nuveen
REAL ESTATE

4Q 2024

Global trends and tactics

Real estate opportunities and risks in the current environment

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Table of contents

1 Global overview

2 Asia Pacific

3 Europe

4 U.S.

Click to go directly to section of interest

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

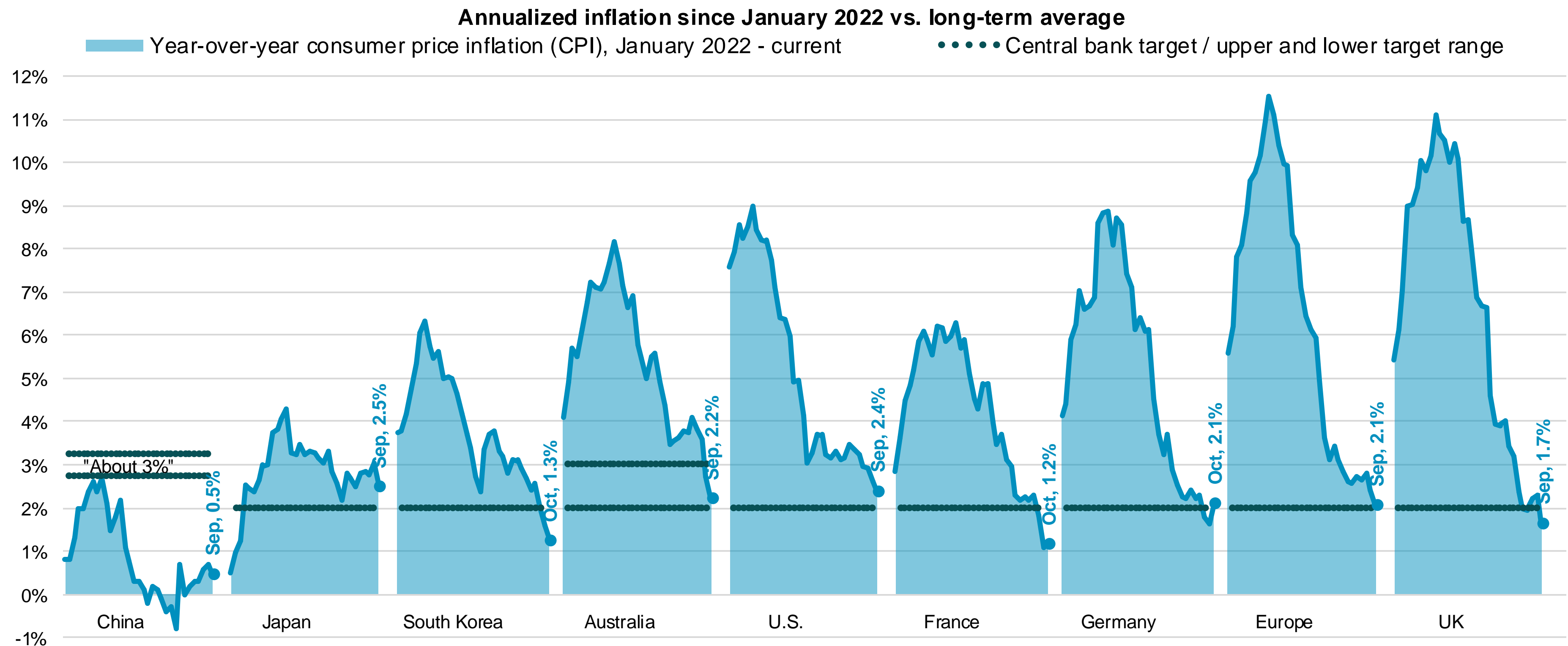
Global overview

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Disinflation prevalent across global markets

Inflation has decelerated significantly across most major economies, with many countries reaching their central bank's target range or experiencing inflation within 50 basis points of their target

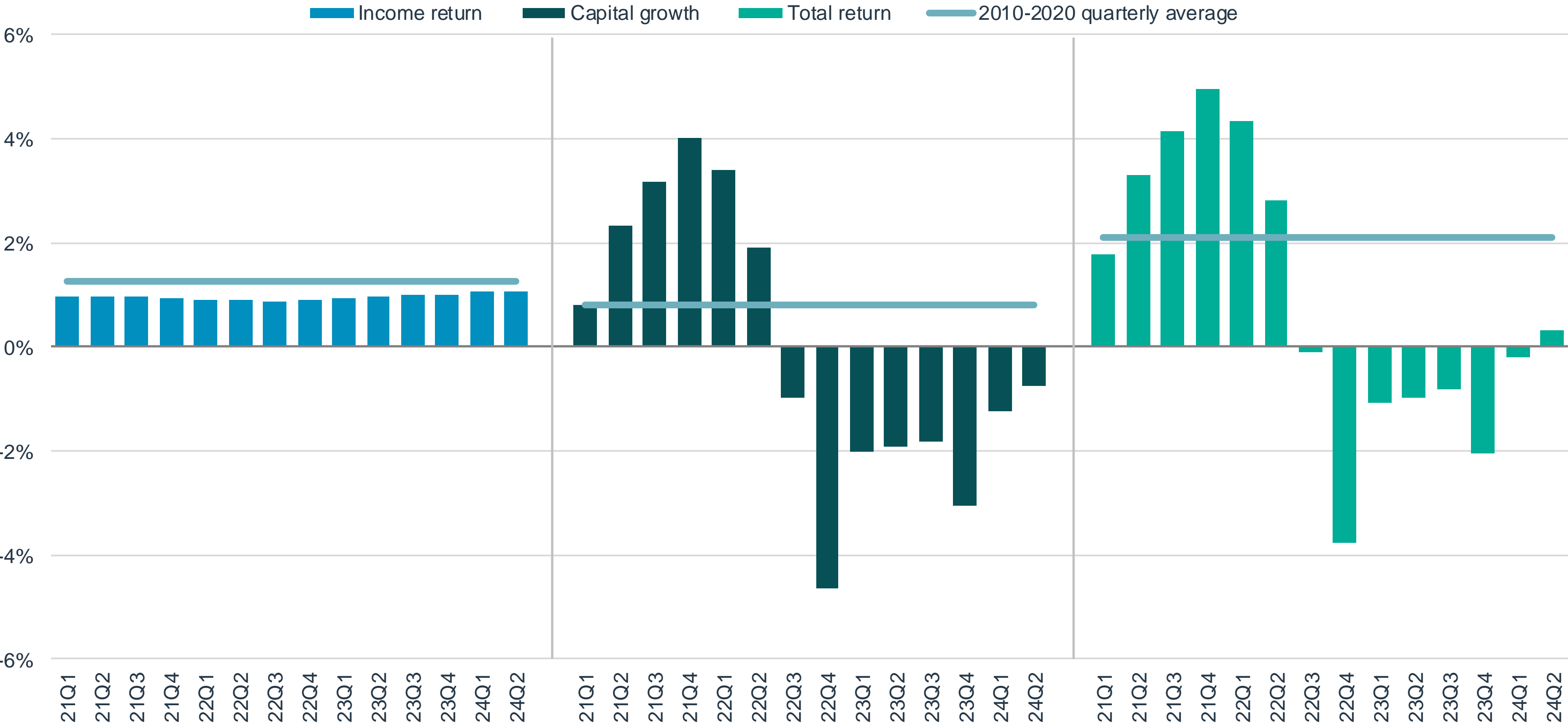
Annualized inflation since January 2022 versus central bank targets



Sources: Macrobond; Central banks' websites; Nuveen Real Estate Research (Most current data as of 6 November 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

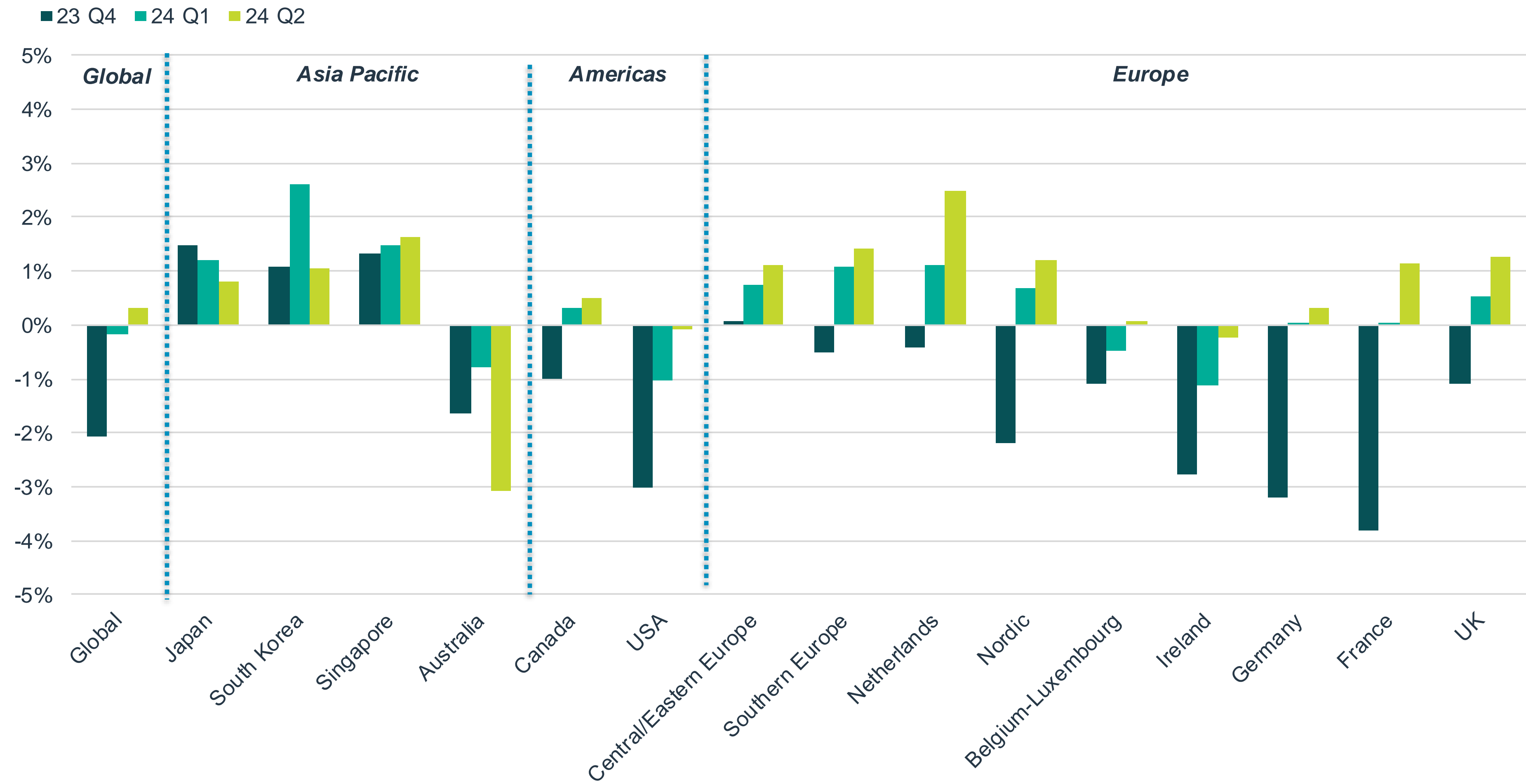
Global total returns have turned positive



Source: MSCI Global Quarterly Property Index (Q2 2024 data as of 4 September 2024 data release); Nuveen Real Estate Research.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Total returns turning positive across markets



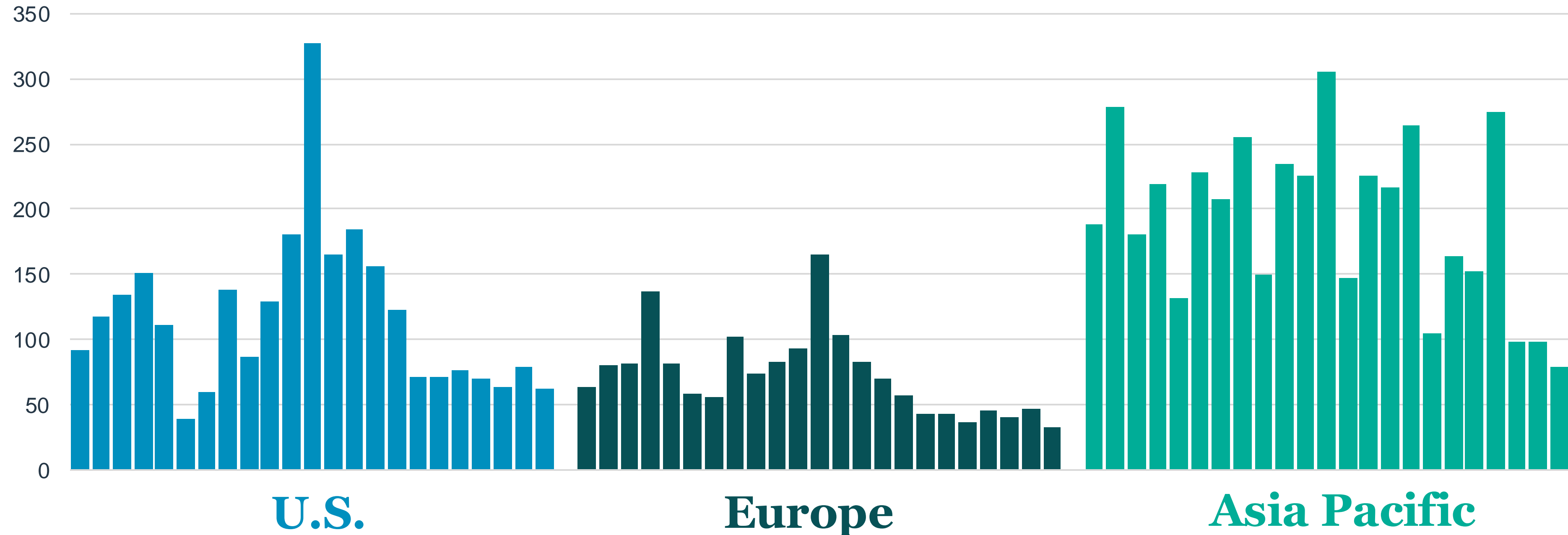
Source: MSCI Global Quarterly Property Index (Q2 2024 data as of 4 September 2024 data release); Nuveen Real Estate Research.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Deal volume has likely bottomed

Global transaction volumes likely bottomed in Q2, and we expect to see stronger transaction volumes as we enter 2025

Quarterly investment volume (USD billion)
1Q 19 – 3Q 24



Source: Real Capital Analytics (preliminary 24Q3 data as 9 October 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Commercial real estate debt markets

The upcoming vintage of commercial real estate (CRE) loans will benefit from relatively high returns and relatively low lending risk, but lenders have difficult issues to work through on their existing books

- Lending risk is falling as capital values stabilize
- Debt returns are set to benefit from the "higher for longer" interest rate environment
- Lenders have the opportunity to lend at above core risk levels with unusually low lending risk
- Existing loans are likely to see problems increase however, as appraisals lag the market cycle and deliver more stress during 2024
- Regulatory changes are reducing competition among lenders which is increasing spreads available

Lower lending risk is pointing towards higher risk loans

CRE debt lending returns are set to benefit from "higher for longer" base interest costs over the short-to-medium term, boosting the appeal of core and core plus lending. But the continuing stabilization of CRE capital values in most major markets is also significantly reducing impairment risks on new lending and with a recovery in values widely forecast, albeit a modest recovery, lenders have the opportunity to target higher spreads by lending at above core risk. This could involve lending at higher LTVs and/or in junior formats with no recourse. Leveraging the initial loan capital also becomes more feasible as collateral values firm up. This style of lending was prohibitively risky in the period of a peaking, and then falling, market. But with the market now stabilizing and set for recovery, the next vintage of CRE loans is set to be high returning and with much lower risk.

