

# Sind gewerbliche Immobiliendarlehen auch während und nach Corona eine attraktive Kapitalanlagemöglichkeit?

Referenten: Alexander Oswatitsch & Jens Witzke, DWS

23. Oktober 2020

**Philipp Bunnenberg**



**Referent**

M. Sc. Betriebswirtschaftslehre

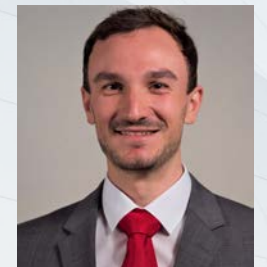
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27. Oktober 2020  
9:00 – 10:15 p.m.

Webinar 1: Das Gesetz zur Einführung von elektronischen Wertpapieren -  
das deutsche Wertpapier- und Depotrecht im Umbruch!



# SIND GEWERBLICHE IMMOBILIENDARLEHEN AUCH WÄHREND UND NACH CORONA EINE ATTRAKTIVE KAPITALANLAGEMÖGLICHKEIT?

Jens Witzke (Product Specialist Fixed Income, Private Debt)

Alexander Oswatitsch (Head of European Debt Investments, Real Estate)

Oktober 2020

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The background of the slide is a photograph of a city skyline viewed from a balcony. Two people are standing on the balcony, looking out at the buildings. The scene is bathed in a teal or cyan light, and there are diagonal lines overlaid on the image. The title text is centered over the middle of the image.

# ATTRACTIVENESS OF REAL ESTATE DEBT

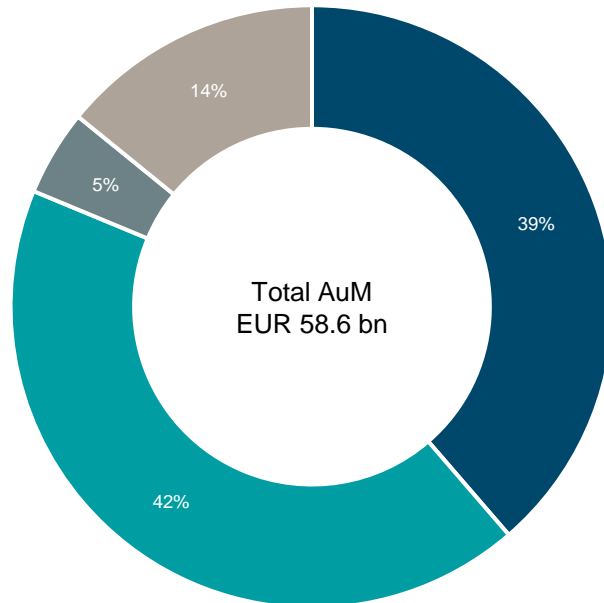
# DWS REAL ESTATE AT GLANCE

Longstanding experience and superior track record



## GLOBAL AUM FOOTPRINT

In %



■ Private RE Americas ■ Private RE Europe ■ Private RE Asia Pacific ■ Public RE Global

## EQUITY ORIGIN, DEBT EXTENSION



Over **50 years** of investment **heritage** and around EUR **60 billion** of **Real Estate AuM** globally across debt and equity



More than 350 employees with **long-dated experience** and expertise in over **20 locations** around the **world**



