

**nuveen**  
REAL ESTATE

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**Perspectives on today's  
real estate market**

# **2021 Outlook**

**Nuveen Real Estate Global Research**



# 2021 Outlook

Our real estate team believes the current market offers opportunity for strategic allocation of private real estate for long-term investment benefit. We also see themes taking shape that will impact the opportunity throughout 2021:

## **Sector themes**

- Alternative sectors are set to outperform traditional sectors
- Selectivity is key in traditional sectors

## **Rethinking urban centres and suburban life**

- Strong conviction: U.S. sees demographic shifts in favour of suburbia, sunbelt cities and home working
- Subtle changes in Europe as culture, language, planning and transport support urban locations and Northern European living
- Large coastal U.S. cities are most at risk from home working; demographically older commuter cities are more exposed in Europe, while we are convinced that the office is unlikely to lose allure in Asian cities

## **Capital flows convictions**

- Global central banks policies will remain very supportive for real estate flows and values
- We are set to see a sector rotation in the U.S., Europe and Asia

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

# Global real estate outlook

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

Source: Nuveen Real Estate

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Negative

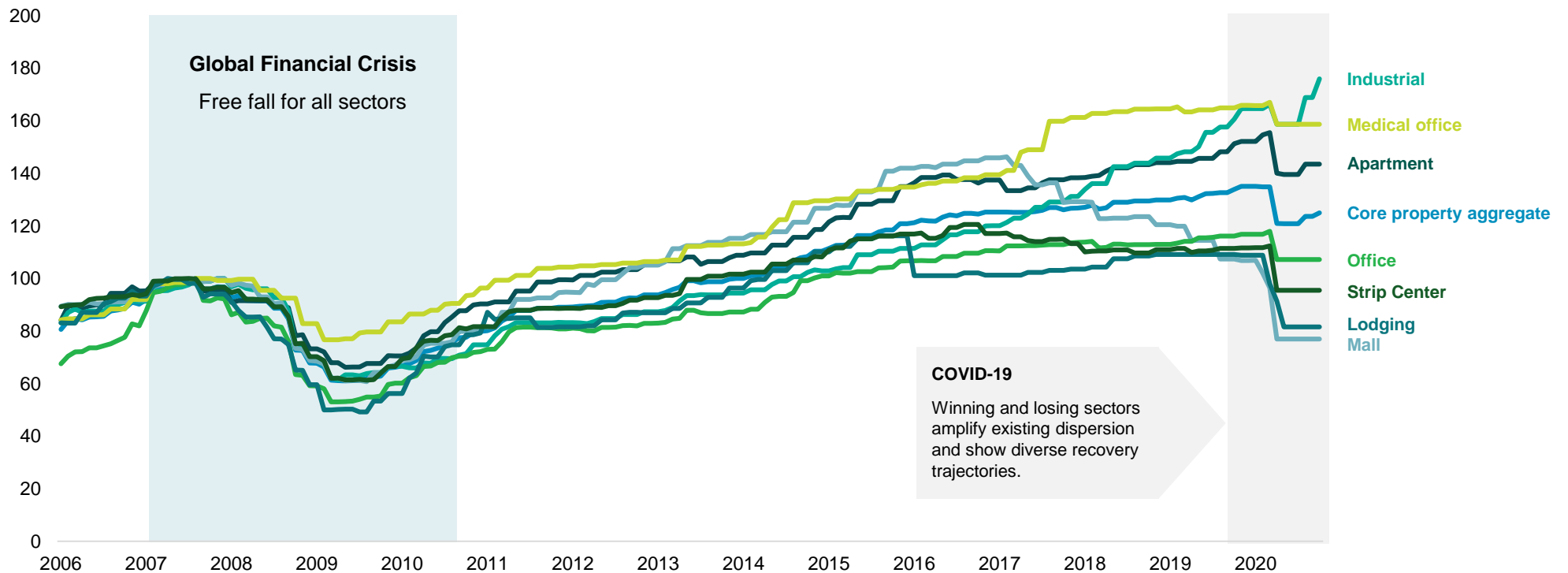
Neutral

Positive

# 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 (CPPI)



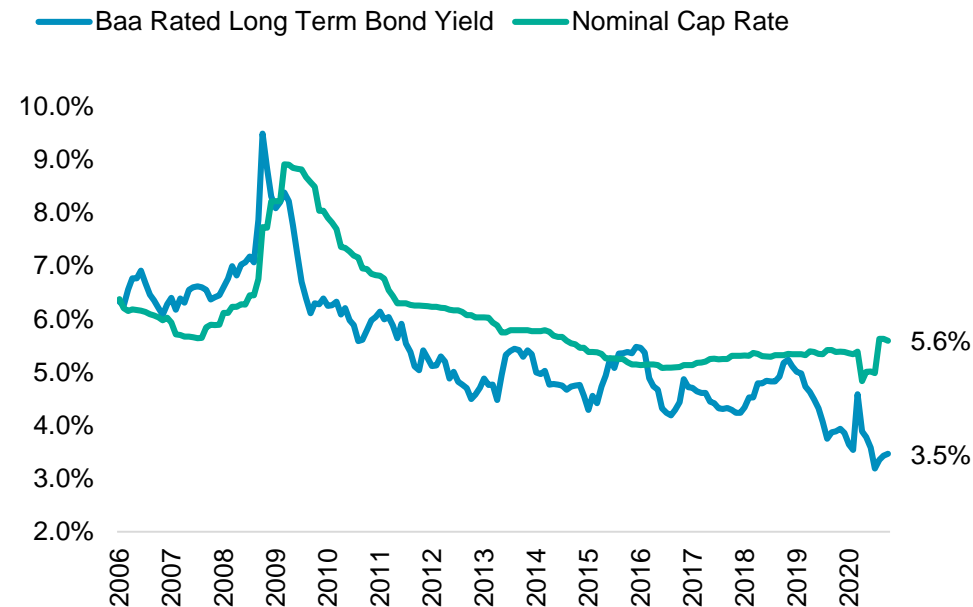
Source: Green Street, 01 OCT 2020

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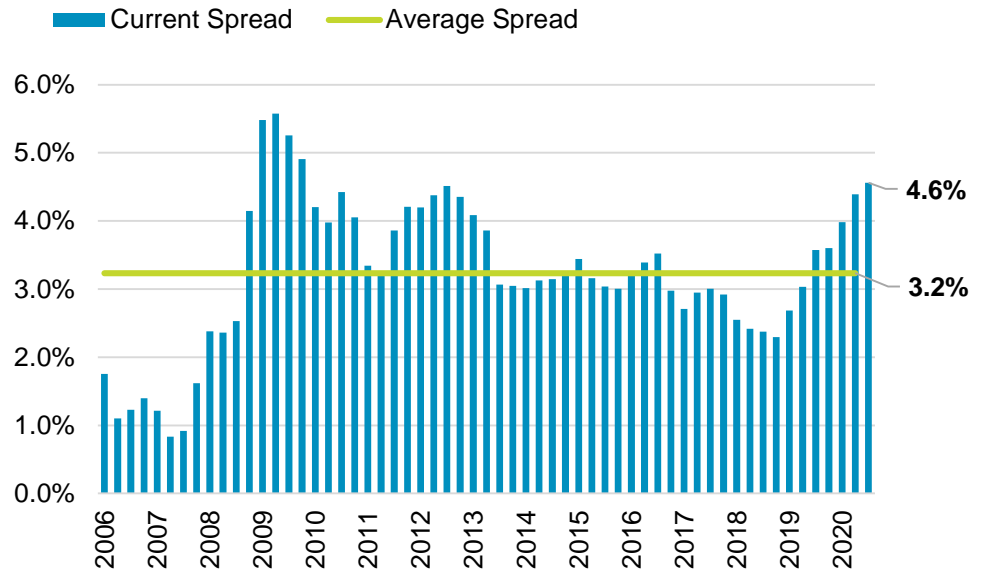
# Why now for real estate?

## 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 Real estate yields are strong: 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). 01 NOV 2020

Source: Strong relative value: U.S. Board of Governors of the Federal Reserve System. 30 SEP 2020

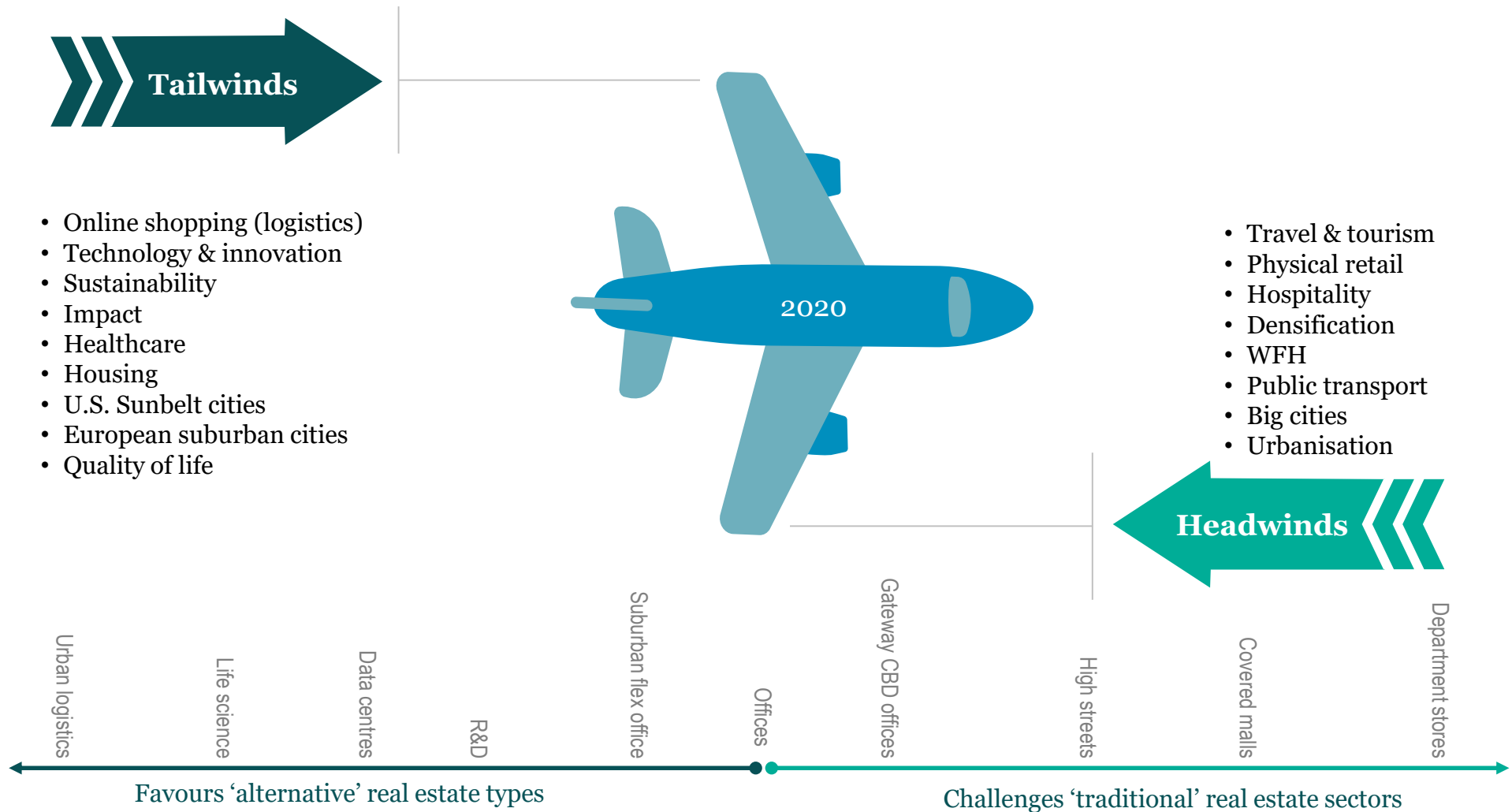
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# Sector rotation accelerates