Existing loan impairment risk

Lenders can expect to encounter continuing problems with their existing loan books. Although CRE capital values are becoming more positive, appraisals are lagging that trend so recorded collateral book values have further to fall in most sectors in the U.S., Europe and Australasia. The most vulnerable sector is offices, and the most extreme impairments are likely to be in the U.S., but impairments are likely in European and Australian office as well — particularly in loans collateralized on secondary assets. Retail remains problematic in Europe especially and will likely generate further stress in existing loan books.

Regulatory changes are generating a funding gap outside core lending

The trend in banking sector regulation since the global financial crisis (GFC) has been to increase the capital charges levied on banks in their CRE lending, which has produced a downward trend in lending multiples. That trend is most noticeable in the U.K. where a "slotting" regime was first introduced. With regulation in other markets moving closer to this model, there will be increased downward pressure on lending multiples, increasing the spreads available at lending at 60% LTV or above where traditional banks are due to reduce their exposure. This will reduce the core lending space to sub-60% LTV and increase returns for lending in the value-add space above 60% LTV.

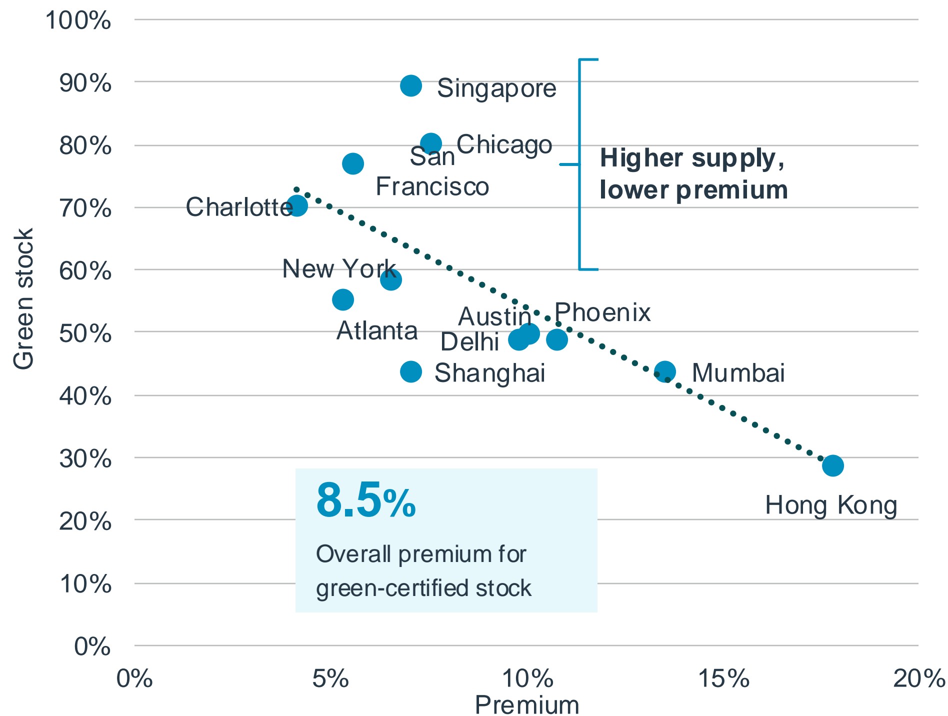
Source: Nuveen Research, 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

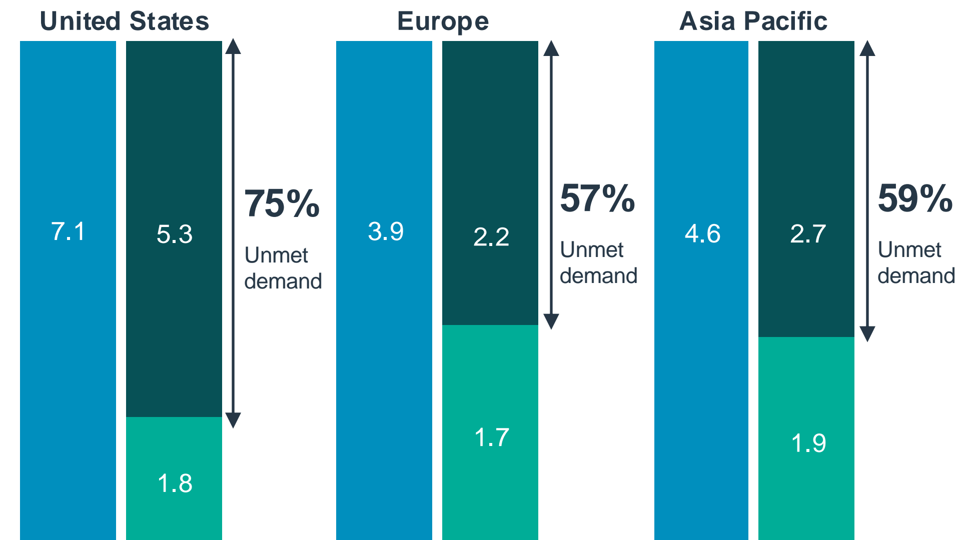
Sustainability

Pricing impacted by local supply-demand dynamics

Green premiums[1]



Supply-demand deficit (Millions sq m) – Occupational requirements compared to development pipeline



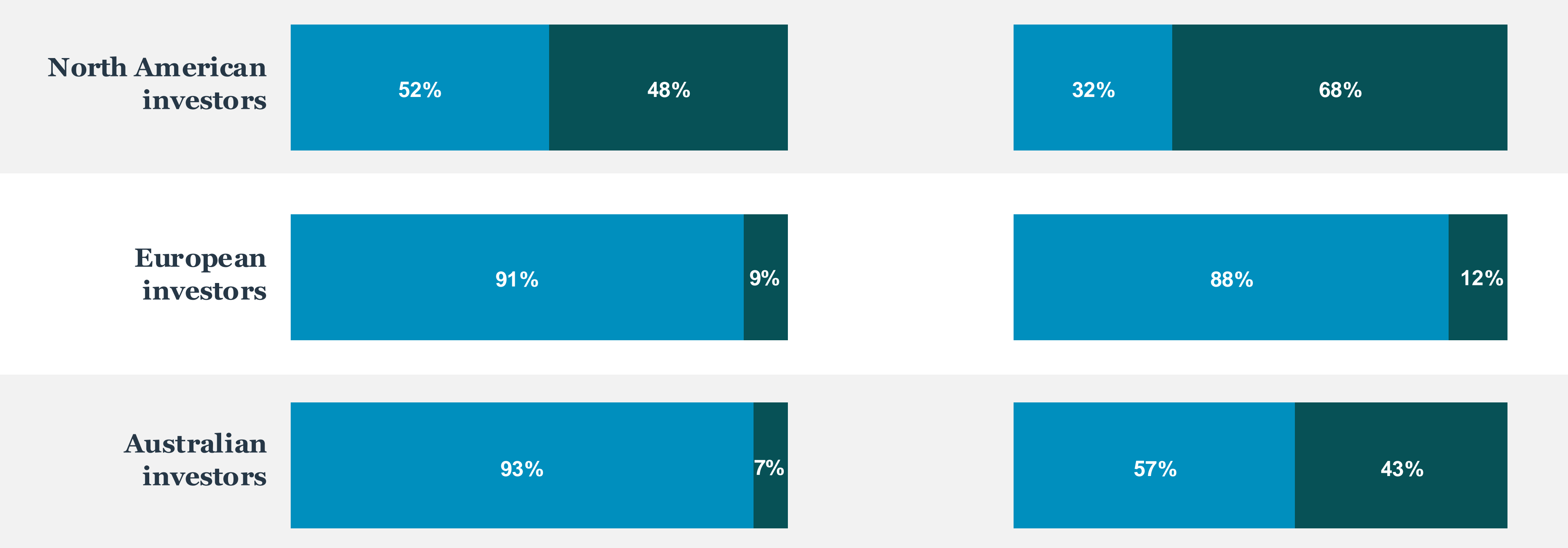
Source: JLL 2024.

1 CBD Class A > 100,000 sq ft only.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Sustainability

Investors' intentions remain strong overall



Source: INREV 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific

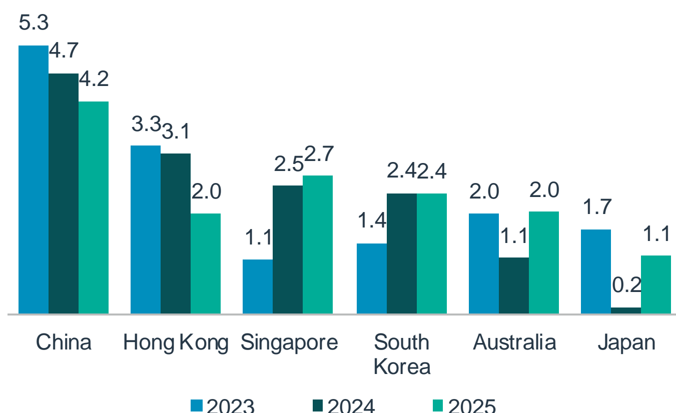
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific economics

Recovery in motion

- Q3 growth was softer than expected as positive export growth is offset by lackluster consumer spending, but outlook is improving…
- Shift towards loose monetary policy will drive businesses to invest and consumers to spend, strengthening growth in 2025

Real GDP growth forecast, %



Source: Consensus Economics, Oxford Economics (November 2024); Nuveen Real Estate November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Economic conditions to improve in 2025

Except for the Greater China region, the Asia Pacific region is in the throes of a firm recovery heading into 2025. While growth momentum slowed last quarter, reflecting a weak consumer sentiment backdrop due to marginally softening employment conditions, the signs for a pick-up in activity are growing. High frequency data suggests that business sentiment and spending is trending higher, reflecting more sanguine world demand as global financial conditions broadly turns supportive due to central bank monetary easing. On this note, disinflation pressure is slowly but surely setting in.

Improving corporate financials will continue to underpin wage growth and hirings going forward – a key thesis for a soft-landing scenario in the U.S. In line with the better global growth outlook, the highly important electronics sector – supported by advancements in artificial intelligence (AI) and technology, is also strengthening. Japan, South Korea, Singapore and Taiwan are major exporters of electronics and semiconductors and will continue to benefit from the AI boom, bolstering prospects going forward.

Reversal of tight monetary policy to underpin growth

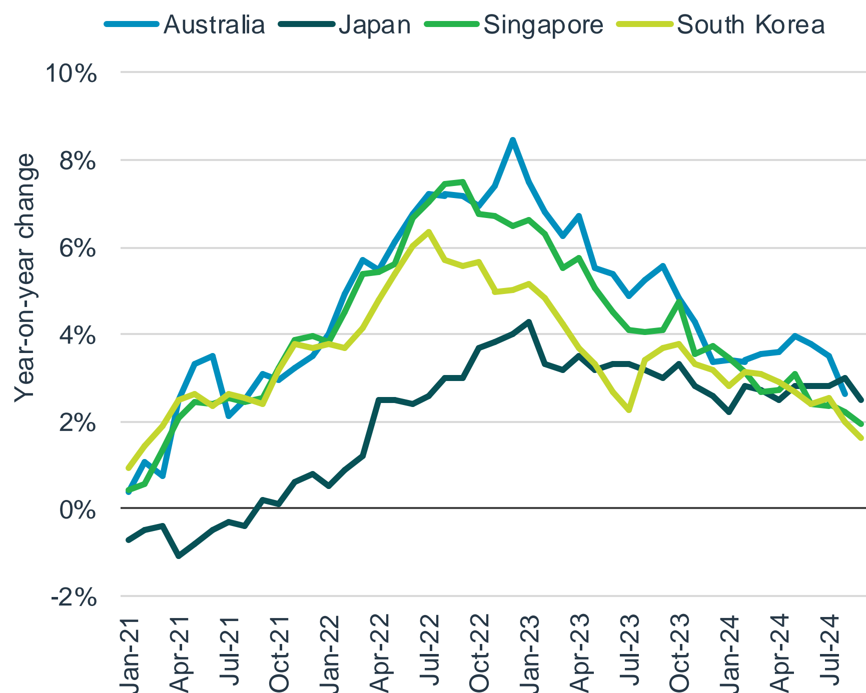
Slowing inflation is providing much needed breathing room for interest rate reduction. In September, inflation in New Zealand and South Korea fell below their respective central banks' target for the first time since 2021. Consequently, both countries have kick-started the rate-cutting cycle. Australia is anticipated to follow suit early next year, with the latest inflation reading also falling below its target range for the first time since 2022.

With disinflationary pressure setting in, regional central banks are likely to continue easing policy in a more concerted fashion. New Zealand recently took this step with a more aggressive rate cut of 50 basis points to support the economy. Broadly speaking, lower financing cost and a lighter burden on corporate and business balance sheets may encourage businesses to invest and consumers to spend. Private investment and household consumption will be critical in propelling growth in 2025.

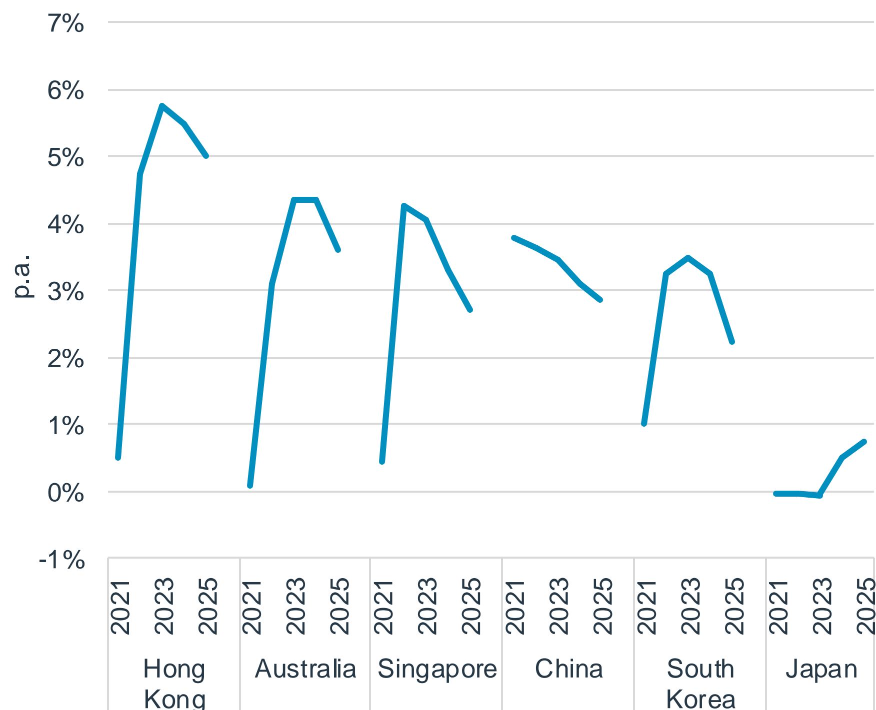
Asia Pacific economics

Inflation has slowed to central banks' target

Inflation



Policy interest rates forecast



Source: Oxford Economics, CEIC (November 2024); Nuveen Real Estate November 2024.
Note: Hong Kong's interest rate is the discount window rate, Australia's is the cash rate, Singapore's is the 3M SIBOR, South Korea's is the base rate, China's is the 1-year LPR, and Japan's is the overnight uncollateralized rate.

