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REAL ESTATE

Perspectives in today's real estate market

August 2020

Nuveen Real Estate Global Research

Global real estate outlook

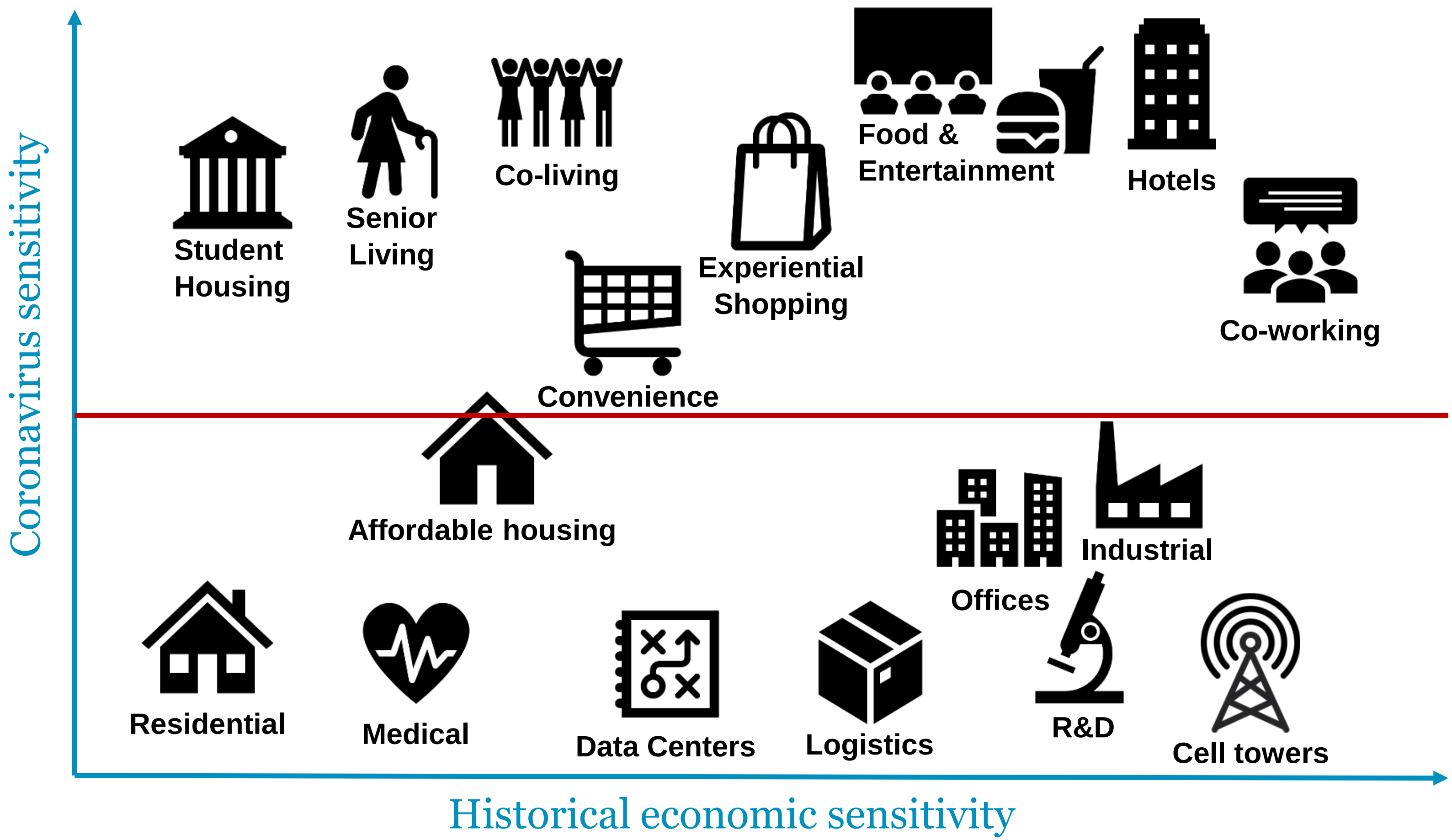
	Overall	Retail	Industrial/ Logistics	Residential/ Multifamily	Office	RE Debt
U.S.	Negative	Negative	Positive	Neutral	Negative	Positive
Canada	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
U.K.	Negative	Negative	Positive	Negative	Neutral	Positive
France	Neutral	Negative	Positive	Neutral	Neutral	Positive
Germany	Positive	Negative	Positive	Positive	Neutral	Positive
Spain	Neutral	Negative	Positive	Neutral	Neutral	Neutral
Australia	Neutral	Negative	Positive	Neutral	Positive	Positive
China	Neutral	Negative	Neutral	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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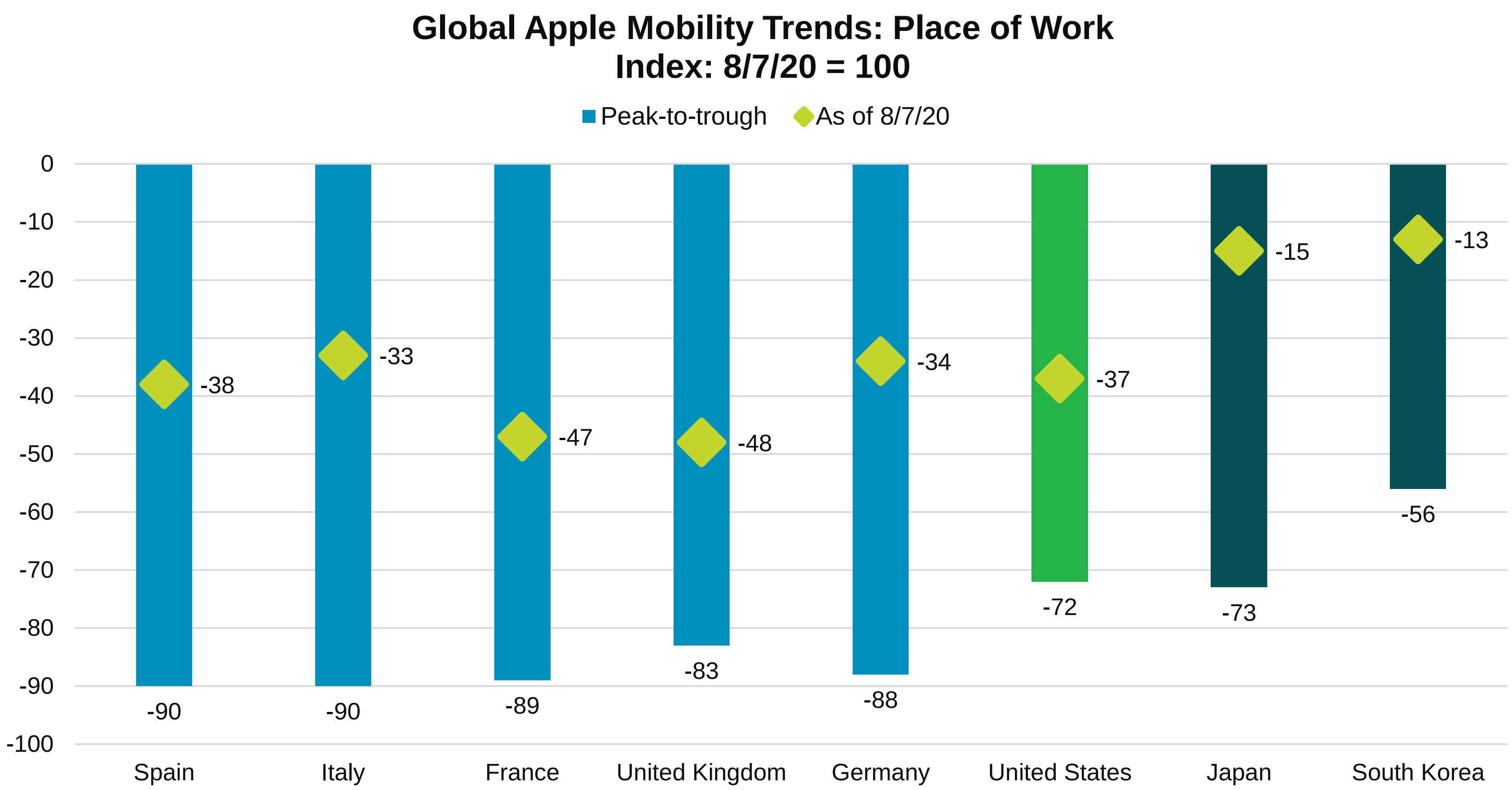
Tracking real time movements (country level)



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	Scenario 2	Scenario 3
• 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	• 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	• 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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Asia Pacific

Asia Pacific-specific view

Regional: While infections have started to fall in Hong Kong and the state of Victoria, the number of cases continue to rise in Japan, with Tokyo and Osaka recording near daily record highs. With the testing of dormitory workers nearly completed, cases in Singapore are expected to dip sharply in the coming weeks as community infections over the past few weeks have fallen to just a handful.