Strong **local footprint** and network



**Integrated debt** and **equity** platform allows to **leverage expertise** and experiences of the various teams

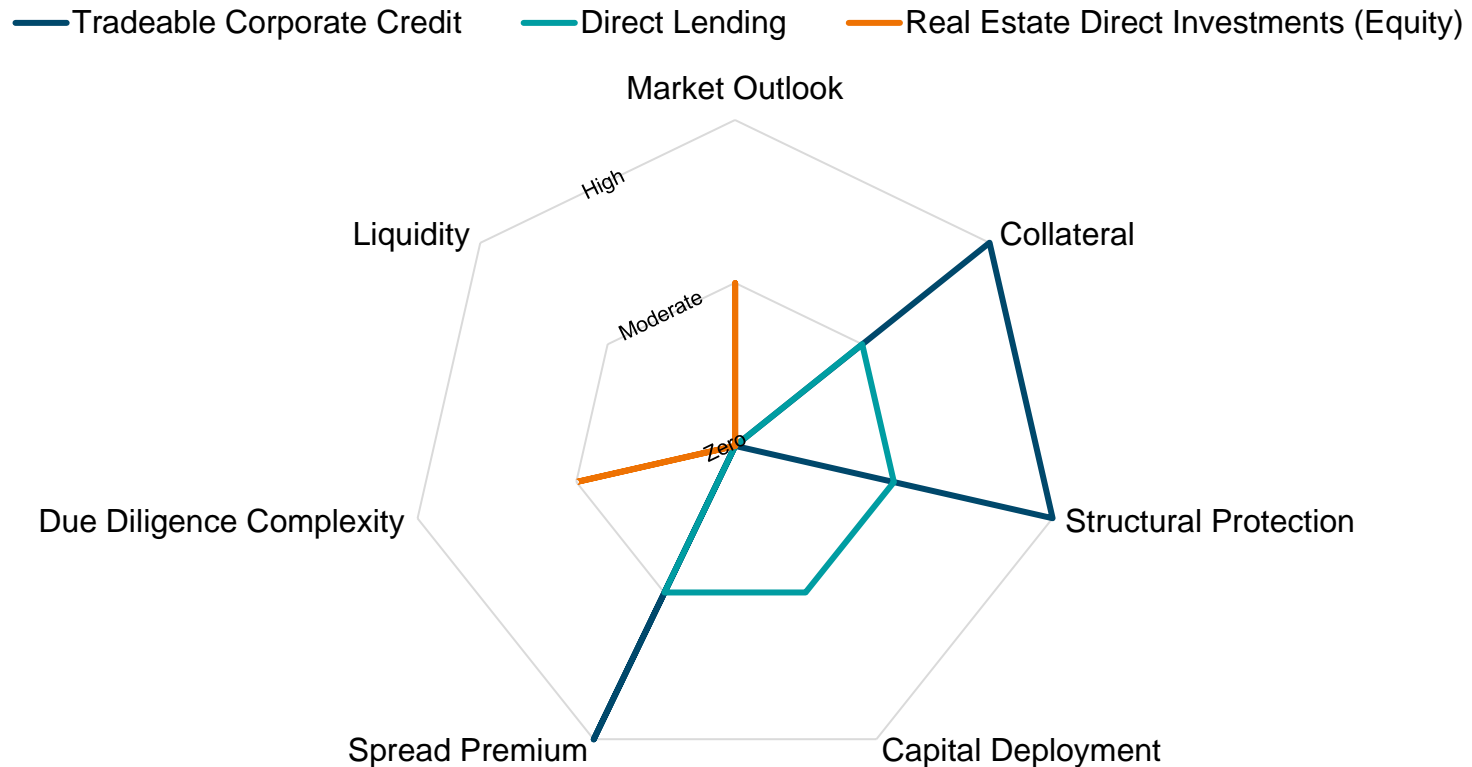


**20+ years** of Real Estate **debt experience** with strong regional **expertise** in the **US** and **Europe** and roughly EUR **2.5 billion AuM** in **Europe**

# THE CASE FOR REAL ESTATE DEBT

Looking from different perspectives Real Estate Debt offers different aspects and levels of attractiveness

## RELATIVE ATTRACTIVENESS OF REAL ESTATE DEBT VS.:

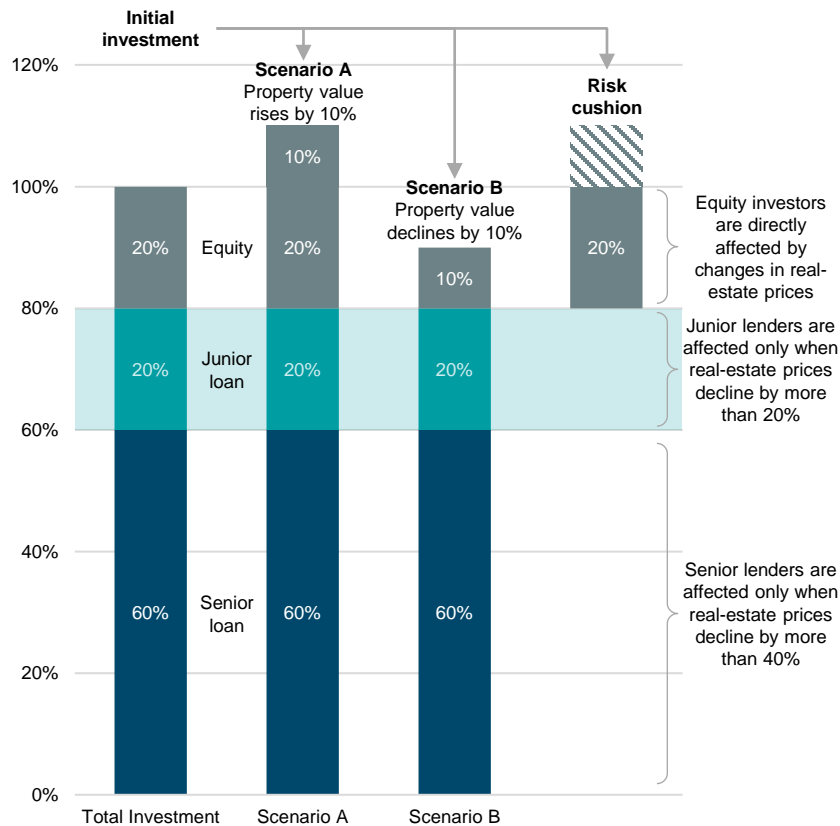


Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. For illustration purposes only; Source: DWS International GmbH; as of October 2020

# COLLATERAL & STRUCTURAL PROTECTION I

## Attractive collateral in combination with structural capital protection

### REAL ESTATE EXPOSURE VIA LOANS



### CHARACTERISTICS OF REAL ESTATE DEBT



Security against physical high quality property should lead to better capital preservation probability



The bilateral dialogue allows for direct engagement with management teams and owners as well as detailed due diligence



Financing terms typically include bespoke covenants and other structural protections with a focus on capital preservation

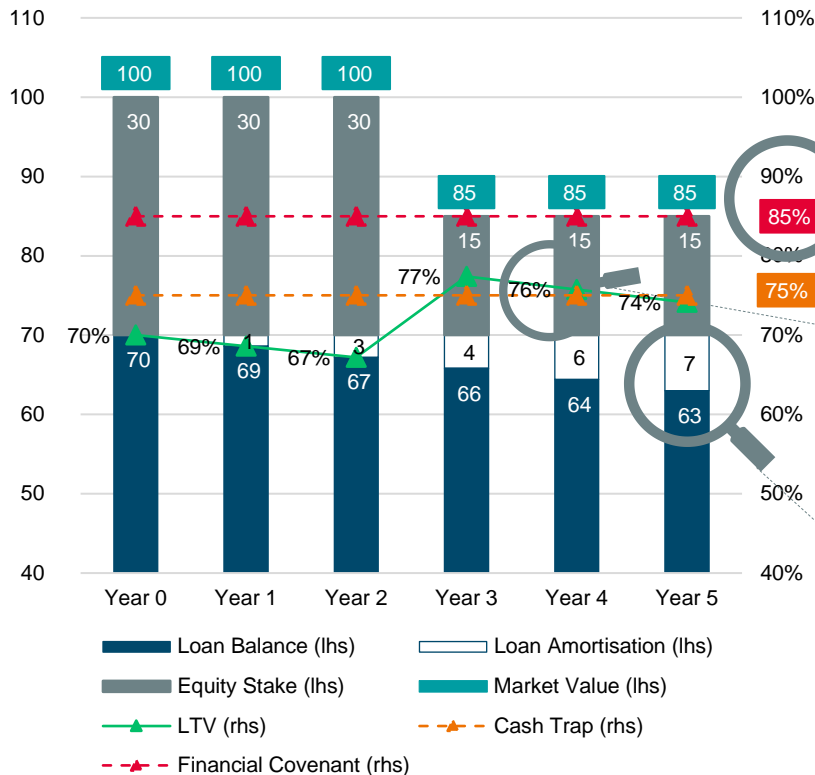
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# COLLATERAL & STRUCTURAL PROTECTION II

