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# Five pillars shaping Nuveen's living investment strategy

*The structural themes forming our long-term commitment to the residential sector*



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## PILLARS OF SUCCESSFUL INVESTMENT IN RESIDENTIAL






*It is going to be a transformative decade for the living sector. Strong structurally supportive market dynamics and evolving socio-demographics, coupled with an expanding, more discerning occupier base will revolutionise existing living offers and lead to an expansion in new concepts. It will inevitably become a more globally institutionalised sector, as investors seek security of income, yield stability and rental appreciation, aided by an investor audience greater*

*aligned than ever before with the needs of tomorrow's world. But with fluid consumer preferences and growing desires, how does Nuveen Real Estate create a living model fit for the future?*

There has never been more debate, in both the mainstream media and within the real estate community, regarding the future demand, design and development of all forms of the residential sector given changes in business and consumer behaviour, and demand from changing socio-demographic, environmental and technological advances. It is our belief that the strong tailwinds that support the living sector over the long term remain intact. Furthermore, the growing importance of consumer-focused operational management and embedding technology and ESG in the design will also lead to an evolution of new residential thinking.

At Nuveen, we believe in five pillars that will principally shape the sector's future, but also determine its evolution from a consumer and investor perspective.

## THE FIVE PILLARS OF NUVEEN'S LIVING STRATEGY

 <p><b>1.</b></p> <p><b>User centric</b></p> <ul style="list-style-type: none"> <li>Improving the consumer experience of mass market rentals, via the professionalisation of the leasing and property management process</li> </ul>	 <p><b>2.</b></p> <p><b>Product driven</b></p> <ul style="list-style-type: none"> <li>Addressing the fundamental needs of the consumer</li> <li>Asset management initiatives to drive additional value for the consumer and investor</li> </ul>	 <p><b>3.</b></p> <p><b>Multi-stakeholder approach</b></p> <ul style="list-style-type: none"> <li>A living concept that serves the needs of all stakeholders — landlords, consumers, investors, borrowers and society</li> </ul>	 <p><b>4.</b></p> <p><b>Technology and innovation</b></p> <ul style="list-style-type: none"> <li>Utilising technology to streamline and industrialise the acquisition and asset management process</li> </ul>	 <p><b>5.</b></p> <p><b>Sustainability</b></p> <ul style="list-style-type: none"> <li>Constructing assets embedded within local communities</li> <li>Improving quality and energy efficiency of legacy and new living products via strategic capex and intelligent asset management</li> </ul>
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Source: Nuveen Real Estate

### 1. Exhibiting user-centric focus

Rapid urbanisation, a failure of supply to accommodate changing demand, growing affordability concerns, embedded socio-demographic change and the globalisation of education have been at the forefront of the expansion of different forms of living. Sadly, one could argue much of the residential rental product that exists today has failed to move beyond the primary purposes of shelter and security, with little emphasis on future operational commitments. There is a clear need to improve the traditional consumer experience of mass-market renters via the professionalisation of the leasing and property management process. And as the consumer base for rented accommodation grows, either by choice or necessity, those needs have evolved rapidly beyond an additional desire for flexibility, into experience, community and personal well-being. Professionally managed living is at the forefront of the hospitality evolution present in rental living, with design, services and technology all embodied to focus on the consumer and improve the living experience. As such, a strong, experienced and modern operator is fundamental to a well-managed residential concept. This evolution is very apparent in land-scarce cities, such as Hong Kong and Singapore, beset by price and rental affordability. In the past, multifamily products were non-existent save for the

serviced apartments. Increasingly, institutional investors are now stepping in to close the gap by providing multifamily and co-living concepts in these markets, thereby broadening the choices afforded to consumers.

What is undeniable is that residents expect more from property management, particularly if they are spending more time at home given increased remote working. Additional layers of service, whether in-house or through a third party, beyond the importance of cleanliness and reliability, will be key in both attracting and retaining residents.

### 2. Being product driven

There are many well-documented driving forces behind the present living challenge. Success will come from understanding them, channelling concepts fit for tomorrow's world and incorporating change where needed, without losing focus on the consumer need. At Nuveen, our global cities philosophy still resonates within housing. A preference for a scalable concept and a growing target audience in innovative, connected, regulatory-friendly markets with strong quality of life indicators remains. It is our belief that people still want to be close to like-minded people, cultural attractions and entertainment. But we recognise the reignition of the working from home debate and a greater focus on well-being will influence the urbanisation trend that has

been the prominent driver of market conditions for a generation.