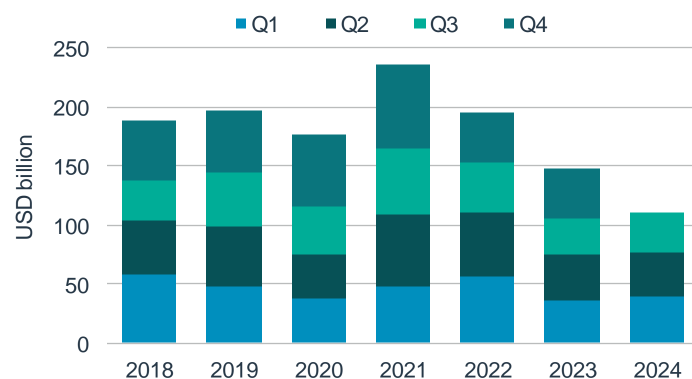
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific investment market

Improving investment sentiment following the rate cuts

- Despite a further decline in investment volume, some international investors are searching for opportunities in Australia and South Korea to capitalize on price adjustments
- The start of the interest rate cut cycle is a tailwind for the investment market

Asia Pacific commercial real estate investment volume



Note: Development site transaction is excluded.

Source: RCA (Q3 2024); Nuveen Real Estate Research (November 2024).

Investor interest is shifting to markets that have undergone repricing

While Asia Pacific commercial real estate investment volume fell 10% quarter-on-quarter in Q3 to US$34 billion, year-to-date figures are up 4.5% compared to the same period last year. Investor interest is shifting to markets that have undergone repricing, such as Australia and South Korea. Both markets have recorded investment turnover in the first three quarters that surpasses last year's total. Domestic investors in South Korea have renewed confidence in the office sector, driven by strong market fundamentals and healthy rental increases. There is also a return of foreign investor interest in the logistics sector as the country's e-commerce penetration rate expands to 38%. Newly built and well-leased institutional grade logistics facilities are the focus, with some of the facilities in the southern part of Greater Seoul transacting at cap rates above 6%. The asset value adjustments in Australia, as seen by higher cap rates than in 2019, have improved its appeal to investors. The office, retail and industrial sectors have collectively seen a return of international investors.

Activity is expected to improve

Investment activity is projected to pick up in the fourth quarter, with numerous deals in the pipeline pending closure, including some large-scale transactions. Notable examples include the acquisition of Westpoint Shopping Centre in Sydney by Hines and Haben Propert Fund for US$622 million, HDC Asset Management's acquisition of Namsan Square in Seoul for US$530 million and Greystar's purchase of GIC's PBSA portfolio in Australia for US$1.1 billion. The recovery of the Asia Pacific investment landscape is further bolstered by active real estate platform transactions, such as Airtrunk's deal, which set a regional record for the largest data center company transaction.

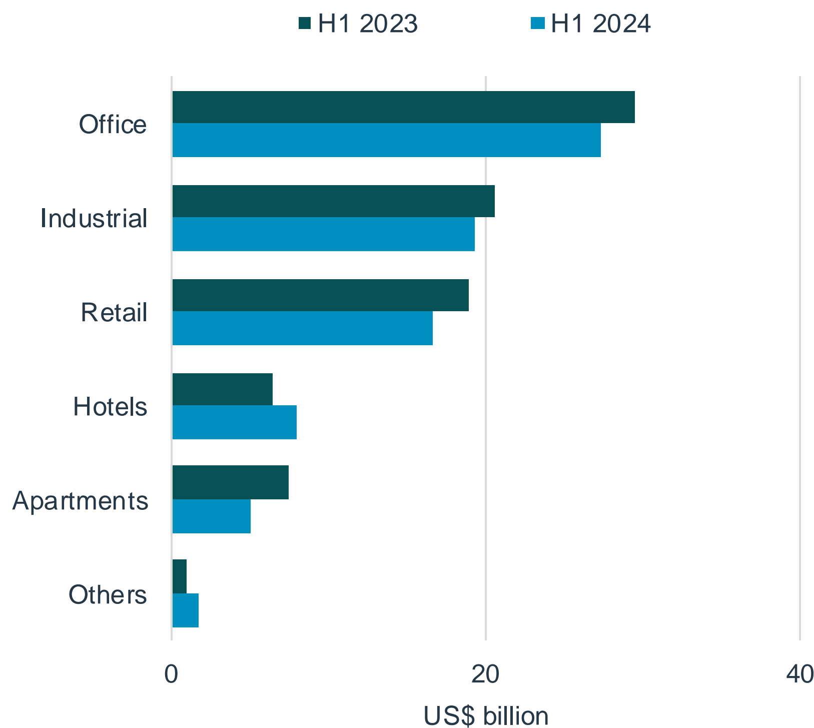
Investment sentiment is likely to strengthen alongside further expected rate cuts, prompting investors to shift away from their wait-and-see approach and return to capital deployment mode. More landlords may take advantage of improved market liquidity to dispose of assets to repay debt, creating investment opportunities. However, this window of opportunity may be short, especially for sectors supported by structural tailwinds, as the restoration of positive yield spreads will encourage investors to re-enter the market.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

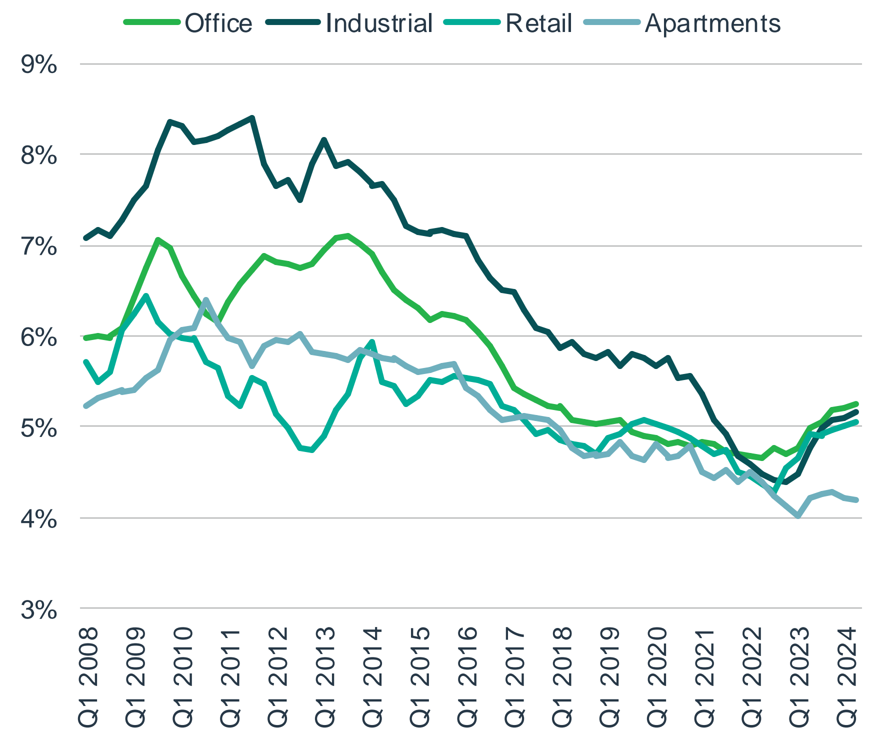
Asia Pacific investment market

Strong investment conviction in the industrial and logistics sector

Asia Pacific investment turnover by sector



Asia Pacific real estate cap rate



Source: RCA (Q3 2024); Nuveen Real Estate, November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific office

Still a two-tier market

- Flight-to-quality demand continues to underpin prime office rental growth while underperforming buildings are forced to adjust rents to enhance occupancy
- More businesses are opting for smaller office premises to align with their cost saving requirements
- Seoul and Tokyo continue to outperform other markets, owing to strong relocation upgrading demand

Leasing challenges remain

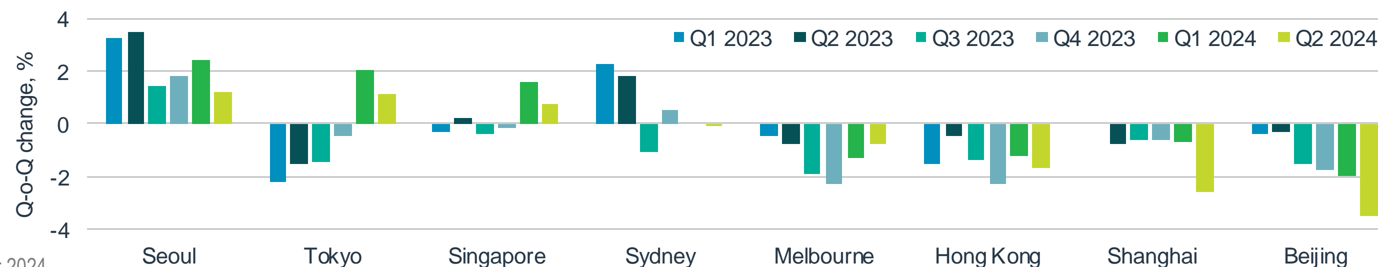
The Asia Pacific office market remains two-tiered, with underperforming buildings forced to adjust rents to enhance occupancy. Well-located premium graded offices continue to outperform thanks to flight-to-quality demand. Renewals and office consolidations have been the primary leasing activities as corporations have embraced cautious capital spending strategies. More businesses are opting for smaller office premises to align with their cost saving requirements.

Seoul and Tokyo continue to excel in Q3, owing to strong demand for relocation upgrades and some expansionary activity in the finance and professional service industries. Both markets have seen rental growth close to 5% year-to-date. Singapore, on the other hand, is facing softer market conditions, as evidenced by an increase in the vacancy rate due to an increase in secondary space and the completion of new office buildings, which is limiting rental growth. Elsewhere, Hong Kong, Beijing and Shanghai continue to lag, with vacancy rates reaching historic highs. Landlords become more aggressive in providing favorable lease terms to compete for tenants, extending the downward cycle.

Investment market shows signs of improvement

Despite short-term cyclical challenges, investor interest in the office sector is gradually returning, as seen by the 9% increase in year-to-date investment turnover compared to the same period last year. Some international investors consider Australia's office as a counter-cyclical opportunity given that pricing is likely to stabilize in the near-term to coincide with anticipated interest rate cuts next year. Notable examples include Deka Immobilien's acquisition of 333 George Street in Sydney at a 6% discount to the most recent appraisal value and PAG's purchase of 367 Collins Street in Melbourne at a 26% discount to its prior peak valuation in June 2022.

Grade-A CBD office net effective rental growth



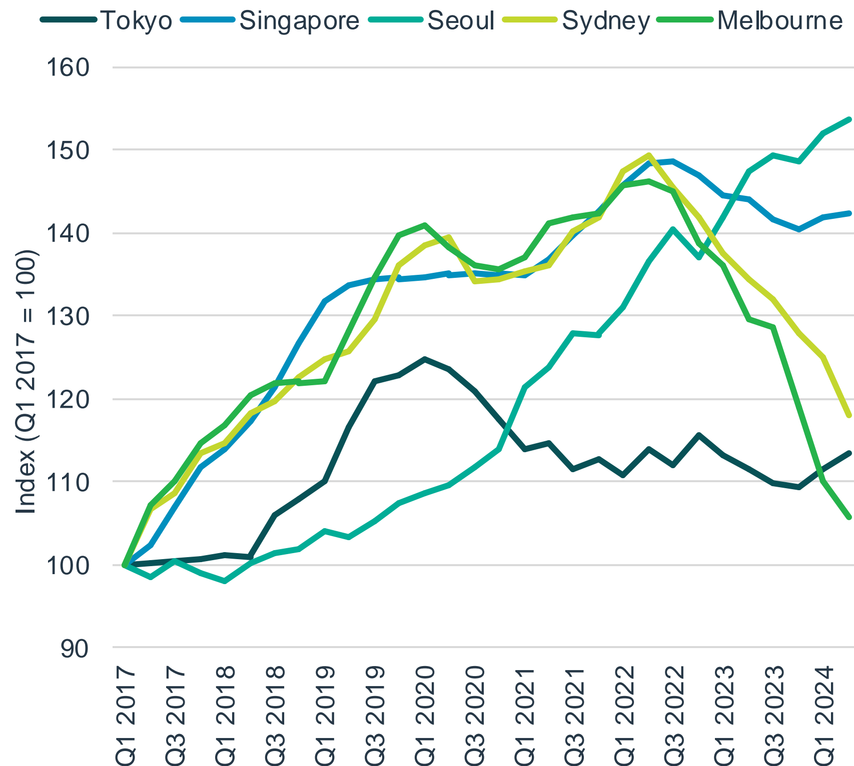
Source: JLL, CBRE, (Q3 2024); Nuveen Real Estate November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

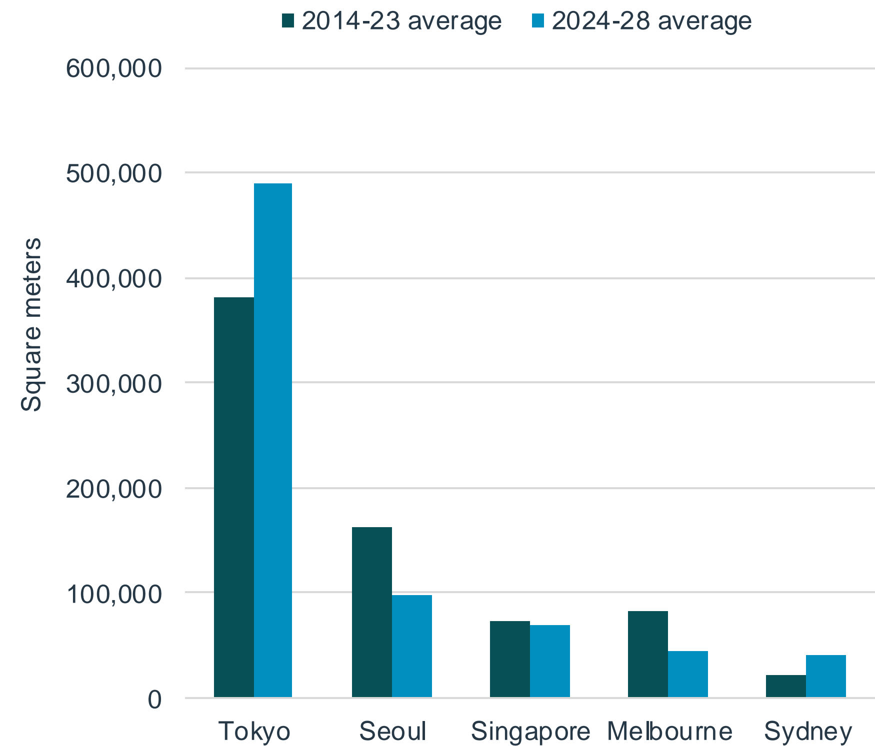
Asia Pacific office

Office repricing in Australia shows signs of stabilizing

CBD office capital value index



Office investment turnover by investor domicile



Source: JLL, RCA (Q3 2024); Nuveen Real Estate Research (November 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific retail

Attractive value emerges in selected markets

- Japan's prime retail continue to outperform thanks to strong inbound tourists, prompting luxury and high-end retailers to fight for retail space in prime locations
- Grocery anchored neighborhood shopping centers are well positioned, supported by rising consumer expenditure on necessities

Retail sales in selected markets, 2024 year-to-date to August

Source: CEIC, Nuveen Real Estate Research (November 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Further slowdown in retail sales

Consumers remain cautious in their spending, owing to increased job market uncertainties. The shift in consumption patterns, where people are spending more on services and seeking bargains, continues to fuel spending leakage. Japan is a primary beneficiary of this trend, experiencing a strong influx of international tourists and growth in tourism spending.

