Deutsche Asset & Wealth Management

Marketing Material

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Research Report

Europe Real Estate Strategic Outlook: Mid-Year Review

August 2015

Passion to Perform

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Executive Summary

- Europe's economic recovery remains on track. Although not without risks, with ongoing concerns in places such as Greece and Ukraine, on the whole the outlook for the European economy has improved over the past six months. Confidence is high and jobs are being created. With the ECB undertaking quantitative easing, bond yields are lower than had been previously expected, while the threat of Eurozone bond yields trending considerably higher over the coming years is small.[1]

- Economic growth has begun to filter through into the real estate occupier market. The final quarter of last year together with the first quarter of 2015 represented the strongest six-month office take-up figures since before the financial crisis.[2]

- The supply picture is helping to accommodate improvements in the market balance. The near-term pipeline remains relatively low by historical standards and developers are still cautious. Vacancy rates are declining. Across the office sector, vacancy fell from a peak of 10.5% in early 2014 to around 10% at the end of March this year. With this, rents have also risen further, with annual growth of 2.1% recorded in the first quarter of 2015.[2]

- With the exception of a small handful of markets, this year should see the prime rental recovery accelerate further. In the office sector, growth is set to rise to around 3.5% per year in 2016 and 2017, although the split in performance between in-demand central locations and struggling non-core areas is expected to persist.[3]

- With a significant premium over government bonds, property yields are expected to fall further over the next few years. Although this trend may reverse slightly by the end of the decade. Since our outlook for bond yields is lower than reported in the Spring, we now also expect property yields to remain lower.

- According to the IPD index, Pan-European all property total returns hit an eight-year high in 2014 while the first quarter of this year suggested a continuation of strong returns.[4] As a result of modestly lower bond yield forecasts and reduced capital value risk in the outer years of our forecasts, we have upgraded our total return forecast over the next five years. The latest forecasts show prime real estate returns averaging 8% over the period 2015-19.

- Investment opportunities are evident across Europe, which we have grouped into Strategic Themes. The majority of these are Core to Core+, reflecting the attraction of prime real estate pricing compared to other asset classes such as government bonds, alongside an expectation of falling vacancy and accelerating rental growth.

- We caution against certain strategies. With improving market fundamentals and lower yields, investors are showing an increased willingness to take on additional risk. However, the improvement in fundamentals is unlikely to be uniform, and certainly some markets will remain oversupplied for the foreseeable future. This is clearly evident across a number of fringe office market locations[5].

[1] Oxford Economics, July 2015
[2] PMA, June 2015
[3] Deutsche AWM, July 2015
[4] IPD Multinational Property Digest, March 2015
[5] Any forecasts provided herein are based upon Deutsche Asset & Wealth Management's opinion of the market at this date and subject to change dependent on the market.

European Real Estate Strategic Themes[6]

The Deutsche AWM Research team has developed a proprietary quantitative model that forms the foundation of our understanding of future real estate market performance and how it reacts to economic developments. This is combined with the qualitative insights from our investment teams and provides the basis for our market views.

The resulting forecasts and house views are presented in terms of executable strategies that facilitate detailed discussions with our investors regarding European real estate over the next six months.

These strategies fall into five broad categories and cover the full spectrum of risk appetites.

1. **Higher Liquidity:** Global capital continues to be attracted to prime assets, located in the heart of major European cities. Although returns are modest, this strategy offers investors diversification, income stability and liquidity. We see opportunities in Paris and German Top 7 office markets, German residential, and retail units on major high streets. Future interest rate rises could weigh on capital values, but given the outlook for inflation the risk of a major rate hike is likely to be low.

2. **High Income Distributions:** For investors looking for a higher income return, opportunities exist in the logistics sector, second tier cities and via mezzanine debt provision. For all of these, a selective approach and deep market knowledge is necessary to achieve attractive risk-adjusted returns. There is a risk that the demand outlook will not translate into strong rent growth; however this risk is limited by low levels of construction across markets.

3. **Established Recovery:** Targeting core locations in the major cities of Spain, Italy and Portugal. Southern European markets are forecast to produce some of the highest returns over the next five years. Investor interest has already intensified, driving value growth through yield compression, but future returns are set to be driven by a rebound in prime rents. Risk that rental recovery is below expectations, but this downside is limited given that rents remain well below history and relatively low on a Pan-European basis.

4. **Asset Specific Risk:** With a reduction in new supply, rising demand is resulting in an increased rental premium on newly built or refurbished space – particularly in constrained city centres. We see attractive opportunities in taking on additional leasing and (re)development risk in Core Europe, the United Kingdom, Sweden and selectively in Spain.

5. **Medium-term Opportunities:** Monitoring the progress of investable markets that are going through a cyclical downturn such as Helsinki, and emerging markets such as Istanbul which could provide new institutional grade opportunities.

In addition to the above, we actively caution against certain strategies. With improving market fundamentals and lower yields, investors are showing an increased willingness to take on risk. However, the improvement in fundamentals is unlikely to be uniform, and certainly some markets will remain oversupplied for the foreseeable future. A clear example is office markets on the fringe of major cities.

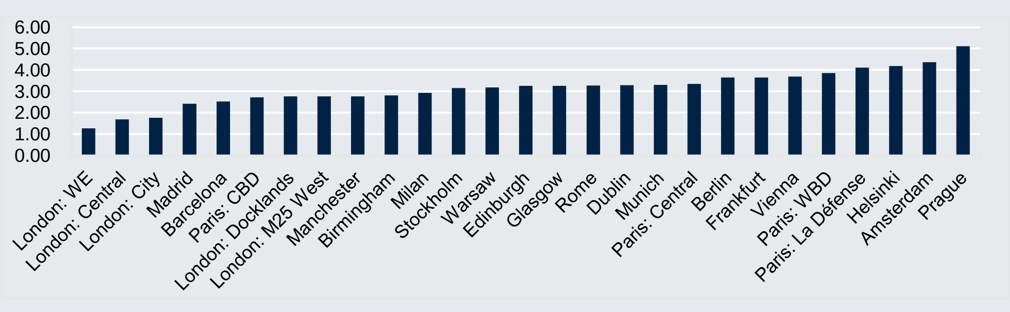
[6] Any forecasts provided herein are based upon Deutsche Asset & Wealth Management's opinion of the market at this date and subject to change dependent on the market.

Across many European cities, vacancy in these fringe locations is well into the double-digits, and despite much lower rents, tenants continue to prefer the accessibility and amenities of the city centre.

The majority of the strategic themes discussed here can be classified as Core to Core+. This reflects the attraction of prime real estate pricing compared to other asset classes such as government bonds, alongside an expectation of accelerating rental growth.

1. Higher Liquidity	
Core office locations in major German cities and parts of Central Paris	• Investor sentiment for core remains strong in response to improving economic fundamentals and low government bond yields • Strong economic fundamentals and long-term capital value growth, allowing investors to look beyond cyclical volatility • These markets typically see consistent corporate occupier demand and offer more secure income • Overseas capital increasing focus on European cities beyond London • Lower bond yields increasing relative attractiveness of income returns
Long-let major high street retail, with a focus on tourist destinations	• Emphasis on the major retail destinations with access to high footfall, large catchments and tourist demand • Retailers focusing upon a smaller number of large cities that can showcase products, brand build and support online operations • Retailers showing willingness to accept lower turnovers / sales densities in major shopping destinations • Income return typically lower than other sectors, but in most cases still attractive relative to government bond yields
German residential with a focus on well-located developments and on existing urban stock with values below replacement costs	• A decade of strong employment growth has led to increased residential demand in those locations where jobs are being created • Focus on cities with a dynamic labour market, strong population growth, benefitting from regional migration and commuter surplus • Void risks are typically very low – minimal re-letting periods • Construction has gradually picked up over the past five years, but is so far well short of new demand, as vacancy rates in most attractive cities are still below 2% • Stable income comes at the expense of relatively low returns, as new regulations may put a lid on rental uplifts in the future

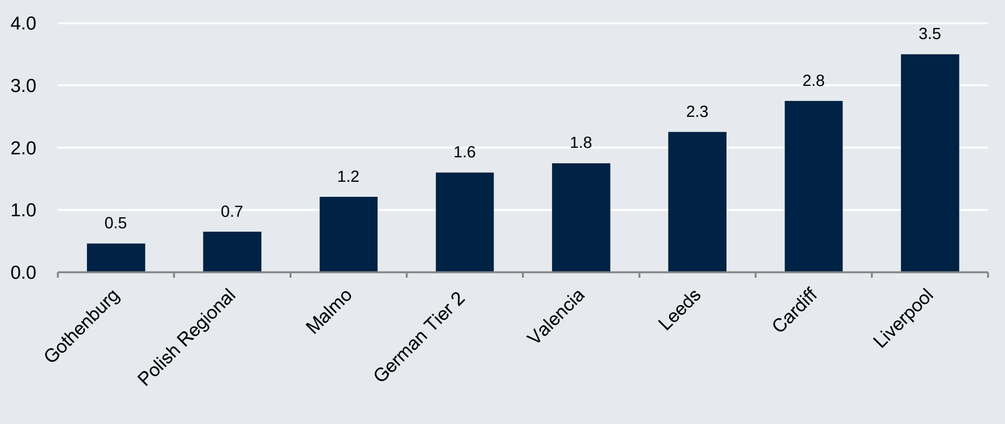
Prime Office Yield Spreads Over End 2015 Bond Rates (2015f, %)



Source: Oxford Economics, Deutsche Asset & Wealth Management, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise.

2. Higher Income Distribution	
Prime logistics in key supply-constrained urban markets and major transportation hubs	• Structural change in retail driving demand for logistics space • Economic growth, weaker euro and rising external demand expected to result in higher trade flows throughout Europe • Speculative development has so far been limited, and increased technical requirements for modern space resulting in prime rental growth potential in supply constrained markets • Higher income return and trend increase in demand expected to sustain extended period of strong relative performance
Second tier cities in United Kingdom, Core Europe, Sweden, Spain and Poland	• Critical mass of investable stock, healthy supply/demand ratios, sufficient liquidity and an attractive yield spread over first tier cities and bonds • Already a well documented strategy in the United Kingdom and Germany, window of opportunity closing here, with the largest second tier cities having already seen sharp yield compression • Increased political powers given to U.K. city regions expected to improve connectivity and boost long-term occupier demand • Improving demand drivers creating opportunities in second tier in other parts of Core Europe, Poland and Spain • Selective approach and deep market knowledge on a regional/micro level necessary
Providing mezzanine debt in Core Europe, United Kingdom and selectively in Southern Europe	• Although lending conditions are easing, they remain relatively conservative and focused on the United Kingdom and Core Europe • Debt funds have outperformed value added and opportunistic strategies in recent years • Lenders are increasing activity in Spain and Italy, but remain selective and cautious towards second tier cities and non-prime assets • Most lenders continue to avoid development finance, but with low grade A availability in some markets, this presents opportunities to provide development financing on favourable terms

Office Market Prime Yield Spread Over Tier 1 Locations (Q1 2015, % points)



Source: CBRE, June 2015.