Interestingly, net migration into the central urban areas across some of the major U.S. cities (NYC, Chicago, LA, D.C., Seattle), was not only negative in 2020, but is forecasted to remain so in 2021. Net migration, however, in suburban areas was positive across all major metropolitan districts in 2020 and is projected to remain positive in 2021. Again, this is not necessarily a new concept, especially in the more gateway cities. Couples and families migrate from central locations, largely due to greater space requirements and associated affordability, or crave changes in their work-life balance. That said, it would not be surprising if a decentralisation of the office sector and an increased focus on quality of life and social cohesion scores lead to a bigger cohort that demands suburban housing in less densely populated areas or in satellite towns with greater space but linked to major cities via strong infrastructure. It seems logical that workers spending more time at home would rethink the size and location of their dwellings. Traffic jams and packed trains are more bearable when encountered only a couple of times per week. The rental market and those niche sub-sectors, such as micro-living and co-living that have a greater focus on a centralised location model, will need to address this space versus amenity versus location conundrum. Whether

this 'phase' is more of a more enduring trend will shape not only the performance of existing living rental accommodation, but influence the design, location and offering of future living products.

Design is now just as important as location and affordability. Good design ensures the appropriate unit mix and amenity provision reflect the local, target demographic, as well as the delivery of best-in-class standards of sustainability, well-being and accessibility. And as consumer demands change and evolve, it is essential that design stays relevant. Better understanding can come from effective data gathering and analysis, to constantly improve the product offering.

### 3. Multi-stakeholder approach to value creation

A living concept that serves the needs of all stakeholders — landlords, consumers, investors, borrowers and the society at large — will become the winning formula of the future. And nowhere is the concept of a housing lifecycle as apparent as it is in Tokyo, the world's biggest metropolitan city. While the nationwide population is declining as birth rates continue to fall, Tokyo (and other major regional capital cities) continues to attract people in search of jobs, proximity to amenities and better quality of life. Declining household size and increasing household numbers in turn underpin the demographic tailwinds of housing as an asset class, across co-living, multifamily, single-family housing and retirement living. And the nature of demand is also evolving and broadening. While historically, space requirements were centred on smaller-sized apartments within the central wards, demand for large-sized apartments has risen, most noticeably in more suburban areas with cheaper rents. Beyond the traditional housing space, an aging population also demands more specialised medical support, retirement care and living.

There is immense opportunity to create impact and value to support the ongoing evolution of living styles and needs across many cities globally. Demographic and lifestyle changes continue to demand improvement in facilities and operational upgrades, professional management and more value-add services. To evolve as an institutional-grade asset class, residential property is going to require greater mutual understanding and closer

#### Nine megatrends shaping the future of living

Urbanisation	Millennial population size	Gen rent
Future of work	Household formation	Getting married later
Affordability	Value experiences & community	Sharing economy

Source: Nuveen Real Estate

co-operation between government, investors and developers. If governments want to see an increase in institutional investment, then some changes to public policy may be required. Ensuring a viable, stable regulatory and tax regime to give investors confidence to support the sector for the long term is vital in the success of this asset class. Successful institutions should look to partner with best-in-class local operators with stock and management expertise in the residential sector.

#### 4. Technology and innovation

At Nuveen, we see technology as a positive disruptor and enabler of change. Such is the transformation envisaged within the housing industry, there is an essential need to incorporate more technology into the sector, whether from an acquisition, operation and asset management, resident or developer perspective. Now, more than ever, we see the additional value of innovation. Managers that already had a strong technology strategy in place have been able to disseminate regular, up-to-date information and support to their customers, while driving greater efficiencies. Managers that have the ability to provide virtual tours, or track and respond to online leads have been able to proceed closer to business as normal and indeed steal the march from those with more traditional platforms. As demand in this area grows and as tenants become accustomed to this 'alternative' service, we are likely to see an improvement in the quality and depth of technology's role in the sector, and a consolidation of a few winning operational platforms.

Within design, it is believed that changes in social norms and attitudes will increase the use of automation in greater allocations for public spaces, and potentially the physical layout of a building. The incorporation of smart tech, including touchless solutions and the ability to interact digitally with the building through mobile devices, will likely be appreciated and expected by residents. It must, therefore, strike the right balance between frictionless automation and people-centred hospitality. Investors and developers will be looking for more informed micro-level analysis, aligned to changes in consumer needs, to assist in an opportunity's underwrite, given the competitive environment

and need for additional alpha. There will be more emphasis on data-driven locational, asset and liquidity market intelligence; and arguably a shift away from some of the more traditional metrics.

#### 5. Sustainability

It is widely recognised that to meet the objectives of the Paris Accord, all buildings will need to be net zero carbon by 2050. At Nuveen Real Estate, however, we are aiming to achieve net zero carbon in our real estate portfolio no later than 2040. To succeed in this ambitious goal, it is essential that our investment decision making is informed by an in-depth knowledge of how the transition to the low-carbon economy will impact real estate. This poses a complex set of investment risks and opportunities for the living sector – the sector with the most need of improvement – which will have to be anticipated, evaluated and addressed. Essential to our clients' investments and our fiduciary duty, at Nuveen Real Estate, we have developed a robust methodology for the assessment of our real estate assets under management globally, taking account of local, asset-specific circumstances. This will not only mean that we are able to manage transition risks more effectively, but it will also position us to unlock the value arbitrage that we expect to realise from net zero carbon buildings.