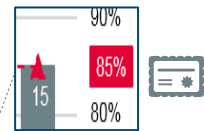
## Bilaterally negotiated loan structure and tailored covenants which aim to protect capital

### REAL ESTATE LOAN EXPOSURE OVER TIME

In EURm (lhs) & in %(rhs)



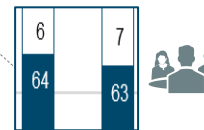
### GOOD DOCUMENTATION CHARACTERISTICS OF REAL ESTATE DEBT



**Financial Covenants:** Protections mechanisms such as a Financial Covenant allows lenders to enforce in case e.g. a certain LTV is crossed which could limit potential losses



**Cash Trap Covenant:** Once a Cash Trap Covenant is triggered, a borrower is not allowed to distribute e.g. dividends, but rather leave the cash in the corporate structure which is then used to prepay the loan or to pay any unpaid interests



**Direct engagement, Inter Creditor Agreement & Change of Control rights:** The bilateral dialogue allows a customised structuring of loan terms e.g. implementing contractual amortisation in order to manage risk effectively. Inter Creditor Agreement and Change of Control Rights ensure active engagement and aim to protect capital.

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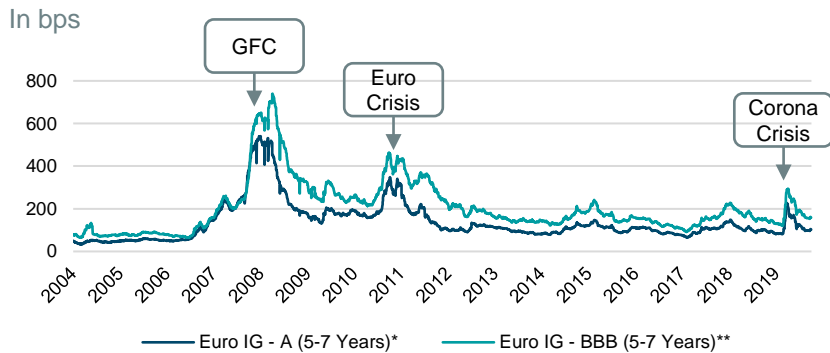


