retailers will turn to aggressive price discounting over the coming months in hopes of offloading costly excess inventories. This narrative is contributing to lower stock prices, which can potentially lead to less retail hiring, investment and store opening plans.

Despite these challenges, an economic slowdown or even a mild recession should not be overly disruptive to the retail market. Fueled by shoppers' renewed enthusiasm for in-person shopping and retailers' optimism about long-term growth, tenants continue to seek out high-quality store locations amid limited supply. Corporate balance sheets in the retail sector are generally healthy, the e-commerce disruption has already peaked and overbuilding is not even a remote threat. A sharp decline in leasing activity is unlikely and the sector is at low risk of a major disruption over the next few years. [128]

Our House View retail strategy favors an increased allocation to necessity-based retail. Our near-term outlook for fundamentals has improved and we believe the sector will continue to perform well given continuous retail demand and low vacancies. We continue to see a clear distinction in performance driven by geography, property subtype, and strength of the tenant line-up. During uncertain times, retail assets may be a solid income producing component of a portfolio. We maintain our recommendation to target grocery-anchored retail located in high growth regional markets.

See Exhibit 15 for central themes that are shaping our retail strategy:

EXHIBIT 15: DWS RETAIL STRATEGY

Target Necessity-based Retail	Our conviction around daily needs and grocery-anchored retail remains high as the drivers and fundamentals are poised to remain stable through the early years of the forecast. Grocery-anchored-retail will likely be more resilient and less impacted over the long-term when compared to other types of retail. Moreover, these daily needs shopping centers may benefit from increasing local consumption of goods and services.
Proceed with Caution on Power Centers	While we believe that power centers will evolve into last-mile distribution locations over time, we continue to recommend an underweight to the segment. Caution is warranted in the near-term due to the interest-rate sensitivity of long-term leases. There is also a risk that demand for electronics, furniture, appliances, and other household goods has been satiated (for now) during the COVID housing boom. Shifting consumer preferences are less threatening to neighborhood and community centers, which are more oriented to daily necessities (e.g., food) and services.
Avoid Malls and Transitional Assets	We expect e-commerce penetration will continue to grow in the apparel and commodity goods sector, which impacts malls, class B/C assets and high street retail the most. Some malls may thrive in the future as redeveloped mixed-use or entertainment-infused destinations, but the cost of managing the transition may detract from investment performance.

Source: DWS. As of July 2023.

[128] Cushman & Wakefield. As of March 2023.

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.

Sector	NPI Weights	ODCE Weights	House Portfolio	Active Bet (vs ODCE)	Range
Apartment	28%	29%	34%	+5%	29% - 39%
Industrial	33%	31%	41%	+10%	36% - 46%
Office	25%	21%	9%	(12%)	4% - 14%
Retail	14%	10%	14%	+4%	9% - 19%
Other	0%	8%	2%	(6%)	0% - 7%

Note: NPI weights calculated as gross real estate value excluding ownership share. ODCE weights calculated as gross real estate value at ownership share.
Sources: NCREIF; DWS. As of July 2023.

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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.

Appendix 2: Real Estate Target Markets

Investable Metros: We screened top U.S. metros, which represent 90% 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 Investable Metros: These are a subset of the universe of investable metros and include markets that we expect to outperform or market perform during the next three to five years.

INVESTABLE AND TARGET MARKETS

↑ Overweight ↓ Underweight ↔ Market Weight

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

Source: DWS. As of July 2023. 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.

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

	3/22-3/23	3/21-3/22	3/20-3/21	3/19-3/20	3/18-3/19
NCREIF Property Index (NPI)	-1.6%	21.9%	2.6%	5.3%	6.8%
NPI-Apartment	-0.4%	24.1%	2.6%	5.1%	5.9%
NPI-Industrial	2.4%	51.9%	14.1%	12.9%	14.0%
NPI-Office	-8.7%	6.8%	1.3%	6.2%	6.7%
NPI-Retail	1.0%	7.1%	-6.0%	-1.9%	3.2%
NPI-Apartment: High-Rise	-1.9%	19.5%	0.3%	3.9%	4.6%
NPI-Apartment: Low-Rise	-0.2%	25.3%	3.9%	5.9%	6.0%
NPI-Apartment: Garden	2.2%	33.4%	7.0%	7.5%	8.6%
NPI-Office: CBD	-11.3%	3.7%	-0.2%	5.4%	6.1%
NPI-Office: Suburban	-5.5%	10.9%	3.4%	7.4%	7.4%
NPI-Retail: Malls	-1.7%	2.6%	-10.0%	-3.5%	1.7%
NPI-Retail: Power	3.7%	9.5%	-1.8%	-0.5%	4.1%
NPI-Retail: Neighborhood & Community	2.6%	10.6%	0.0%	2.9%	5.3%
	6/30/2023	**6/30/2022**	**6/30/2021**	**6/30/2020**	**6/30/2019**
NASDAQ Composite Index	25.0%	-24.0%	44.2%	25.6%	6.6%
S&P 500 Index	17.6%	-11.9%	38.6%	5.4%	8.2%
MSCI US REIT Gross TR Index	-0.1%	-6.4%	38.1%	-12.9%	11.1%

Sources: NCREIF, Bloomberg, NAREIT, and DWS. As of June 2023.

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