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# Real estate headwinds and tailwinds

When will I see you again?

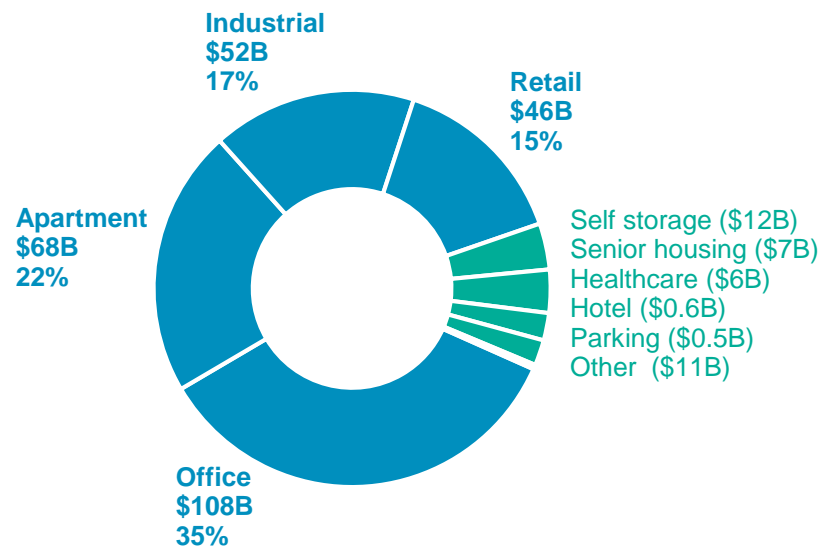


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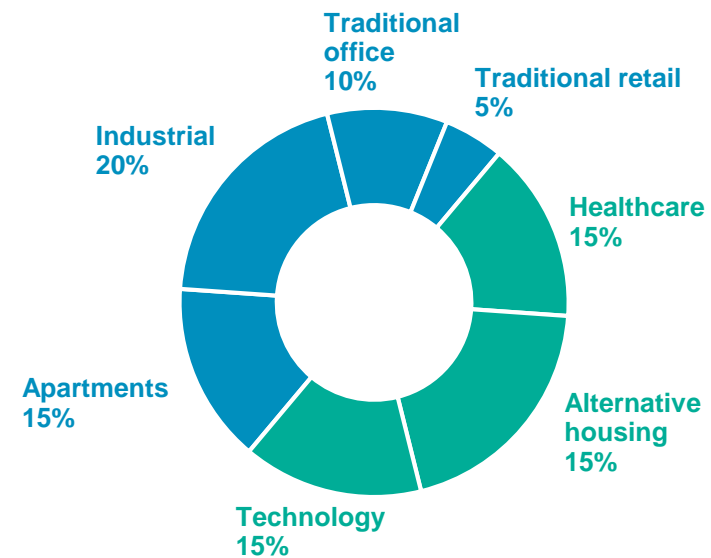
# The future of real estate evolving towards alternatives

What is alternative real estate?

Current real estate exposure  
(NFI-ODCE\* MV by property type)



Representative real estate portfolio in 2030



Current exposure to **Alternatives**  
in real estate portfolios is ~**12%**

In a decade, **Alternatives** will make up  
more than **50%** of a real estate portfolio

Source: NCREIF, 30 Sep 2020  
\*Note: Alternative sectors market value NPI Plus

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# Risks and opportunities following COVID-19

The pandemic has accelerated a number of trends: online shopping, migrating to the sunbelt and remote working. These trends and others will impact the real estate market around the world and present both risks and opportunities:

## Opportunities

- Repriced urban apartments
- Warehouses provide attractive returns even with low cap rates due to strong ecommerce driven tailwinds
- Alternatives offer strong relative value in the near term despite capital flowing to those sectors
- Suburban, sunbelt markets offer widespread real estate opportunity driven by migration
- Retail net lease, grocery anchored and strips, necessity-oriented retail, may offer value once they have repriced, particularly in the aforementioned suburban and sunbelt markets
- Repriced smaller office that can be retrofitted into the office of the future

## Biggest risks

- Apartment values in near term are too aggressive as rents fall
- Biggest risk for warehouse could be supply chains shifting out of China, reducing west coast warehouse demand
- Office values to fall and permanently reset lower due to lower demand from work from home
- Student housing headwinds accelerate
- Retail woes to continue for next several years as retailers file for bankruptcy

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# Rethinking urban centers and suburban life