# REAL ESTATE DEBT VS. CORPORATE CREDIT

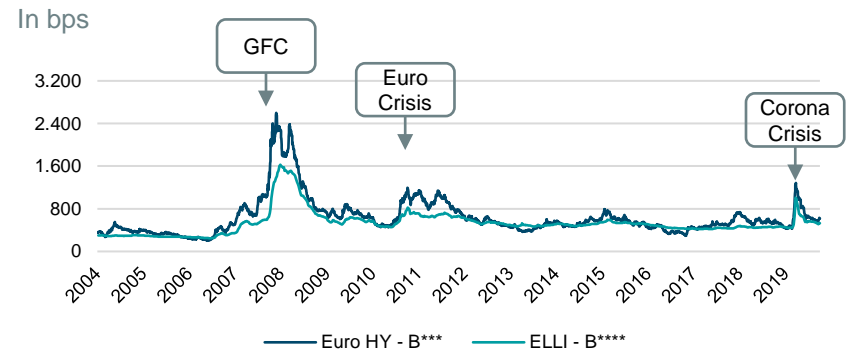


## Attractive risk-return characteristics

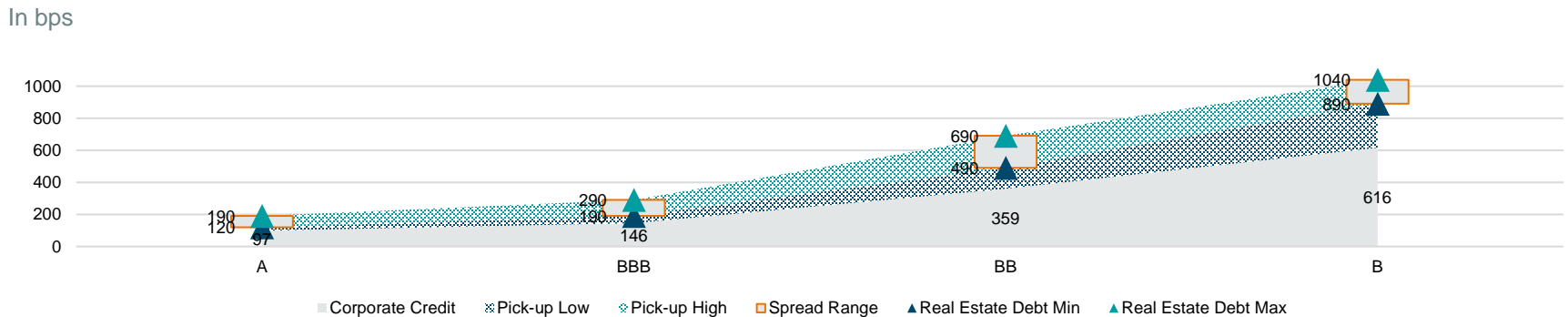
### SPREAD DEVELOPMENT OF TRADEABLE IG



### SPREAD DEVELOPMENT OF TRADEABLE SUB-IG



### REAL ESTATE DEBT SPREAD LEVELS COMPARED WITH CORPORATE CREDIT ACROSS RATINGS<sup>1</sup>



Note: <sup>1</sup>Private Debt market spreads are based on internal data and assumptions. The Corporate Credit spreads are based on the ICE BofAML Corporate Credit, \*Bloomberg Ticker: ER33, \*\*Bloomberg Ticker: ER43, \*\*\*Ticker:HE20, \*\*\*\*S&P European Levered Loan Index; as of: September 30, 2020

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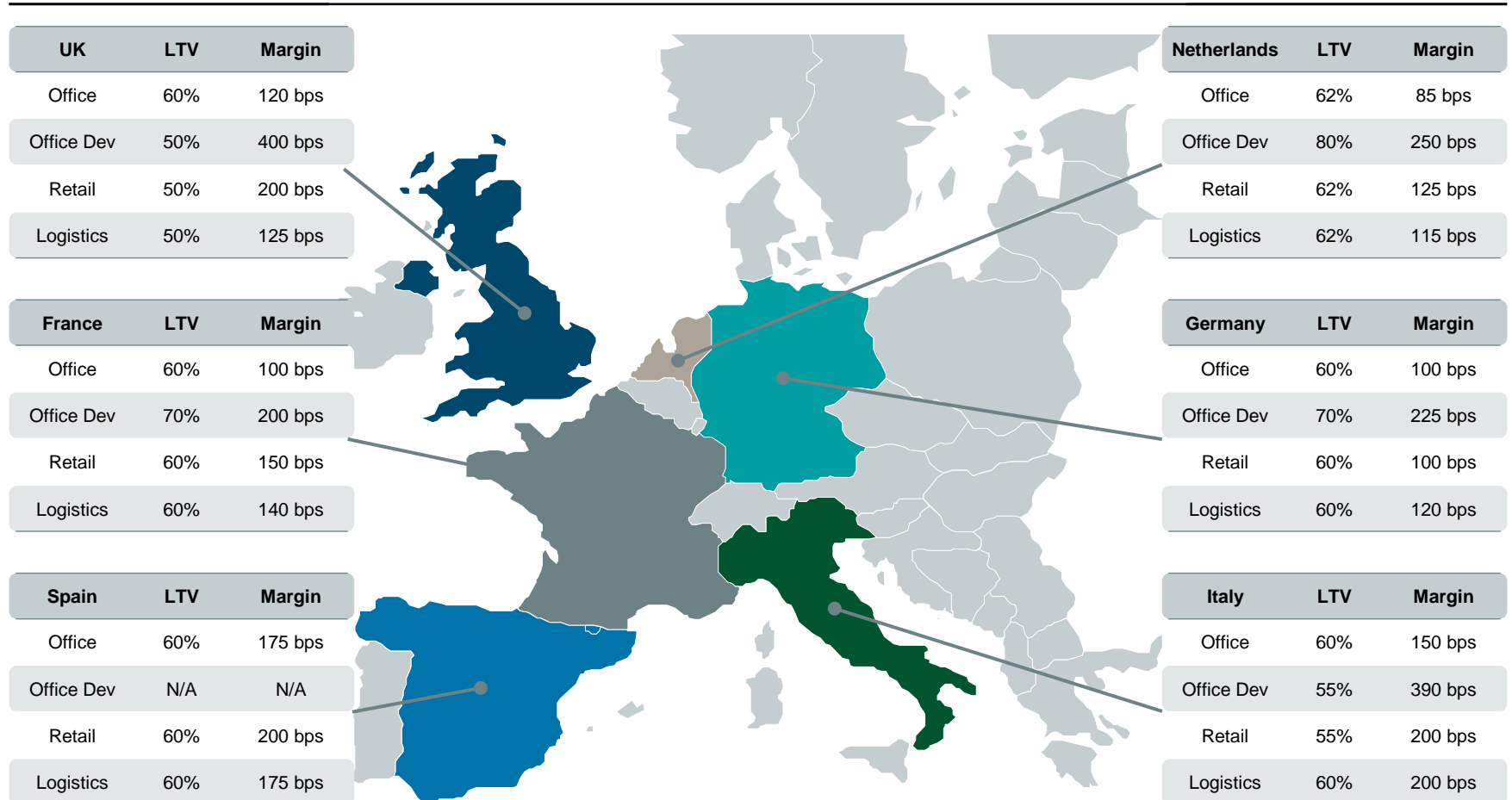
The background image shows a city skyline viewed from a balcony. Two people are sitting on the balcony railing, looking out at the buildings. The scene is dimly lit, suggesting dusk or dawn. The balcony railing has a decorative, circular pattern. The overall color palette is dark with teal and blue tones.

