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REAL ESTATE

Perspectives in today's real estate market

October 2020

Nuveen Real Estate Global Research

Global real estate outlook

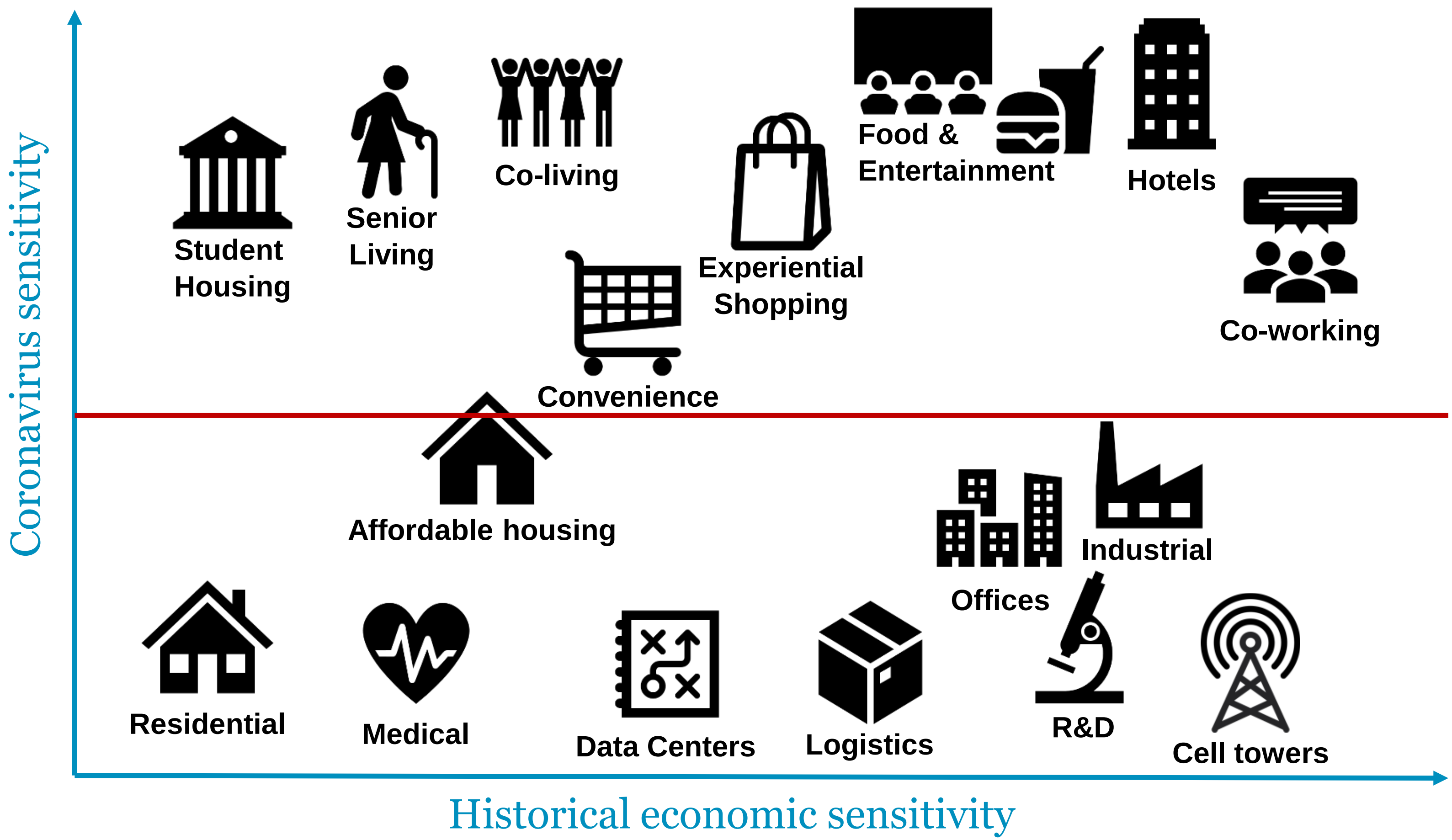
	Overall	Retail	Industrial/ Logistics	Residential/ Multifamily	Office	RE Debt
U.S.	Negative	Negative	Positive	Neutral	Negative	Positive
Canada	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
U.K.	Negative	Negative	Positive	Negative	Neutral	Positive
France	Neutral	Negative	Positive	Neutral	Neutral	Positive
Germany	Positive	Negative	Positive	Positive	Neutral	Positive
Spain	Neutral	Negative	Positive	Neutral	Neutral	Neutral
Australia	Neutral	Negative	Positive	Neutral	Neutral	Positive
China	Neutral	Negative	Positive	Neutral	Neutral	Neutral
Japan	Neutral	Neutral	Positive	Positive	Neutral	Neutral
South Korea	Neutral	Neutral	Positive	Neutral	Neutral	Neutral

Negative Neutral Positive

Source: Nuveen Real Estate

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Sector sensitivity differs from previous recessions