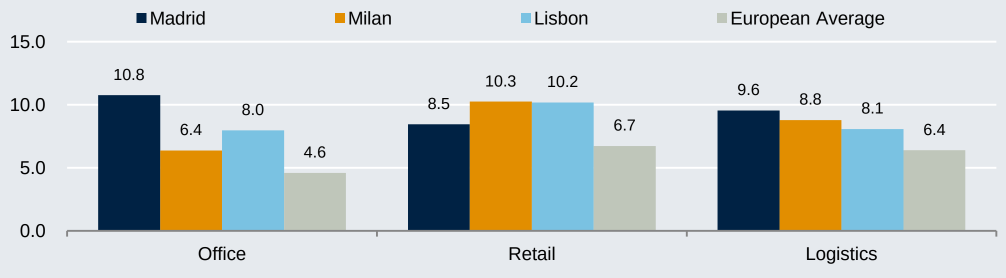
Note: Spread is calculated over the Tier 1 market with the lowest yield such as the London West End in the United Kingdom.

3. Established Recovery

Southern European recovery in Spain, Italy and Portugal

- Spain expected to be one of the fastest growing economies in Europe. Italy out of recession and Portugal beating expectations.
- Despite low yields, prime values remain well below pre-recession levels. Future performance driven by NOI improvements, with prime rental growth already evident
- Investor appetite for Italy has returned. Yields falling quickly
- Less rental recovery expected in the Italian office sector, although major high street retail expected to perform strongly
- Relative pricing across region supported by a decline in bond yields
- Focus on city centre locations. Scope to take leasing risk in Spain
- Avoid out of town locations across the region where vacancy tends to remain very high

Prime Total Returns by Sector (2015-19f, %)



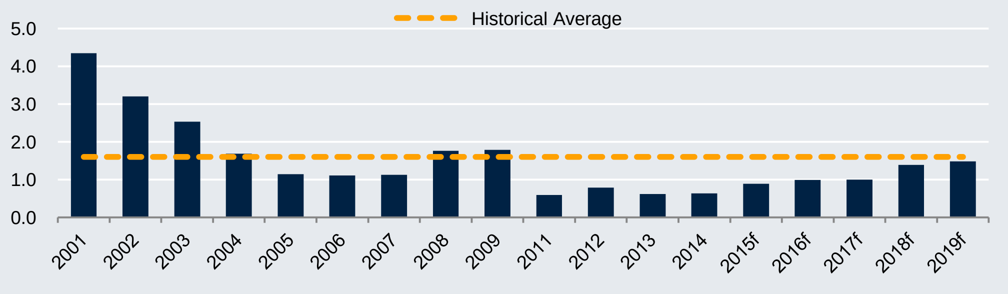
Source: PMA, Deutsche Asset & Wealth Management, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise

4. Asset Specific Risk

Taking on additional leasing and (re)development risk in supply constrained markets, in major cities of Core Europe

- Increasing occupier demand and a long period of low supply in Core Europe, the United Kingdom and parts of Southern Europe have reduced the risk of taking on leasing risk
- Opportunities to deliver / fund grade A space in markets that have seen a sustained period of low development, which are now suffering shortages of space built to a high specification
- Focus on city centre locations and key logistics hubs
- Construction activity starting to increase in markets such as the United Kingdom. This could limit the longevity of strategy in some markets
- Some major markets (e.g. Central London) offering little premium for taking on this risk

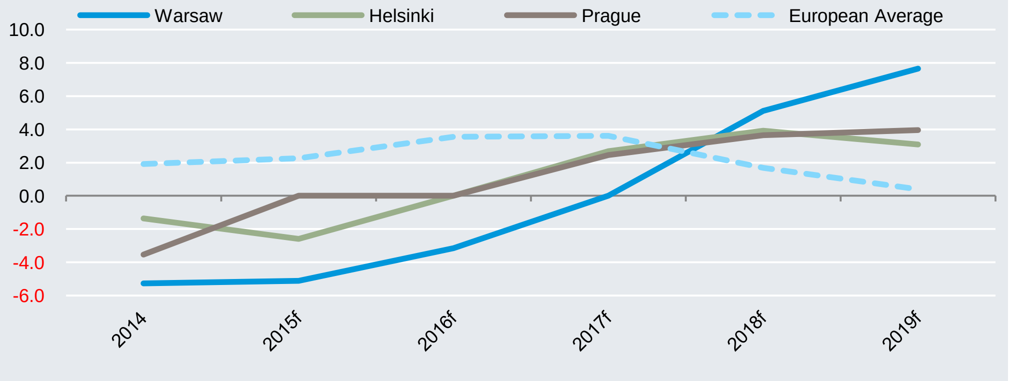
Net Change in European Office Stock (%)



Source: PMA, Deutsche Asset & Wealth Management, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise

5. Medium-term Opportunities	
Cyclical opportunities in Warsaw, Prague and Helsinki office markets	• Office markets currently seeing higher vacancy and rental decline in response to economic conditions (Helsinki) or new supply (Warsaw / Prague) • Finland currently in recession and going through a period of structural adjustment • Strong fundamentals in Central Eastern Europe with good long-term growth prospects • Rental growth across all three markets set to resume during the latter part of the decade, pushing total returns above the European average • Focus upon best in class space, attractive to overseas occupiers
Potential new market opportunities in Turkey and Romania	• Markets expected to record a sustained period of economic outperformance. Susceptible to economic and real estate market volatility • Opportunities in Romania focused on Bucharest. Multiple large cities in Turkey but Istanbul main focus • Consider partnership with local / experienced investors. Lack of institutional quality product likely to limit investment opportunities • Although improving, both suffer from high levels of corruption, weak institutions, low transparency and below-average infrastructure • Long-hold strategy to take advantage of trend improvement in investment landscape and avoid cyclical downturns

Prime Office Rental Growth vs. European Average (%)



Source: PMA, Deutsche Asset & Wealth Management, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise

The Economy

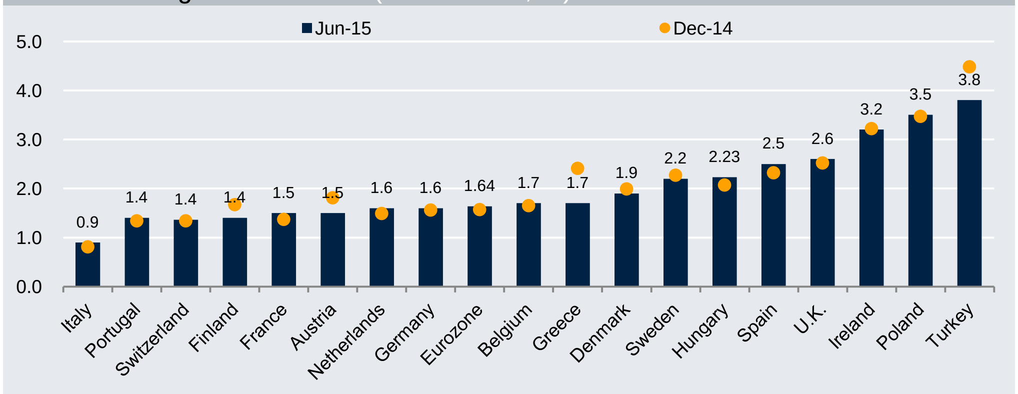
Europe's economic recovery remained on track during the first half of 2015. With almost all countries recording positive GDP growth during the first six months of the year, confidence is high and jobs are being created.[7]

Although not without risk – Greece remains a clear concern at the time of writing – the recent positive momentum should continue throughout this year and into the second half of the decade, supporting increased requirements for real estate space across much of the continent.

The majority of major economies have seen upgrades to projected GDP growth. Accounting for half of European output, the performance of Germany, the United Kingdom and France is crucial, and encouragingly the growth outlook in all three has been revised upwards. Having undergone a major adjustment, Spain has seen largest upgrade and is set to be the fastest growing country in Core Europe over the next five years.

That said, not all countries have seen an improved outlook. There have been notable downgrades for Austria, Finland, Greece and Turkey.[8]

Annual Average GDP Growth (2015f-2019f, %)



Source: Oxford Economics, December 2014, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise

Improvements to economic sentiment have stalled somewhat during the second quarter with political uncertainty weighing on confidence slightly. Nonetheless, lower interest rates, rising real wages and improving labour market conditions have kept sentiment levels well above average in the majority of countries.[9]

With economic growth returning, inflation has turned positive once again in Europe and the Eurozone. Negative price growth in the first quarter proved short-lived, and rather than pulling the continent into a dangerous deflationary spiral, lower oil prices have likely provided a boost to businesses and consumers. Going forward, inflation is expected to pick-up, although with spare capacity evident, price growth is to stay below its long term average of 2%.[10]

Higher inflation has in part led to upwards pressure on government bond yields, but the ECB's programme of quantitative easing (QE) has kept rates lower than had been ex-

[7] Eurostat, July 2015
[8] Oxford Economics, June 2015
[9] European Commission, July 2015
[10] Oxford Economics, June 2015

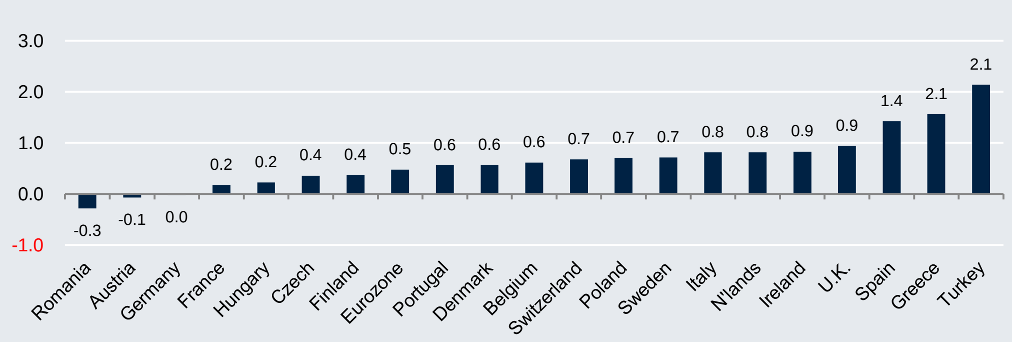
pected previously, while the threat of Eurozone yields trending considerably higher over the coming few years is deemed to be small.[11]

Outside the Eurozone, monetary policy has also continued to loosen. Further interest rate cuts have been seen in Sweden and Poland this year. In contrast, with unemployment in the United Kingdom back down to pre-crisis levels and wage growth accelerating, the Bank of England looks likely to start raising rates in 2016.[12] Although tightening is set to be gradual, and the strong performance of the economy is supporting rental growth, this divergence with the Eurozone is set to lessen the relative attractiveness of U.K. real estate.[13]

ECB QE, alongside expectations of monetary tightening in the United States and the United Kingdom, has also led to a sharp fall in the Euro. This should boost exports, and with growth rising across Europe, intra-regional trade should also increase, supporting logistics demand in export hubs and along the continent's main arterial routes.