# IMPACT OF CORONA ON REAL ESTATE MARKETS AND PORTFOLIOS

# EUROPEAN CRE MARKET PRE COVID-19 1/2



## Senior core margins



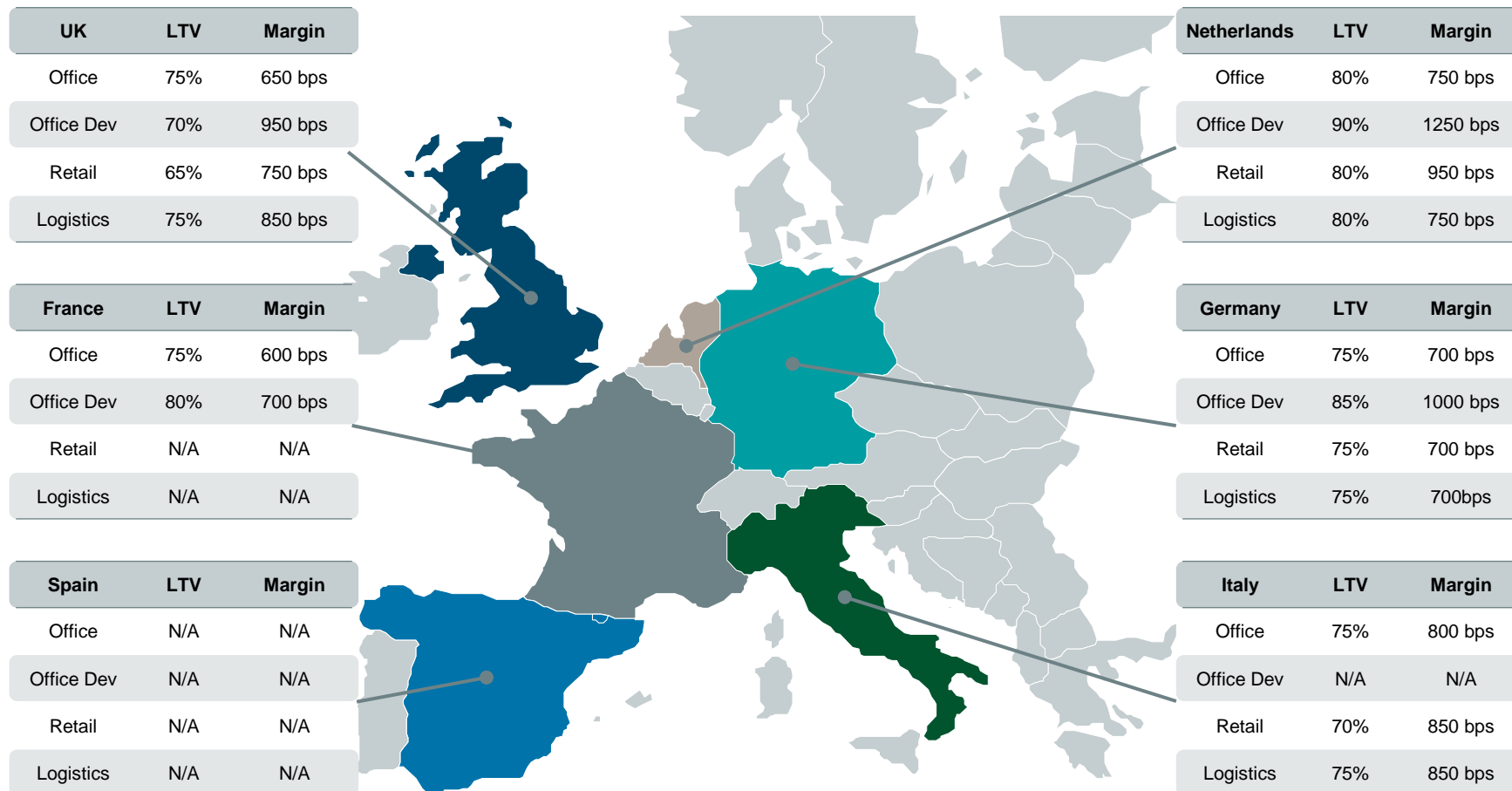
Source: DWS International GmbH, CBRE European Debt Map; as of: December 2019