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

Australia:
The Federal government has raised the prospect of further extensions to the JobSeeker Supplement beyond December in order to support the economy. States are also mulling an extension of emergency relief measures for commercial and residential tenants, ahead of expiries at the end of September/October.

China/Hong Kong:
China's V-shape recovery is holding firm, with July exports posting a strong rebound even as trade uncertainties is likely to persist on worsening U.S.-China geopolitical tensions. Hong Kong's sharp -9% real GDP growth contraction in Q2, on top of a similar drop in Q1, mirrors the trend seen elsewhere across Asia Pacific. A recovery is expected in Q3, but tighter physical distancing measures in August from renewed infections is likely to curtail the pace of improvement.

Japan:
While overall consumption activity has picked up following the lifting of the state of emergency, with pent up demand and cash handouts supporting goods consumption, services demand is likely to stay weak due to the recent resurgent in new infections.

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

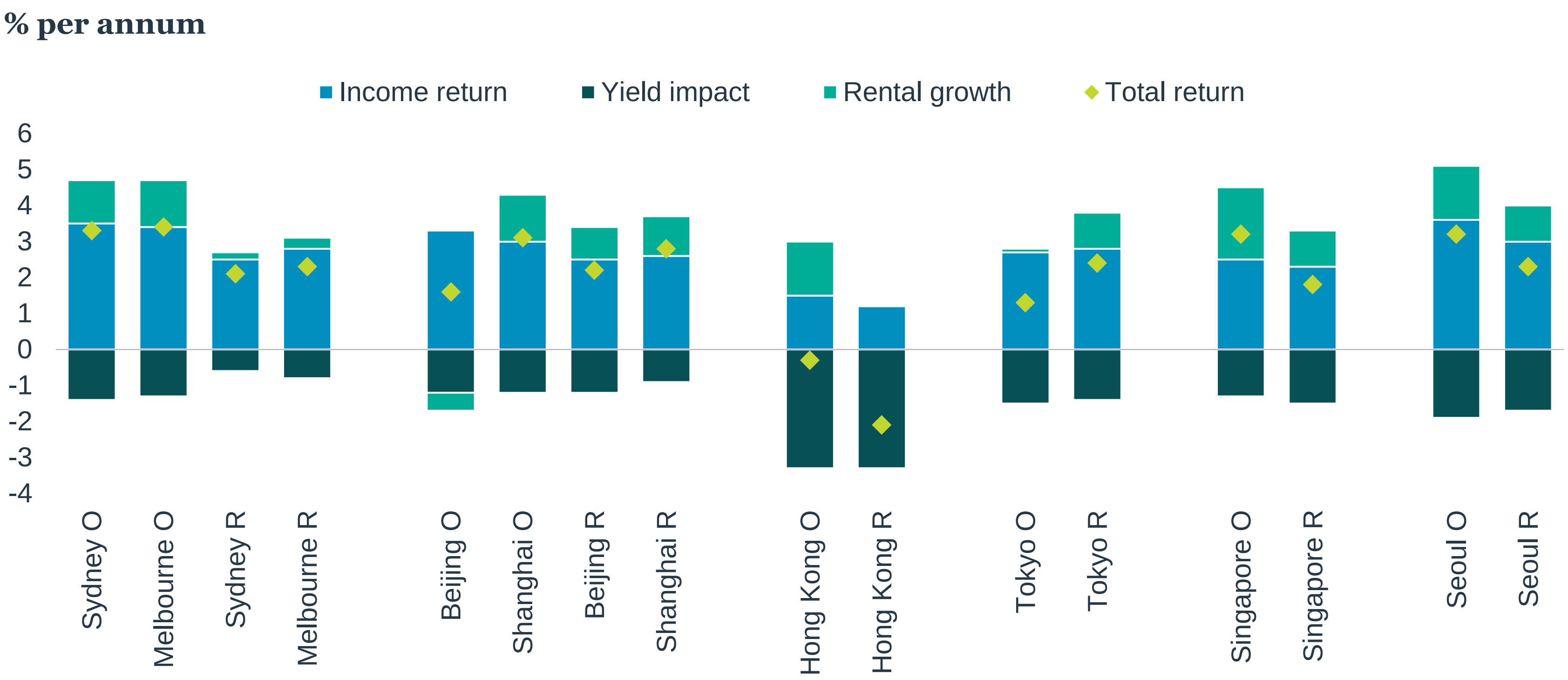
Secondary: Pricing and income security under pressure as financially weak tenants are most vulnerable under current setting