The Japan National Tourism Organization reports that inbound visitors spent JPY 5.8 trillion in the first three quarters of 2024, exceeding the full-year record of JPY 5.3 trillion set in 2023. The weak yen and record-breaking visitor arrivals are encouraging this high level of foreign tourism spending. The strong return of Chinese visitors, who are the highest spenders of all nations, also contributed to this positive outcome. Retailers are competing for prime retail space in Tokyo and Osaka, resulting in strong rental growth. In contrast, prime retail in other markets has experienced either static rental growth or rent declines as landlords sought to increase occupancy by offering more favorable terms.

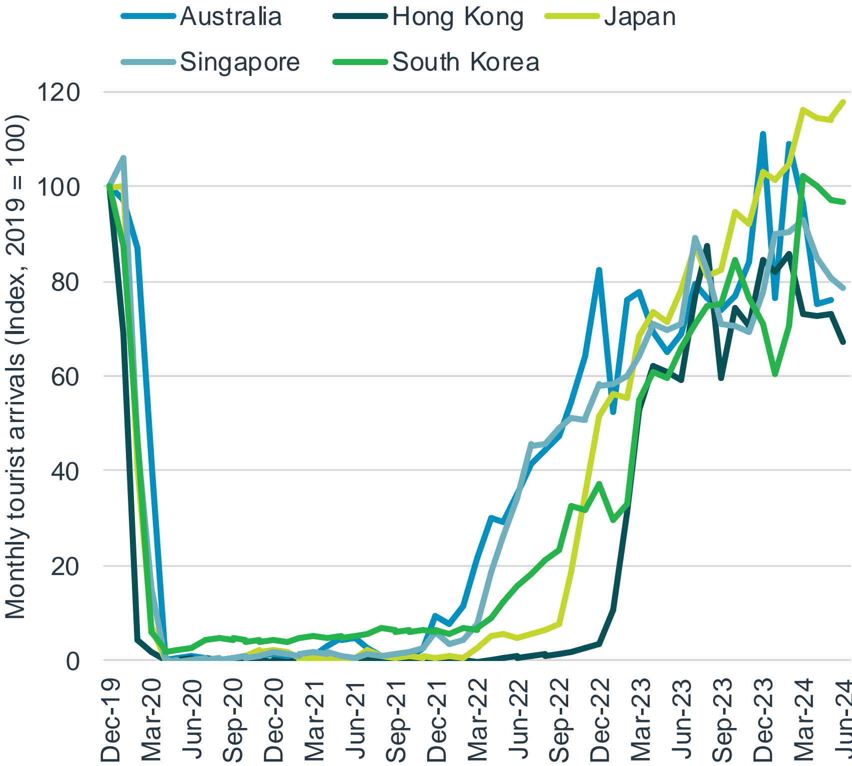
Grocery anchored shopping mall is positioned well

Given that consumer spending is increasingly skewed towards non-discretionary goods, evidenced by supermarket sales outpacing overall retail sales growth, the appeal of grocery anchored shopping mall is worth highlighting, particularly in Australia. There, future supply will be well below the long-term average, and pricing becomes attractive, with cap rates ranging from 6.5% to 8%. Strong population growth and potential easing of pressure on household finances due to possible rate cuts in 2025 will improve shopping center fundamentals. We believe that Australia retail has the potential to provide investors with access to steady income returns and a potentially higher yield spread when Australia's interest rates fall.

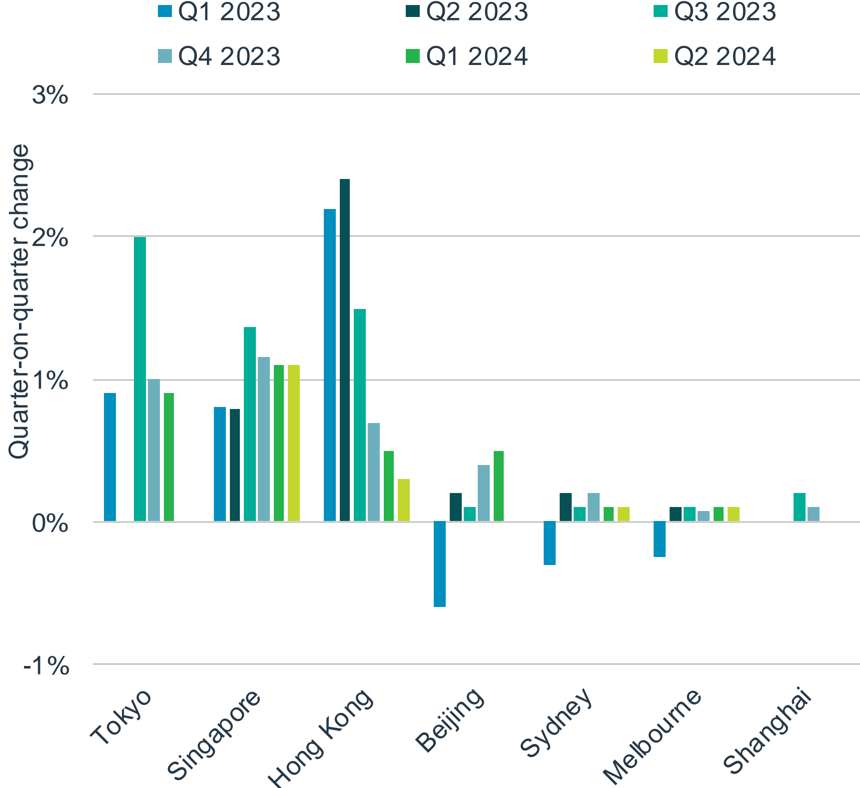
Asia Pacific retail

Japan's prime retail continues to stand out, boosted by strong inbound tourism spending

Tourist arrivals



Retail rental growth



Source: CEIC, Nuveen Real Estate Research (November 2024); CBRE, JLL, Cushman & Wakefield (Q3 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific logistics

Short-term headwinds persist

- Increasing new supply gives tenants more options leading them to become more patient in their search for the optimal space required
- Rental growth is projected to be restrained in the near term due to rising vacancy rates
- Investors retain a strong conviction on the logistics sector, with YTD investment volume up 3% compared to the same period last year

Demand continues to normalize

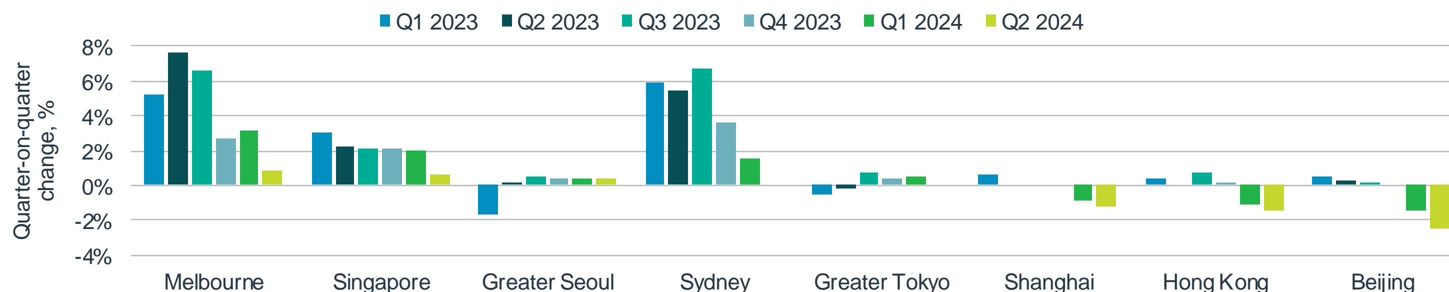
The logistics market continues to face cyclical headwinds from increased new supply — which drives vacancy rates higher — and tenants slowing their lease decision as they have more options to select. Occupiers become more patient in their search for the optimal space required, resulting in demand normalization. Consequently, landlords become more accommodating by offering longer rent-free periods or fitout incentives to compete for tenants.

While average prime logistics rents have recorded growth in selected markets, including Greater Seoul, Greater Tokyo, Sydney and Melbourne, this growth is primarily driven by new completions charging comparatively high rents. Since leasing demand is likely to remain tepid, as indicated by the low pre-commitment rate for planned new completions, rental growth is expected to be restrained in the near term, with projections of barely 1-2% growth on average next year.

Still highly sought after by investors

Despite facing obstacles, investors maintain a strong conviction on the logistics sector. Several large-scale portfolio transactions were recorded this quarter, pushing total industrial and logistics investment volume up 3% in the first nine months compared to the same period last year. Around 38% of transactions involved cross-border investors, which is more than the average of 32% over the last ten years, indicating a strong desire by international investors to grow their presence in the region. This strong investment demand has helped to keep pricing largely stable across the region, with yields remaining firm this quarter.

Prime logistics rental growth



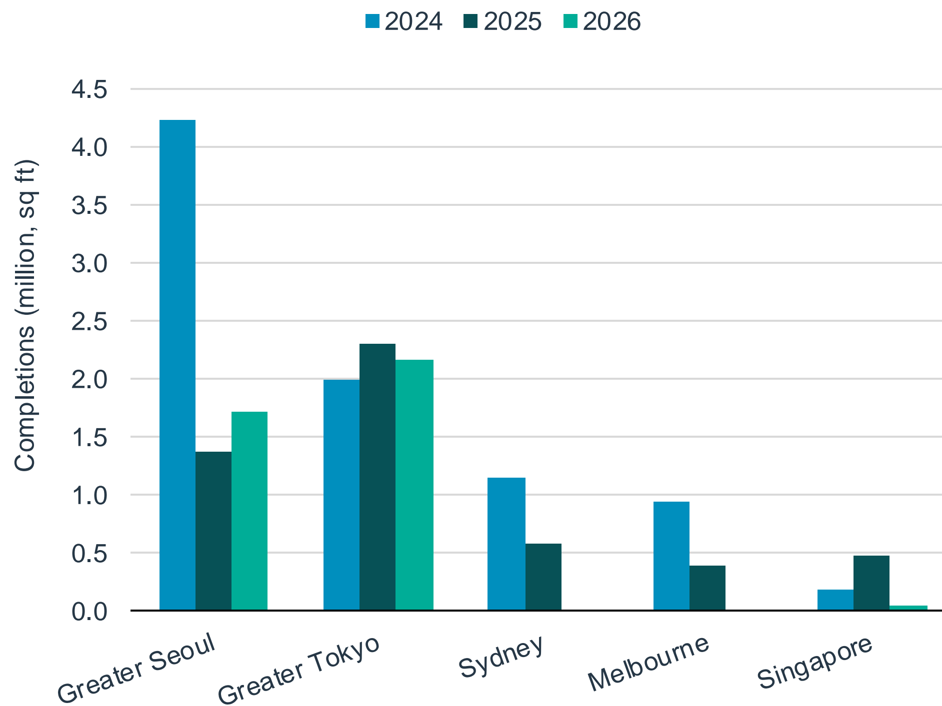
Source: CBRE, JLL, (Q3 2024); Nuveen Real Estate November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

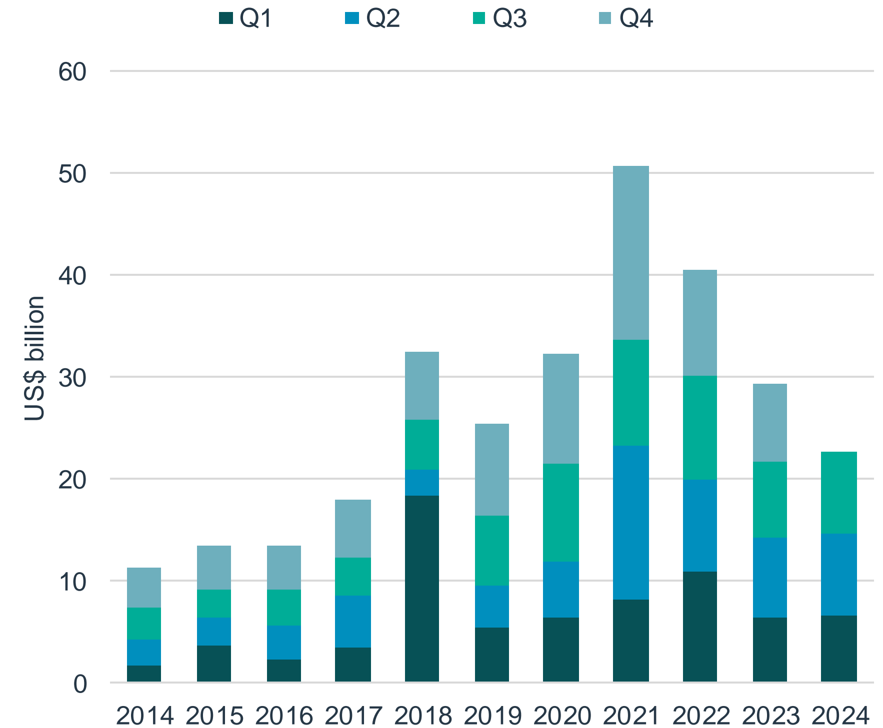
Asia Pacific logistics

Lower supply pipeline in the medium-term

Logistics new supply in major markets



Asia Pacific logistics investment turnover



Source: CBRE, JLL, RCA (Q3 2024); Nuveen Real Estate November 2024.