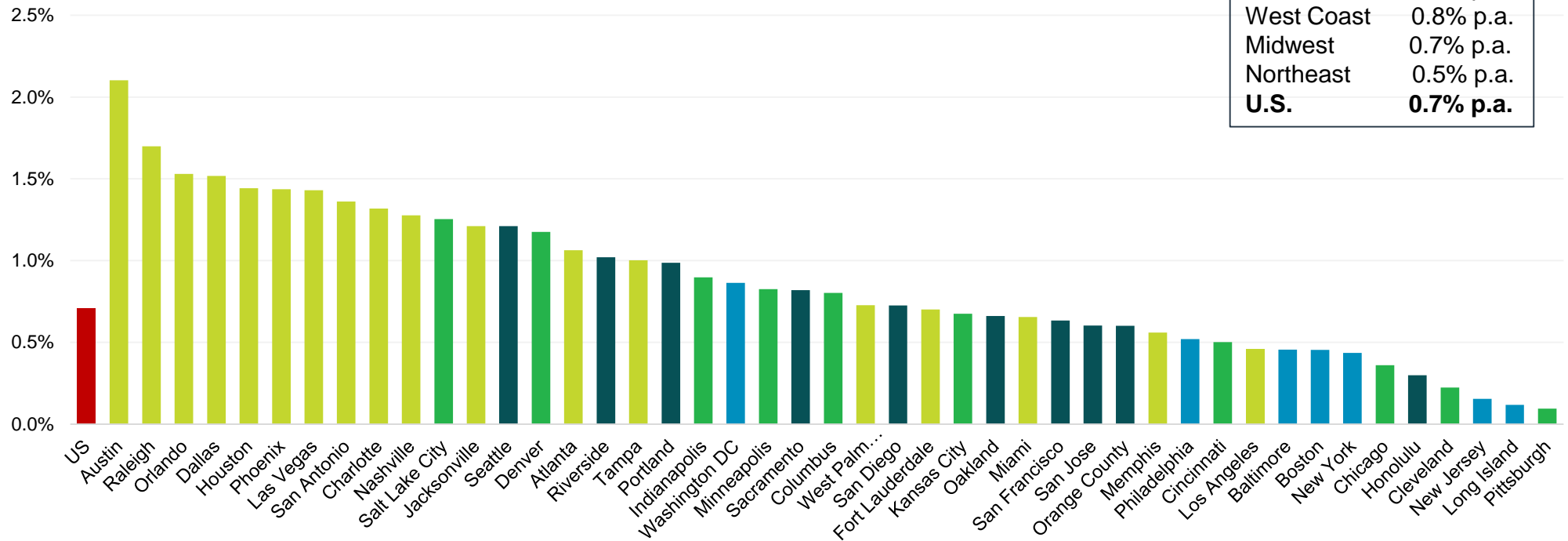
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# COVID-19 to accelerate movement to sunbelt markets

In the U.S. the trend toward the sunbelt cities has long been in place, but the pace was accelerated by Covid-19. This shift will have implications for real estate values in many sectors.

## 5-yr forward population growth (2020-2025 p.a.)

■ Sunbelt ■ Midwest ■ West Coast ■ Northeast



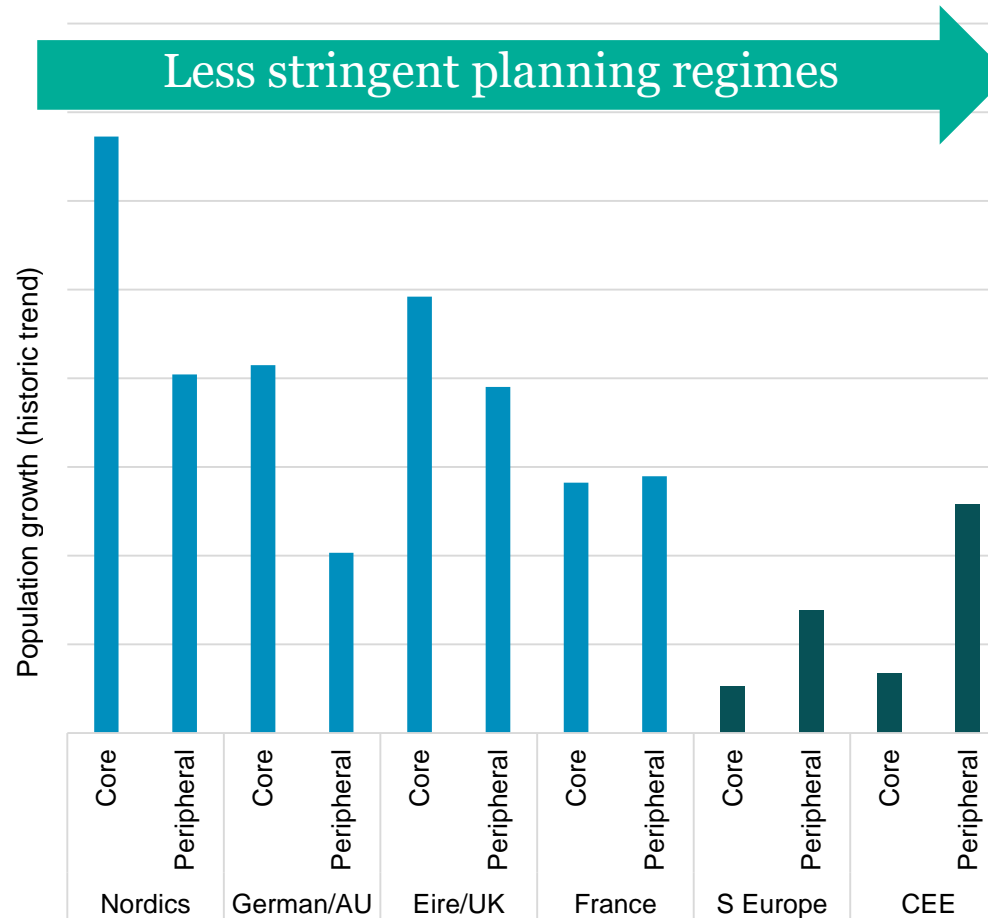
Source: StratoDem Analytics, October 2020  
 Note: Top 45 MSAs. Region averages within top 45 MSAs.

