Professional clients (MiFID Directive 2014/65/EU Annex II) only. For Qualified Investors (Art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA)). For institutional / wholesale investors only.

If you kept your head when all about you were losing theirs...



Matthew Abbott
Director, EMEA Client Coverage,
Real Estate, Deutsche Asset Management



Nicoletta de Bona Bottegal
Director, Senior Portfolio Manager, Real Estate, Europe, Deutsche Asset Management

After three turbulent years, signs of recovery are beginning to emerge across real estate markets—prompting investors to reassess the role of core strategies in diversified portfolios. At Deutsche Asset Management (formerly DWS), we consider the next six to 12 months as a period in which select core real estate investments may present attractive opportunities, while recognising that the recovery remains uneven and market conditions remain uncertain. This article explains the basis for that view and describes how we construct portfolios that seek attractive long-term risk-adjusted returns.

When Rudyard Kipling wrote his now globally recognised poem, "If", in 1895, the qualities he conveyed were humanistic. He challenged us to develop certain core behaviours - specifically ***self-belief*** and ***resilience***. But he also encouraged us to throw a blanket of ***humility*** over all those things; imploring us to listen, to learn and to always look for the counterpoint.

For Deutsche Asset Management, investing in an imperfect, inefficient market such as real estate, has many parallels, especially in a rapidly changing built environment. ***Self-belief*** in investment ideas can help identify themes with the potential to support relative performance. In our experience, core mandates are generally better positioned when they maintain an intensive focus on risk management, invest thematically and selectively pursue early-mover opportunities, and remain sufficiently nimble to respond to changing market conditions*.

But as well as having a high degree of conviction in the themes we identify, we also believe that ***resilience*** and ***humility*** are at least as important, if not even more so. These two qualities lean more into the concept of effective risk management than return generation per se, and there is an easy read across to Kipling's qualities:

i. ***Resilience*** – building a portfolio intended to support long-term returns across a range of market conditions;
ii. ***Humility*** – being open-minded, progressive and listening to others to help inform, develop and learn.

Resilience (and our approach to Core investing)

At its heart, core real estate investing is about seeking income-producing assets. After all, it is income that has accounted for 70% of total returns over the long-term (Source: CBRE). But if we delve a little deeper into what income means, and what sort of risks can be accessed through an income lens, we can gain some useful insights.

At Deutsche Asset Management, we invest our core mandates in assets where we believe the income profile supports returns above broad market exposure, rather than relying solely on market beta. We do not usually maintain an ultra-core allocation because in our view doing so could increase the return burden on the remainder of the portfolio*. Put another way, we'd rather use our asset management expertise and adopt a sharp focus on seeking to improve Net Operating Income, rather than relying on passive exposure to potentially drive returns.

Over the last 12 months, we have started to think about core as two distinct groups – ***Core Income*** and ***Core Alpha***. Both represent core investing but offer different routes to potential growth and different target return profiles.

Figure 1 – Illustration of Core Income & Core Alpha



Core Income and Core Alpha as well as the other categories referenced above are research classifications only and not investment products. IRR ranges are broadly adopted industry-wide targets, for illustrative purposes only and no representation is being made that that any investment program would achieve similar results.
Source: Deutsche Asset Management, September 2026.

Core Income

Seeks to offer an attractive income return. Although we classify it as defensive, the income sought is generally higher than that of the broader market and may support relative performance over the long term. Our approach emphasizes identifying good value assets which offer steady income growth and an attractive entry yield. Examples of how we do this include being creative on structuring the access route or through investing in more operational assets.

(As an aside, truly defensive income - such as 'Ultra Core' - may have a role for certain investors, but it could offer lower potential for enhanced returns. We believe Core Income can provide defensive characteristics, subject to market and asset-level risks.)

Core Alpha**

Offers the potential for higher returns than that of the broader market by seeking to find assets where income can either be created or increased, or where we feel that broader institutional acceptance could contribute to yield compression. To achieve this means investing in assets which we think could generate additional rental growth, can be intensively managed, or through investing in strong structural growth themes. It doesn't go as far as value-add but it does offer additional outperformance potential over Core Income.