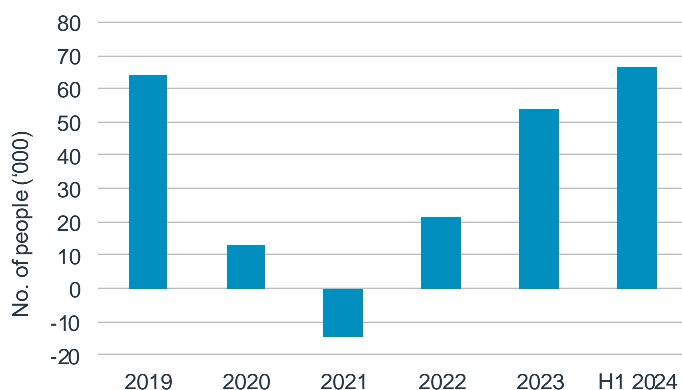
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific residential

Living sector stays in focus

- Studio units continue to outperform mid-to-large sized units in Tokyo due to robust population inflow and increased demand from young professionals to reside closer to their workplace
- Australia's residential rental growth continues to moderate due to affordability pressures

Net population inflow into Tokyo 23 wards



Source: Statistics of Tokyo (Q3 2024); Nuveen Real Estate November 2024.

Japan multifamily remains strong

The Japan multifamily market remains robust, with average rents in Tokyo 23 wards strengthening further, aided by the strong net migration. In the first three quarters, more than 71,000 new residents relocated to Tokyo, a 27% increase over the same period in 2023. This figure has surpassed previous records of 64,176 in 2019. In addition, strong wage growth provides further confidence in rental increases.

The influx of young professionals into Tokyo is sustaining the recovery of studio rents. According to Savills, average studio rents increased by 2.5% quarter-on-quarter in Q3 2024, increasing faster than large size units. Looking ahead, the favorable demographic trend will continue to help Tokyo's residential market maintain its growth trajectory. Positive wage growth, fueled by thriving corporate profits, is projected to improve renters' affordability, thus encouraging continuing rental expansion.

Nonetheless, the Japan multifamily investment market remained sluggish, with total investment turnover falling to US$1 billion, the lowest quarterly turnover in the past five years, due to uncertainty surrounding future interest rate movements. Activity has been dominated by local private investors and J-REITs, with only 21% of transactions attributed to cross-border investors. This less competitive investment market may present an opportunity for long-term institutional investors to increase exposure to this defensive sector with strong fundamentals.

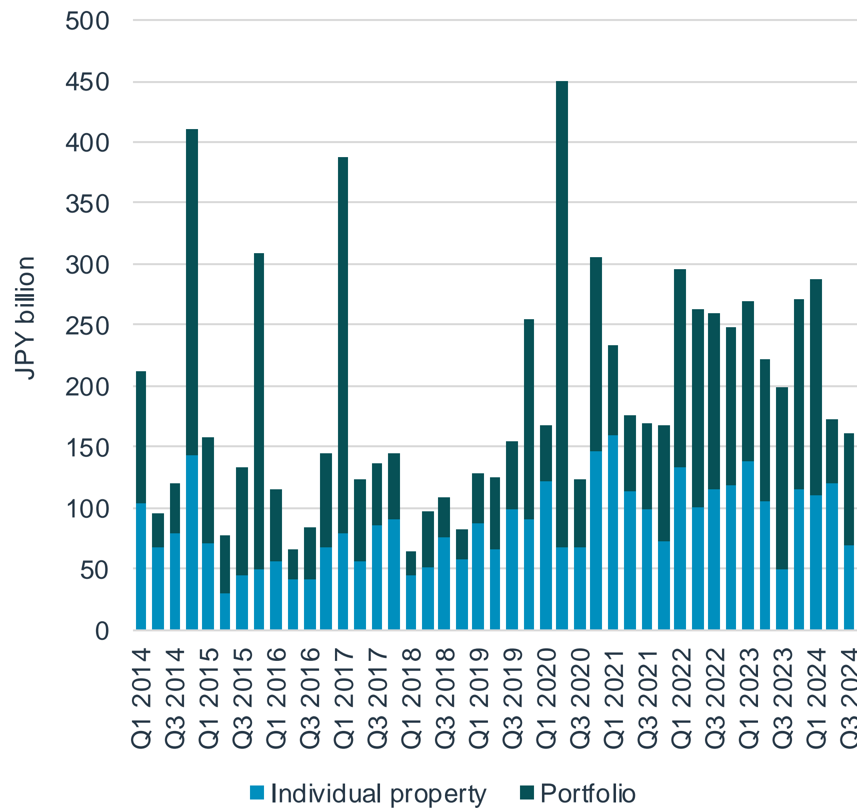
Australia residential rental growth continues to moderate due to affordability pressure. However, the medium-term outlook remains positive as future supplies remain constrained, as reflected by the decline in new residential apartment commencements and development approvals for new residential apartments. This has encouraged international investors to form partnerships with local investors and developers for build-to-rent opportunities to fill the supply shortage.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

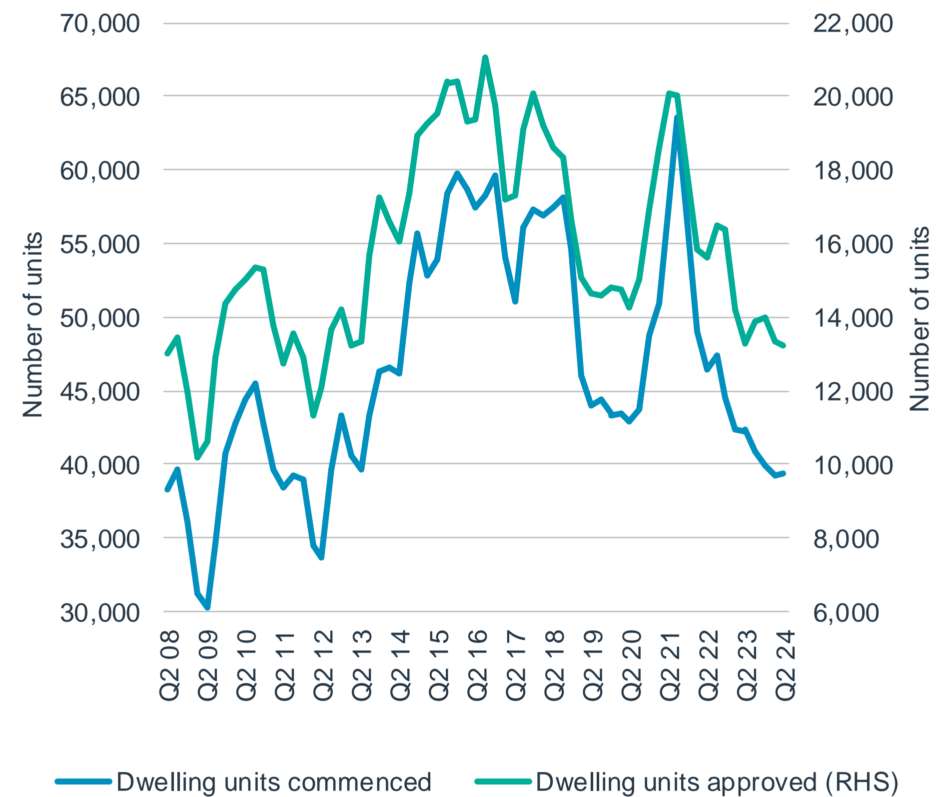
Asia Pacific residential

Future residential supply in Australia remains limited

Japan multifamily investment turnover



Australia national dwelling supply, private sector, 6MMA



Source: ABS, RCA, (November 2024); Nuveen Real Estate November 2024.

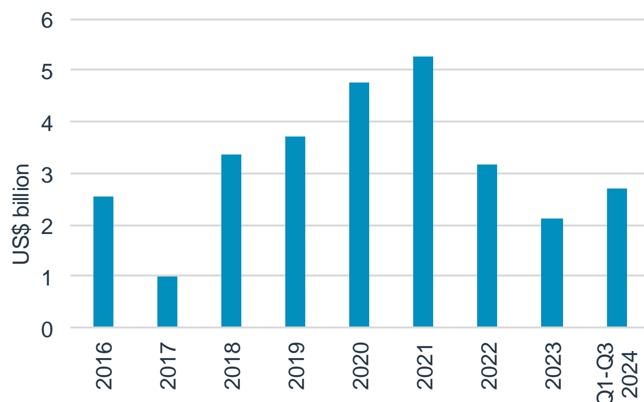
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific alternatives

Strong demand ensure competitive pricing

- The strong investment demand for data centers has led to tighter pricing
- Japan senior living continued to be supported by a favorable demographic, not only an increase in total elderly population, but also faster growth in the elderly requiring nursing care services

Asia Pacific data center investment



Source: RCA (Q3 2024); Nuveen Real Estate November 2024.

Investor interests in data center remain strong

Investors continue to show strong appetite for alternative sectors, with data center leading the way due to the rapid development of AI. Asia Pacific data center investment volume reached US$2.8 billion in the first three quarters of 2024, exceeding full-year 2023 levels. The strong investment demand has led to a tighter data center pricing. For example, Blackstone and CPP Investment acquired Airtrunk, owned by Macquarie and PSP Investments, for US$16 billion. This represents an EBITDA multiple of over 50x based on FY 2024 earnings, which is higher than some deals transacted in early 2024 at multiples in the 30x mark.

Fundamentals remain intact among other living subsectors

Living related asset types, such as senior living and student housing, continue to have strong fundamentals, albeit investment activity remains limited. Japan's senior living demand remains buoyed by a favorable demographic. Since 2010, the number of seniors requiring level 2 or higher nursing care services has increased significantly, by over 948,000, far exceeding the increase in the total elderly population aged 75 and above, which was around 638,700 during the same period.

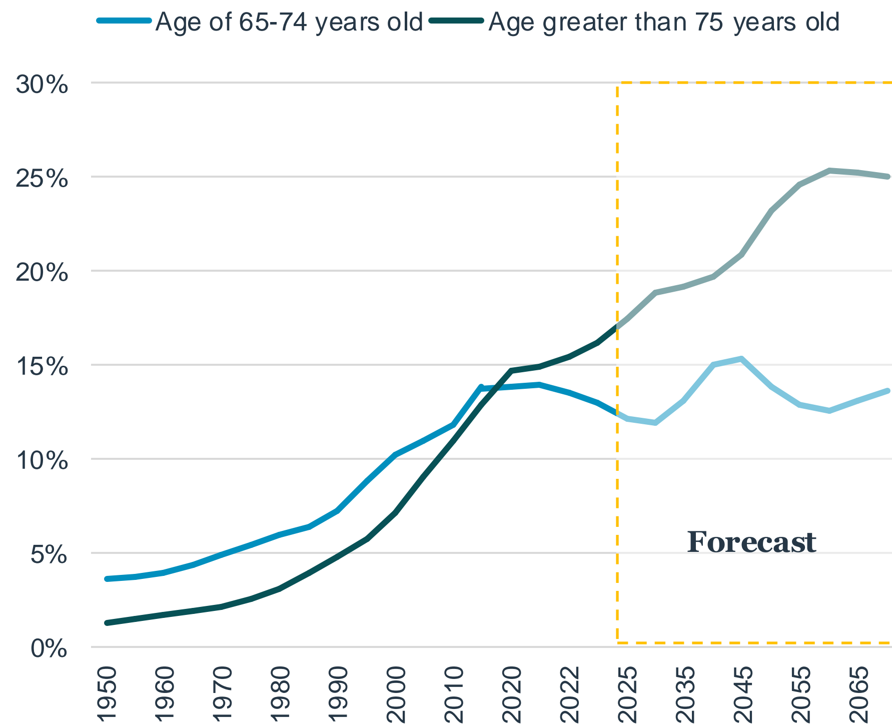
On the other hand, while the Australian government is likely to pass the international student cap for higher education, we believe that it will not have a significant impact on the purpose-built student accommodation (PBSA) sector. The cap is lower than the commencement figures of the past two years, but it is largely in line with 2019 levels. This suggests that demand for PBSA will remain resilient. Coupled with the sector's low provision rate, student housing rents are expected to stay elevated.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific alternatives

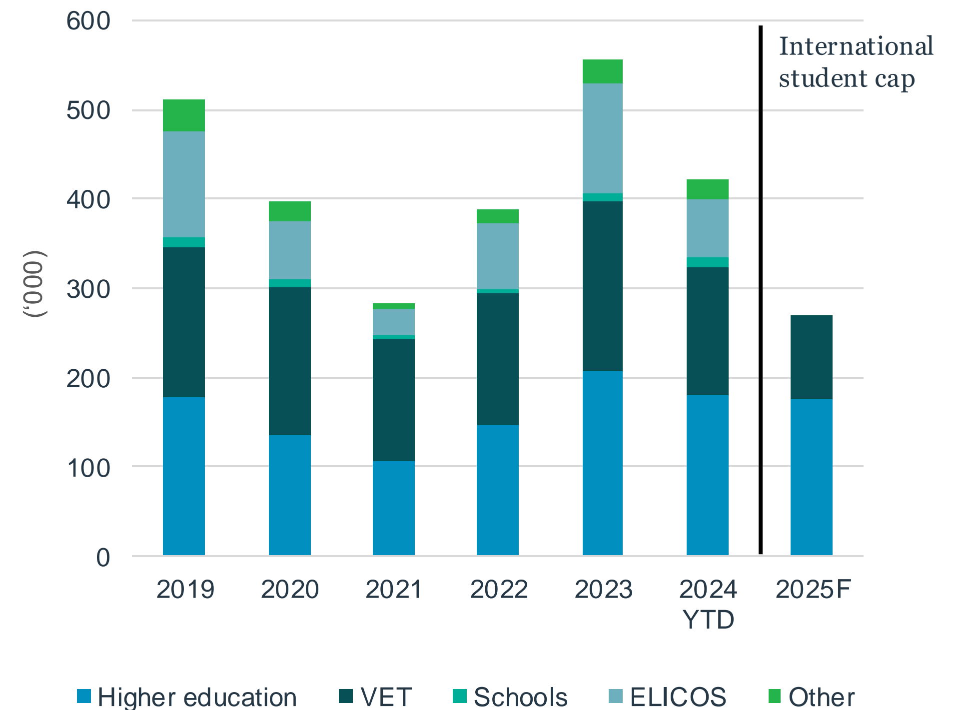
Favorable demographics continue to underscore living demand

Ratio of population by age group in Japan



International student commencements by category

(YTD to July)



Source: Japan Statistics Bureau, Ministry of Internal Affairs and Communications, Australia Department of Education (November 2024); Nuveen Real Estate November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific sustainability

The march to a low carbon economy gathers pace

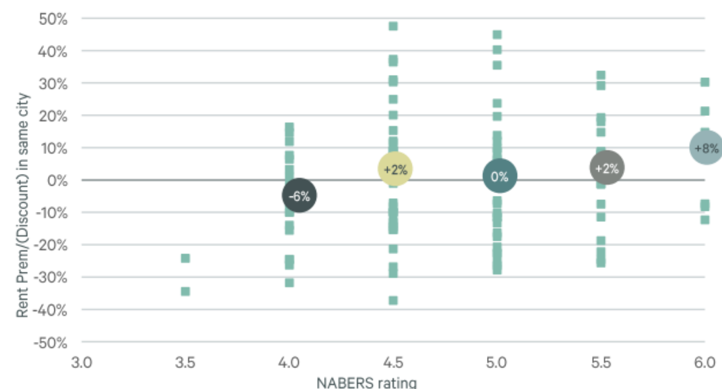
Strong tailwinds for sustainability integration to continue

As with the global situation, Asia Pacific is seeing awareness and expectations around sustainability maturing. The regulatory regime across the region continues to develop in line with national commitments to net zero carbon and broader sustainability goals, with Singapore and Australia taking a lead in decarbonizing the built environment. Singapore, often looked to as the trend setter in the region, has set the tone with its' Green Plan. This sets out a pathway for tightening of building regulations (80% of all buildings to be 'green' by 2030), deployment of renewable energy (quadrupling of solar energy by 2025) and the introduction of a progressive carbon tax over the next decade, leaving little doubt about the direction of travel, allowing investors to plan accordingly.