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# European & APAC context: similar fundamentals but varied outcomes

## Escape to suburbia... covid accelerator?

- *Affordability*
- *WFH – less tied to proximity of workplace location*
- *Lockdown living: a desire for open space, more room*
- *Uncomfortable with city over crowding*
- *City living has changed*



## Will be less dramatic because...

- *Tighter planning controls*
- *Access & affordability*
- *A reliance on public transport vs car*
- *City DNA – cultural affinity to density living*
- *Cultural city hubs*

Source: Nuveen, Oxford Economics 2020

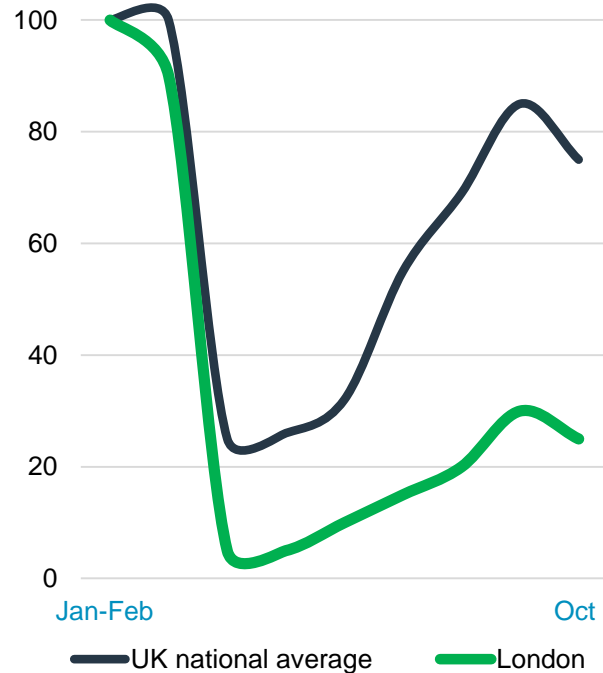
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# A decentralised model – the impact on real estate?

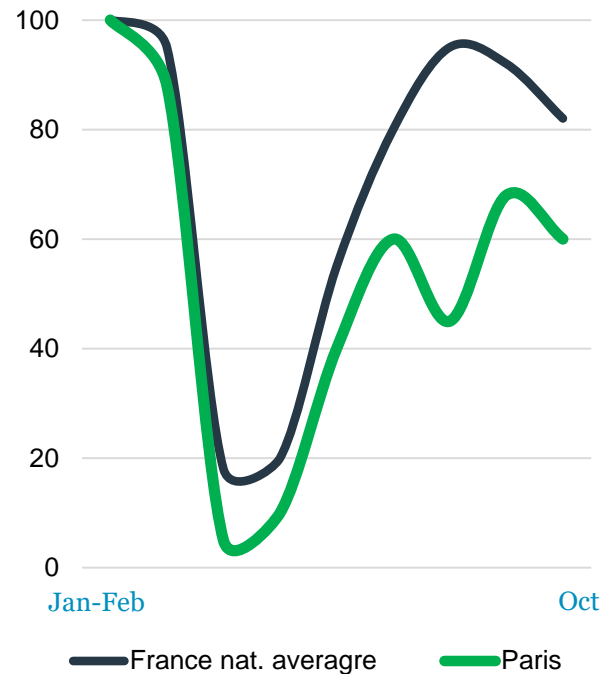
## Hospitality & Retail sector recovery in suburban and smaller towns locations