Source: Green Street Advisors, Nuveen Real Estate

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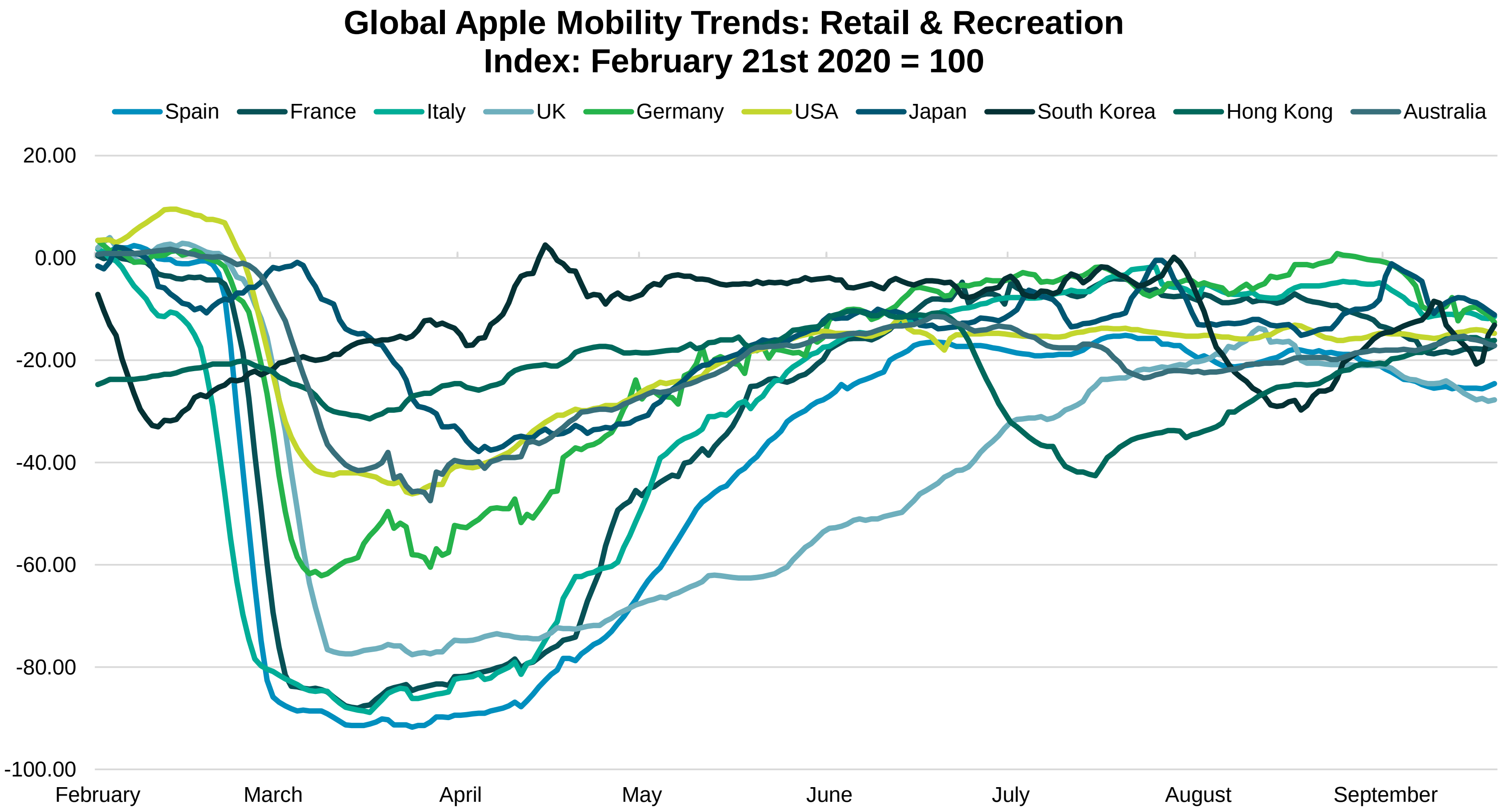
Tracking real time movements (country level)



Source: Apple Mobility

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Economic scenarios and real estate implications

Nuveen Real Estate hypothetical economic scenarios loosely follow IMF global outlook

Scenario 1

- Time limited shock; deep but short-lived recession
- Pandemic comes under control in Q2
- Major policy initiatives limit corporate defaults and job losses
- Bounce-back from Q4; pent up demand stimulus from early 2021

Scenario 2

- Extended lockdowns - epidemic under control late Q3
- Deep recession extends into Q3; slow recovery from Q4; rebound 2021
- Corporate defaults surge as finance conditions tighten; job losses intensify

Scenario 3

- Pandemic extends to 2021 with second round of outbreaks
- Demand and activity collapse beyond the direct impact of the health emergency
- Ballooning public debts and massive bankruptcies leads to financial instability

Real estate implications

Scenario 1

- Prime rents stable (except retail) and occupier markets slow down into 2021 as corporate sector takes stock; rapid recovery from 2022
- Cost of debt leads to short-lived, modest yield rises for core in Q3 and Q4 2020 primarily in riskier cities/sectors
- Good opportunities for Value Add

Scenario 2

- Prime rents contract modestly in 2021, improving from 2022 depending on market and sector
- Core yield begin to rise slowly from Q2 2020 intensifying into 2021; fully re-price in 2022
- Opportunities for core investments and very good for Value Add

Scenario 3

- Prime rents fall rapidly from Q4 2020 to 2022; stable 2023. More volatile markets feel greater pain
- Yields rise sharply from Q4 2020 till 2022 – but not as damaging for core income as in GFC
- Repricing late 2022/early 2023

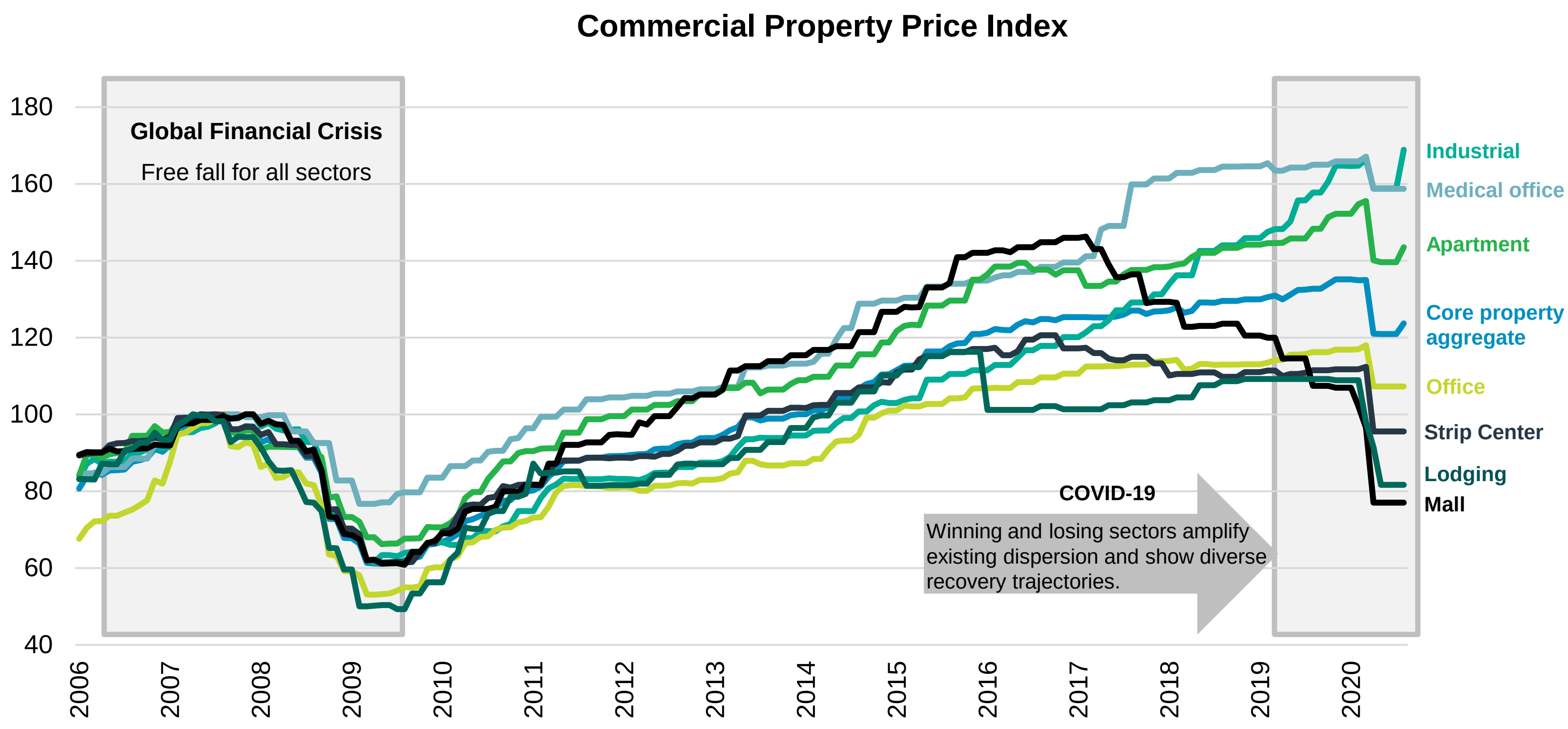
June | July | August | September | October | November | December

