

nuveen
REAL ESTATE





























































Perspectives in today's real estate market

September 2020

Nuveen Real Estate Global Research



Global real estate outlook

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

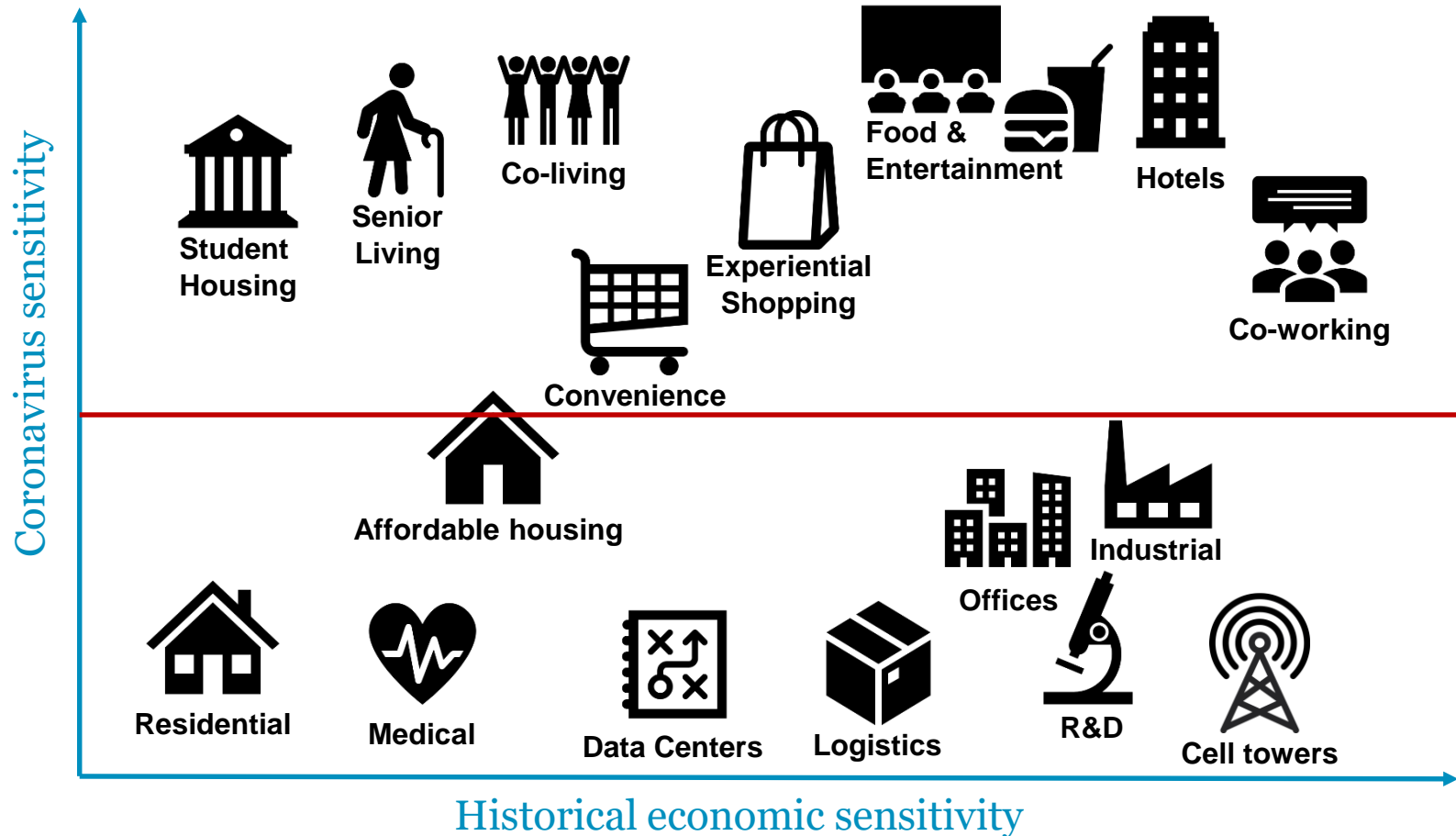
 Negative

 Neutral

 Positive

Source: Nuveen Real Estate
 OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