Sustainability is impacting on investment performance as markets move towards valuing and penalizing assets in relation to sustainability performance. A recent JLL report found that green-certified assets in nine major Asian markets recorded an average rental premium of 9.9% vs. those 'uncertified' assets as corporate occupiers and investors compete to occupy and own well-positioned assets. This trend will further develop as regional markets face a chronic under-supply of high performing, sustainable buildings leading to more concentrated demand for those better performers. Signs of green premiums/brown discounts in certain markets begin to crystalize. According the CBRE data, Australian commercial office shows correlation between rental levels and NABERS ratings, with 5.5 and 6-star assets outperforming.

A strategic focus on sustainability and net zero carbon specifically unlocks short-term value creation opportunities, given the existing supply-demand imbalance of high-performing, sustainable assets which are attractive to tenants and investors alike.

Rental premium or discount for office buildings in same Australian city and NABERS rating



Source: 130+ office buildings across Brisbane. Melbourne, Perth and Sydney.
Source: CBRE Research, March 2023.

Sustainable space supply-demand imbalance in Asia Pacific

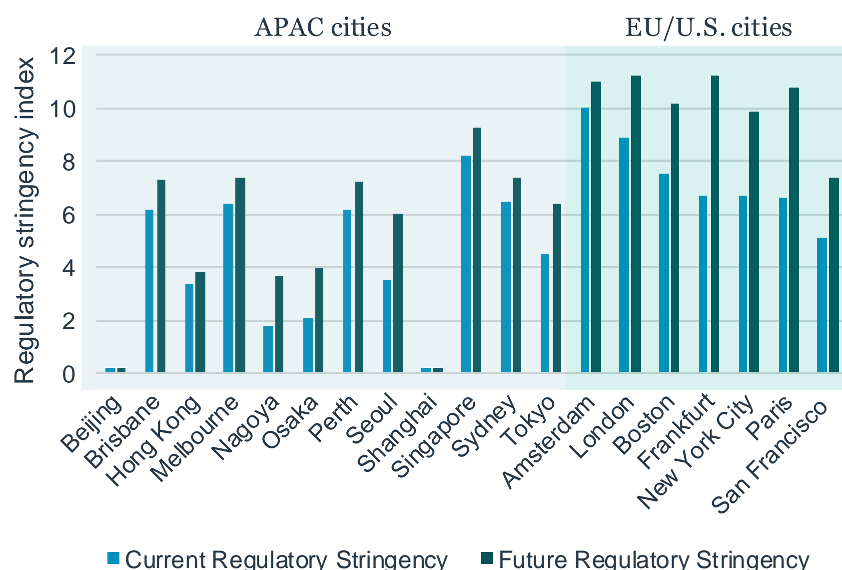
Note: City coverage Delhi, Hong Kong, Melbourne, Mumbai, Singapore, Sydney.
Source: JLL Research, September 2023.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Asia Pacific sustainability

New regulations on taxonomies, disclosure and climate risk reporting requirements at the asset and entity level being introduced rapidly supporting investor demand

Regulatory stringency, current vs. future



APAC regional sustainability requirements

Market	Sustainable finance taxonomy	ESG fund disclosure	ESG corporate disclosure
Singapore	Yes (2023)	Mandatory	Mandatory
Australia	Yes (2025)	Mandatory	Mandatory (2025)
Japan	Under development	Voluntary	Mandatory
South Korea	Yes	Voluntary	Voluntary
China	Yes	Voluntary	Voluntary

Singapore Green Plan 2030 highlights

- Quadruple solar energy deployment by 2025
- Reduce the waste sent to landfill by 30% by 2030
- All newly registered cars to be cleaner-energy models from 2030
- Green 80% of Singapore's buildings by 2030
- 80% of new buildings to be Super Low Energy buildings from 2030
- Best-in-class green buildings to see an 80% improvement in energy efficiency (over 2005) by 2030
- Carbon tax introduced with increases mapped to 2030

Includes asset level requirements for NZC, financial reporting regulation and NZC strategy implementation requirements.

Source: PMA NZC APAC Regulations Stringency Index, Q2 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

3

Europe

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

2024/2025 benefits from recovery backdrop

Debt and Equity

- Equity return forecasts have climbed back above required returns
- Relative value metrics show real estate at fair value, even “cheap”
- Early cycle investments in both debt and equity have historically been strong vintages

Public and private

- Public market discounts have been significantly reduced
- Markets remain more bullish on alternatives and logistics compared to office and retail
- Balance sheet health still a main focus for investors

Macro and cycle

- Valuations have found the bottom in Q2 2024, offices are getting close
- Valuations run only about six months behind spot values
- Absolute value lows are not fully reflected due to very low liquidity at that point in time

Real estate fundamentals

- Supply discipline has held up a favorable market balance through the economic stagnation
- Extraordinary inflation driven rental growth is cooling down, but is expected to stay positive across all sectors

Conclusions

- Markets have bottomed out
- The scene for recovery is set with interest rates moderating and occupier markets remaining on course
- Debt overhang and balance sheet repairs offer window of opportunity into 2025 and beyond
- Aggregation plays and the build out of nascent markets continues to create opportunities
- Europe remains the world’s best diversifier in real estate

Source: Nuveen, October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European research view versus consensus

Research more bearish

Health / care homes	Strongly supported by mega trends, but highly fragmented market with regulation ("stroke of pen") risks
Logistics	Remains an outperformer, but much reduced dynamism with significantly less rental growth
ESG challenged buildings	Market is still underestimating and not fully pricing in transition costs
Self-storage	Attractive short-to-medium term opportunity, but no long-term megatrend support, risk of commodisation
Rental growth driven residential strategies	Affordability has become a major (political) issue in many cities – limits growth

Research more bullish

Student housing	Structural undersupply in most markets offers one-off opportunity
CBD offices	Trends do not support a longer-term decline of offices
Impact	Increasing focus on improving living conditions in underserved neighborhoods
Cash flow driven residential strategies	Affordable housing in demand due to prices and market rents rising much faster than incomes
Open storage	Market largely ignores potential

In line with consensus on retail parks, shopping centers and out of town offices

Source: Nuveen, October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

The compass varies navigating core and value add

At this point in the cycle, there are compelling opportunities across the risk spectrum

These are a few of our high-conviction strategies for core and value-add investments:

Core	Value add

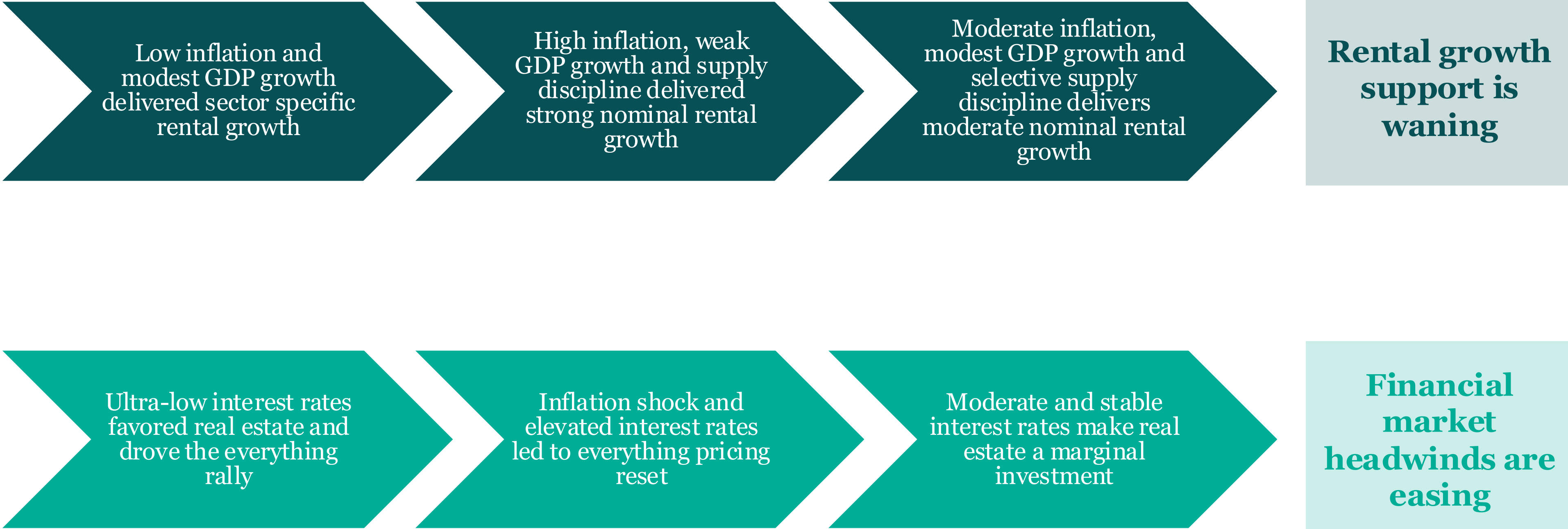
• Income assets
• Retail parks
• Solus long lease shops
• Cash flow driven residential:
    ○ Affordable housing
    ○ Multifamily housing
    ○ Logistics
    ○ Light industrial
	• Nascent or discounted sectors
	• Student / Co-living
	• Single family housing
	• Undersupplied hotel markets
	• Discounted offices
	• Cherry pick strong neighborhood shopping centers

Source: Nuveen, October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Waiting for the next turn of events

Flat period ahead? Surprise events will bring new impetus

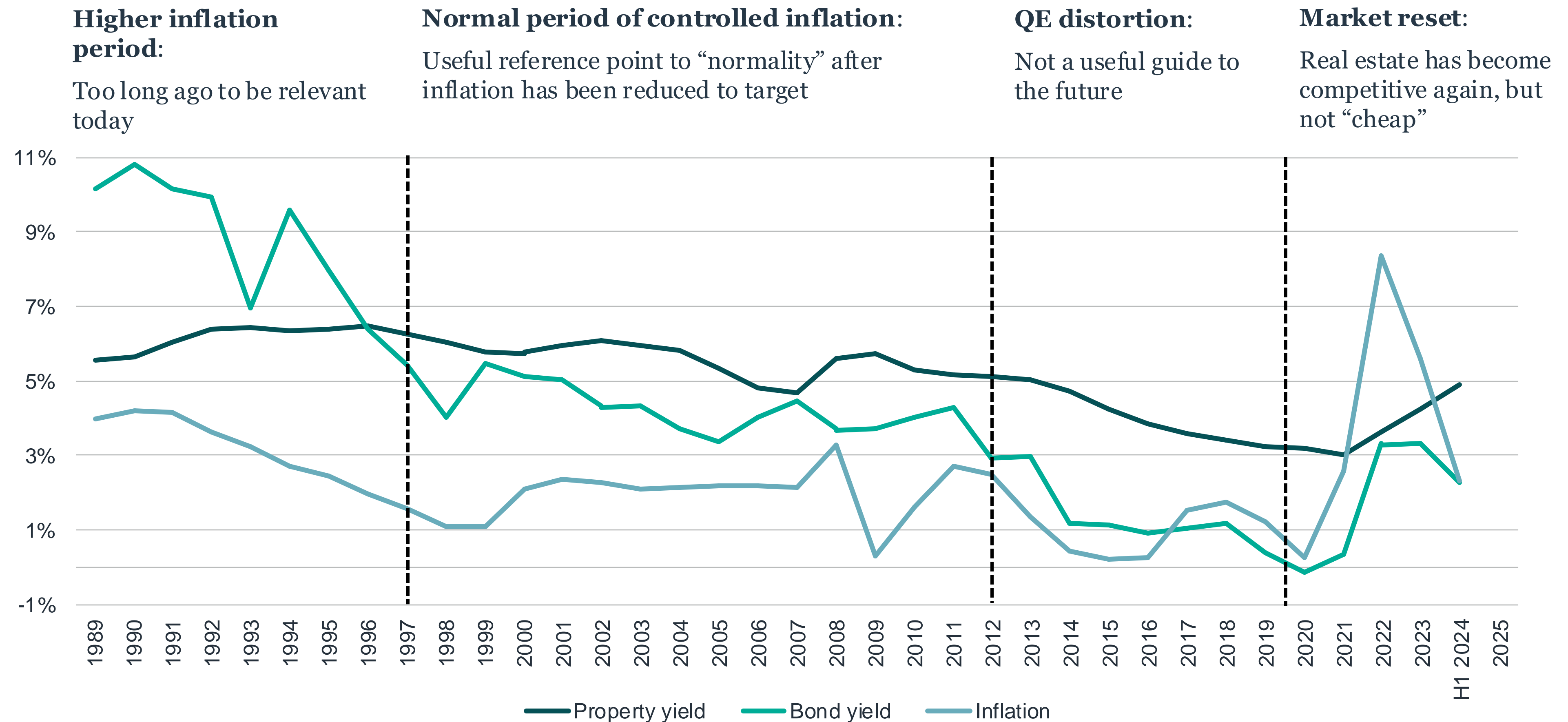


Source: Nuveen, October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

How relatively attractive is European real estate?

Markets have restored a new balance



Sources: CBRE October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European economics

Lacklustre growth set to continue as lower inflation allows rate cuts to support GDP growth

- Sentiment indicators have largely shown relatively weak readings suggesting only marginal economic improvements and the lackluster GDP performance continuing
- Further rate cuts are penciled in as central banks have gained headroom with inflation close to target to also focus on growth
- External trade and fiscal policy are both unlikely to push growth, while consumer spending is expected to come back to life on the back of net income growth
- European cities will disproportionally benefit from a recovery due to favorable labor force, infrastructure and industry composition

After showing incredible resilience over the past three years, the European labor market is now beginning to cool off. With the working-age population starting to decline again from this year onwards, European employment growth is set to slow over the medium term, possibly turning negative by 2028. However, Europe's major cities are well-placed to buck this trend, thanks to their favorable industrial structures, and a distinct advantage in attracting workers from other regions. European labor markets remain tight, with unemployment rates near historic lows. While we expect some cities to see an uptick in 2024, over the medium term we forecast unemployment rates in most cities to continue trending down. But some unemployment is structural and hence will persist even in the long term.

We can expect eurozone GDP to expand by 0.8% this year and by around 1.3% in 2025. This would count as a success as the potential growth rate of the Eurozone and the U.K. is estimated at 1.5% at best. Sentiment data for Q3 has generally disappointed. While Q3 GDP growth will receive some one-off support from France due to the Olympic Games, underlying momentum is not picking up. We estimate GDP growth of around 0.3% quarter-on-quarter in H2 2024. Overall, this means the lacklustre economic performance of the last few years is continuing with only marginal improvements in the near term.