Source: Nuveen Real Estate, IMF

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Why now for real estate? Accelerating opportunity

The pandemic has not caused a paradigm shift for real estate, rather it has accelerated already-present underlying trends. Currently signs of a recovery are beginning, which makes the opportunity to invest in real estate timely.



Source: Green Street

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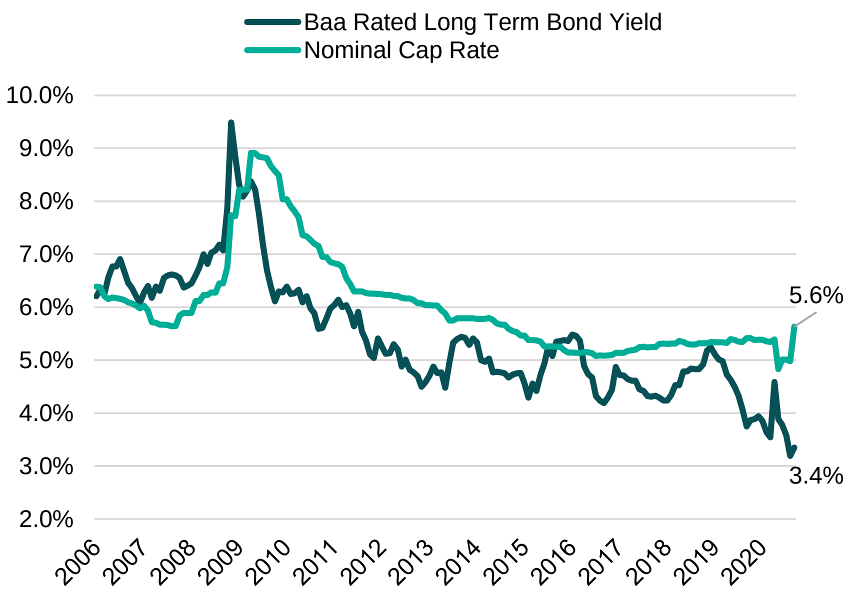
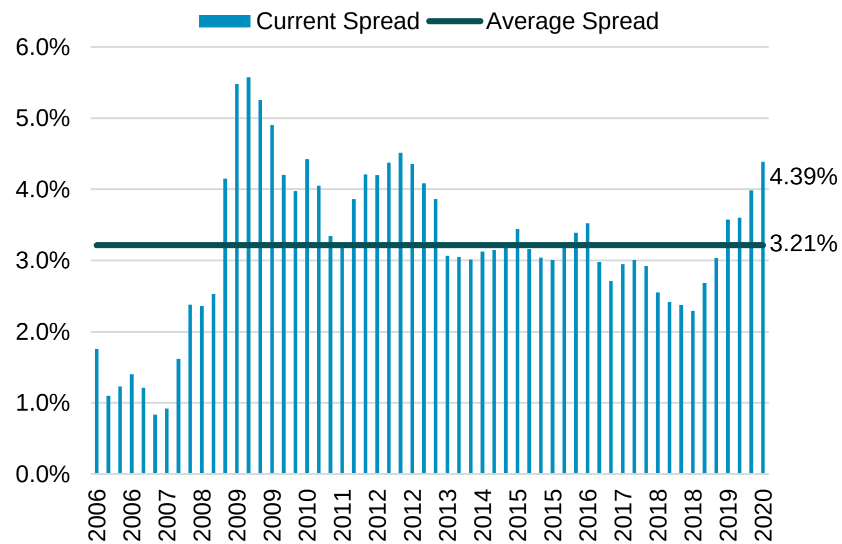
Why now for real estate?

Stable, high yields and strong value

Real estate yields are strong



Strong relative value:
Real Estate Cap Rate / U.S. Treasury



Commercial real estate may provide investors with tax-efficient **stable yields** due to the long term nature of leases. These yields are currently historically **high relative to bonds**.

The current spread between direct real estate cap rates and U.S. Treasuries is well above the historic average, signaling real estate's strong relative value.

Source: Source Green Street; Nominal Cap Rate of Major Sectors. "Major Sectors" is the equal-weighted average of the asset-weighted averages for the five major property sectors (Apartment, Industrial, Mall, Office, and Strip Center): U.S. Board of Governors of the Federal Reserve System.

Asia Pacific

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Asia Pacific-specific view

Regional: There are renewed negotiations for air travel bubbles between regional countries with low or contained infections. Australia is in discussion with Singapore, Japan and South Korea to reopen borders for reciprocal travel. A bilateral travel agreement between Singapore and Hong Kong without mandatory quarantine is also under discussion. But hopes for a quick and widespread resumption of air travel to revive the hospitality sector is unlikely, given the indeterminate duration of Covid-19. Hong Kong for instance is warning of a fourth wave as winter approaches. Consequently, following a pent-up bounce in regional third quarter growth from an exceptionally depressed outcome in Q2, growth is likely to turn uneven around the year-end.

South Korea: Aside from China, South Korea is another standout performer amid the downturn. COVID-19 has had a less severe impact on domestic services activity than other regional economies. Exports also surged strongly in September, highlighting upward pressure on industrial production. The economy is now likely to expand by 5.0% annualized rate in Q3 and a modest 1.2% contraction for the full-year.