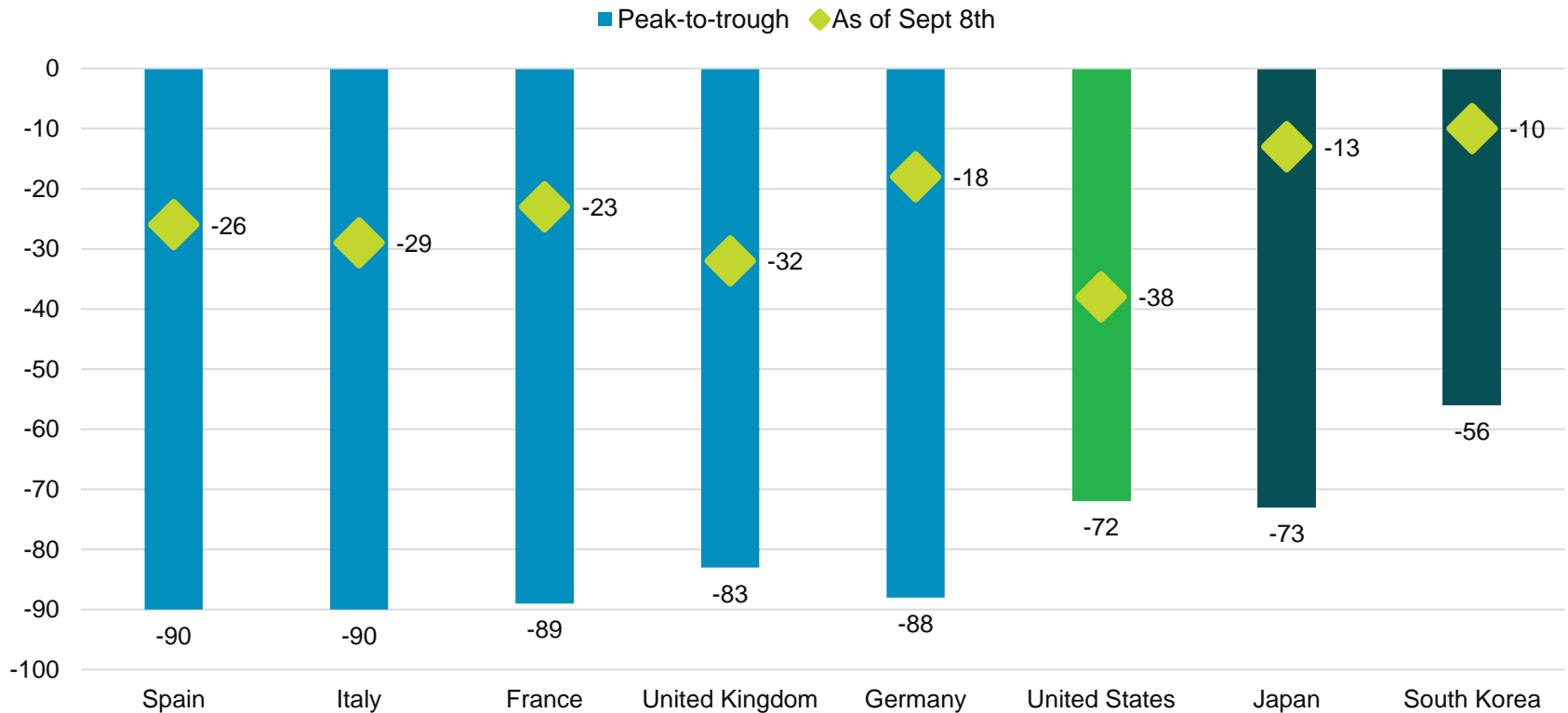
Sector sensitivity differs from previous recessions



Source: Green Street Advisors, Nuveen Real Estate
 OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Tracking real time movements (country level)