The number of people out of work in the European Union has declined 1.5 million over the past year, while job vacancies are now at the highest since 2008.[14] With these trends set to continue – almost six million new jobs are forecast to be created over the next five years – this should feed demand for both business and retail space.[15]

Employment Growth (2015-19f, % p.a.)



Source: Oxford Economics, June 2015. Note: f = forecast. There is no guarantee that the forecasts will materialise

In addition to Greece, there are still a number of other risks to the outlook, with political risk in particular remaining high. The situation in Ukraine remains unresolved, while fringe parties across the continent continue to see support. For example, this year's general election in Spain is set to return a considerable number of seats to members of recently formed parties.

The United Kingdom will hold a referendum on its membership of the European Union by the end of 2017 at the latest. Although the likelihood of a Brexit is low, the occupational and investment market is likely to slow in the run up to the vote. Some locations and sectors are more at risk – particularly global finance and exporters – with a number of banks already considering relocating operations out of London in the event of an exit.[16]

Despite these risks, on the whole the outlook for the European economy has improved over the past six months.

[11] Oxford Economics, June 2015
[12] Oxford Economics, June 2015
[13] Deutsche AWM, June 2015
[14] Eurostat, June 2015
[15] Deutsche AWM, June 2015
[16] PMA, June 2015

With this, occupier fundamentals should continue to advance, while the introduction of quantitative easing and low government bond yields further enhance the relative attractiveness of real estate income returns.

Real Estate Performance

The turning point in real estate fundamentals has been largely confirmed during the early part of 2015. While last year saw a patchy economic recovery across the continent, the more widespread growth seen during the first half of this year has begun to filter through into the real estate occupier market.

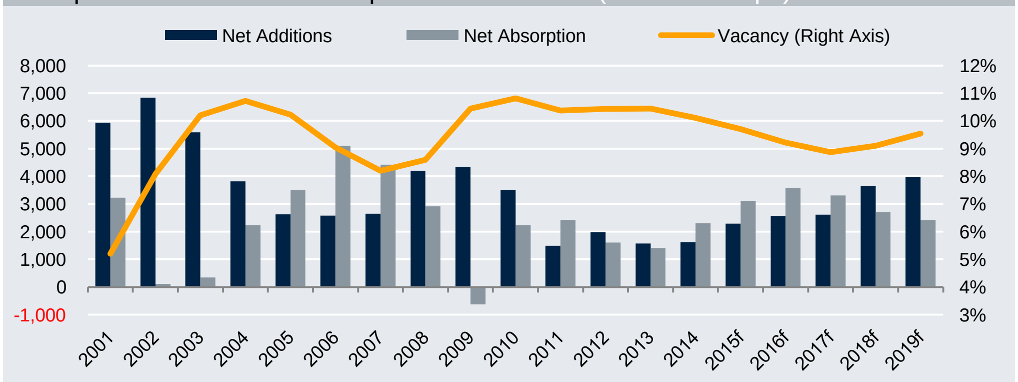
Office Market Fundamentals

The final quarter of last year together with the first quarter of 2015 represented the strongest six-month office take-up figures since before the financial crisis. Demand in the first three months of the year was up by around 4% year-on-year.[17]

The supply picture is also currently helping to accommodate improvements in the market balance. Office net completions figures for the past four years have been low, at less than half of the annual average during the previous ten years. And with demand beginning to pick up, the aggregate vacancy rate has continued to decline, falling from a peak of 10.5% in early 2014 to around 10% at the end of March this year. With this, rents have also risen further, with annual growth of 2.1% recorded in the first quarter, driven by stronger performance in the United Kingdom, Spain and Ireland.[18]

Net completions will be higher this year, but despite this, the near-term pipeline remains relatively low by historical standards. Developers are still cautious, more often than not requiring a significant pre-let before proceeding with new projects, even in markets such as Germany where vacancy has declined steeply. However, financing conditions for well-located speculative schemes are starting to pick up[19] and as fundamentals continue to improve, the next development cycle is likely to be triggered. With this in mind construction activity is forecast to increase towards the end of the decade.

European Office Market Occupier Fundamentals (Thousand sqm)



Sources: PMA, April 2015 (historical data); Deutsche Asset & Wealth Management, June 2015.
Note: f = forecast. There is no guarantee the forecast will materialise.

With the exception of a small handful of markets, this year should see the office prime rental recovery accelerate further.

[17] CBRE, Q1 2015
[18] PMA, Deutsche AWM, June 2015
[19] Savills, Q1 2015

Growth is set to peak at around 3.5% per year in 2016 and 2017 as the economic revival gains momentum, although the split in performance between in-demand central locations and struggling non-core areas is expected to persist. Towards the end of the decade, we expect the pick-up in construction volumes to take the steam out of the recovery, and there is good chance of seeing rental declines in certain markets such as London and some of the German cities.

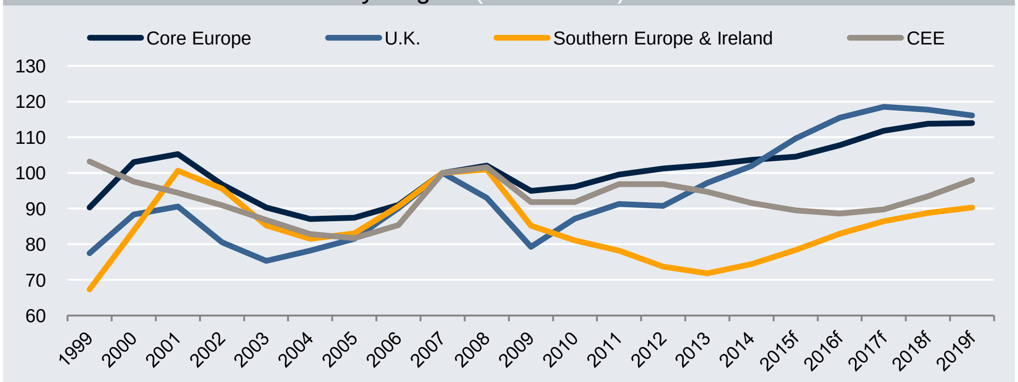
With the first prime rental growth for seven years coming through in the Spanish markets, this year is expected to mark the start of a strong rebound in rental values. With centrally located high quality space in increasingly short supply, the coming years should see Spain as the stand-out market in terms of rental growth, although rents in most locations are unlikely to recover to pre-recession levels during the five-year horizon.

Other parts of Southern Europe should also begin to recover, although the combination of a weaker economic recovery in Italy and a less pronounced correction during the down-turn are limiting the extent of the upturn there.

Low vacancy in Central London should lead to further growth in the short term, although the supply response is likely to derail growth towards the end of the decade. Conversely in the Paris CBD, confidence and growth prospects remain relatively subdued; however, with new space very difficult to build, the medium-term risk from rising development activity will be less of a factor.

There are also one or two markets that are currently going through a rental correction. Warsaw and Helsinki, for example, are still seeing falling rents, albeit for different reasons. However, being at a different point of the cycle means that we expect these markets to outperform over the second half of the forecast period as negative factors subside and the rental recovery takes hold. This is particularly true in Warsaw where strong economic growth prospects should allow new space to be absorbed relatively quickly.

Prime Office Rent Forecast by Region (2007 = 100)



Sources: PMA, July 2015 (historical data); Deutsche Asset & Wealth Management, July 2015.
Note: f = forecast. There is no guarantee the forecast will materialise.

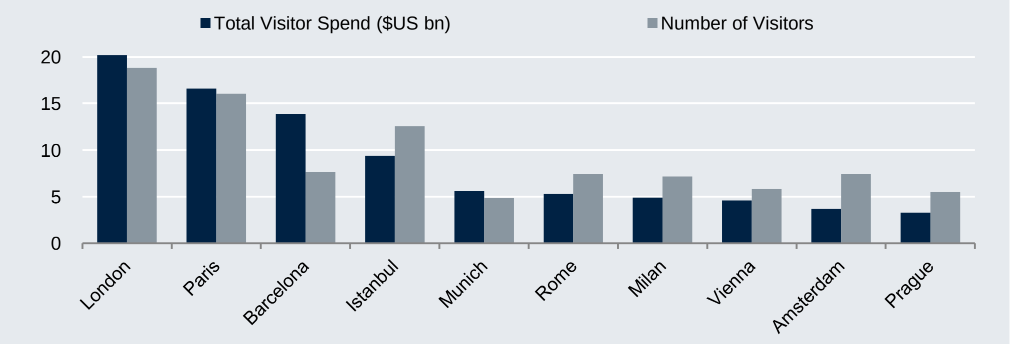
Retail Market Fundamentals

Retailing conditions in Europe are improving. With unemployment on a downward path, reaching 9.6% in May[20], confidence among consumers and retailers remains comfortably above average.[21] With this, retail sales are growing at more than 2% year-on-year in both the Eurozone and more broadly in the European Union[22], and the recent upturn should be sustained due to a combination of near-zero inflation and a recent jump in nominal wages, pushing real wage growth to around 2% during the first quarter of 2015. With almost six million new jobs expected over the next five years, this should further support the outlook for retail sales.[23]

The structural changes that have been ongoing for a number of years in the retail sector continue to pose a challenge, yet certain locations continue to attract a high level of retailer demand. Prime locations fit well into retailer omnichannel strategies, not only as places to sell products, but also working as part of the supply chain, supporting brand building and providing a halo effect for online sales in the surrounding catchment.

With retailers cautious in their expansion plans, competition for retail space will likely predominate along a select number of major high streets in each country, particularly in supply constrained locations with high footfall and large numbers of international tourists.

Number of Overnight Tourist Stays and Total Tourist Spend (USD, 2015)



Source: Mastercard Global Destination Cities Index, July 2015.

This trend is most evident in London and Paris. Despite record high rents (almost double the European average), these two cities are the most attractive markets in Western Europe for cross-border retailers[24], and are expected to remain so for the foreseeable future. And with high street vacancy rates of less than 3%, rental growth in the prime areas of these cities is set to be near the front of the pack at around 4% per year.

Other strong performers are set to include the major cities in Spain and Italy, where significant retailer demand and a strengthening consumer market mean rents are forecast to grow by up to 30% over the next five years.