Japan: The economy is gradually regaining stronger momentum, with the economy watchers survey of small firms rising to a two-year high. The government's late-September announcement that it would expand the government's subsidy program for travel and dining out in response to a decline in infections boosted sentiment. The BoJ consumption activity index also pointed to a modest consumption recovery in August, driven by durable goods consumption but consumer services remained somewhat weak.

Market	Risk
Australia	
China	
Hong Kong	
Japan	
New Zealand	
Singapore	
South Korea	

Favorable
Neutral
Unfavorable

Investments	Risk
Prime	
Secondary	
Development	
Debt	

Prime: Resilient and fundamentally strong markets and assets to provide most attractive long-term income and returns

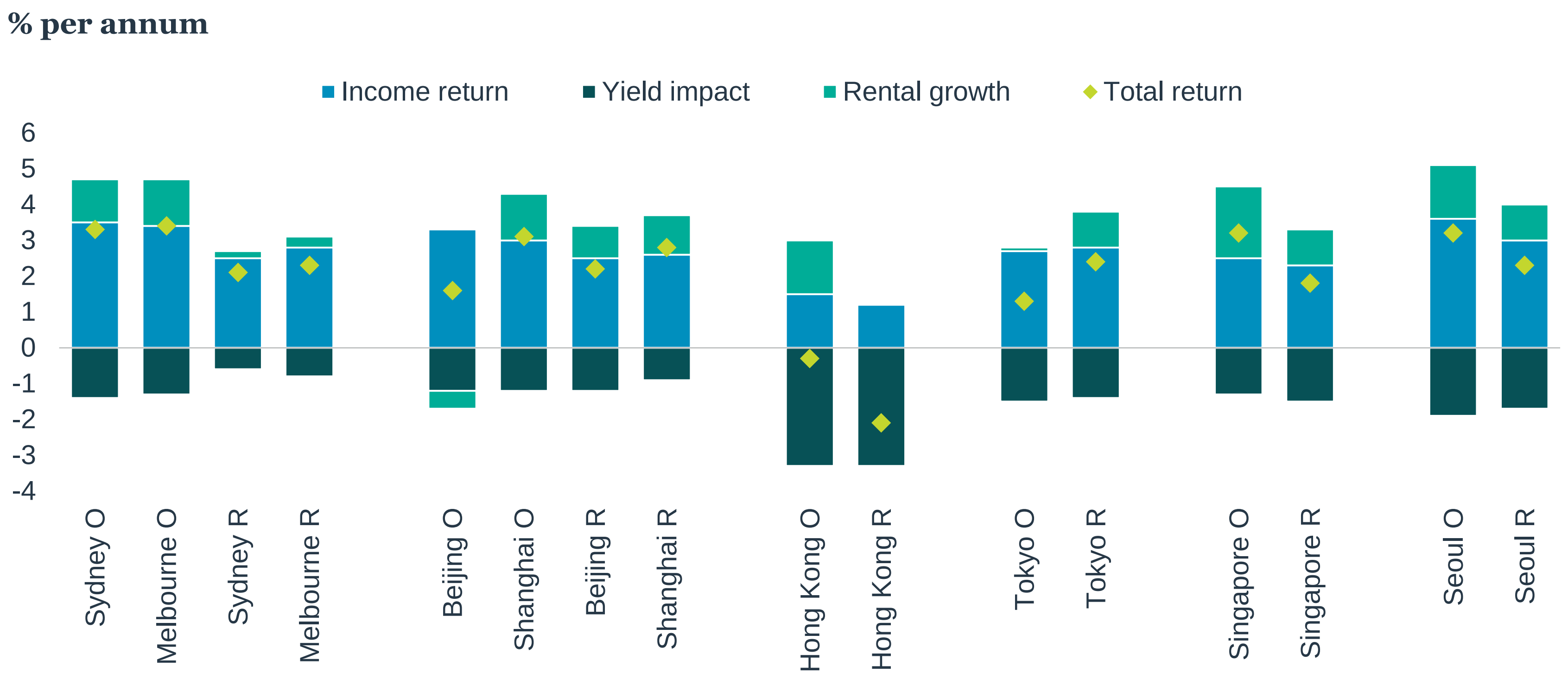
Secondary: Pricing and income security under pressure as financially weak tenants are most vulnerable under current setting

Development: Uncertainty heightened in terms of construction period and leasing discussions

Debt: Flight to safety assets and increased banking stress provide opportunities for lenders

Lower for longer

5-year average returns for office



Source: Nuveen Real Estate
Note: 'O' – Office, 'R'- Retail

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Europe

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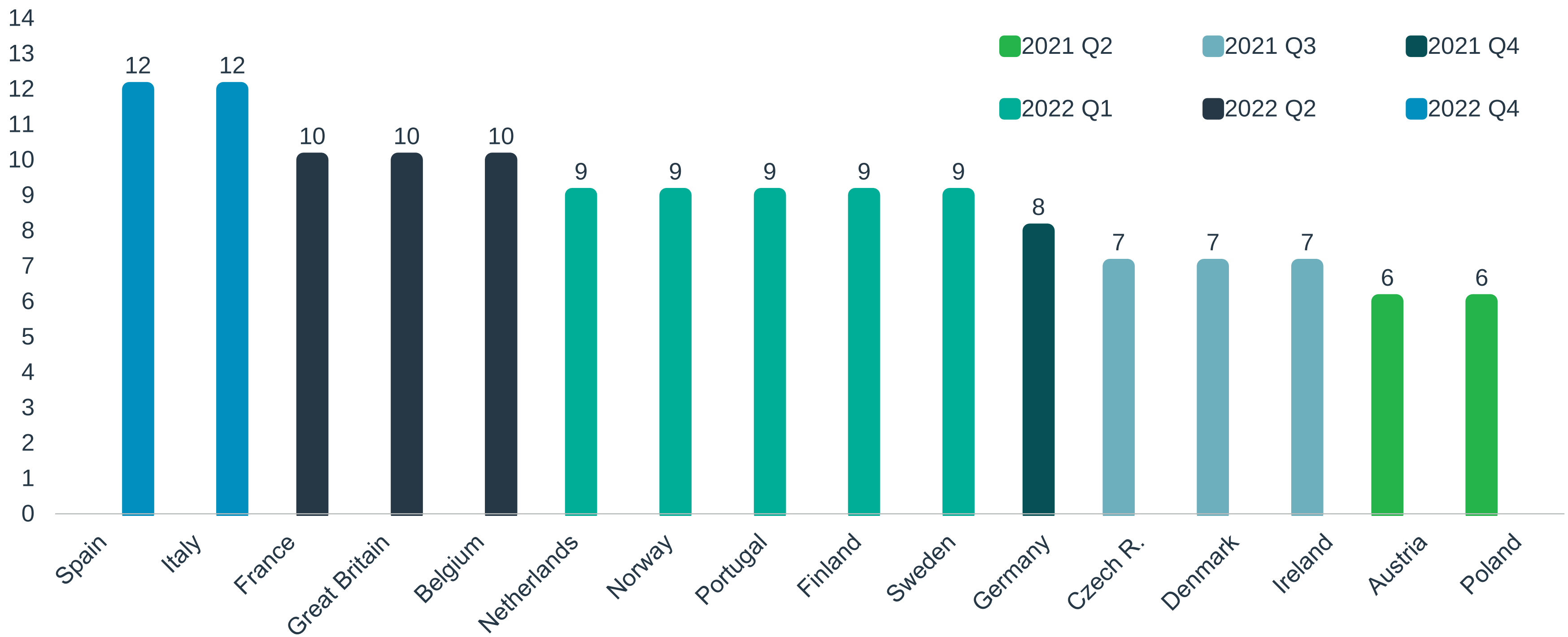
GDP expectations by country