Global Apple Mobility Trends: Place of Work
Index: 9/8/20 = 100



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

- 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

- 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

- 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

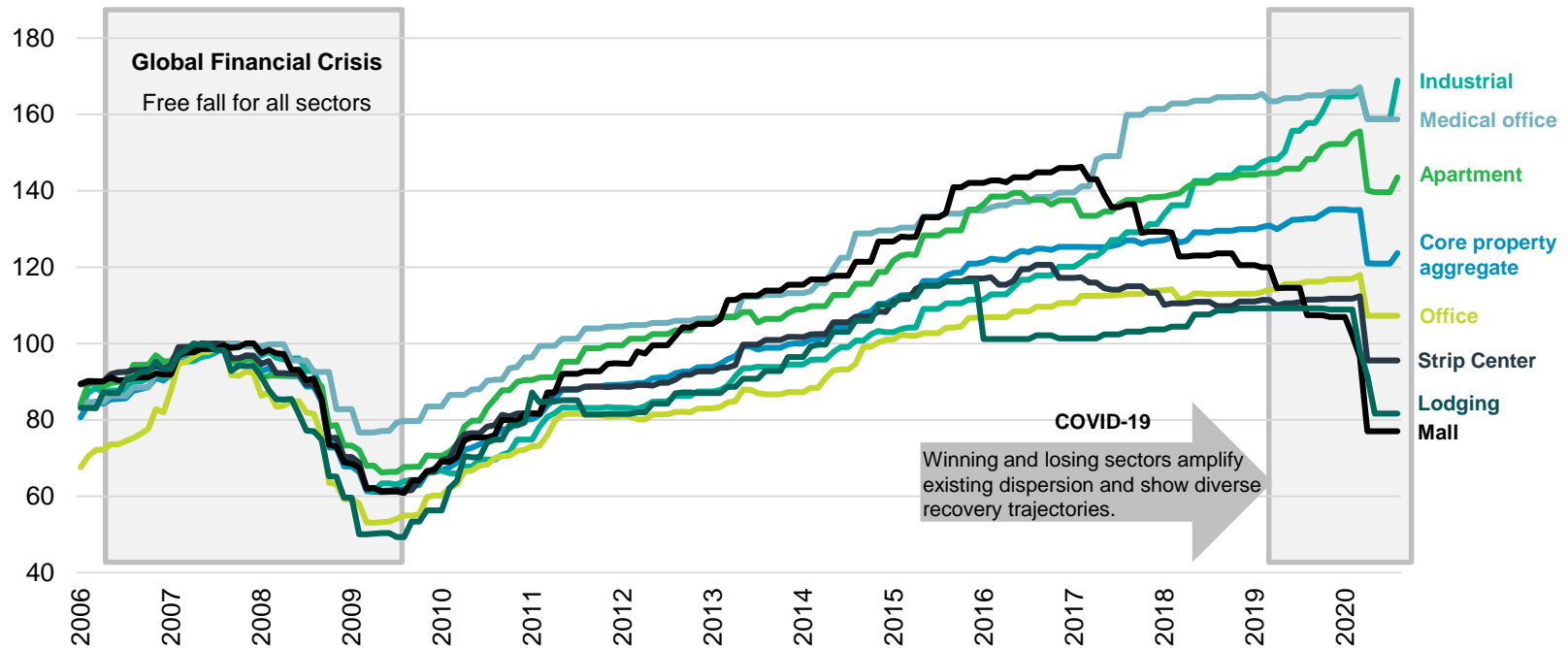
Source: Nuveen Real Estate, IMF

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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.