Footfall at cafes, restaurants, retail & leisure venues as a % of baseline

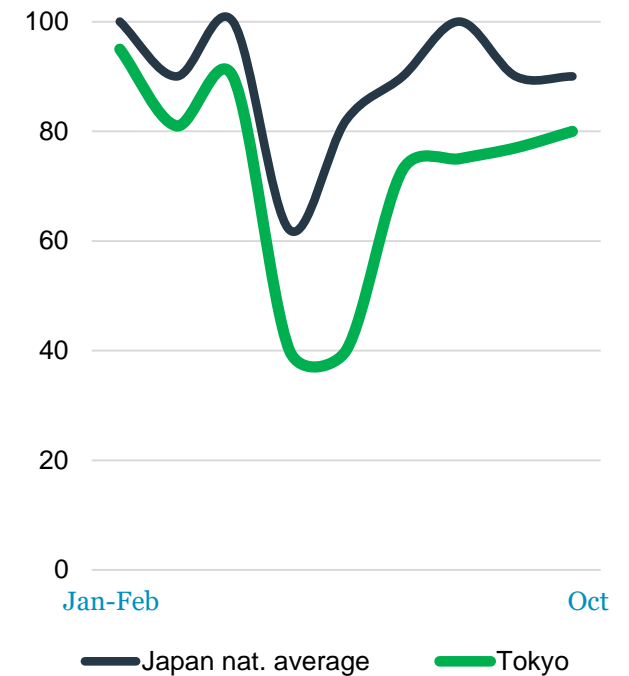
### U.K. vs London



### France vs Paris



### Japan vs Tokyo

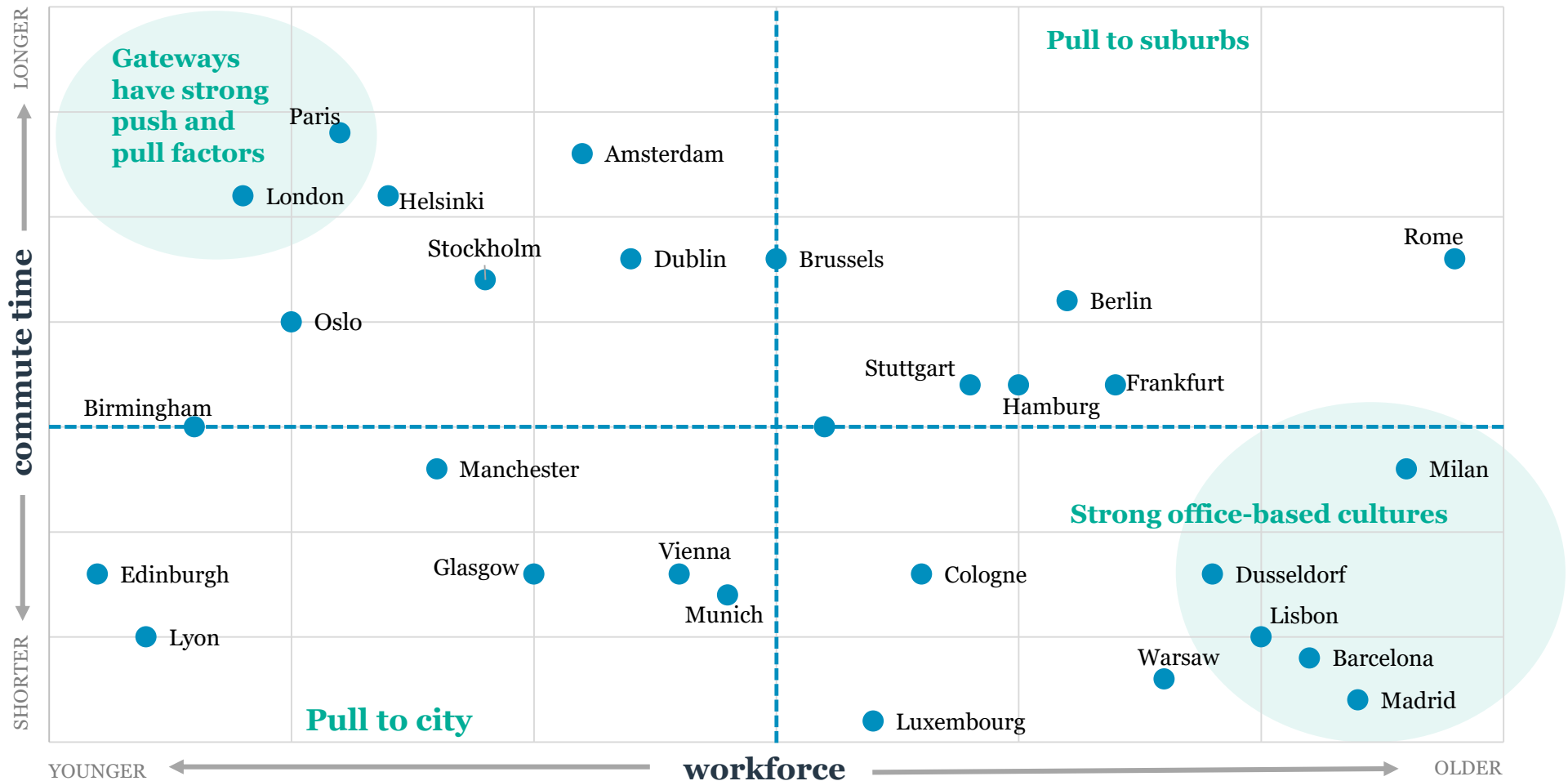


Source: Nuveen, Oxford Economics 2020

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# Which workers will stay home?

Many factors contribute to the decision to work from home vs. going to the office. We found that commute times and worker age are two of the most important predictors of staying at home.



Source: Eurofound Survey of commute times, PMA estimates for non-capital cities, Oxford economics, Nuveen Real Estate Research analysis.

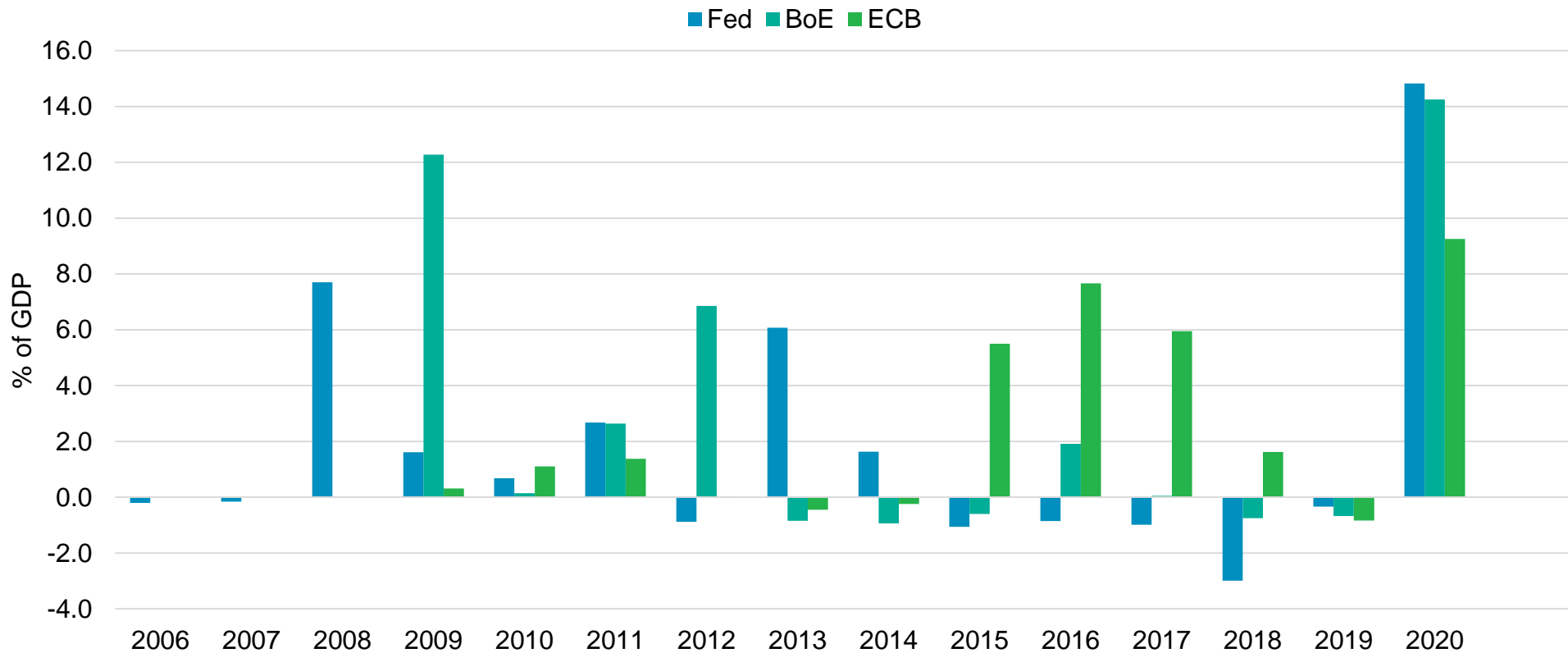
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# Capital flows across regions