Vacancy in shopping centres remains somewhat higher than on the high street at around 7.5%, although is still relatively low in France (5.7%) and Germany (4.5%).[25] European shopping centre stock is expected to grow by just 1.7% per year over the next two years, less than half the annual rate over the past decade. The only market to see above average completions will be France, where stock is expected to grow by 6% by the end of

[20] Eurostat, June 2015
[21] European Commission, June 2015
[22] Eurostat, June 2015
[23] Oxford Economics, June 2015
[24] Jones Lang LaSalle, December 2014
[25] PMA, June 2015

2017, although this does come on the back of a long period of relatively low development activity.

As tourism tends to be a less important factor in shopping centres, we expect to see prime rents grow fastest in stronger consumer markets such as the United Kingdom and Sweden, as well as the recovery markets of Spain and Ireland, and the fast developing CEE region. In general, we expect both large dominant centres and smaller well-run convenience centres to perform relatively well, although centres that lie in the middle of that spectrum will continue to face a greater challenge from online retail.

Logistics Market Fundamentals

After seven years of flat or falling rents, there are a number of factors that should lead to an improvement in the logistics sector occupier market.

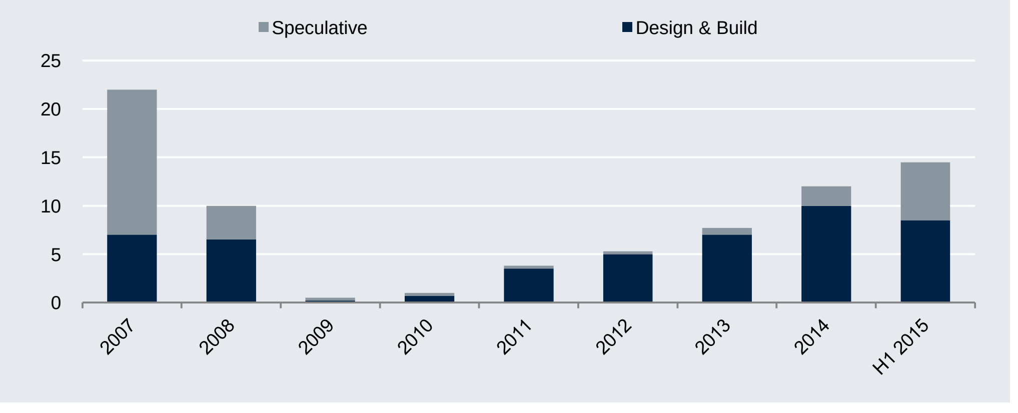
The ECB's programme of QE has significantly weakened the euro, which should have a positive effect on demand for Eurozone exports. At the same time, recovering real wages and renewed economic growth are set to provide a boost to import demand, while significantly lower oil and fuel prices should boost private consumption and improve margins for transport and distribution companies.

In addition to these shorter-term factors, long-term trends in the retail sector are also expected to provide an ongoing boost to logistics demand. With both online and omnichannel retail growing in importance, retail supply chains will continue to be reconfigured, with retailers needing to support their delivery networks.

Take-up trends have been positive so far in 2015, with retailers among the main drivers of logistics demand. The continued shift to online and multi-channel sales is expected to remain the most important driver of logistics demand looking ahead, with almost 9 million square meters of space expected to be needed over the next five years.[26]

Over 6 million square meters of logistics space was completed across the continent (excluding Russia) last year, and space under construction is on the rise.[27] Given the general lack of quality space, built-to-suit developments have been popular, and have been able to cope with current levels of demand. However, vacancy rates in the London area are the lowest in Europe at close to 2%,[28] and it is here, together with Germany and Poland, where there are signs of speculative development increasing.

U.K. Logistics Development Starts (Million sq ft)



Source: BNP Paribas Real Estate, July 2015.

[26] Savills, March 2015.
[27] Jones Lang LaSalle, March 2015
[28] PMA, June 2015

In major logistics hubs such as Amsterdam, Milan, Brussels and Antwerp vacancy is below 10%; however, the space that is available in these and other markets is often proving unattractive or unsuitable for current occupiers and many retailers are opting for built-to-suit developments.[29] As the availability of suitable existing space continues to dwindle, we expect to see more speculative schemes cropping up outside the United Kingdom, Germany and Poland as demand continues to increase.

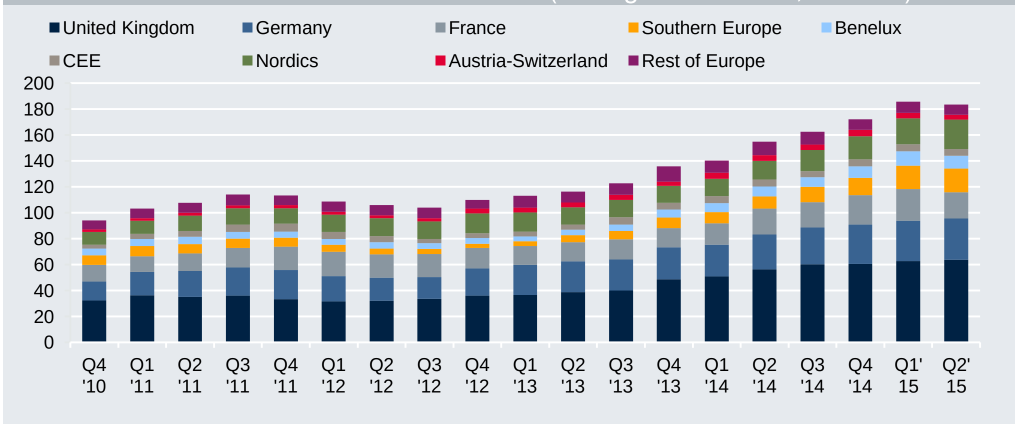
Rental growth is set to average 2.5% over the next couple of years, after a lengthy period of flat or falling rents. Spain and Ireland are forecast to see the strongest rental growth after a significant correction during the downturn, although the United Kingdom and CEE markets should also benefit from healthy growth.[30]

Capital Markets and Pricing

Commercial real estate investment volumes remain on a steep upward trajectory in Europe, with around €90 billion transacted in the first half of 2015, up 20% from the same period in 2014. The United Kingdom and Germany remained ahead in terms of total commercial transactions. However commercial volumes fell in France while the Netherlands and the Nordic region saw significant rises in transactional activity.[31] The strongest growth occurred in Southern Europe, where strengthening investor sentiment translated into more than €10 billion of commercial property investments in the first half of 2015, more than double the volume achieved in the same period in 2014. Investment in Poland has stalled recently, with oversupply a slight concern; however, the strong long-term growth prospects mean that activity is likely to pick up during the next 12 months.

All three of the main commercial property sectors saw transaction volumes rise during the first half of the year. In addition, there was also significant momentum in the apartment and hotel sectors, with investment volumes surging above the long-term trend.

Commercial Real Estate Investment Volume (Rolling Annual Total, € Billion)



Source: RCA, June 2015

Reflecting the recent improvements in market fundamentals and shortages of investable product in places, the number of portfolio transactions has increased across Europe. Whereas in the recent past portfolio sales required a significant discount, anecdotally it is now the reverse.

Capital flows continue to be supported by an accommodative monetary policy environment, looser lending conditions and overseas capital. Bank lending has been restrained in

[29] PMA, June 2015
[30] Deutsche AWM, August 2015
[31] RCA, July 2015

recent years, but evidence is emerging that banks are returning to the lending landscape.[32] In addition, new non-bank entrants to the debt market have increased competition, resulting in falling margins.[33] This has sustained a rise in debt provision and these trends are expected to continue, in turn boosting investment activity.

There has also been a clear increase in global capital targeting the European markets, with the proportion of deals involving non-European buyers rising from around 20% in the first quarter of 2012 to over 30% by the second quarter of 2015 on a 12-month rolling basis. In particular, a wave of capital from Asia and North America, armed with a significant amount of dry powder and benefitting from a weaker Euro, has been vying with European investors for prime assets in the best locations.[34]

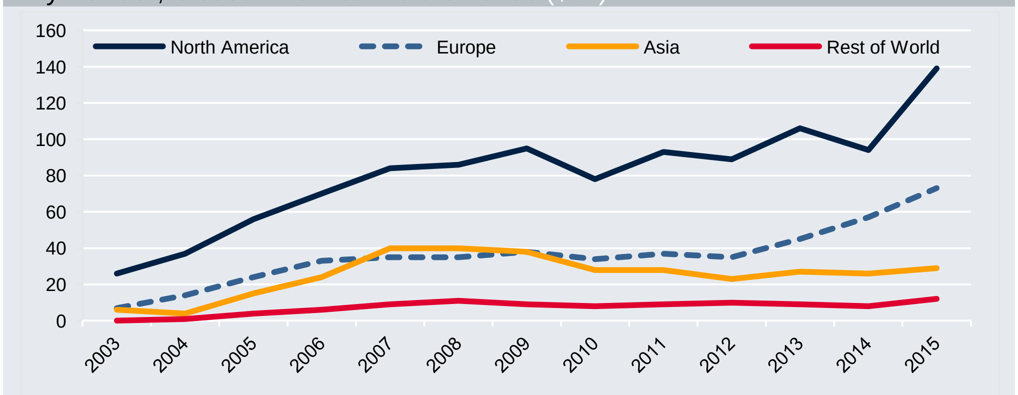
This additional weight of global capital has further added to recent yield falls, particularly in markets such as Central London, Paris CBD and Munich, with players from core to opportunistic creating downward pressure across the yield spectrum.[35] Nevertheless, given lower lending margins and spreads over long-term government bonds that are still comfortably above average, real estate pricing remains attractive, despite looking expensive in absolute terms in a historical context.

There is significant fundraising momentum in the private real estate market. During 2014 $38 billion of Europe-focused real estate private equity was raised by 51 funds; more than double the aggregate $18 billion raised in 2013. With almost $15 billion of capital targeting Europe already secured by 19 funds in 2015-YTD, pressure to deploy capital continues to mount.[36]

Appetite for European real estate is likely to remain healthy in the near-term, with many investors anticipating higher acquisition activity throughout 2015 than in the previous year. However, concerns relating to pricing and the availability of assets are some of the major challenges facing investors at the moment.37

Investors requiring higher returns are further stepping up the risk curve, looking towards second and third tier cities and non-traditional property sectors, a trend we expect to continue. With the economic recovery broadening, occupier risks in these markets are generally falling, but this strategy needs to be highly selective and requires a detailed understanding of local conditions.

Dry Powder, Closed-End Real Estate Funds ($bn)



Source: Preqin, June 2015

[32] CBRE, Q1 2015
[33] Colliers, March 2015
[34] PwC, European Real Estate Trends, Q1 2015
[35] RCA, July 2015
[36] Preqin, June 2015
[37] CBRE EMEA Investor Intentions Survey 2015, Q1 2015

During the past 12 months, the biggest inward yield shifts have occurred in Southern Europe and Ireland, while office and retail yields also moved in by as much as 50 basis points in central Paris. Compression was relatively modest over the same period in the major German office markets, and yields in Stockholm have been stable since mid-2014, with already keen pricing limiting the pace of further compression.