Commercial Property Price Index



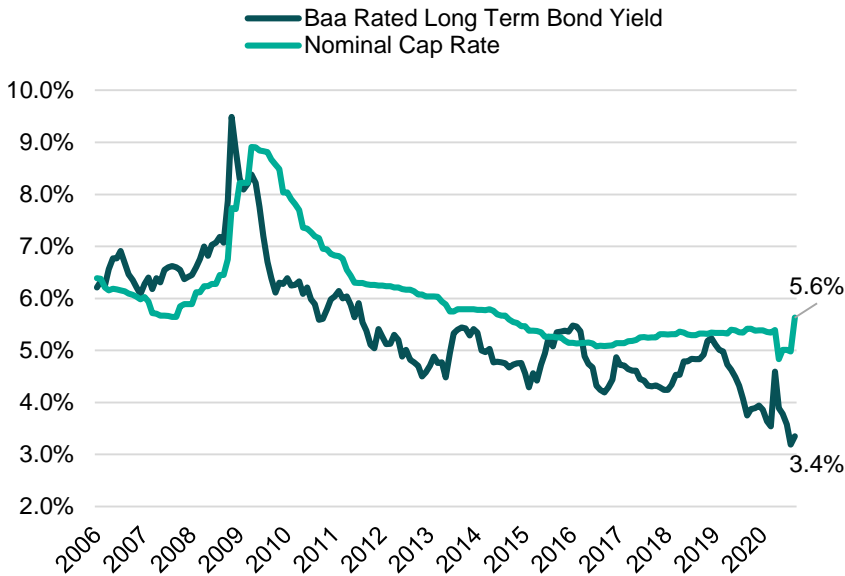
Source: Green Street

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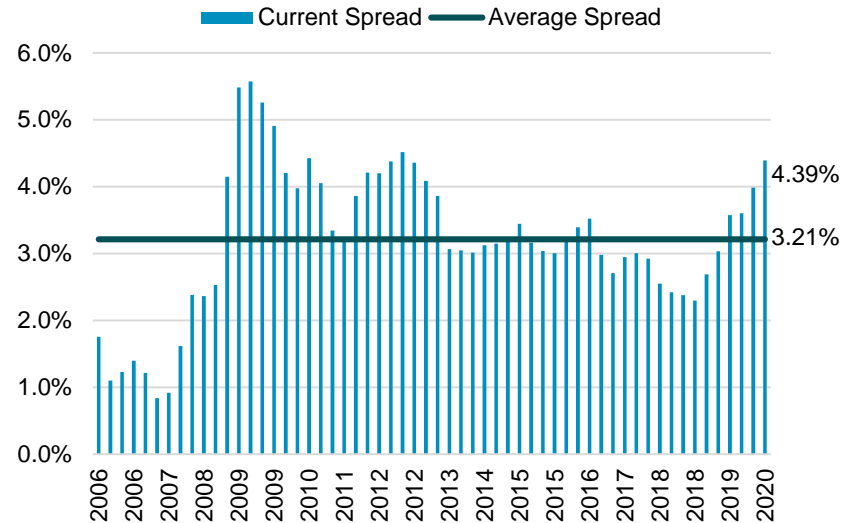
Why now for real estate?

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.

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Asia Pacific

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Asia Pacific-specific view

Regional: The latest data shows that growth remained strong through July and August, even in the face of rising COVID-19 cases. Within the region, we are seeing recurring waves of infections hitting the various economies, which should tell us that even while the worst of the pandemic is probably over, the road ahead remains uneven.

Australia: The 2Q real GDP was weak, as is expected, contracting by 28% on an annualized basis with large declines across all the major components, save for net exports and government spending. The savings rate spiked to just under 20%, an outcome which is consistent with spending and income trends in most other developed markets.

China/Hong Kong:

Good news continues to flow out of the mainland, reinforcing the V-shape recovery we are seeing. The latest PMI reports last week show growth continued to firm in August. The really notable development is that the further rise in the NBS non-manufacturing PMI included improvements in establishments for accommodation, restaurant spending and entertainment—the sectors most affected by COVID-19.

Japan: 2Q GDP has been revised downwards to 28% annualized contraction, mainly from a sharp downward revision to capex. Suga is the favourite to replace Abe as Prime Minister, and he announced that he will continue Abenomics with an emphasis on measures addressing the pandemic for the time being. He also indicated he would maintain Abe's relationship with the Bank of Japan, suggesting continuity to the current monetary policy stance.

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

- Favorable
- Neutral
- Unfavorable

Investments	Risk
Prime	Favorable
Secondary	Unfavorable
Development	Unfavorable
Debt	Favorable

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

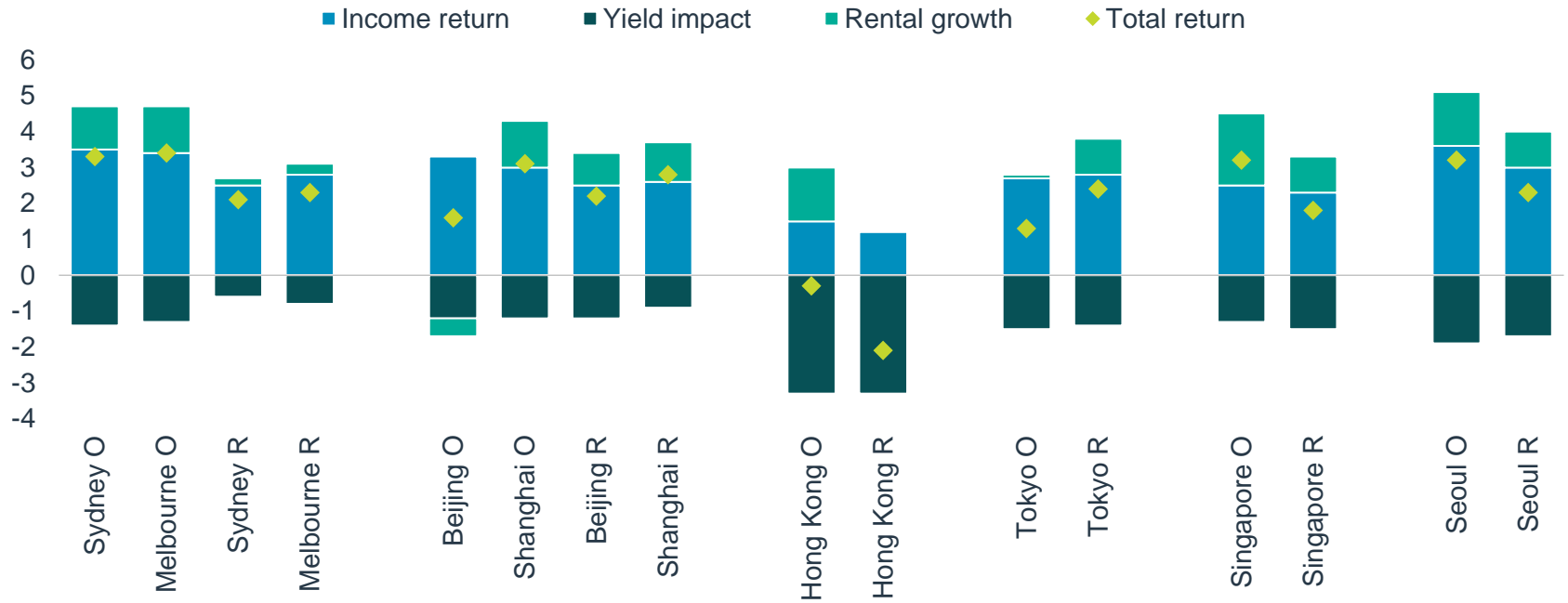
Development: Uncertainty heightened in terms of construction period and leasing discussions