# EUROPEAN CRE MARKET PRE COVID-19 2/2



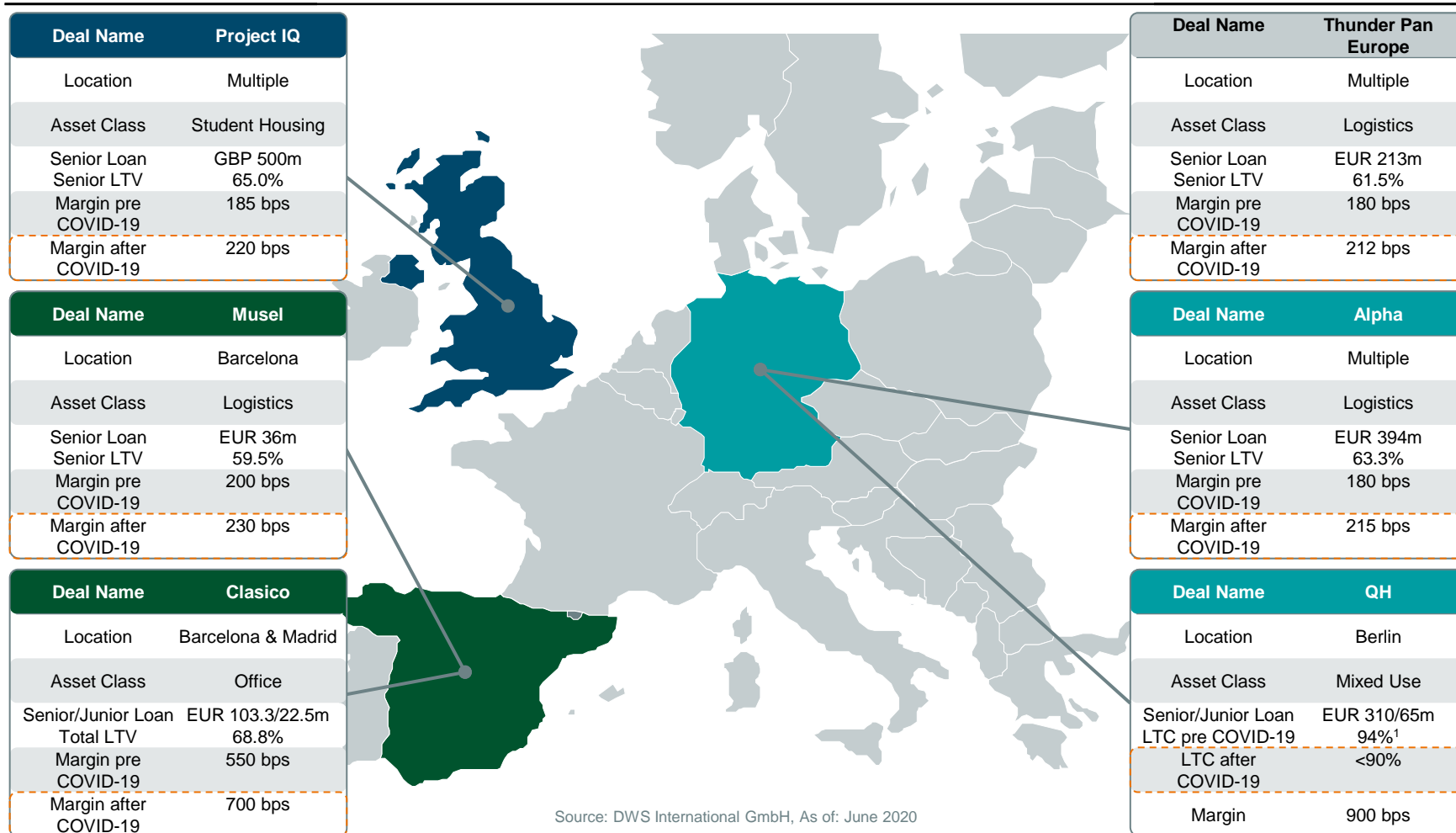
## Junior debt margins



Source: DWS International GmbH, CBRE European Debt Map; as of: December 2019

# CORONA PRICING IMPACT ON SELECTED DEALS

## Senior and Junior debt margins pre and after COVID-19



Source: DWS International GmbH, As of: June 2020

Note: <sup>1</sup>The Total LTGDV amounts to 67.1% based on the total loan amount excluding a senior headroom of EUR 20.0m; This information is intended for informational purposes only and does not constitute investment advice, recommendation, an offer or solicitation. Past performance is not indicative of future returns; Source: DWS International GmbH; as of: June 2020

# CORONA IMPACT ON SELECTED PORTFOLIO DEALS



Limited impact to date and expected on residential, office and logistics sectors. Retail sector continues to be more sensitive in the short term as a result of prior lockdown measures and current tenant negotiations

Asset	Size	Country	Sector	Current LTV	Maturity (extended)	Potential Impact of COVID-19 on Performance
<b>Example Senior Portfolio Deals</b>						
Senior Deal 1	€32.2m	DE	Residential	42.8%	31/12/2021	Low
Senior Deal 2	€30.0m	FR	Food Retail	38.9%	15/10/2022	Low
Senior Deal 3	€24.0m	ES	Logistics	50.5%	26/03/2026	Low
Senior Deal 4	€62.7m	UK	Office	51.4%	27/10/2020	Low to Medium
Senior Deal 5	€50.0m	FR	Retail	58.5%	20/02/2029	Medium to High
<b>Example Junior Portfolio Deals</b>						
Junior Deal 1	€41.2m	UK	Office	71%	30/06/2021	Low to Medium
Junior Deal 2	€30.0m	FR	Office	69%	18/03/2025	Low to Medium
Junior Deal 3	€28.8m	UK	Office	80%	09/05/2021	Medium
Junior Deal 4	€42.5m	France	Retail	49%	19/12/2021	Medium to High
Junior Deal 5	€70.6m	UK	Hotel	71%	30/06/2021	High

Note: For illustrative purposes only. All forecast numbers are subject to change, are hypothetical and for illustrative purposes only. No representation is being made that that actual performance will or is likely to achieve similar levels to that which is shown. Past performance is not indicative of future results. Source: DWS International GmbH; as of: September 2020



# UNDERLYING ASSET RISK SCORING



Limited impact to date and expected on residential, office and logistics sectors. Retail sector continues to be more sensitive in the short term as a result of prior lockdown measures and current tenant negotiations

Asset	Country	Sector	Country Risk	Location Risk	Segment Risk	Income Risk	Sponsor Risk	Loan Structure Risk	Refinance Risk	Potential Impact of COVID-19 on Performance	Mitigants
<b>Example Senior Portfolio Deals</b>											
Senior Deal 1	DE	Residential	2	4	1	1	2	2	1	Low	Sector exposure (Residential)
Senior Deal 2	FR	Food Retail	2	5	1	1	2	1	1	Low	Essential shops in France are allowed to be open
Senior Deal 3	ES	Logistics	4	3	3	1	2	1	1	Low	New loan which was closed in August 2020
Senior Deal 4	UK	Office	2	2	2	2	2	2	2 (-1)	Low to Medium	Repayment expected in October 2020
Senior Deal 5	FR	Retail	2	2	4	5	3	2	1	Medium to High	Shopping Centre was closed during lockdown, but opened again. No rent discount granted as of today – <b>ON WATCH LIST</b>
<b>Example Junior Portfolio Deals</b>											
Junior Deal 1	UK	Office	2	1	2	1	3	3		Low to Medium	Lease extended with strong corporate credit
Junior Deal 2	FR	Office	2	2	3	1	1	2		Low to Medium	Multi tenant property in good location. Strong sponsor and moderate LTV
Junior Deal 3	UK	Office	2	1	2	3	2	3		Medium	Prime location. Additional security over equity interest in 3 other office buildings.
Junior Deal 4	France	Retail	2	5	5	5	1	2		Medium to High	Moderate leverage and good covenant structure; market leader centre manager
Junior Deal 5	UK	Hotel	2	2	4	5	2	3		High	Moderate LTV for Mezzanine. COVID response plan already actioned by mgt. incl. cost cuttings and tapping government aid. Tier 1 Sponsor.