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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

Europe

Overall state of the pandemic by early August 2020

Virus largely under control with a few localized, well contained, reoccurrences

Regional: Real time data shows an uneven recovery from lockdowns. In Germany, Austria, Denmark, Sweden and the Netherlands socio-economic life has returned to something close to normal with restaurant bookings and retail footfall less than 20% below normal, while some other countries notably the U.K. have suffered from a so far more sluggish recovery.

Southern Europe is negatively impacted by the dearth of tourists, but on the positive side retail footfall here appears to be close to normal again.

The volume of European commercial real estate investment transactions plunged to the lowest three-month level since 2014 in Q2 2020, according Real Capital Analytics' European Capital Trends Q2 2020 report, as the €50.1 billion invested represented a 32% fall form Q2 2019. However, the completion of a handful of large deals in the period, notably in Germany, still underpinned activity relative to other global regions. Volumes across Europe have held up better than some other markets in North America and Asia Pacific.

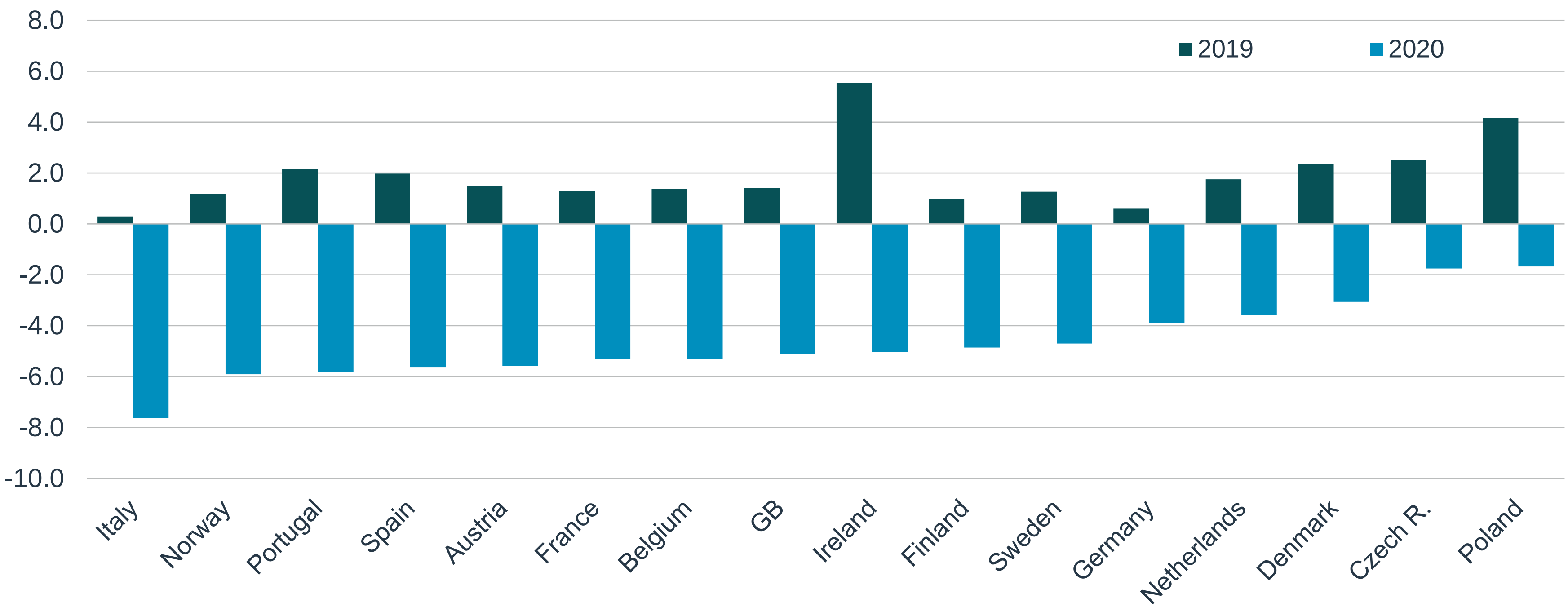
Source: Nuveen Real Estate

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES

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

United States

U.S.-specific view

Regional: The trajectory of the virus will determine the trajectory of the U.S. recovery – both remain highly uncertain as of mid-August 2020. The number of coronavirus cases remains elevated in the U.S. with more than 5 million Americas infected, representing 25% of total cases worldwide. Apple Mobility (driving) data suggests no pronounced change in mobility across the U.S. since mid-June.