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

Lower for longer

5-year average returns for office

% per annum



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

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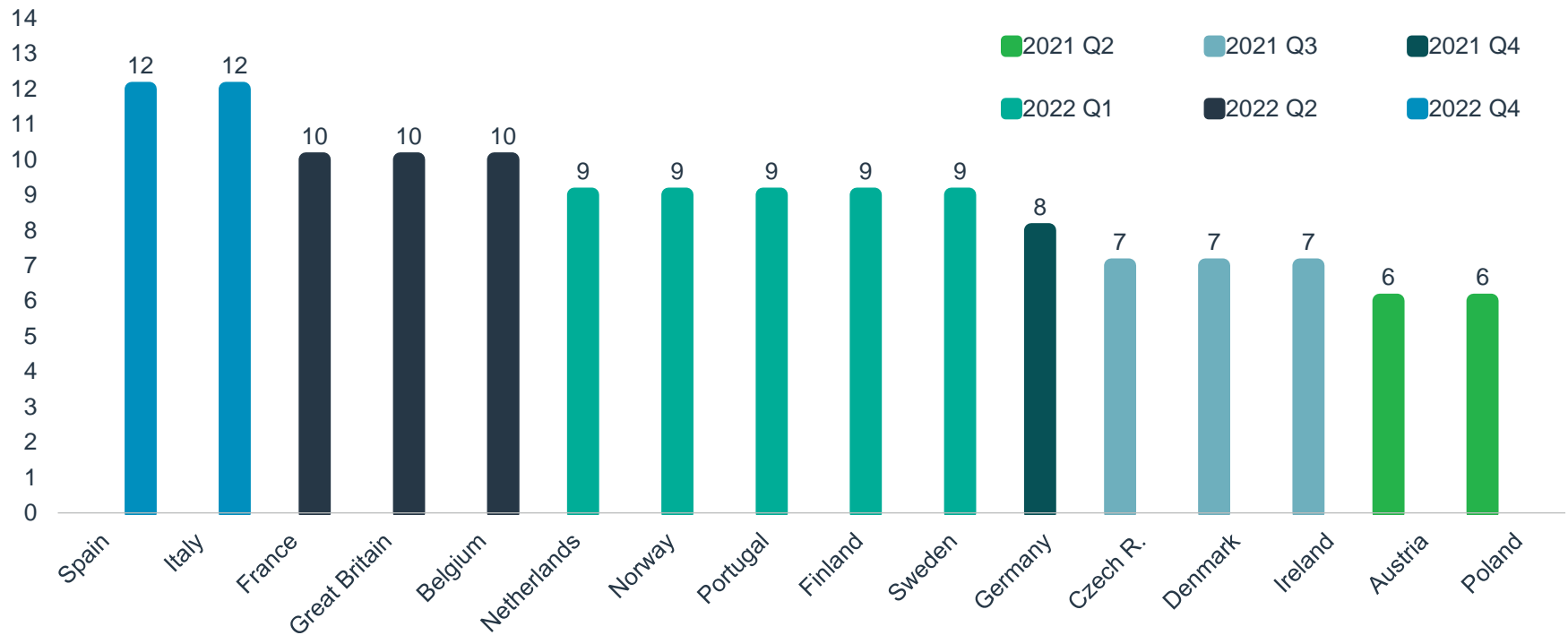
Europe

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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



