REITs

$95bn

Investors estimated to be underweight in the REIT sector

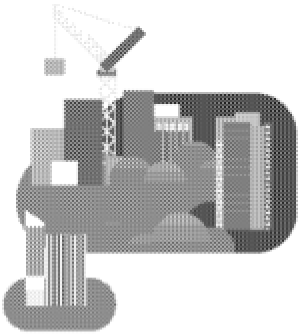
Real Estate

11th

Global Industry Classification Standard sector from end August 2016

Post Brexit decision

UK real estate valuations might ease, but most key markets remain favorable



As regards real estate, this may perform best when gross-domestic-product (GDP) growth is positive and real interest rates are low. Our post-Brexit referendum GDP growth estimates are modestly lower for some markets, yet we do not expect real interest rates to rise. Globally, real estate could deliver average to above-average returns in many markets. The U.K. might slow, but markets such as Australia, South Korea, Germany, Spain and the U.S. remain favorable.

Outside of the U.K., we also don't see material valuation shifts. Initial yields (rents minus costs, divided by the property value) are stable while bond yields have come down, thus spreads are wider. With property supply and demand remaining balanced, we have upgraded our return outlook in certain markets.

Supply risk remains well below average, with only a few exceptions such as Singapore, Houston, London, and some late-cycle supply in certain Australian markets.

In the listed market, real estate may become the eleventh Standard & Poor's Global Industry Classification Standard sector in September 2016. We believe this could lead to lower volatility and correlations over time. Also, generalist investors are estimated to be underweight the Real Estate Investment Trust (REIT) sector by c. $95bn, which could provide support. REIT dividend yields are now at 4.0 percent and well supported by underlying free-cash-flow yields of 5.0 percent. Payout ratios are low by historical standards and provide an opportunity for high-single-digit dividend growth in the near term.

Source: Deutsche Asset Management, June 24, 2016
Past performance is not indicative of future returns. Readers should refer to the explanatory notes at the end of this document.