The July employment report was positive as the U.S. economy registered a gain of 1.8 millions jobs and the unemployment rate fell a full percentage point to 10.2%. Retail stores and restaurants accounted for half of job gains in July. While businesses have rehired nearly half of workers who lost their jobs due to the pandemic, the U.S. labor market is still down 13 million jobs since February 2020. Labor force participation fell in July across all demographics in the prime working age cohort. The St. Louis Fed Financial Stress Index, which measures both fixed income and equity market volatility, was below its long term average for the week ending July 31st. Financial market volatility rose in March and again in June and early July as cases spiked across most U.S. states. In early August, President Trump revealed four new executive orders for relief including enhanced unemployment insurance, temporary cut to payroll taxes, eviction protection and student loan payment deferral extensions. It is widely expected that lawmakers will agree to provide an additional fiscal stimulus package in the coming months.

According to Green Street's Commercial Property Price Index, aggregate U.S. real estate values were down 11.2% since the beginning of the pandemic. Property values fell in April and May but held steady in June and July. Malls and lodging properties have seen values fall 25% in the last six months. Meanwhile industrial, manufactured homes, medical office and life science values have fallen less than 5.0% during the pandemic.

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

Favorable
Neutral
Unfavorable

Office: CBRE-EA reports U.S. office vacancy rose to 13% in Q2 from 12.3% in Q1. During the quarter there was 21.4 msf of negative net absorption. Downtown office vacancy rose 80 bps during Q2 to 11.4% and suburban vacancy rose 60 bps to 13.8%.

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.