Countries are expected to need 1.5 to 3 years to get back to end 2019 GDP levels

Quarters from Q4 2019 before GDP reaches previous peak again



Source: Oxford Economics, August 2020

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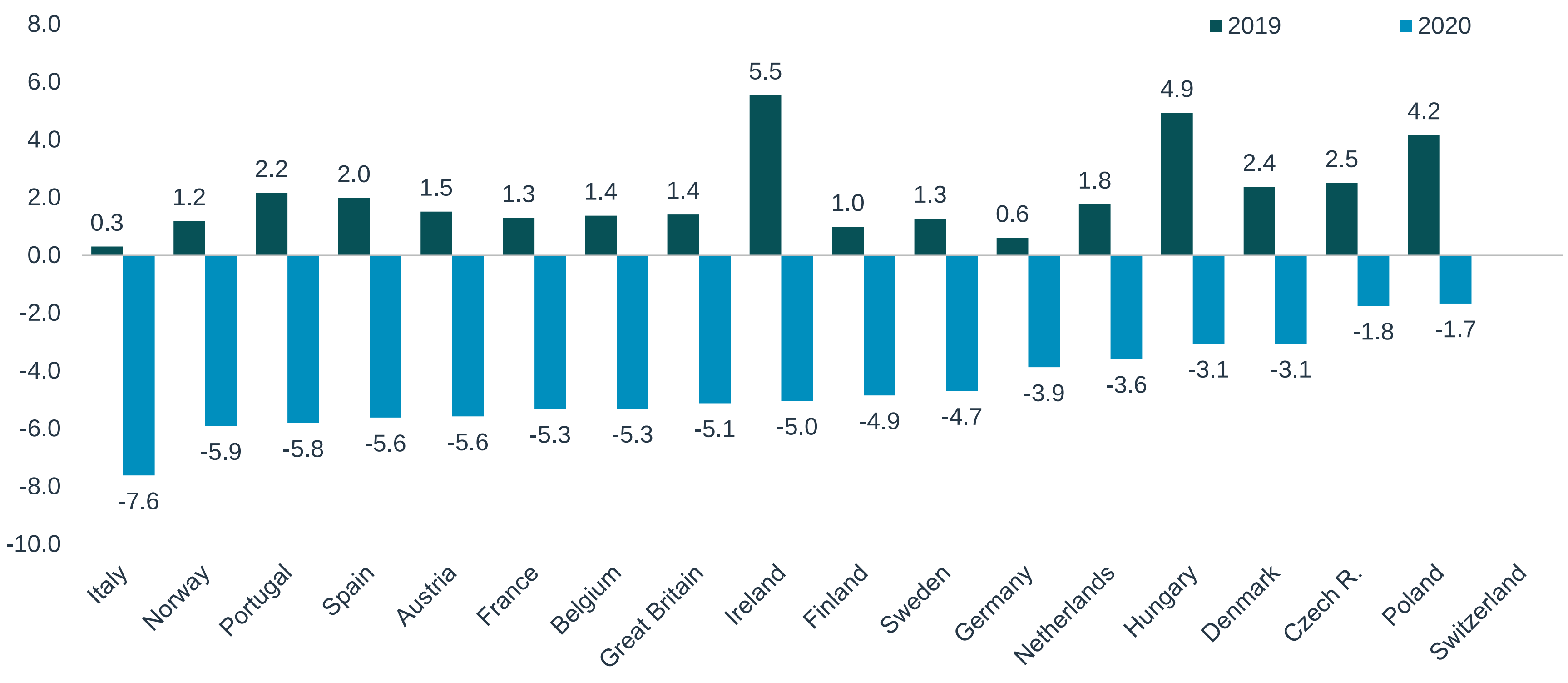
Other forecasters are more optimistic

Control of the virus, fiscal strength and dependence on service industry key for 2020 performance