With the exception of London, logistics yields generally still offer a significant premium over offices and retail, although investors should factor in local market dynamics with particular focus on the supply situation and land availability.

Looking ahead, the outlook for low inflation and loose monetary policy has resulted in lower bond yield projections over the next five years. Consequently, we expect prime real estate yields to remain lower across the vast majority of markets over the forecast period relative to our projections at the beginning of 2015.

The current large yield spread over government bonds is expected to be maintained for the next 18 months. However, the pace and timing of yield expansion towards the end of the decade is anticipated to vary as market fundamentals and monetary policy outlooks diverge. In the United Kingdom, and particularly in Central London, an earlier interest rate rise is set to result in an earlier and more pronounced rise in yields at the back end of the decade.

In the majority of European markets, yields are expected to bottom out in 2016. In Core Europe, where bond yields are expected to remain well below historical levels, markets such as some of the German cities could see yields compressing into 2017, with only modest outward shift over the remaining part of the forecast period.

Prime yields are still declining sharply across much of Southern Europe, although this trend is unlikely to be sustainable once the rental upside is taken, or if as expected in some parts of Italy, rental growth turns out to be relatively modest. In the CEE markets, we expect to see yields compress throughout the five-year forecast period as the region continues to converge economically with Western Europe.

Real Estate Performance

According to the IPD index, average pan-European all property total returns hit an eight-year high of 9.4% in 2014, up from 6.0% in the previous year. With the exception of Austria and Switzerland, all markets saw increased returns. However, it was the United Kingdom, which carries a significant weight in the IPD index, which provided the largest boost to the aggregated European total, with annual returns of 17.8%. Other markets that saw strong improvements included Spain and Portugal, while Irish returns, rebounding from a deep downturn, hit 40%, a record both for Ireland and for any European country within the index.[38]

For those markets where quarterly data are available, the first quarter of this year suggested a continuation of strong returns. In the Netherlands, annual returns of 5.2% in the first quarter were the strongest since before the downturn.[39]

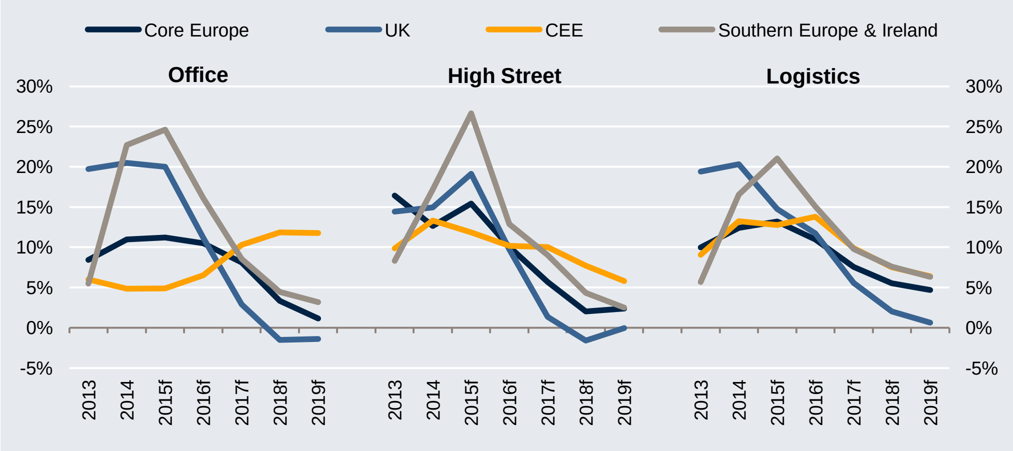
In the prime market, the beginning of 2015 also suggested a further strengthening of European real estate performance. All property prime total returns reached approximately 14% in 2014, but in the first quarter of this year grew close to 16% on a year-on-year basis.

[38] IPD Multinational Index, June 2015
[39] IPD Quarterly Index, May 2015

Given the revised outlook on bonds and property yields, as well as the improvement to the medium-term economic outlook, return projections have been revised up over the early part of the forecast period, although much of this extra return is likely to be front loaded. All property prime returns are set to average more than 11% per year over the period 2015-17, compared to an average return of around 8% over the full five years.

In a number of markets, particularly those that are forecast to see a strong supply response such as London City, it is likely that we will see one to two years of negative returns during the second half of the forecast period[40].

Expected European Market Total Returns by Sector and Region



Sources: PMA, Q3 2014 (historical data); Deutsche Asset & Wealth Management, July 2015

Note: f = forecast. There is no guarantee the forecast will materialise. Past performance is not indicative of future returns.

In the office sector, steady yield compression and moderate positive rental growth have led to a prime total return of 10.7% per year on average over the past five years, still some way behind high street retail, but ahead of the logistics sector. As annual rent growth rose above 2% in the first quarter, this helped to boost annual returns from 11.8% in the fourth quarter of 2014 to 13.4% in the first quarter of 2015.[41]

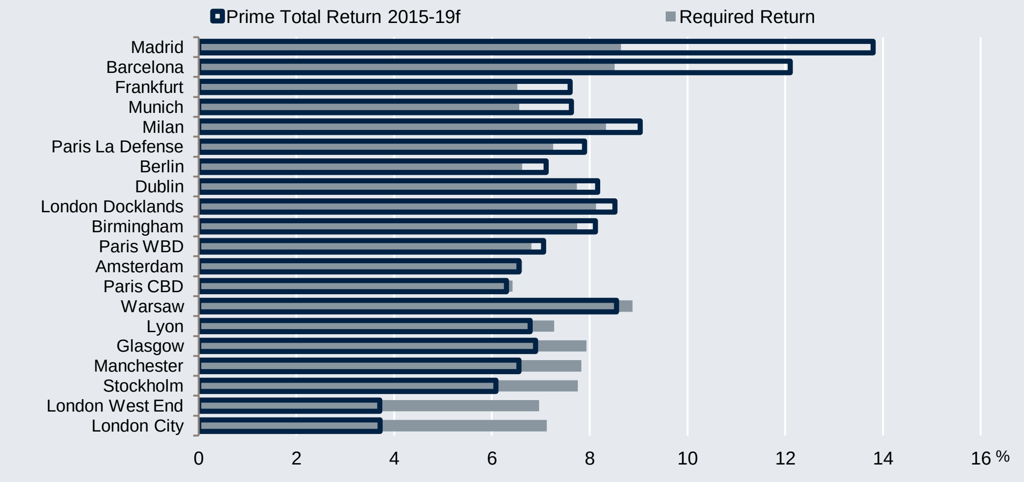
Achieving returns above the historical average is expected in the majority of locations over the next 18 months or so, particularly in Southern Europe. Beyond 2016 prime returns are expected to moderate, although core European real estate should still remain attractive to some investors as income returns continue to offer a premium over other asset classes, and rental growth keeps pace with inflation.

Estimates of a typical institutional investor's required return (ungeared) over the period 2015-19 show that there are still a number of locations that offer good relative value. By looking at the risk-free rate and taking into account a number of factors such as market transparency, return volatility and investment liquidity, it is possible to estimate the required rate of return for each market and compare this to the expected total return.[42]

Southern Europe dominates the top of the table in this respect, with forecast annual average total returns comfortably ahead of the hurdle rate. There are also a number of other markets, most notably Germany, which could still be considered good value by this measure. However, the U.K. markets, and particularly Central London, are starting to look overpriced thanks to the combination of weaker absolute returns and higher required returns.

[40] Past performance is not indicative of future returns.
[41] PMA, April 2015; Deutsche AWM, July 2015. Excludes Greece and Switzerland.
[42] PMA, Deutsche AWM, July 2015

Prime Office Total Returns & Required Returns (% p.a.)



Sources: Oxford Economics, PMA, JLL, RCA, Deutsche Asset & Wealth Management, July 2015.
Note: f = forecast. There is no guarantee the forecast will materialise. Figures in brackets are forecast excess returns.

Secondary cities in the U.K., Germany, Poland and Spain still offer a reasonable yield premium over the core cities and an improving occupier market in the short-term is expected to mitigate occupancy risk. That said, this strategy has already played out in a number of the larger regional cities, with yields having come in sharply in the major U.K. and German regions.

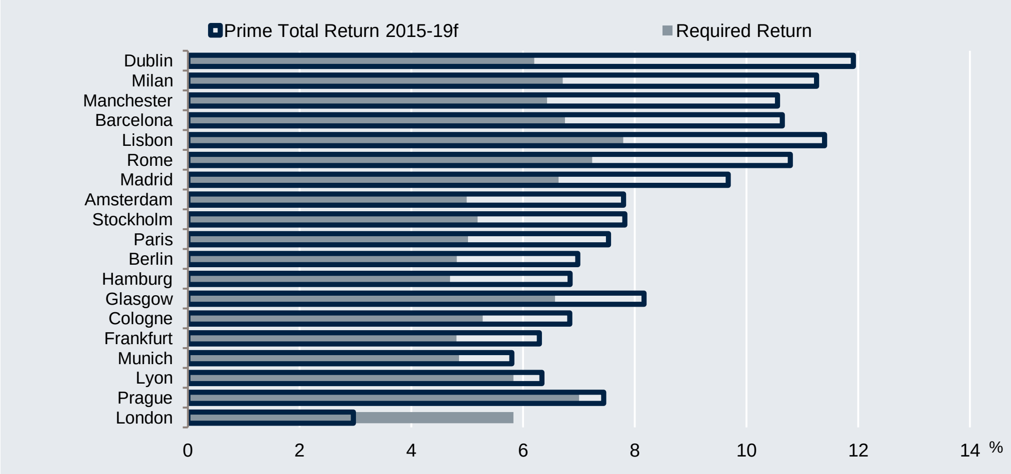
Furthermore, there should be a number of cyclical opportunities in locations such as Helsinki, Warsaw and Prague, as discussed in our strategy section above. Potential new markets such as Istanbul and Romania may also begin to offer more opportunities at the higher-risk end of the spectrum, but with the potential to benefit from longer-term convergence as the markets there develop.

High street retail has been the best performing commercial sector for eight of the past nine years,[43] and cemented its position at the top of the pile during the first three months of this year. Annual European prime total returns reached 18.5% in the first quarter, up sharply from the 14.3% recorded in December, with the figure boosted by strong yield compression in London, Paris and the Peripheral markets.

Prime retail is set to maintain its top performance spot over the next two years, but towards 2019 the sector’s low and rising yields will weigh on total returns. This effect is forecast to be felt most strongly in London and Paris, where yields are exceptionally low at around 3%, meaning that the eventual outward movement will have a proportionally larger negative effect on values, despite above average rental growth. On the other hand, the CEE markets are set to outperform over the second half of the forecast period due to a combination of higher income returns and continued convergence towards Western Europe.