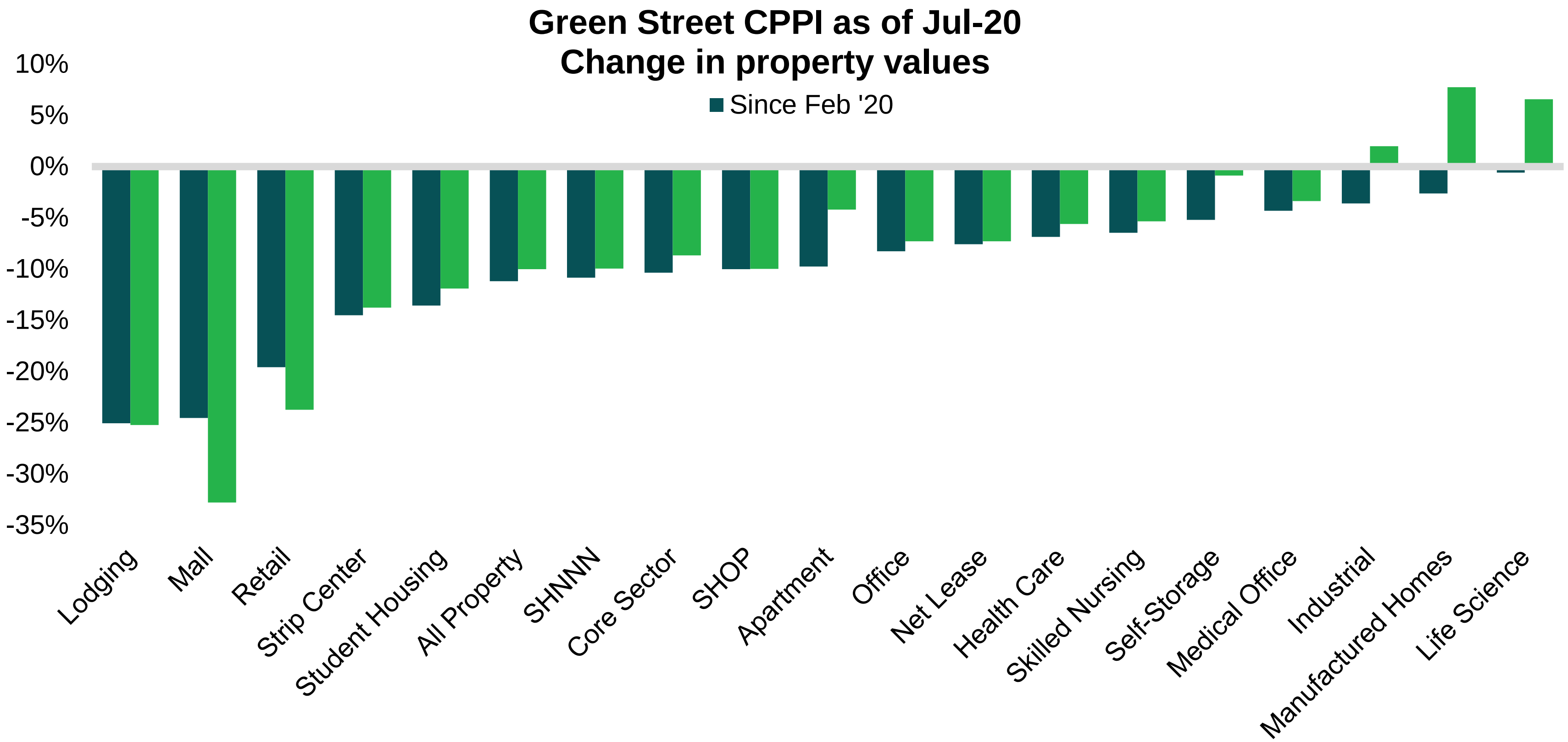
Industrial: During Q2, U.S. warehouse availability rose 10 bps to 7.9%, according to CBRE-EA. During the quarter there was 18.8 msf of net absorption, the lowest level since Q3 2010.

Housing: The National Multifamily Housing Council's rent tracker shows 79.3% of households paid their rent by August 6th compared to 77.4% in July.

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

U.S. property values continue to trend down

Aggregate U.S. property values remain 11.2% below pre-pandemic pricing and are down 10% compared to last year. Property values were unchanged in July 2020 relative to June 2020



Source: Green Street Advisors, Nuveen Real Estate

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Real estate investing in light of the pandemic

Key takeaways

Macro backdrop

- The last 30 years of cap rate compression is likely over given the very low interest rate environment across developed markets
- The next decade is likely to be slow growth given high government debt burdens post-coronavirus, favoring property types that rely less on economic growth to generate income
- More pandemics are likely to occur in the future which means real estate portfolios need to positioned for more resilience from a property type, city and tenant perspective

Thematics

- Coronavirus has not caused a paradigm shift for real estate, rather it has accelerated already-present underlying trends such as:
  - A further push towards online shopping
  - The restructuring of retail real estate – retailers with strong balance sheet to survive and take more market share as weak retailers file bankruptcy
  - A rise of the digital economy
  - De-globalization, re-routing of supply chains
  - Movement towards the suburbs and the sunbelt cities
  - Destruction of wealth during this crisis leads to more demand for all forms of rental housing

Sectors

- Highest long term conviction around the alternative property types in housing, industrial/logistics, technology and healthcare
- Definitions of core and alternative sectors will likely need to be re-visited in a post-coronavirus world
- Getting the sectors and city calls ‘right’ generates the majority of real estate’s alpha

Cities

- Large expensive cities such as New York City, London or Singapore to see near term rental and value declines but in the longer term will survive and thrive as rents and values get reset
- Movement towards the suburbs and the sunbelt cities in the U.S. and lower cost, high quality of life cities in Europe

Source: Nuveen Real Estate

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