GPD growth % p.a., 2019. 2020 und 2020-2024



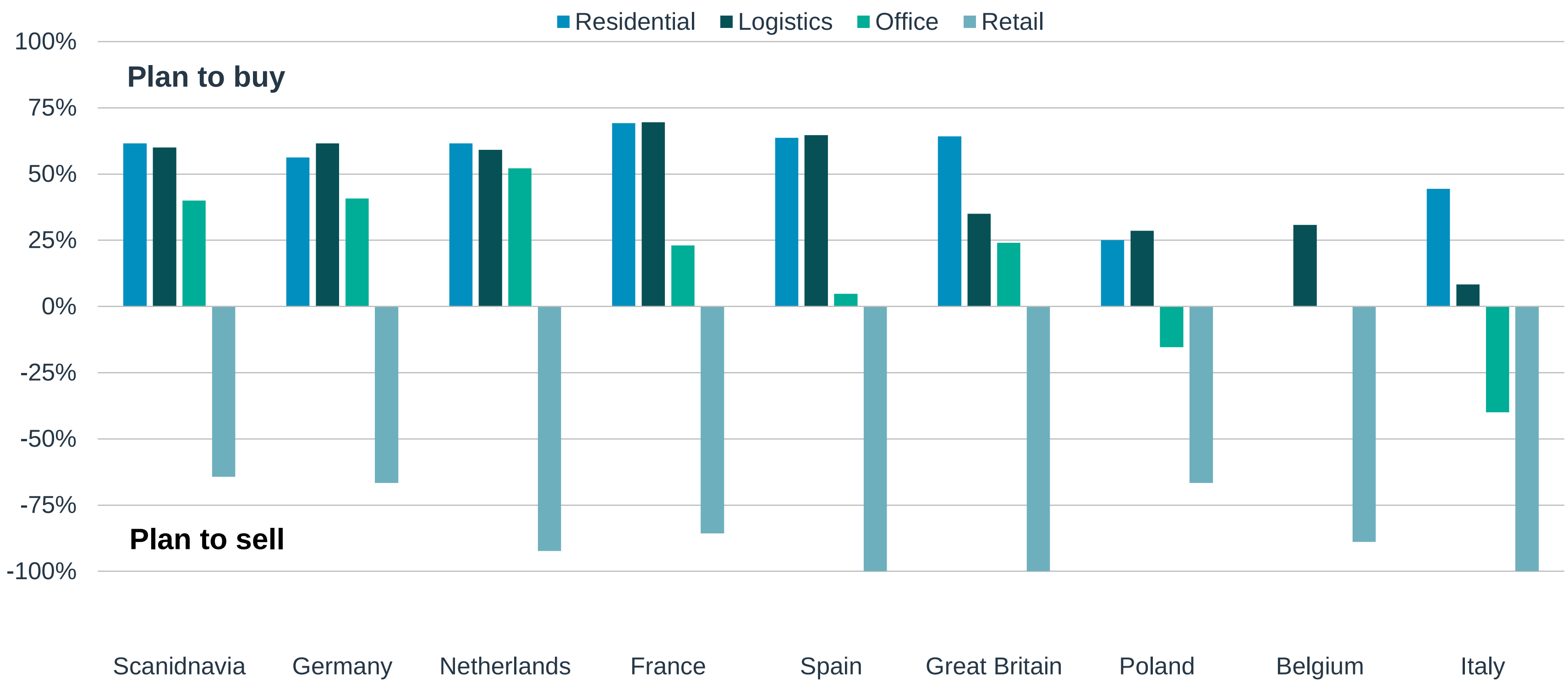
Source: Oxford Economics

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Investment intentions

Logistics and residential dominate investors shopping lists

Investors survey

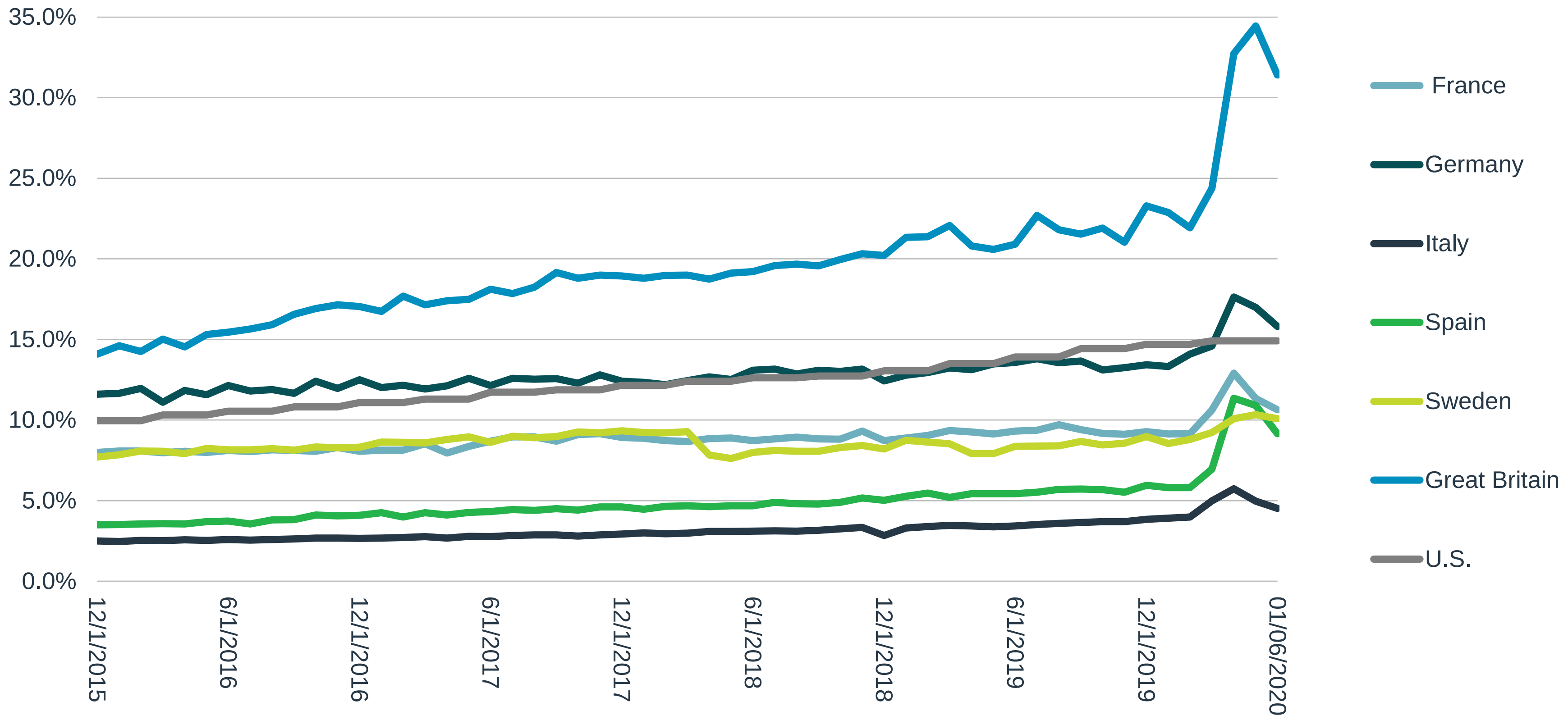


Source: PMA Q2 2020

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Online share of retail sales by country %