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# Capital flows are strong across markets

Co-ordinated QE action in 2020 dwarves all other years so far and is set to increase liquidity and capital flows into CRE



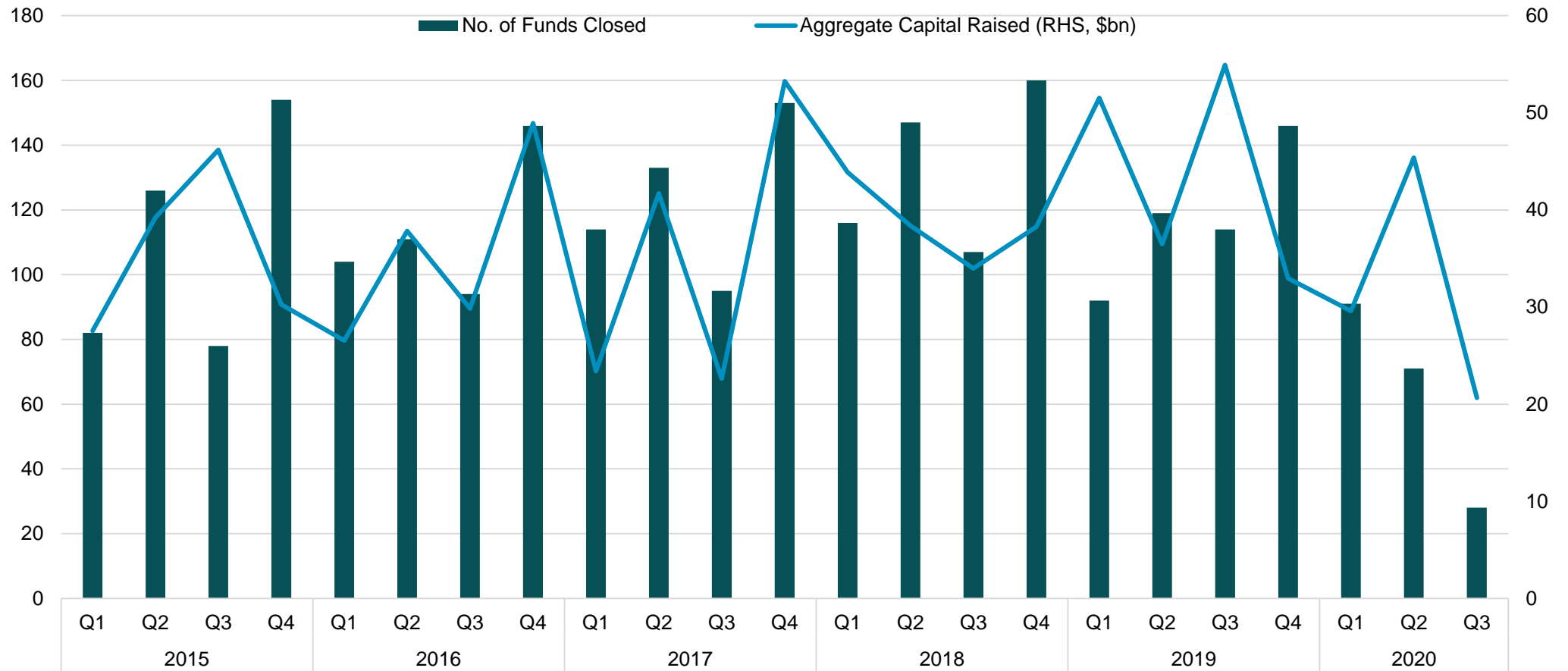
Source: CEIC, 2020

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# Fund raising slows but activity is picking up