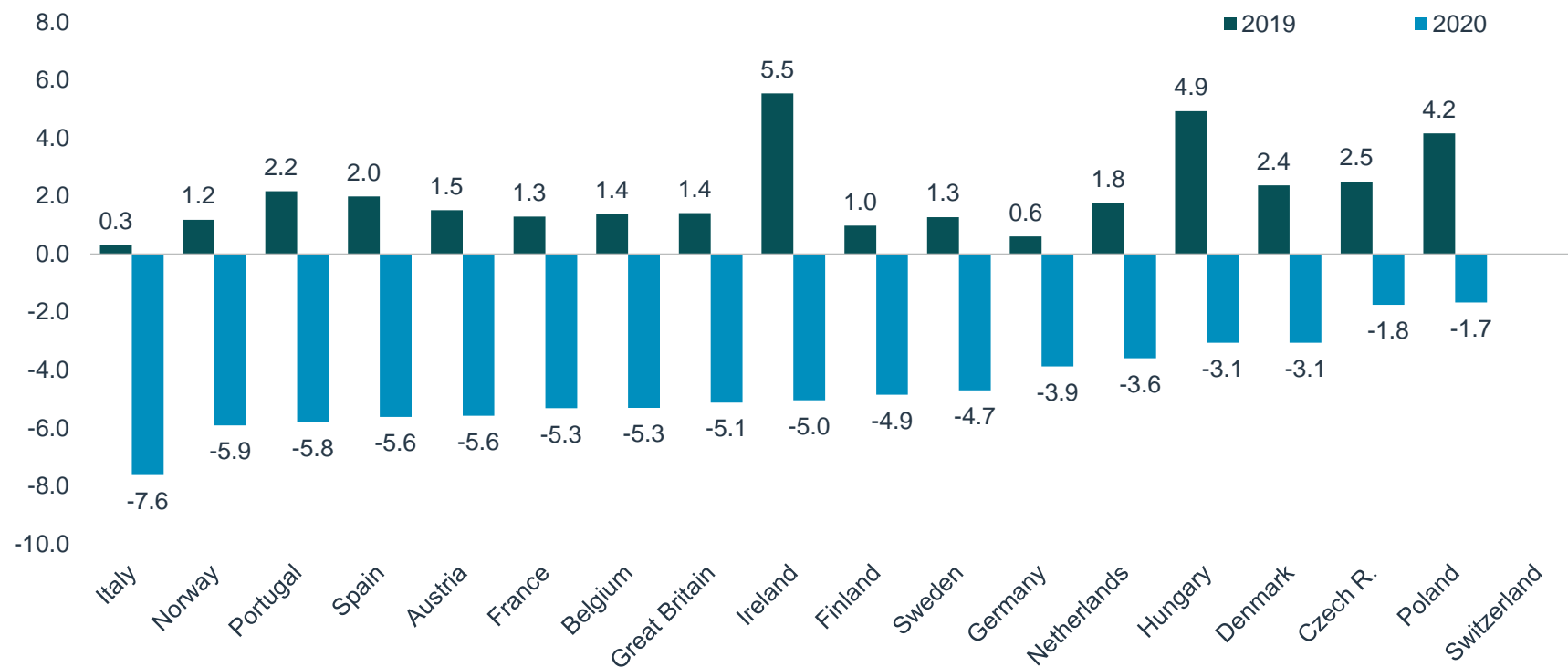
Source: Oxford Economics, August 2020

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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

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Investment intentions

Logistics and residential dominate investors shopping lists

Investors survey



Source: PMA Q2 2020

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Investment activity

Q2 negative trend varies significantly by country and sector

Q2 2020 investment volumes relative to Q2 2019 in %

Country	Office	Retail	Logistics	Residential
Austria	-60%	-19%	-10%	-41%
Benelux	-47%	-83%	-32%	-57%
France	-60%	166%	-33%	105%
Germany	-14%	-33%	-8%	51%
Italy	42%	-85%	11%	0%
Spain	-91%	64%	-20%	-91%
Nordics	-49%	-40%	-46%	27%
U.K.	-76%	-62%	-33%	703%
CEE	-66%	-77%	-57%	-100%