Constructing portfolios

In our September webinar, titled ***"Offensively Defensive: Generating Outperformance from Core Real Estate"***, we discussed our approach to blending risks when constructing portfolios across a range of market conditions. Predetermined portfolio allocation targets are not set for the two Core styles outlined above. Our current stance maintains a broadly even split, varied to reflect prevailing market conditions and based on the following thoughts:

- Demand for high-quality real estate is up, and supply is down. Corporate profitability is sound, occupier demand is high (especially

for good quality space), and new construction is tricky.
- Add to this, values remain down 20% over the past three years, with pricing now more aligned with associated risks.
- However, capital markets have been fragile and tail risks remain heightened. Each piece of negative news flow (over the previous 6-12 months) appears to have deterred allocations, resulting in a market unable to clear efficiently and transaction levels remaining low. Although, as witnessed in recent months, investors appear to be embracing a more permanent state of pricing uncertainty.

We therefore believe the ability to invest selectively in a market with limited transaction activity may provide opportunities for early movers if conditions evolve as anticipated. However, geopolitical, economic and inflationary risks remain material. Our Income / Alpha approach helps to articulate the ***resilience*** of our process:

- We believe Core Income may help mitigate downside risk while seeking attractive income – our assets are high-quality, well-located and offer attractive income.
- Core Alpha focuses on newer sectors that may attract greater institutional participation as thematic trends develop and the built environment evolves. Our approach combines thematic investing with intensive asset management and a focus on income growth*.

Case studies

While the process of classifying our assets into Core Income and Core Alpha is part-art, part-science, it helps enormously when articulating and understanding risk. Figure 2 shows how certain asset types are grouped and where we currently see compelling opportunities.

Figure 2 – Classifying our assets by risk style



Source: Deutsche Asset Management, June 2026

The Core Income style includes sectors in which high-quality, prime assets can be accessed but with the potential for an income yield enhancement through market selection (e.g. Southern European logistics in Italy and Spain), the access-route (e.g. residential assets in prime cities accessed through forward-fundings) or the operational nature of the asset (e.g. hotels).

The Core Alpha style includes mainly assets in growth markets (e.g. Danish commuter residential in high-growth towns), specialist segments in which yield compression is expected (e.g. Italian cold storage/logistics) or management-intensive assets (e.g. multi-let logistics in France & Spain).

We believe this approach may support attractive long-term risk-adjusted return potential*. However, key to successfully implementing any belief or philosophy is to have a robust process and a culture of learning and reflection.

Humility

Humility and reflection are therefore central to Deutsche Asset Management to ensure long-term success for our clients. Our desire is to maintain open-mindedness and remain inquisitive about the transformation occurring around us, whilst questioning our own thinking. This drives a culture of knowledge-sharing, exceptionally deep research and a desire to seek the counter view. We believe these qualities may contribute to more informed investment decisions, although outcomes cannot be assured.

Humility also encapsulates the commitment to engage in a deep selective approach to investing. We select our assets carefully to balance return-potential and downside risk-management, which is especially important in a world which is changing at pace.

At Deutsche Asset Management three things stand out: (i) the amount of time continuously spent analysing the likely trends expected to shape the built environment in years to come, (ii) having the confidence to incorporate these into our strategies, and (iii) our strong self-belief in the approach described in this article. Deutsche Asset Management seeks to identify selected themes at an early stage, while recognising the uncertainty and risks involved.

Kipling sums it up nicely in his poem: *"trust yourself when all men doubt you but make allowance for their doubting too"*.

Balance. Self-belief. Resilience. We believe these are the keys to success.

DEUTSCHE ASSET MANAGEMENT

* There can be no assurance that these approaches will achieve their objectives. They involve risk and may not always result in enhanced returns.
** Core Alpha outcomes can be subject to uncertainty and may not occur.
IPE and Deutsche Asset Management are not affiliated.
The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein.
This marketing material is issued and approved by DWS Investments UK Limited, 21 Moorfields, London, EC2Y 9DB, authorised and regulated by the Financial Conduct Authority (FCA). Any reference to Deutsche Asset Management shall, unless otherwise required by the context, be understood as a reference to DWS Investments UK Ltd, including any of its parent companies, affiliates or subsidiaries, and, as the case may be, any investment companies promoted or managed by any of those entities. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. The information contained in this document is obtained from sources believed to be reliable.
Deutsche Asset Management does not guarantee the accuracy, completeness or fairness of such information. All investments involve risk, including loss of principal. The brand Deutsche Asset Management represents DWS Group GmbH & Co. KGaA and any of its subsidiaries such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services. 111699_1.0 (10/26)