[43] PMA, April 2015; Deutsche AWM, July 2015

Prime Retail Total Returns & Required Returns (% p.a.)



Sources: Oxford Economics, Deutsche Asset & Wealth Management, July 2015

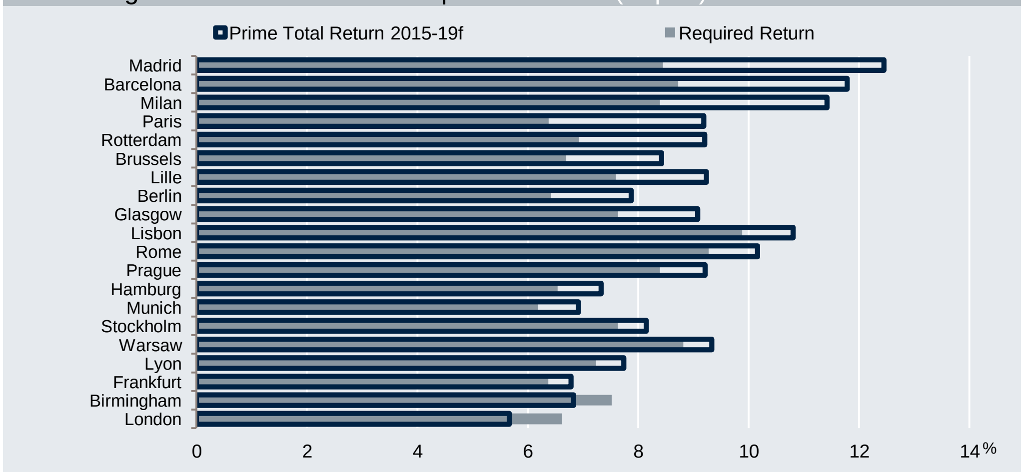
Note: f = forecast. There is no guarantee the forecast will materialise. Figures in brackets are forecast excess returns.

Despite logistics properties seeing strong yield movement, rent growth was weaker than in the other sectors, leading to prime returns remaining stable at 12.5% in the first quarter of this year. However, over the five year forecast period we still expect this sector to be the best performer, due to the combination of higher income returns and improving rental growth.

Furthermore, as pricing in the office and retail sectors becomes increasingly tight, trend improvements in logistics occupier demand and growing investor interest should initiate further convergence between the sectors. The yield spread between logistics and retail properties reached a cyclical high of 260 basis points in 2013, however, this fell to less than 240 basis points by the first quarter of 2015 and we expect the gap to reduce to 200 basis points by 2019.

Like the other sectors, we continue to favour the Southern European markets over the next five years, while significant infrastructure improvements and convergence should drive longer-term outperformance in the CEE region.

Prime Logistics Total Returns & Required Returns (% p.a.)



Sources: Oxford Economics, Deutsche Asset & Wealth Management, July 2015

Note: f = forecast. There is no guarantee the forecast will materialise. Figures in brackets are forecast excess returns.

Market Positioning Calls

The table below provides a regional summary of suggestions for market positioning given the performance outlook for real estate across cities and sectors.

Based on our forecasts for prime real estate, these calls provide guidance on where investors are likely to find the highest risk-adjusted returns over the next five years, and where they should look to reposition their exposure to real estate over the coming 12 months.

Our recommendations are not all encompassing within the real estate investment universe and therefore should be viewed in conjunction with the strategic themes shown in this paper.

	Office	High Street Retail	Logistics
Central London	Underweight	Underweight	Underweight*
German Top 7	Overweight / Neutral	Overweight	Overweight / Neutral
Central Paris	Neutral	Neutral	Overweight*
Regional UK	Neutral / Underweight	Overweight	Neutral / Underweight
Regional France	Underweight	Neutral	Neutral
Southern Europe	Overweight	Overweight	Overweight
CEE	Neutral	Overweight	Overweight
Nordics	Underweight	Neutral	Neutral
Benelux	Neutral	Neutral	Overweight

Note: *Greater London / Ile de France

Source: Deutsche Asset & Wealth Management, July 2015

Real Estate Securities

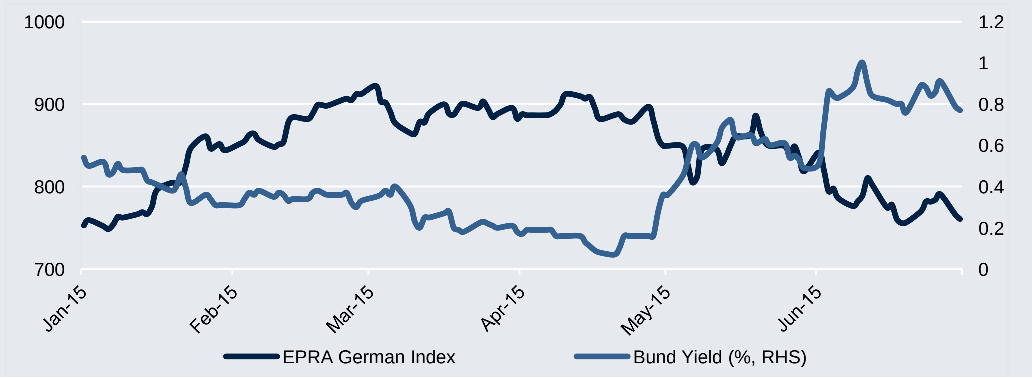
With the official announcement of quantitative easing in Europe in January and its implementation beginning in March, the listed real estate sector posted a stellar performance during the first quarter. However, this was short lived, as the second quarter saw a significant market correction on the back of revived tensions in Greece and a sharp bond yield rerating across the continent.

With the influx of liquidity pouring into the sector we saw a number of IPOs, secondary issues and M&A activities between companies during the first half of the year. Spain was particularly active, with renewed investor interest for the country, while Germany saw companies issuing capital to fund acquisition plans.

With lower cost of debt and increased equity availability, consolidation remains a key topic, with Deutsche Annington recently acquiring Sodewo, Deutsche Wohnen attempting to acquire Austrian company Conwert and Deutsche Office being taken over by Alstria to create a leader in the German office space.

Currently, the real estate sector tends to be negatively correlated with bond yields. During the first quarter of 2015 the 10-year German bond yield dropped by nearly 40 basis points supporting returns in the sector. Over this period, the EPRA Index Germany increased by 17.2%. Conversely, the second quarter saw a strong rebound from historically low Bund yields. The German 10-year bond gained 60 basis points which translated into a loss of 13.8% of the EPRA Index Germany. This trend was repeated across the major European markets.

German Real Estate Equity Price Index Versus Bund Yields



Source: Macrobond, July 2015. Past performance is not indicative of future returns.

First quarter performance in the United Kingdom was positive (EPRA Index UK +9.2%) despite lagging behind the continent, while the second quarter saw a mild market correction compared to the rest of Europe (EPRA Index UK: -2.6%). The unexpected landslide victory of the Conservatives at the General Election was a boost for the equity markets, while the economy keeps showing supportive signs despite somewhat disappointing GDP growth in the first quarter. U.K. REITS have carried on from where they left off last year, again out-performing the All-Share Index in the first half of 2015. Listed U.K. companies had a very strong results season, with NAVs up 20-30% for the year, while rental growth and development upside should continue to drive good NAV growth, albeit lower than over the past twelve months.

Looking at the half year performances, in Continental Europe, Italy was the best performing country (+20.3% total return) followed by Spain (+16.0%), Switzerland (+14.9% in Euro terms) and France (+9.5%). Germany was lagging behind at +3.6% on the back of a disappointing performance from the residential sector while Finland (-2.8%) was the worst performing country on the back of economic difficulties linked to the Russian situation. The U.K. was up 8.0% in GBP terms, driven by strong performances from mid caps such Unite (student housing specialist) and Grainger (residential) while Londoners such as Shaftesbury and Derwent London remained strong.[44]

The listed real estate sector (EPRA Europe +11.51%) underperformed the broader equity market (MSCI Europe +13.25%) in the first half of the year. The German residential sector, alongside the Nordics, underperformed materially during the second quarter. In the case of the former, financial leverage is materially higher than the European average, while the latter is characterised by a high beta.[45]

Looking ahead, the listed property sector remains attractive for the following reasons:

1. Despite the current bond yield rerating, the yield spread is still significant (especially as stocks have materially corrected, providing some attractive entry points).

2. Some markets such as the Nordics (especially Sweden) and Germany have materially underperformed despite solid fundamentals such as solid cash flow generation for Sweden and positive rental and capital growth for Germany, which should ultimately be rewarded in a normalized market environment.

3. In the direct market, investor appetite is driving yields down in a number of markets (Paris CBD, Germany), which should ultimately translate into some portfolio revaluation and higher NAV growth[46].

[44] EPRA, Macrobond, July 2015
[45] EPRA, Macrobond, July 2015
[46] Past performance is not indicative of future returns.

Overview of Key European Markets

Strategic Outlook: United Kingdom

The market is performing strongly, but is likely to be entering the latter part of its cycle. Pricing in some locations – particularly Central London – is looking stretched when compared to history, and will come under increased pressure as new supply curbs rental growth and if interest rates start to rise in 2016. While the regional markets are set to outperform Central London, the timeframe for purchasing attractively priced core product is short. Opportunities remain to take on development and leasing risk selectively in the regions and suburban London, but investors should be cautious of style drift. With investor demand still strong, and so far unaffected by the E.U. referendum, the next 12 months should prove an optimal time to tactically reduce exposure to the prime end of the market – particularly in Central London.

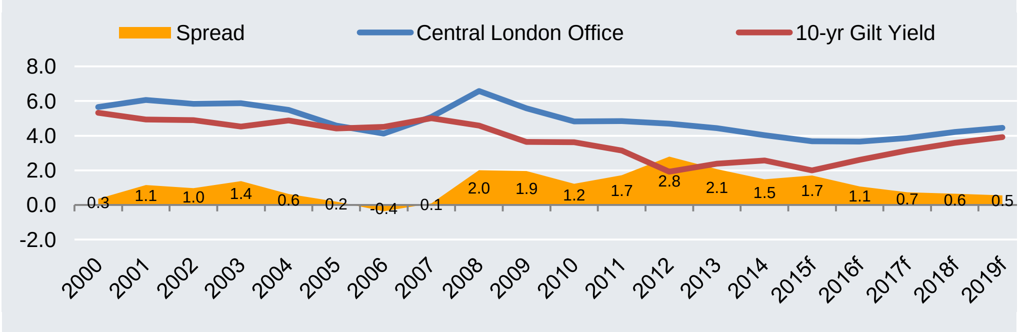
Occupier

- Central London vacancy below pre-recession levels. Office rents to reach record highs. Supply response to temper rents by decade end.
- Regional office markets lacking grade A availability. Rents are rising and set for a sustained expansion.
- Central London occupational market most exposed to the E.U. referendum, particularly in the event of a vote to leave.
- Regional markets to benefit from localism. Increasing political powers, budget control, transport coordination and agglomeration.