Accelerated growth of online shopping, but consumers are returning to shops



Source: Nuveen Real Estate

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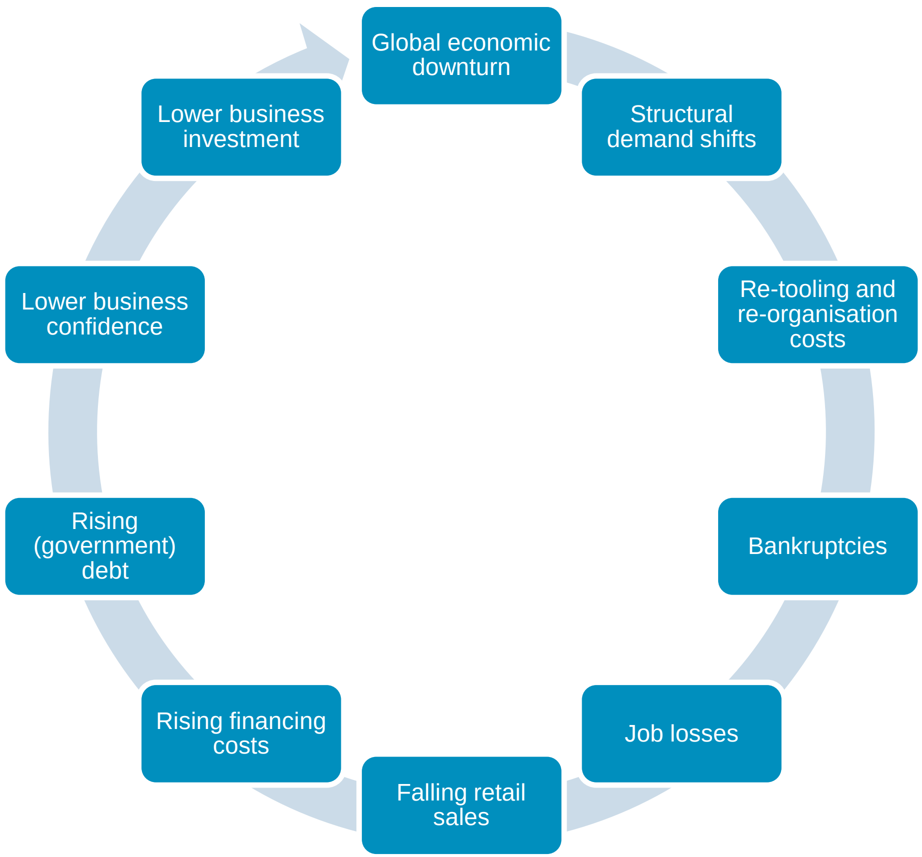
The Covid recession will leave stranded assets behind

A range of hotels, co-working, restaurant, retail and theme park assets will never open again



Take advantage of short to medium term market dislocation and focus on structural long term upsides

Source: Nuveen Real Estate

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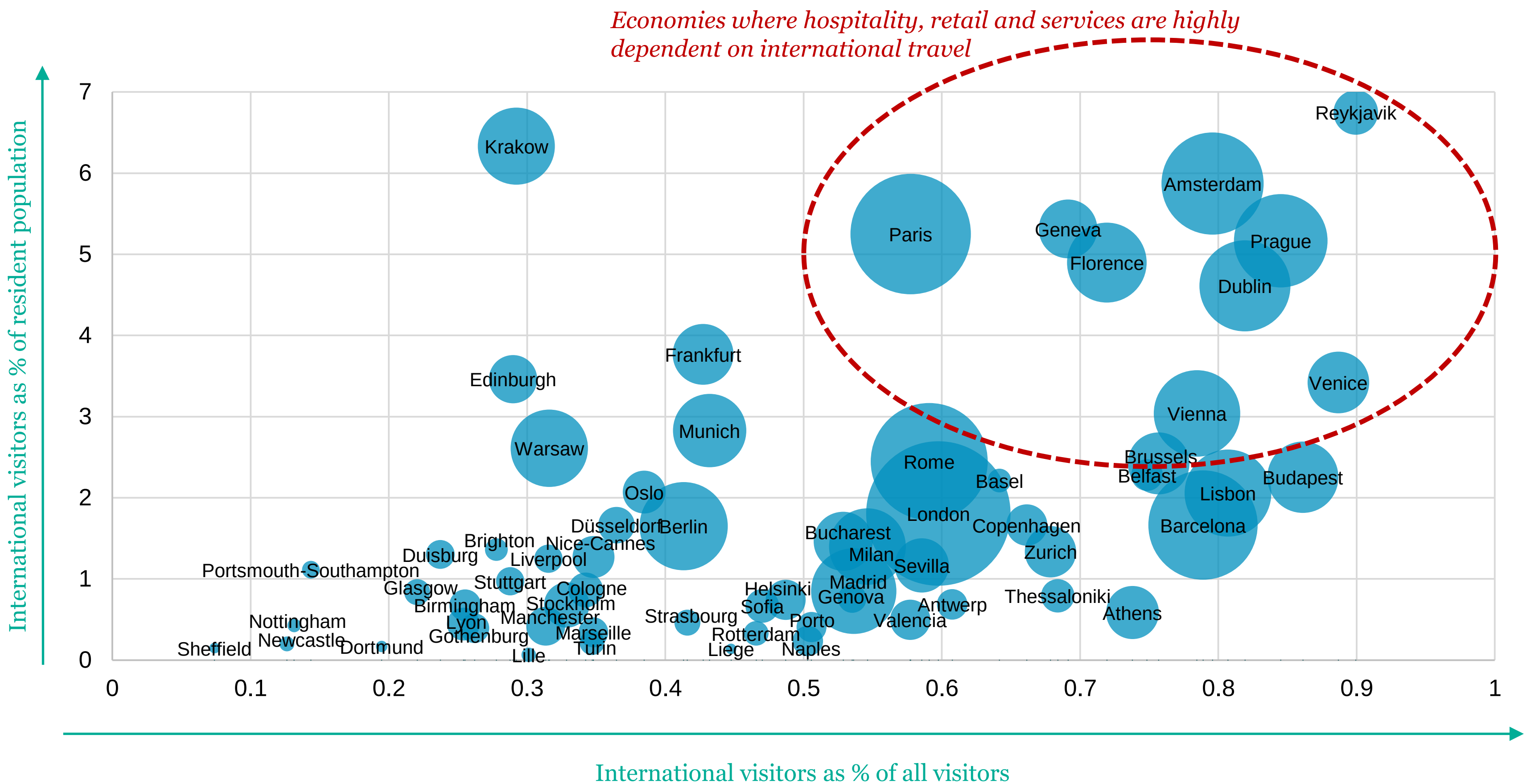
How important are international visitors?

Internationally dependent markets hardest hit?