The eurozone's disinflation process reached an important milestone in early October as inflation dipped below 2% for the first time in over three years. The details reinforced indications of a softening inflation picture, and significantly, a quick cooling in services inflation. The fall below 2% may prove short-lived though. But recent speeches from key European Central Bank (ECB) members signal greater confidence in the disinflation process, while becoming more pessimistic about economic prospects. The ECB may be shifting its priorities from a singular focus on inflation towards a more dual reaction function. Consequently, rates were cut by a further 25 basis points in October. We think inflation will average 2.3% this year and undershoot the ECB's 2% target at 1.5% in 2025.

Consumer spending will slowly improve and add to the GDP growth recovery. A gradual consumer recovery is primarily based on a return to growth in real incomes, which should be driven by both solid nominal income growth and easing inflation. The main risk to consumption comes from the labor market, which is starting to show increasing signs of weakness despite the unemployment rate still being around a record low level. New hiring is constrained by both demand as well as labor supply. Fiscal policy will become more restrictive and represents an increasing drag on growth as government priorities shift from providing support to deficit reduction. Growth in world trade was subdued last year, which hits Europe as a net exporter harder than others. After 2024, we can expect exports offering limited support to European growth in the short term, even though lower energy prices benefitted the bloc's terms of trade and external balance.

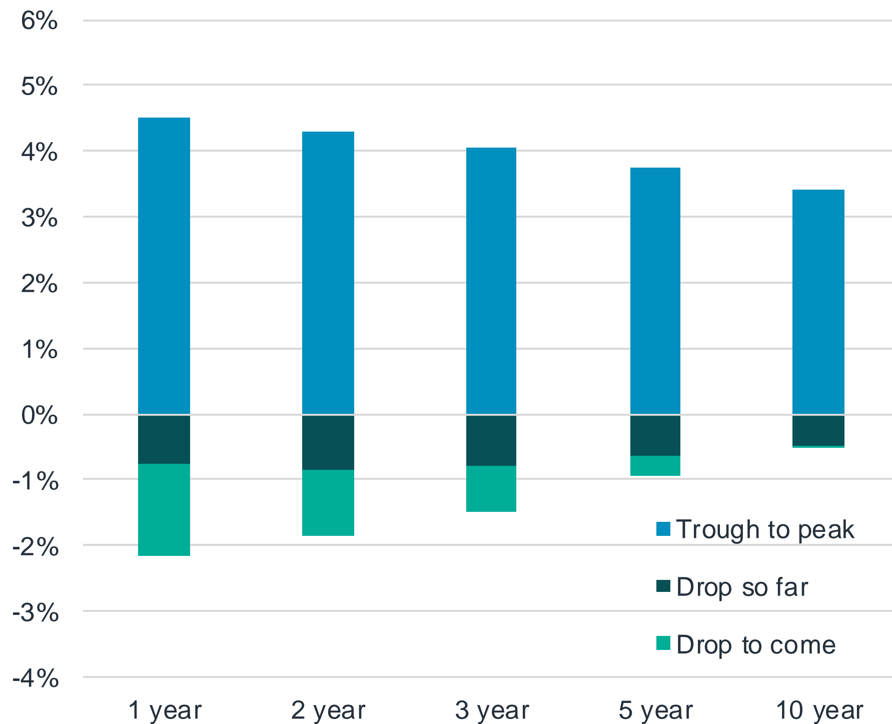
Source: Nuveen Real Estate as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

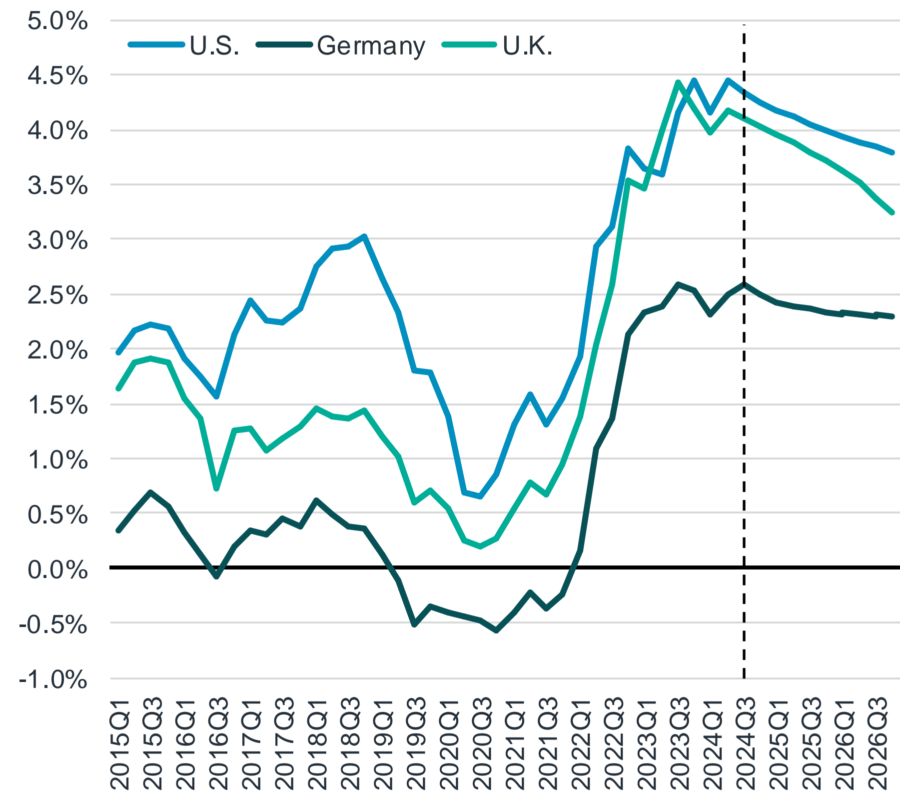
European economics

Inflation is approaching target as interest rate pressure starts to ease

Change in Euro SWAP rates during this cycle



Interest rates (10 year gov bond yields)



Sources: Eurostat, Oxford Economics, Macrobond as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European investment

Forecasted returns have climbed above required returns – but investors aim tend to aim even higher

- Investors will have to moderate their historically high return expectations for real estate if they want to put money to work; but expected returns are firmly above required returns
- Market activity has bottomed out over the summer
- Spot market yields have largely been flat since spring 2024; offices have a bit further to go
- The investment market recovery will be accompanied by a slowdown in nominal rental growth
- Given the macro challenges and the lack of an occupier market bounce back following the strong performance of the last two years, a rather flat market trajectory looks likely for H2 2024

With the market correction having delivered only a relatively modest price correction, financing costs not returning to former lows, and rental growth reverting to a steady rate, investors will have come to terms with a new reality that offers historically attractive returns for core assets in the high single digits and above required returns (given interest rates); but the much-touted bonanza of outsized returns remaining out of reach. The very high required returns stated by most potential real estate investors seems to be informed by limited investment needs in the property space. In this environment, real estate receives marginal extra allocations for exceptional opportunities rather than a steady flow of new capital. This means it is a good vintage to build strategic real estate allocations at attractive entry levels.

The second quarter of 2024 brought a stabilization of real estate investment markets while volumes were slightly weaker in the third quarter with indications of a fairly large pipeline of deals waiting to be closed in the final quarter of 2024. Logistics and hotels markets are the most active along with residential, while the office sector remains at liquidity levels well below historical averages. Volumes in the office sector are very similar to the darkest days after the global financial crisis.

This trend was mirrored in valuations, which were mostly stable in Q3 and reported only marginal declines for the office market, which remains the weakest link. Spot yields have been largely unchanged during spring and summer 2024, suggesting that valuations, which are lagging market activity, have bottomed out as well. Anecdotal evidence shows overall stable values with small upticks in pockets of the market, such as residential and retail parks, balanced by relatively minor write downs in others, primarily offices.

With rental growth in positive territory almost across the board, a path to recovery starts to become visible at the horizon. The challenging macro environment may mean that the recovery will remain slow initially. Central banks have started to lower interest rates in spring and have signalled more to come over the remainder of the year. Softer inflation data gives them room to manoeuvre while weak economic data creates reasons for a stronger impetus.

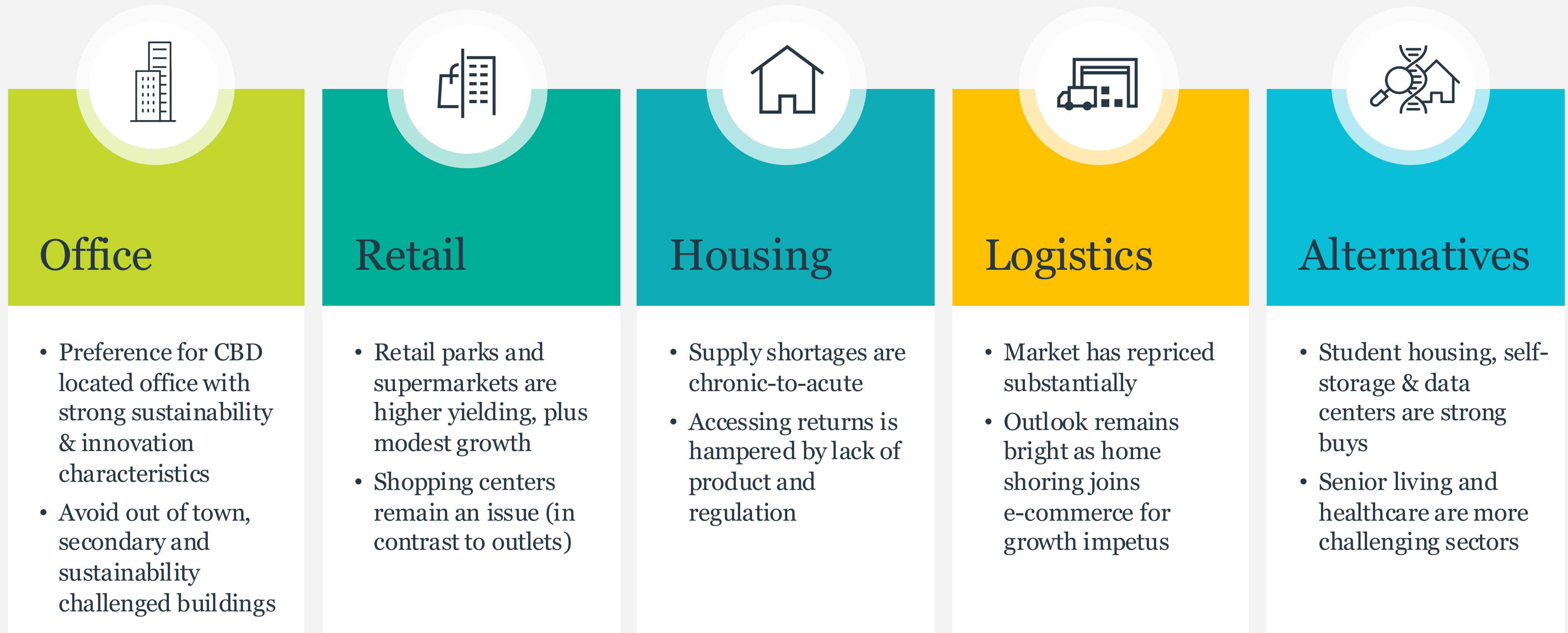
At the same time, the incentive to invest to capture rental growth is diminishing in many markets. During the market re-set and high inflation period rental growth was softening the blow and delivering strong income growth. But as the downturn was unusual – being accompanied by healthy rental uplifts – the recovery will be unusual too because the typical occupier market bounce back after a correction will most likely be less pronounced. Currently, it looks like the next two to three years will be characterized by continued rental growth, but at a slower pace compared to the downmarket period.

Source: Nuveen Real Estate as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European investment

Occupier markets remain in good shape



Source: Nuveen Real Estate as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European office

Construction starts are easing while investment markets show tentative signs of improvement

- Prime yields have stabilized on the back of investment activity seeing a small improvement for the first time since the market reset began
- The occupancy and rental growth story remains intact. But vacancies haven't peaked yet in most cities as the construction overhang runs its course
- 2025 is likely to bring limited rental growth with improving demand and lower completions. Markets should return to stronger growth from 2027
- Office employment continues to rise as Western economies are gravitating towards a rising share of business services bolstering structural office accommodation demand while flexible working spurs space consolidation

Source: Nuveen Real Estate as of October 2024.

Despite the general sceptical tone, it is worth mentioning that overall office employment remains on a solid growth path. Official statistical data just released shows that office employment in Europe has increased by 10% between 2019 and 2023; a period, which had office space occupancy decrease by -0.7% and GDP grow by 4%. This can raise questions about business productivity, but more importantly indicates the continued structural shift towards service sector jobs performed in an office setting.

Cyclical office space demand is still in the doldrums; rolling annual take-up has been broadly flat with some markets reporting increases balanced out by declines in others. Overall take-up is about 20% to 25% below the pre-Covid average. The most difficult markets are Europe's only pure office submarkets, London Docklands and Paris La Défense.

New stock, i.e. projects started when the outlook for offices was structurally stronger, is still being delivered in 2024, which is pushing up vacancy rates. But it generally has been a drifting upwards rather than any sharp increases. Over the last year about two thirds of cities saw increasing vacancy rates, while the remainder reported slight decreases. Considering just the most recent quarter, almost half of the key cities reported stable vacancy data. London City has been on a path of falling vacancy rates, now approaching the critical 10% mark. Relief is on its way with construction starts falling on an annual as well as quarterly basis.

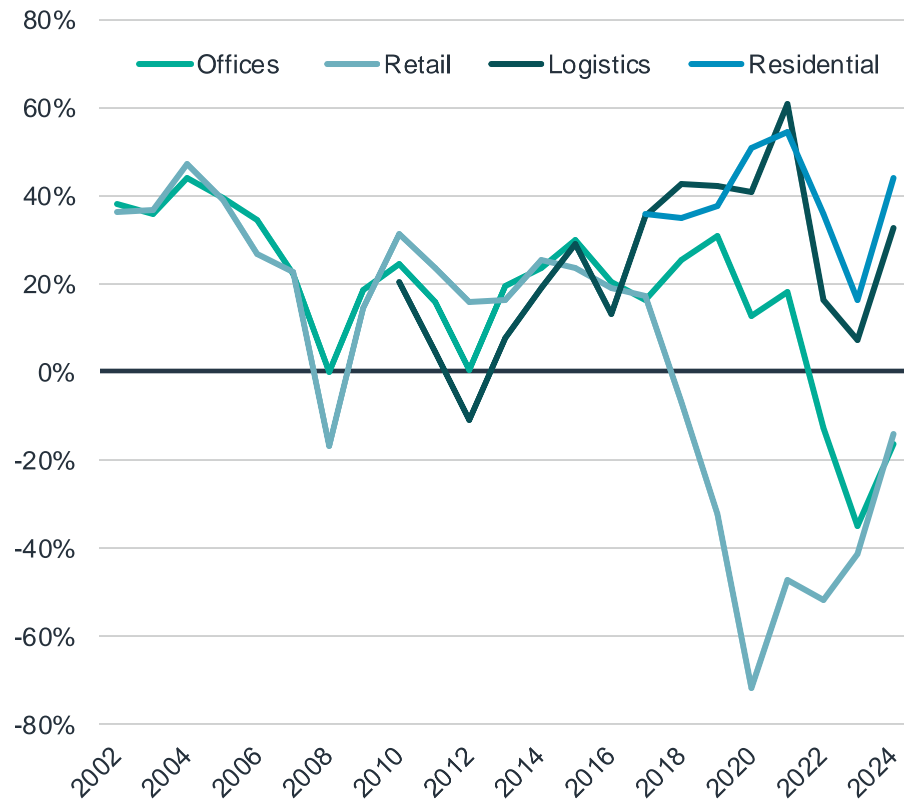
Rental growth still surprises on the upside with PMA's key 11 centres recording 5.9% rental growth in the first half of 2024. London Docklands is an outlier with rents declining. Looking forward the rental story remains intact. 2025 and into 2026 may see a pause in rental growth with average projections of barely 2% growth on average. However, reduced completions and an improved economy point to stronger growth rates of around 3% returning in 2027 and 2028. In a global context, European offices are placed relatively well. GreenStreet's M-RevPam growth estimate, which takes into account occupancy, projects 2% growth per annum over the coming four years compared to slight declines in the U.S.