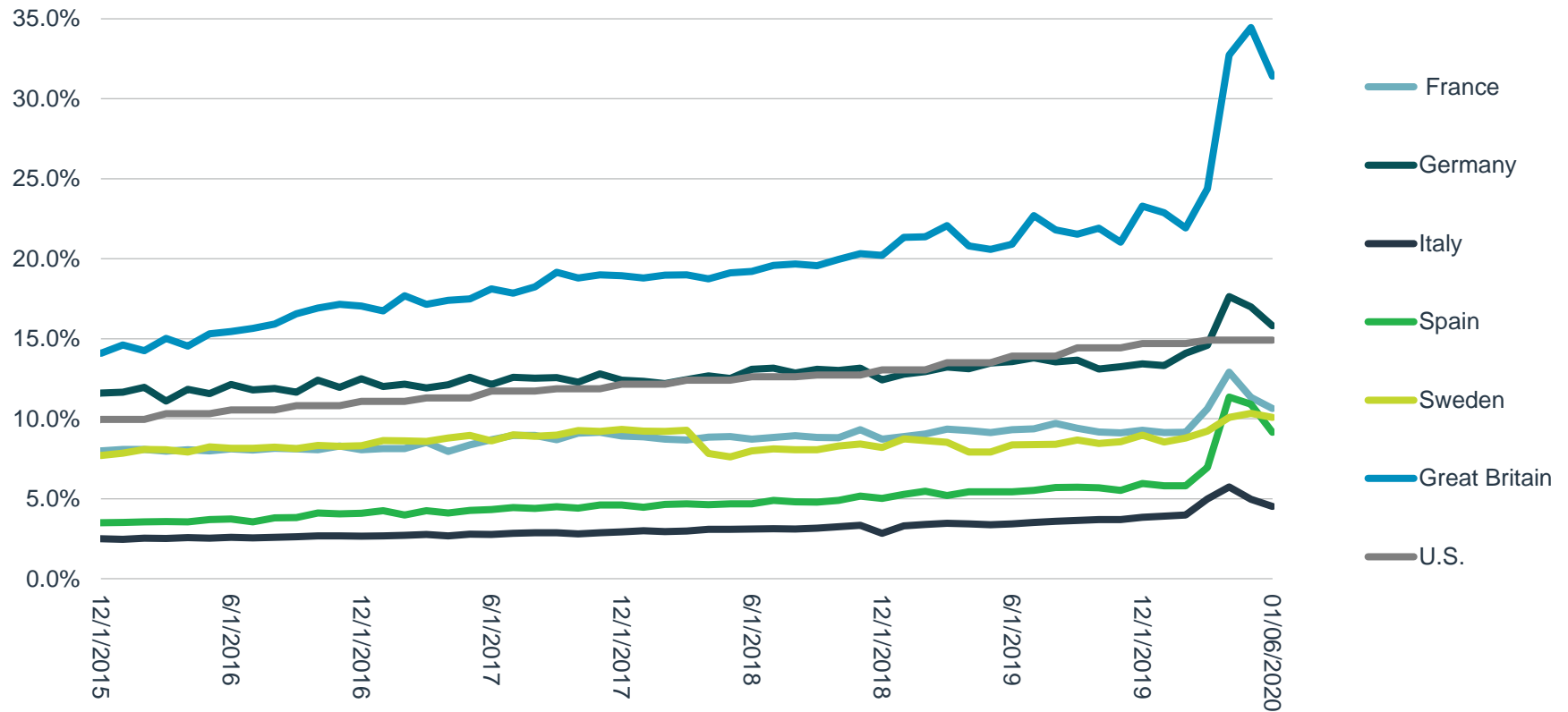
- Deal count reduced more significantly than volumes
- Germany/Austria/France least affected
- U.K./CEE down most notably
- Retail and international markets down by more (London offices, CEE)
- Mixed results on residential

Source: RCA, Q2 2020 (green >-10%, yellow > -35%, amber >-60%, red <-60%)

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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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United States

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U.S.-specific view

Regional: We continue to believe the trajectory of the virus will determine the trajectory of the U.S. recovery. While the pace of new coronavirus cases has decelerated in recent weeks, the number of new cases remains elevated. Real-time mobility data points indicate the U.S. recovery may be plateauing as a result. Mobility data points also suggest a dispersion in economic recovery across U.S. regions. Most notably, the Northeast region is trending better than others for an economic recovery as the region continues to contain the virus.

The August jobs report indicated total nonfarm payroll employment rose by 1.4 million in August, and the unemployment rate fell to 8.4%. Initial jobless claims in the week ending September 5 showed no change from the week prior, holding at 884,000.

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

Sector	Risk
Office	Neutral
Retail	Unfavorable
Industrial	Neutral
Housing	Neutral
Debt	Favorable

- Favorable
- Neutral
- Unfavorable

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

Retail: Headwinds likely to accelerate retailer bankruptcy filings. Major retailers to file bankruptcy thus far include: Lord & Taylor, Ascena Retail (Lane Bryant, Ann Taylor), Brooks Brothers, J.C. Penney, J. Crew, Neiman Marcus, True Religion, 24 Hour Fitness and Modell's Sporting Goods.