Investment

- Market returns look to have peaked in 2014.[47]
- This year's returns to remain above average but lower through the rest of the decade.
- Strong fund inflows and overseas demand creating opportunities to achieve high pricing and tactically reduce exposure to the United Kingdom.
- Yields continue to fall across markets. Prime Central London at record lows, while major regional cities trending towards this point.
- Premium for taking on risk is falling, reflecting improving occupier fundamentals. Second tier regional cities seeing late cycle pick-up.

Central London Prime Office Yield Spread Over 10-yr Gilts (%)



Sources: Deutsche AWM, Macrobond, PMA July 2015
Note: f = forecast. There is no guarantee the forecast will materialise.

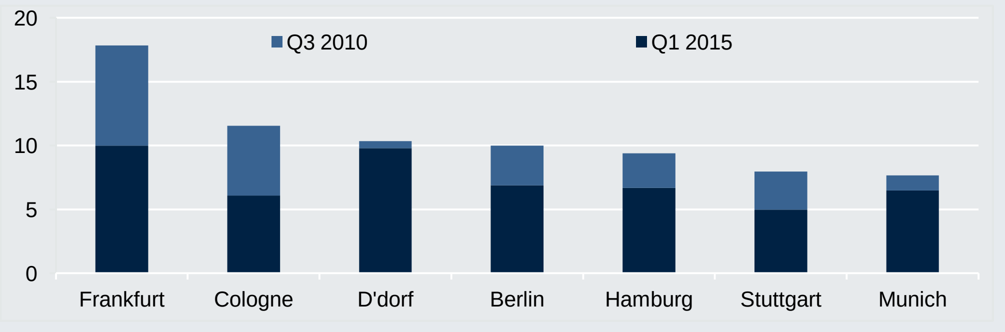
[47] IPD, March 2015

Strategic Outlook: Germany

The German real estate market is going from strength to strength at the moment, as transaction volumes and market values continue to rise. However, there is initial unease by some market participants, who start to feel uncomfortable about pricing levels. Nevertheless, given that ultra-low interest rates are expected to stay at these levels for longer, it is doubtful that yields will revert back to long-term mean, even though we should expect market values to adjust at some point over the next five years. However, it may well take another 18-30 months before German real estate begins to look unattractive compared to other asset classes. For the time being, a robust economy in combination with strong underlying fundamentals in the occupier markets should support a positive performance.

Occupier	• Demand for office space in the first half of 2015 is at the highest level since 2011, with particularly strong activity in Berlin, Munich and Stuttgart. • Vacancy rates continue to fall and are now quoted at 7.3% across all Top 7 office markets, resulting in a scarcity of modern centrally located office space.[48] • We expect speculative construction to pick up gradually, as creditors soften their requirements in search for yield. • Munich, Frankfurt and Berlin are expected to outperform, as rents are expected to grow strongly between 2015 and 2017, before new supply will increase competition at the end of the forecast period.
Investment	• Prime yields still falling and are already at historical lows, but real estate continues to look cheap in relative terms. Markets now seem to accept that bond yields will be very low for much longer. • Gradual rise in property yields from 2017 onwards but yields should fall below 4% in the short term if interest rates stay low as expected. • Prices in higher yielding segments like second-tier cities, logistics and hotels have risen more rapidly as investors are seeking yield. • Investment window is still open for another 12-18 months; however, at this point in the cycle, investors are exposed to higher risks, if asset selection is not right.

Office Vacancy rates (%)



Source: PMA, June 2015. There is no guarantee the forecast will materialise.

[48] PMA, June 2015

Strategic Outlook: France

Despite the economy returning to stronger growth in the first half of the year, real estate fundamentals are still relatively weak. Logistics and retail are beginning to benefit from external factors and improving confidence; demand in the office market is still subdued but should begin to see a gradual improvement. Yields remain on a downward path, yet spreads over bonds are still high, leaving room for further compression. In order to meet returns targets after this year it will be increasingly necessary to move up the risk spectrum, taking on location, vacancy, or development risk in order to take advantage of rising rents and occupancy levels as yields begin to flatten and move out. Assessing the impact of the Grand Paris project will also become increasingly important in the French capital.

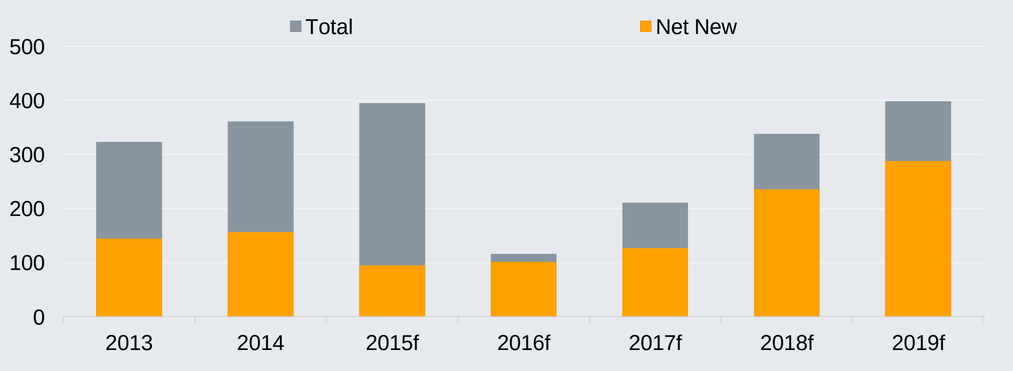
Occupier

- Economy receiving a boost from external factors, while domestic reforms are progressing, but the recovery remains fragile.[49]
- Spike in office construction in the wider Paris region this year, although net new space in Central Paris will remain limited.
- Office occupancy set to improve, except in Lyon, where record construction will push vacancy to a 20-year high. Low grade A vacancy in Paris CBD leading to a pick-up in speculative construction.
- Rent growth set to increase next year, particularly in Paris CBD, although incentives remain high in the WBD and La Dèfense.
- Prime high street rental growth expected to be among the highest in Europe due to strong demand from foreign retailers, growing tourist spend from China & Middle East and low vacancy.

Investment

- Yields continue to fall faster than expected. Offices are back to their pre-crisis low and retail well below at just 3.25%. Logistics yields remain elevated, with a spread of 300 bps over offices in Paris.[50]
- Yields expected to stay lower for longer due to revised bond outlook. High street retail looks attractive due to stronger rent growth.
- Select strategies outside of prime CBD beginning to look attractive. La Dèfense & WBD offer a good yield premium.

Central Paris* Office Construction Pipeline (thousand sqm)



Sources: Deutsche AWM, June 2015; PMA, April 2015,
*Central Paris comprises CBD, La Dèfense & Western Business District
Note: f = forecast. There is no guarantee that the forecasts will materialize

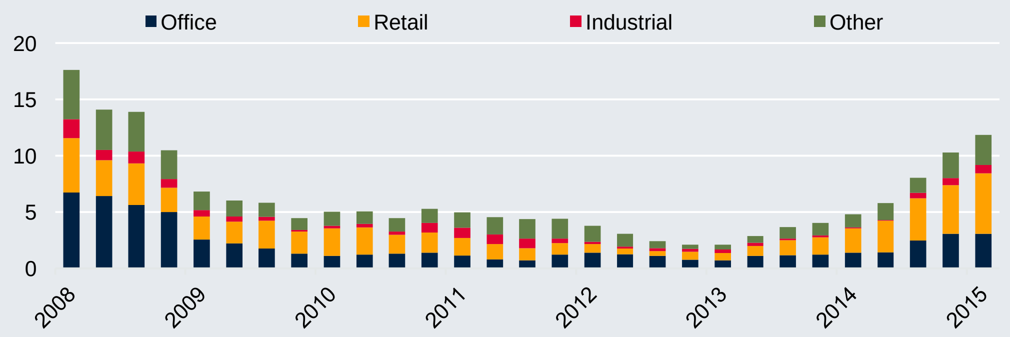
[49] Oxford Economics, June 2015
[50] PMA, June 2015

Strategic Outlook: Spain

Spain is expected to be one of the best performing markets in Europe over the next five years. Led by last year's yield compression, the upturn is set to be sustained by a rebound in prime rent, which importantly has now started to materialise in Madrid and Barcelona. Given the rental outlook and the weight of capital targeting Spain, securing the most prime real estate could prove difficult. With this, we see value in selectively taking on leasing and (re)development risk in the heart of Madrid and Barcelona – where high quality stock is in short supply – while also considering prime, centrally located opportunities in second tier cities such as Valencia and Bilbao.

Occupier	• Spain is growing strongly and jobs are being created, boosting demand for real estate space. • Office take-up in Madrid and Barcelona moving back to historical average. Vacancy trending lower, further supported by conversions. • Prime city centre vacancy well below average across the office and retail sectors. Prime rental growth in these locations accelerating, and set to record some of the highest growth in Europe over five years. • Improving economic climate to support occupation outside Madrid and Barcelona, but in general high vacancy outside of city centre locations expected to prevent strong recovery in fringe submarkets. • Risks around Spanish general election in 2015, with new parties gaining ground.
Investment	• Weight of capital targeting Spain. Investment volumes moving towards pre-recession levels. • Prime Spanish yields continue to fall and are now close to historical lows. Positive yield impact to have run its course mostly by end-2016. • Capital moving beyond Madrid and Barcelona. Second tier cities are currently offering a yield premium of around 200 basis points. • Within core locations, value-add opportunities supported by lower vacancy, rising demand and a long period of low new supply.

Spanish CRE Investment Volumes (12m rolling average, € billion)



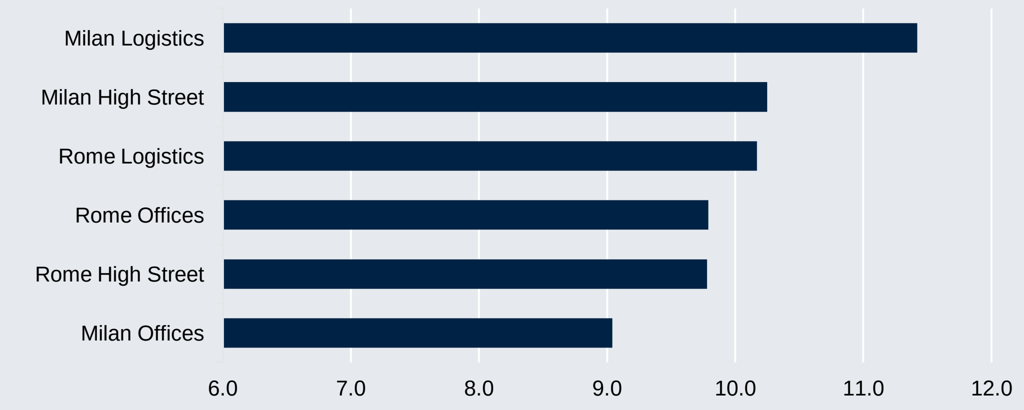
Source: RCA, June 2015. No assurance can be given that any forecast or target will be achieved.