## Global Quarterly Close-End Private Real Estate Fundraising



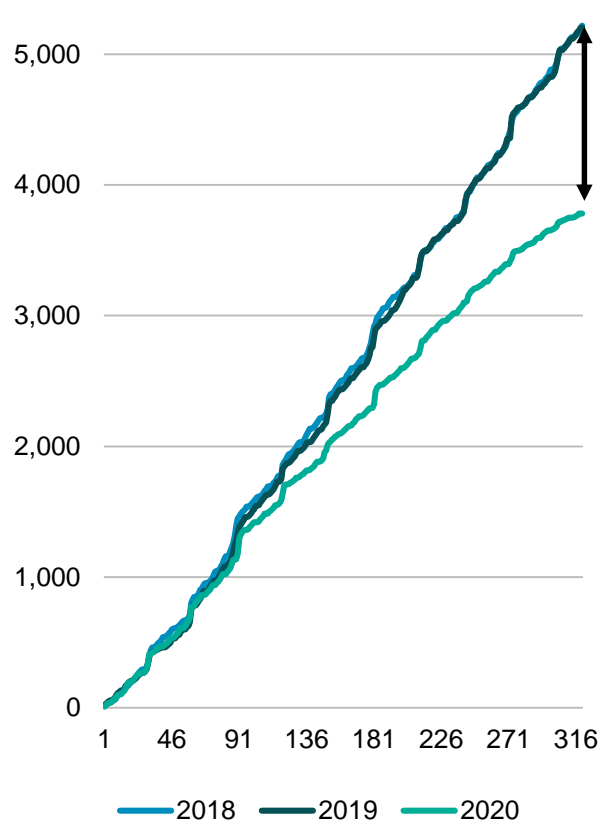
Source: Preqin, Oct 2020

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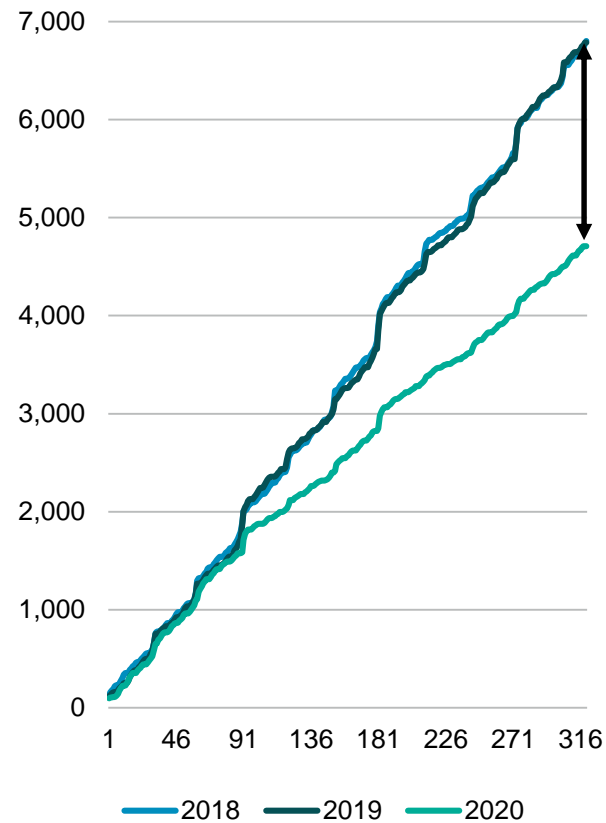
# Global slowdown of real estate investment activity

Americas showed most significant slowdown (Cumulative deal count to day 320)

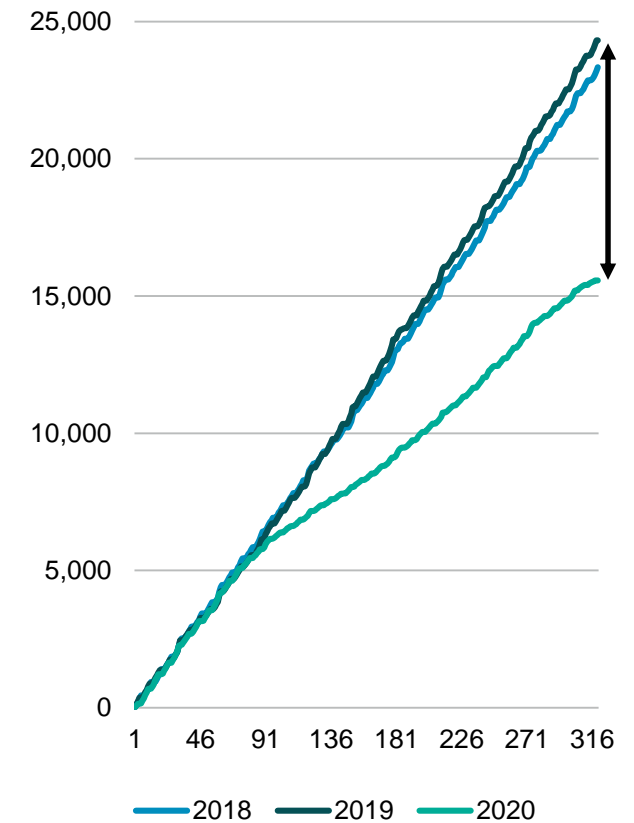
### Asia Pacific



### EMEA



### Americas



Source: RCA

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# Key take-aways for 2021

As we look ahead to the real estate market of this year and beyond, investors will find new opportunities emerging and strategic allocation of assets more important than ever before

- As investment opportunities evolve over the coming decade, we anticipate alternatives institutional deal flow growing from around 12% in the U.S. and under 10% in Europe to more than 50%
- Healthcare will grow as demand for life science facilities, medical offices and senior housing increases
- Technology will establish itself as a real estate ‘sector’, with strong demand for data centers, controlled environment agriculture and mobile phone towers, challenging traditional definitions of real estate
- Portfolio exposure to traditional office and particularly retail will shrink, making space for alternative sectors
- The focus on apartments in the residential sector will broaden to alternatives such as self-storage, affordable housing, student housing, serviced apartments and single-family rental units
- The rise of ESG and impact investing will re-shape portfolios with net zero carbon buildings and social and community supporting property uses gaining market share

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