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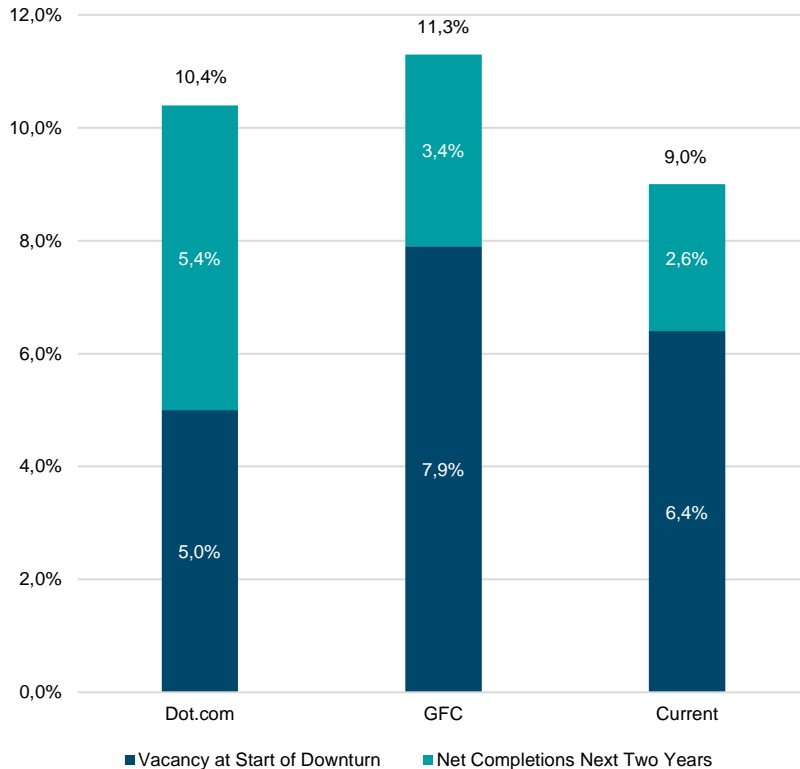
# DWS RESEARCH'S VIEW ON REAL ESTATE



Going into this downturn, occupier market were in a strong position, with low vacancy and a limited development pipeline. Residential and Logistics are expected to outperform in terms of prime rental growth levels

## EUROPEAN OFFICE VACANCY AND SUPPLY PIPELINE

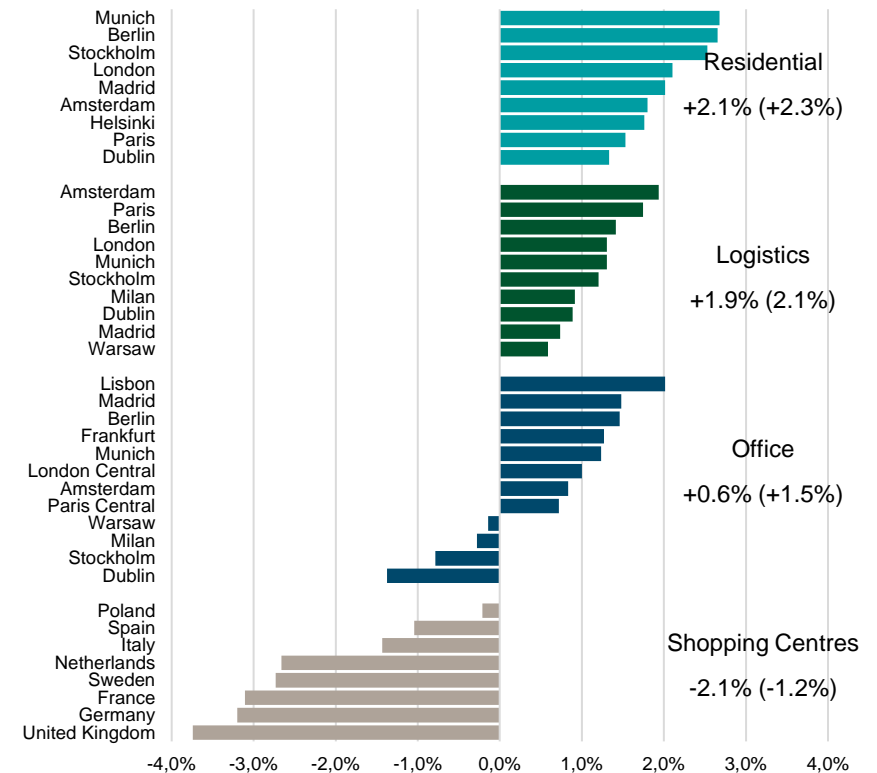
In % of stock



## PRIME RENTAL GROWTH OUTLOOK Ø 2020F-2024F<sup>1</sup>

In % p.a.