Strategic Outlook: Italy

Italy saw a marked increase in investment activity during the first half of 2015. With the economy returning to growth – if only modest – and Italy offering a yield premium over much of Western Europe, transaction volumes have surged, leading prime yields lower across the market. While this trend should continue into 2016, leading to outperformance of the European average, there is a risk in some sectors that this is not being supported by fundamentals. With economic growth projected to be among the weakest in Europe, and the office markets in Milan and Rome suffering high vacancy (including prime space), the current upturn may be short lived. High street retail in the major cities should continue to perform strongly, particularly in tourist destinations, while the logistics sector is likely to gain as Italian consumers pick up more of a taste for online shopping.

Occupier	• Prime office rent recovery to begin in 2015, but given high vacancy, available new supply in Milan and government cuts in Rome, rent growth expected to be only slightly more than inflation over next five years. • Given rising tourist numbers, low household debt, little vacancy and continued demand from overseas brands, prime high street units in major cities to see some of the highest rental growth rates. • Italy lagging European average in adoption of online retailing but now seeing strong growth. Reduced demand for retail, particularly mid-sized shopping centres, while boosting logistics requirements.
Investment	• Having lagged other parts of Europe, investment transaction volumes increased during the first half of 2015. • This has led to further prime yield compression during 2015, which is expected to continue into 2016. • Yield compression expected to drive returns this year and next. Rent growth to be more modest than other recovery markets. • Prime logistics and high street retail expected to outperform offices.

Annual Av. Prime Total Return by Sector (2015-19f, %)



Source: Deutsche AWM, July 2015

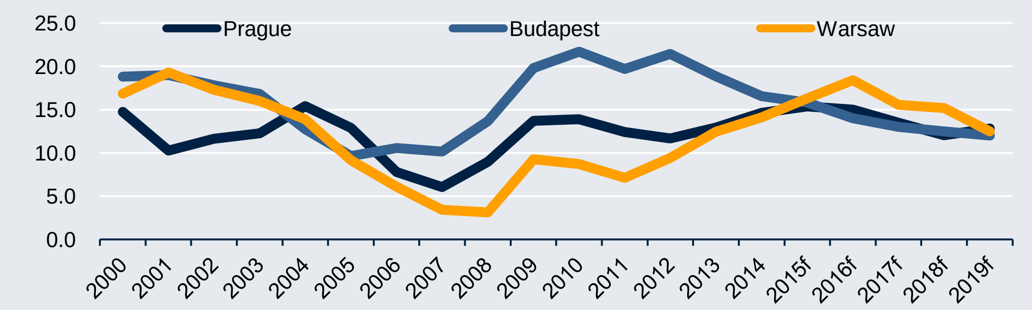
Note: f = forecast. There is no guarantee that the forecasts will materialize.

Strategic Outlook: Central Europe

Over the past 12 months, the Central European markets are sending out mixed messages to institutional investors. Despite economic growth picking up significantly, landlords are increasingly challenged to cope with the new supply of office stock released onto the market. Prime rents are set to bottom out over the next 18 months. Nevertheless, the long term investment rationale remains intact, as economic growth is clearly expected to outperform the European average. However, the ideal time to enter the office market may still be 12 months further down the road. While investors might want to start to monitor the office market more closely, the retail sector and notably the logistics sector do look more attractive.

Occupier	• New supply has led to rising vacancy rates in Warsaw (14.1%) and Prague (15.8%), now near or at all-time highs.[51] • In contrast, availability in Budapest (16.1%) remains highest, but the market has already shown notable improvement in recent quarters. • Tenants are currently in control in all markets, with only best in class buildings remaining competitive at the moment. • Despite Polish retail sales rising in recent quarters, shopping centre markets in the regions are still subject to significant new development, putting a lid on rental growth in the medium term. • There are still only a handful of schemes developed speculatively in the logistics sector in Poland and the Czech Republic as upward pressure on rents is only gradually building up.
Investment	• At 6.0%, office yields and their spreads compared to western peers are still significantly higher than pre-crisis levels.[52] We expect investors to exploit these high entry yields when vacancy trends down. • Investors have started to look at regional Polish office markets. As a result the spread compared to Warsaw has fallen rapidly. Market entries should therefore be judged very carefully. • Logistics yields look fairly priced compared to most other European markets. There is still significant potential for yield compression.

Office Vacancy Rates (2000-2019f, %)



Sources: PMA, May 2015; Deutsche AWM, July 2015.
Note: f = forecast. There is no guarantee the forecast will materialise.

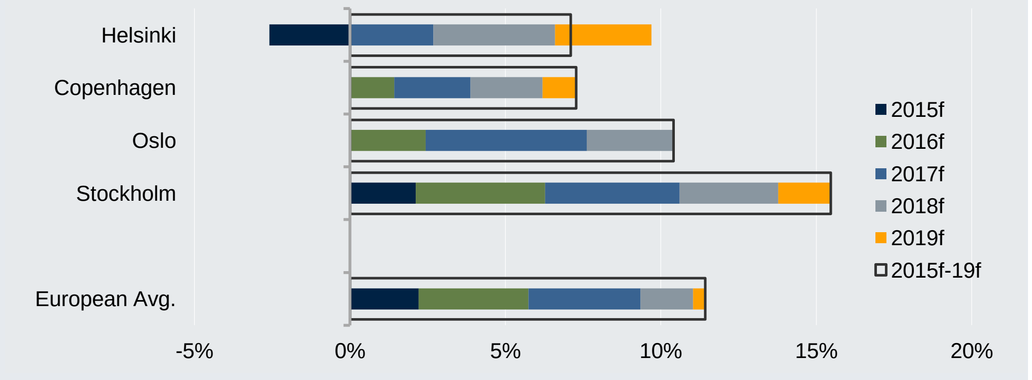
[51] PMA, June 2015
[52] PMA, June 2015

Strategic Outlook: Nordics

While the demand outlook remains positive in Sweden, Finland continues to struggle, resulting in diverging rental growth paths. Increased investment, supported by low bond yields and attractive financing options, is putting downward pressure on prime yields across all sectors. Rising bond rates from 2017 could result in yield expansion, although the pace and shift will differ across markets and sectors, affecting the total return outlook. It is an opportune time to move up the risk curve in Sweden while preparing to target core product in supply constrained markets undergoing rental adjustment in Finland.

Occupier	• Sweden and Denmark firmly in expansion mode. Finnish economy continues to struggle while Norway impacted by lower oil prices. • Strong occupier demand in Stockholm while tenant demand weak in Helsinki. • Speculative activity limited in Helsinki and modest in Stockholm. Rising development activity observed in Copenhagen.[53] • Stockholm set to experience robust rental growth. Adverse market conditions in Helsinki resulting in rental decline. • Rising retail sales and exports supporting logistics demand in Stockholm and Copenhagen, underpinning rental growth outlook.
Investment	• Low bond rate environment and low/negative interest rates resulting in attractive financing environment, propelling investment volumes. • Bond yields could rise from 2017 onwards, resulting in yield expansion and narrowing spreads, affecting total return outlook.[54] • Prime Stockholm office returns to be relatively low. Attractive opportunities for higher risk-adjusted returns from developing stock in supply constrained CBD. • Helsinki expected to see improved performance at the back end of decade following period of rental adjustment

Prime office rental growth, 2015-2019f (%)



Sources: Oxford Economics, Deutsche AWM, June 2015
Note: f = forecast. There is no guarantee the forecast will materialise.

[53] PMA, June 2015
[54] Oxford Economics, June 2015

Strategic Outlook: Netherlands

The Dutch economy has continued to show signs of a recovery. But the momentum is still weak, with unemployment remaining high by Dutch standards. Households remain heavily indebted and fiscal policy is expected to remain tight in the foreseeable future. Fundamentals in most parts of the real estate market have yet to improve considerably. However, while consolidation in the much fragmented office market continues to take place, opportunities for investors may arise on a case by case basis. Deutsche AWM research continues to see opportunity in selective logistics locations, despite pricing now being higher than pre-crisis levels.

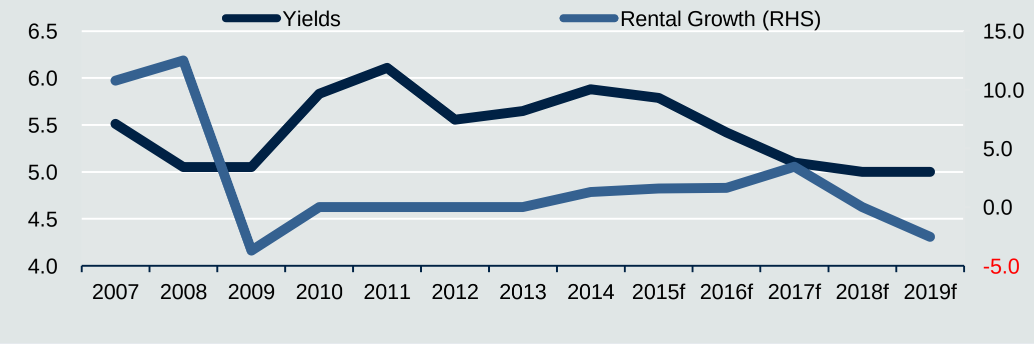
Occupier

- Vacancy rates in the Dutch office markets remain stubbornly high. Tenant demand has continued to stagnate at best, as take-up levels in 2014 were the lowest over the past 10 years.[55]
- Central submarkets in Amsterdam (Zuidas, City Centre) are doing considerably better, as they benefit at the expense of weaker, non-central locations.
- Peripheral locations expected to suffer from oversupply in the longer term and the level of obsolescence is probably higher in the Netherlands than anywhere else in Core Europe.
- Due to intensifying trade with overseas countries, demand for logistics industrial property has increased significantly.

Investment

- Investment in Dutch property, most notably in the office sector, continues to pick up.
- Given high vacancy levels, asset selection remains very important. Small and medium lot sizes in central locations with a multi-tenant structure most attractive.
- The additional risk in the prime Dutch office market is displayed in higher entry yield levels (75-100 basis points), compared to most locations in Germany or the United Kingdom.
- Focus on Amsterdam and Rotterdam for logistics properties, where vacancies have fallen fastest in recent years.

Amsterdam Office Market (%)



Sources: PMA, May 2015; Deutsche AWM, July 2015

Note: f = forecast. There is no guarantee that the forecasts will materialize

[55] PMA, May 2015

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