We acknowledge the full responsibilities within the environmental, social and governance aspects of real estate investment management. There is an environmental commitment to work with partners and customers to target best-in-class environmental credentials across our whole portfolio, while incorporating thoughtful approaches to operational efficiency, including the integration of smart building technology to optimise energy efficiencies. From a social and governance perspective, in the less-established residential rental markets, the experience of tenants is notoriously poor. There is a lack of security of tenure and flexibility offered to tenants, particularly in pro-landlord regulatory markets. Our residential approach is to provide a superior offering built around key elements, such as affordability, security of tenure, transparency and customer service, with scope to enhance social engagement and support functioning networks and infrastructure. We believe an increase in a sense of community and well-being

is something tenants will both value and expect going forward. An approach that can create resident connection before, during or even after work will also become increasingly important as technology can remove human interaction from daily routine. Residential buildings that can operate to nurture relationships are more likely to be successful as people need human interaction.

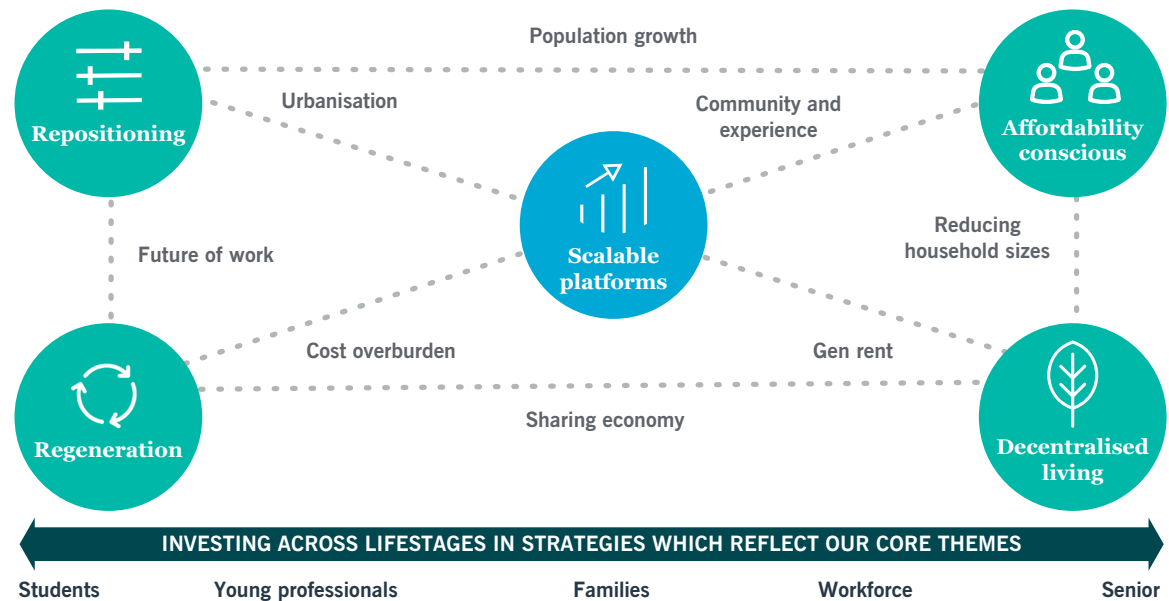
our belief there is a real opportunity to be part of the institutionalisation of the residential sector. Building on our strong 30-year track record, our experience of 120,000 units and our \$23 billion of housing investments globally, we aim to expand further across all living life stages in strategies that reflect our core themes, driven by demographic demand tailwinds and attractive relative returns. Our approach combines in-depth knowledge of local demand-and-supply dynamics, market and regulatory characteristics and expected returns with a list of priority economies and markets identified for different forms of housing. This forms Nuveen's global strategy to expand in traditional multi- and single-family housing, student accommodation, co-living and retirement living.

**CONCLUDING REMARKS**

At Nuveen, our investment, asset management and corporate strategies stem and grow from a deep understanding of the structural trends of demographics, sustainability and technology that we believe will shape the future of real estate and responsible investing beyond market cycles. It is

**Market and megatrend context**

*Responding to a changing macroenvironment, underpinned by long-term global megatrends across Europe*



Source: Nuveen Real Estate

**For more information, please visit [nuveen.com](https://www.nuveen.com).**

#### **Endnotes**

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All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. No representation is made as to an insurer's ability to meet their commitments.

Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.