Ø 2020F-2024F  
(Previous Forecast)



Note: <sup>1</sup>F=Forecast; 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. There is no guarantee the forecast shown will materialise; Source: DWS; PMA; as of June 2020

# CURRENTLY PREFERRED INVESTMENT STRATEGIES



Focus is on key strategies such as Urban Logistics and Next-Generation Office, in addition to tactical plays with higher risk profile

## RANKING OF INVESTMENT STRATEGIES

	RESIDENTIAL	LOGISTICS	OFFICE	HOTEL	RETAIL
<b>AVOID</b> Structural Change	Micro-Apartments	Corridor Locations	Peripheral locations	Business Hotel (MICE)	Decentral SC
<b>CONTRARIAN</b> Downside risk, but potential recovery	- Co-Living / Serviced Living - Senior Living / Senior Residential	Light Industrial	Co-Working / Flex-Office	Luxury and Mid-Scale	- Retail Park - Prime SC - High Street
<b>TACTICAL PLAY</b> Less downside and return to trend	- Student Housing - Urbanite	XXL-Warehouse	Emerging Locations	Budget Hotels	- Grocery - FOC
<b>STRATEGIC FOCUS</b> Upgrade over hold period	<b>Commuter Residential</b>	<b>Urban Logistics</b>	<b>Next-Generation Office</b>		

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; Source: DWS; as of June 2020





# Q&A SESSION

Jens Witzke (Product Specialist Fixed Income, Private Debt)  
Alexander Oswatitsch (Head of European Debt Investments, Real Estate)

October 2020

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# RISK FACTORS



An investment in the fund entails a high degree of risk and is suitable only for sophisticated investors for whom an investment in the fund does not represent a complete investment program, and who fully understand and are capable of bearing the risk of an investment in the fund. Prospective investors should carefully consider the following risk factors, among others, in determining whether an investment in the fund is a suitable investment, and should consult their own legal, tax and financial advisers as to all these risks and an investment in the fund generally. Prospective investors should only invest in the fund as part of an overall investment fund. The following list of risk factors is not a complete summary of the various risks involved in an investment in the fund. There can be no assurance that the fund will be able to achieve its investment objective.

Certain significant risks include, but are not limited to, lack of liquidity, changes in regional or local economic or market conditions and real estate risks such as the effect of bankruptcy, the cyclical nature of the real estate market, the financial condition of tenants, changes in supply of, or demand for, properties in an area, fluctuations in lease rates, changes in interest rates, changes in cost and terms of financing, promulgation and enforcement of governmental regulations, including rules relating to zoning, land use and environmental protection, changes in real estate tax rates, energy prices and other operating expenses, risk of the time and cost overrun of development projects and the currency hedging risk. A more thorough discussion of a number of the risks and potential conflicts of interests regarding the fund will be included in the offering documents.

**Risks of Investing in Real Estate Generally.** There is no assurance that the operations of the fund will be profitable. Because real estate, like many other types of long term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions have resulted in and may in the future result in occasional or permanent reductions in the value of the fund's investments. Investments in real estate are subject to various risks, including without limitation: (i) the cyclical nature of the real estate market and changes in national or local economic or market conditions; (ii) the financial condition of tenants, buyers and sellers of properties, (iii) changes in supply of, or demand for, properties in an area; (iv) various forms of competition; (v) fluctuations in lease rates; (vi) changes in interest rates and in the availability, cost and terms of financing; (vii) promulgation and enforcement of governmental regulations, including rules relating to zoning, land use and environmental protection; (viii) changes in real estate tax rates, energy prices and other operating expenses; (ix) risks due to leverage and dependence on cash flow; (x) changes in applicable laws; (xi) various uninsured or uninsurable risks and losses; (xii) acts of God and natural disasters; and (xiii) civil unrest, acts of war or terrorism.

**Competition for Investment Opportunities.** The activity of identifying, completing, and realizing attractive acquisitions of core and value added real estate and real estate related assets are highly competitive. The fund competes for investment opportunities with many other real estate investors, including other real estate funds, individual and institutional investors, public and private real estate companies and REITs, and financial institutions. Many such entities have substantially greater economic and personnel resources than the fund or better relationships with sellers of properties, lenders and others or ability to accept more risk than the fund believes can be prudently managed.

**Risks of Environmental Liabilities.** Under various laws, ordinances and regulations of the jurisdictions in which investments are made, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such laws and regulations and could exceed the value of the property and/or the aggregate assets owned. The presence of hazardous substances, or the failure to remediate hazardous substances properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral.

**Lack of Liquidity of the Fund's Investments.** The return of capital on investments and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. Investments will generally be highly illiquid compared to other asset classes, and it is unlikely that there will be a public market for most of the investments made.

**Performance Risk.** The fund's investment will be highly speculative and, as such, investment in the fund involves a substantial degree of risk. The performance of the fund may not meet the projected returns and there is no guarantee of any level of return or repayment of capital.

**Potential Conflicts of Interest relating to Deutsche Bank's Various Roles.** As a diversified global financial services firm, Deutsche Bank and its affiliates engage in a broad spectrum of activities, including commercial and investment banking, lending, principal investing, financial and merger and acquisition advisory services, underwriting, investment management activities, fund administration, providing depository bank and custody services, sponsoring and managing private investment funds, brokerage, trustee, and similar activities on a world-wide basis. Deutsche Bank and its affiliates may engage in activities where their interests and the interests of their clients may conflict with the interests of the fund and/or its investors.

**Use of Leverage.** The fund may use indebtedness (including guarantees) in connection with its investments. This indebtedness will increase the risk of investment loss on a leveraged property and increase the exposure of such investments to adverse economic factors such as rising interest rates, severe economic downturns, or deterioration in the condition of the real estate investment or its corresponding market.

**Experience of Manager; Dependence on Key Personnel.** While DWS and its affiliated entities have substantial experience with transactions and assets of the type that the fund intends to invest in, persons who have played active and important roles in the success of prior endeavours DWS and its affiliates are not, and may not in the future, be associated with the fund, DWS or their affiliates. The fund depends to a significant extent upon the experience of members of senior management of DWS.

**Inflation.** Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and capital markets of certain emerging economies. There can be no assurance that inflation will not become a serious problem in the future and thus have an adverse impact on the Fund's returns.

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