Industrial: Increased e-commerce utilization as a result of the pandemic will be an accelerated sector tailwind.

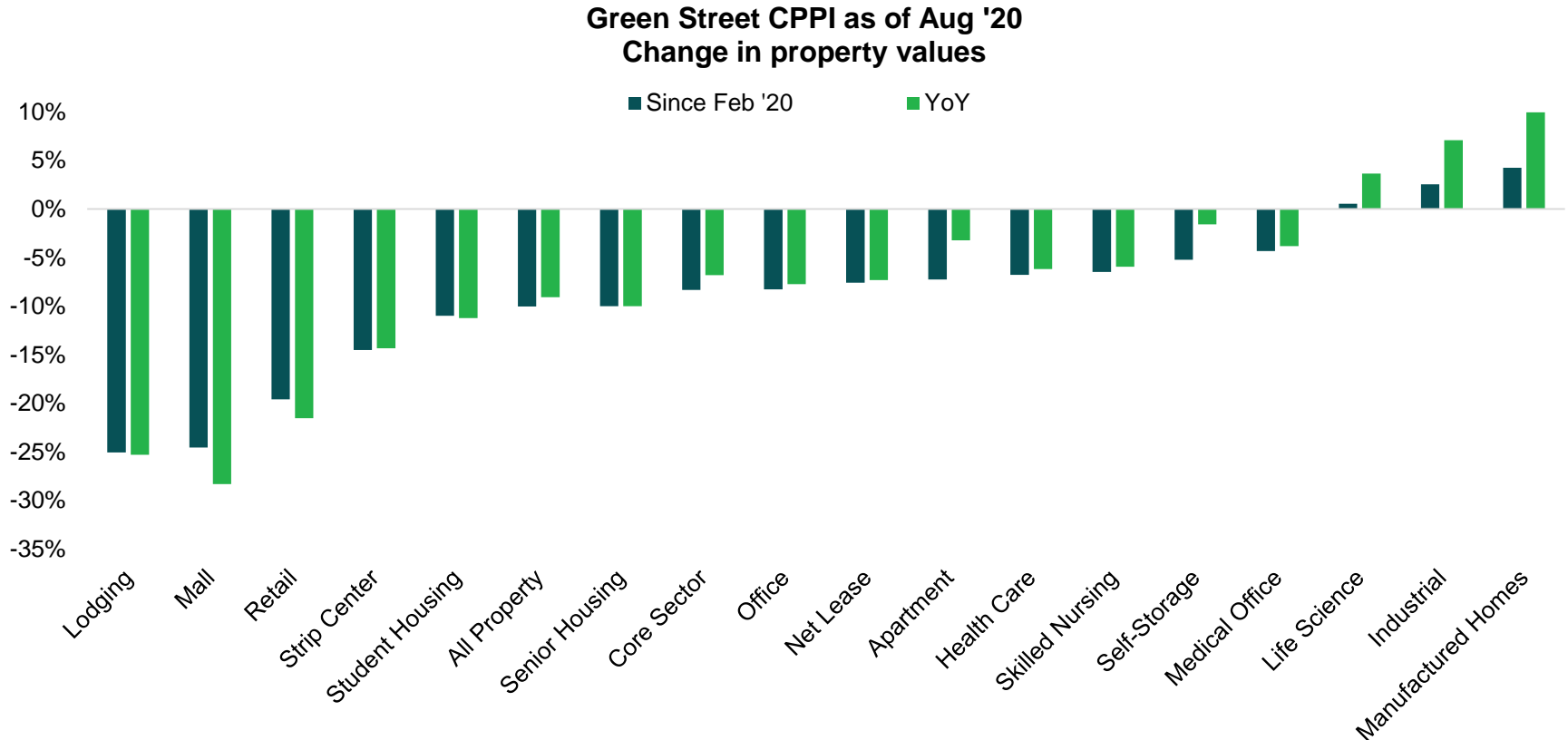
Housing: The National Multifamily Housing Council's rent tracker shows 76.4% of households paid their rent by September 6th compared to 79.3% that paid by August 6th.

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

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U.S. property values continue to trend down

Aggregate U.S. property values remain 10% below pre-pandemic pricing and are down 10% compared to last year. Property values ticked up 1.3% from July 2020 to August 2020



Source: Green Street, Nuveen Real Estate

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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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