Source: Oxford Economics

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United States

U.S.-specific view

Regional:
The trajectory of the coronavirus will continue to determine the trajectory of the U.S. recovery. Real-time mobility data points indicate that mobility has stabilized despite rising coronavirus cases. In the near term, Trump and Congress' failure to execute on additional fiscal stimulus will significantly hinder the U.S. recovery. It is highly unlikely that a fiscal stimulus package is passed before Election Day.

The September jobs report indicated a decelerating labor market recovery. Total nonfarm payroll employment rose 661,000 in September, below the past three month average gain of 1.3 million. Mass layoffs and furloughs recently announced, most notably by airlines, will weigh on the labor market's recovery.

According to Green Street's Commercial Property Price Index, aggregate U.S. real estate values were down 10% in September since the beginning of the pandemic. Alternative housing and healthcare real estate property types including manufactured housing, life sciences, and medical offices have been the most resilient and have fallen less than 5%.

Sector	Risk
Office	
Retail	
Industrial	
Housing	
Debt	

Favorable
Neutral
Unfavorable

Office: While leasing activity continues to slow, life science and large tech companies have remained active throughout the pandemic.

Retail: In-store spending growth remains far below online spending growth.

Industrial: Surging e-commerce sales activity and demand will have a significantly positive impact on rent growth in the near term.

Housing: The National Multifamily Housing Council's rent tracker shows 79.4% of households paid their rent by October 6th, compared to 76.4% of households that paid by September 6th.

Debt: Difficulty financing transitional properties as few lenders want to take on this type of risk.

Source: Google Community Mobility Reports; Bureau of Labor Statistics; Green Street; Earnest Research; National Multifamily Housing Council

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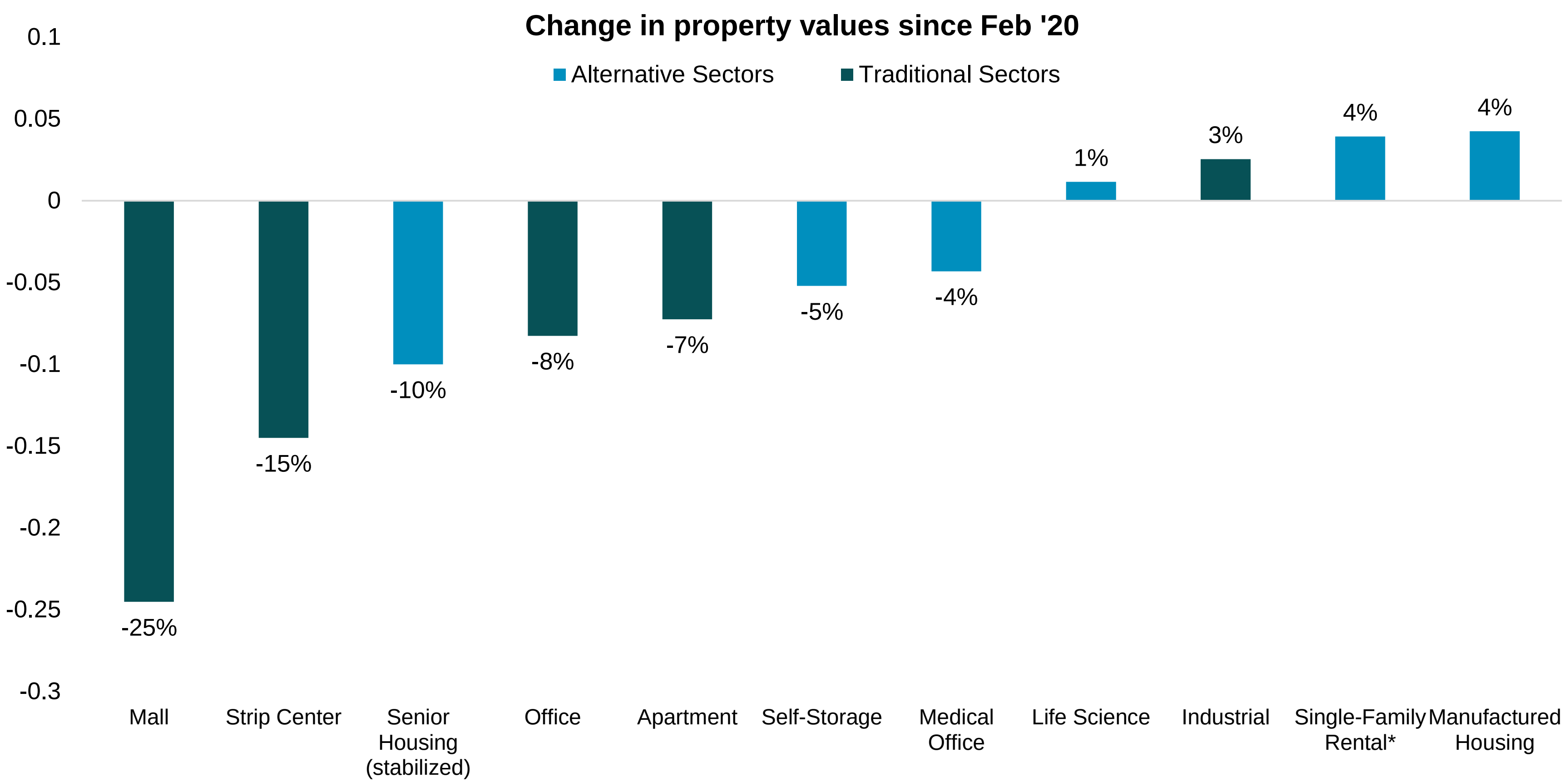
Alternatives resilient throughout COVID-19

Aggregate U.S. property values remain 10% below pre-pandemic pricing. Property values were unchanged in September from August.



Source: Green Street CPPI, October 2020
*Single-Family Rental source is S&P CoreLogic Case-Shiller Home Price Index (through July 2020)

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Summary

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Positioning for real estate in today’s market

The current market offers opportunity for strategic allocation of private real estate today for long-term investment benefit

Offensive positioning:

- Capacity to take advantage of current pricing opportunities
- Adding to existing exposure in sectors with post-COVID tailwinds (i.e., industrial, housing, medical office)
- Boots-on-the-ground investment and asset management teams with nuanced market expertise

Defensive positioning:

- Low leverage=less volatility=less downside risk
- Long term leases
- High occupancy rates
- Very limited lease expirations over next 2 years
- No material exposure to hospitality, gaming, leisure, or senior housing, which are anticipated to be the most negatively affected sectors in the near term
- Disciplined city selection, which improves liquidity and resiliency through cycles

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