On the back of decent occupier performance and due to economic headwinds, the European office market's key concern remains the investment market. Market liquidity has been as low as at the height of the GFC with most investors involved in recent transactions usually not playing a major role in commercial real markets and chasing special situations. However, anecdotal evidence points to a slight pick-up in activity in recent months and prime yields have been stable in almost all Western European markets for several months now. The fierce bidding for a trophy building in Berlin this summer is testament to that improved sentiment. However, this disguises a further softening of yields outside the core segment. Sentiment indicators also point to an improving outlook for office investments, although there are still more investors who plan to reduce their office exposure than players who look to allocate capital to the sector.

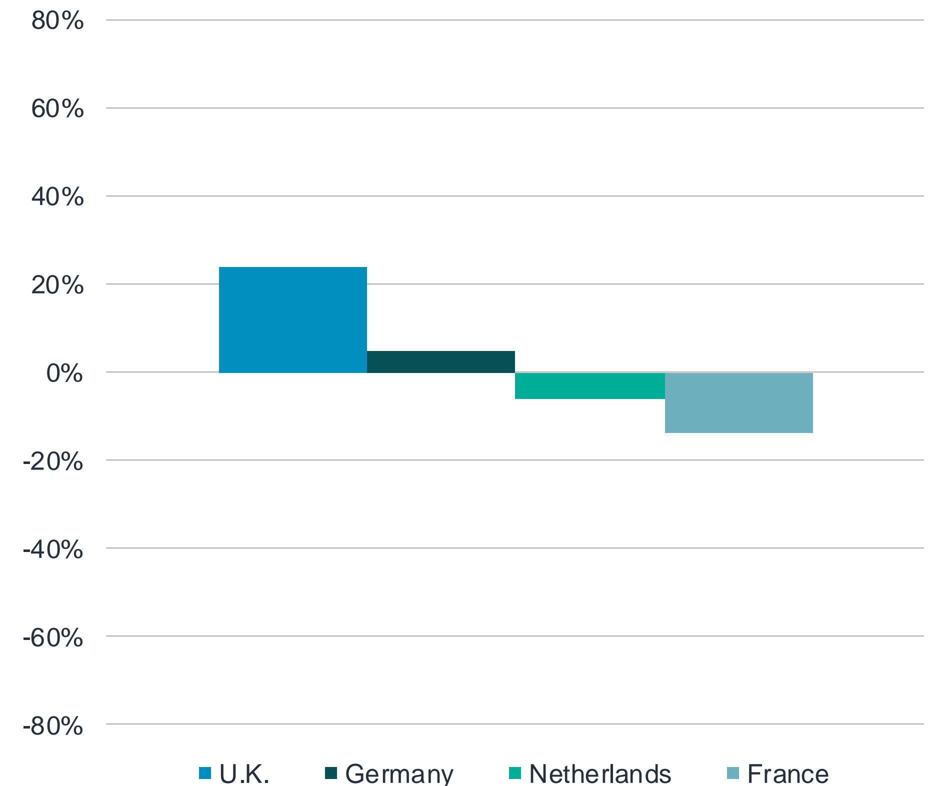
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

(Office) investor sentiment has improved sharply

Investor sentiment survey by sector (net respondents)



Offices: Investor sentiment survey by country, September 2024 (net respondents)



Source: PMA, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European retail

Research conviction into European retail parks offers investors opportunity for strong diversified retail income in a liquid market

- Eurozone nominal retail sales expected to average 1.8% per annum in 2024, growing to 3.0% in 2025
- European households are saving more than they were pre-pandemic with savings rate at 15.7%, well ahead of its pre-pandemic average at 12.3%. This is a divergent trend from the U.S. where more buoyant consumer spending has helped support economic growth
- The European retail park sector has the potential to provide investors with opportunity to access improving retail market fundamentals in smaller and liquid lots sizes, providing strong, stable and diversified income

European consumer confidence continues to gather pace with September 2024 data at its highest point since February 2022. Whilst most countries experienced an uplift, German consumer confidence dipped because of its weaker economic outlook. Retailer confidence has yet to see a positive swing with Europe's retail trade indicator lower than it was at the start of the year. Whilst confidence remains low, there is more positive occupier news emerging with void rates either stable or falling across most parts of the retail market.

Nominal retail sales in the eurozone are expected to average 1.8% per annum in 2024. Spain, Portugal and Sweden will outperform the European average at 3.5%, 3.0%, and 2.9%, respectively. Finland will see sales values drop by -0.6% this year and both Ireland and Italy are set to see weaker sales performance at 0.8% and 0.9% this year. 2025 is forecast to see stronger retail sales growth with the Eurozone average moving to 3.0%. European households are currently saving more than they were pre-pandemic. Eurostat announced that the eurozone household savings rate moved to 15.7% in the second half of 2024, well ahead of its pre-pandemic average of 12.3%. This is a divergent trend from the U.S. where more buoyant consumer spending has helped to support economic growth. Whilst a different measure, U.S. personal saving rates were at 5.1% this year, below the longer run average of 6.1% pre-pandemic.

Structural headwinds in terms of online spending growth will continue but at a slower rate than previously anticipated, with some markets including the U.K. nearing saturation. The fashion sector has the highest online penetration rate where online sales currently account for c.35% in Europe versus food sales at 5%. Overall, shopping center vacancy rates remain high but prime centers are still achieving >95% occupancy, highlighting the bifurcation between prime retail assets and average centers. Rents in the best retail locations are now rebounding. Green Street report that re-leasing spreads are positive with active shopping center curation rekindling rental tension. Hammerson's re-leasing spreads give credence to U.K. retail rents having finally bottomed and Unibail's sequential increase is testament to its robust leasing given management's focus on longer term leases. Whilst shopping center fundamentals are improving, investors will cherry pick the best assets as the sector remains highly divergent.

We believe the European retail park sector has the potential to provide investors with opportunity to access improving retail market fundamentals in smaller and liquid lots sizes which provide strong, stable and diversified income. Retail parks provide omnichannel retail opportunities, inflation linked leases, higher income returning assets, low capex and sustainable compatible real estate. This is a rhetoric shared by the investor market, and in the U.K., we have already seen a reversal in pricing.

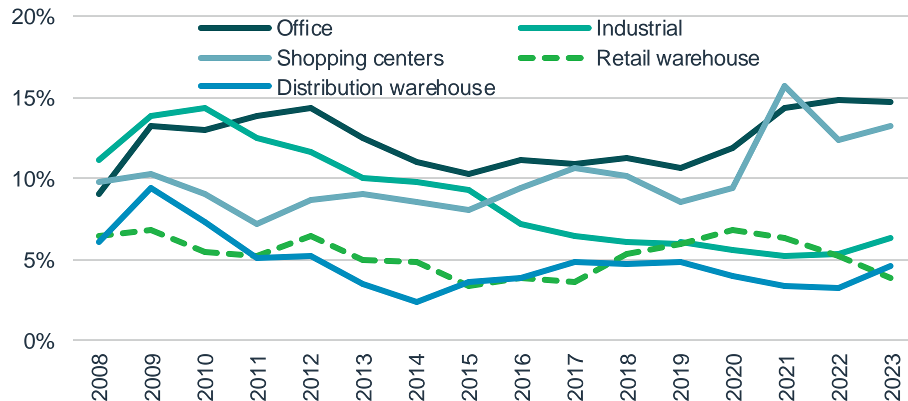
Source: Nuveen Real Estate, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

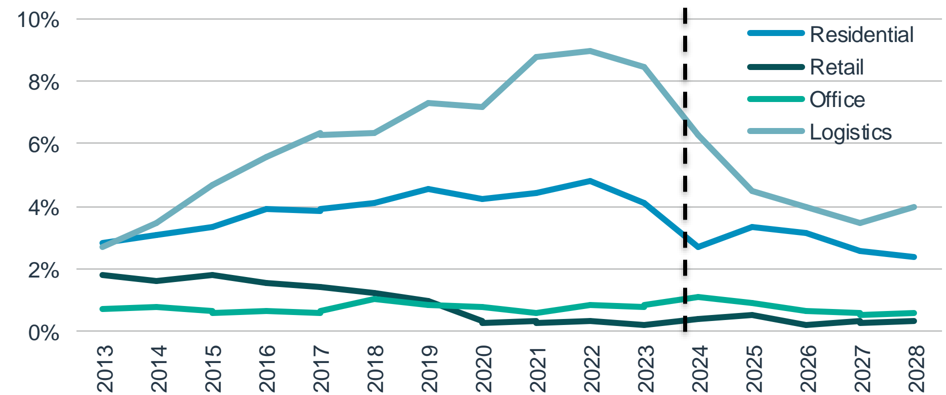
Retail parks provide core and stable income

Retail parks have low and falling vacancy rates, strong and diversified occupier base and limited pipeline which supports continued future performance

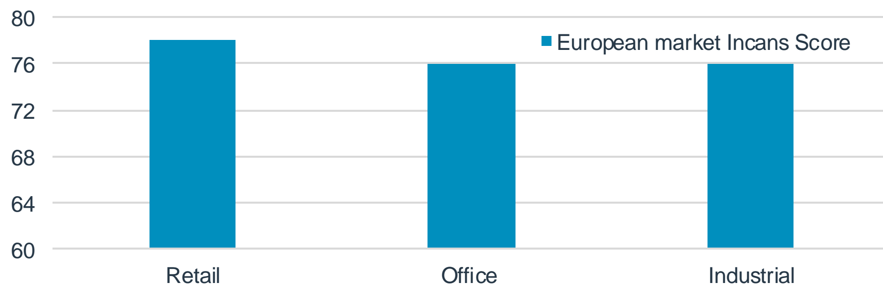
Low vacancy: U.K. CRE sector vacancy rates



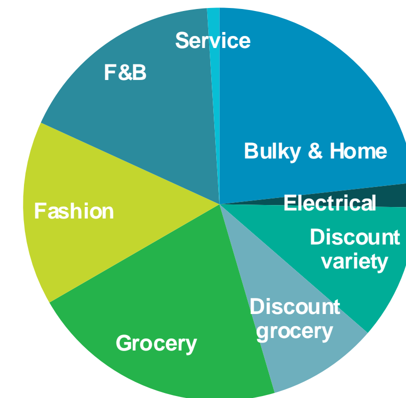
Limited pipeline threat: Europe: net additions in % of stock



Despite negative sentiment surrounding retail market risk, the sector scores highest in occupiers' covenant strength



Diversified income: Retail warehouse floorspace by sector, %



Source: MSCI Annual Index 2023, MSCI INCANS, Nuveen Research, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European logistics

First signs of recovery in Europe: transactions are rising and first inward yield shift recorded in Germany, Benelux and Prague

- Confidence in the European industrial and logistics real estate markets remains low
- Average prime rents in Europe increased by around 4.5% year-on-year, and by 1.3% in the third quarter of 2024
- Logistics transaction volumes amounted to €23.1 billion in the first three quarters of 2024, which is 5% higher than a year ago
- Transactions in continental Europe were 12% higher while the U.K. markets recorded 15% lower volumes
- First inward yield shift since 1Q 2022 in a few locations
- Investment activity seems to have bottomed out and is expected to pick up next year

Confidence in the European industrial and logistics real estate markets was largely unchanged in the third quarter of 2024, although it remained at its lowest level in four years in September 2024. Further declines were recorded in Belgium, Germany, Sweden and Austria compared with the second quarter of 2024, while Spain, Finland and Denmark saw improvements. Most other markets were stable. Denmark is the only country in positive territory followed by Spain which is the least negative while the lowest values were recorded in Austria, Germany, Belgium and Poland.

Prime rental growth was unchanged in the majority of the 34 markets monitored by JLL, with only four registering increases in 3Q 2024 (Berlin +23.5%, Luxembourg +11.1%, Barcelona +6.1% and Paris +4.0%). On average, prime European rents for logistics properties rose by 1.3% in the third quarter compared to the second. Compared with 3Q 2023, growth was somewhat higher at 4.5% on average. The largest (double-digit) year-on-year increases were recorded in Berlin, Amsterdam, Utrecht, Barcelona and Luxembourg. Warsaw, Prague and Budapest experienced slight downward corrections. We expect rental growth to continue to stabilize across Europe until the end of the year.

European logistics investment volumes in the first nine months of 2024 increased by c.5% (€23.1 billion prelim) compared with the corresponding period of 2023. Transactions in continental Europe, meanwhile, were 12% higher than in the first three quarters of 2023. The U.K., however, recorded c.15% lower volumes, but remained in the top spot for total transactions in the year to date (c.€6.6 billion). Germany followed with almost €4 billion, which is just below volumes in the same period of last year. The Benelux region and France were in third place with turnover of c.€3.7 billion each, reflecting an increase of 91% in the Netherlands and 55% in France over the previous year to date, ahead of Italy with €1.8 billion of transactions (+85% compared to the first three quarters of 2023). Single asset deals accounted for 48% of sales in the third quarter, compared to 68% in 2Q 2024. Accordingly, the proportion of portfolio deals was 52% in 3Q, which is 25% more than a year ago. Almost three quarters of transactions (73%) in the year to date involved cross-border investors compared to an average of 60% in the past 10 years. North American investors were again the most active buyer group with a share of 33% in the year to September 2024.

Pricing was largely stable in the third quarter of 2024, as the sector continued to be supported by very solid occupier markets. For the first time since 1Q 2022, prime logistics yields compressed slightly in a few locations such as Germany, Belgium and Prague (-10bps) and by -5bps in the Netherlands to 4.7%, according to JLL. In the other major logistics locations, net initial yields remained unchanged, ranging from 4.3% in Germany to 8.0% in Central and Eastern Europe. Despite cuts in interest rates, financing conditions and sentiment have not yet improved sufficiently to significantly boost investment volumes.

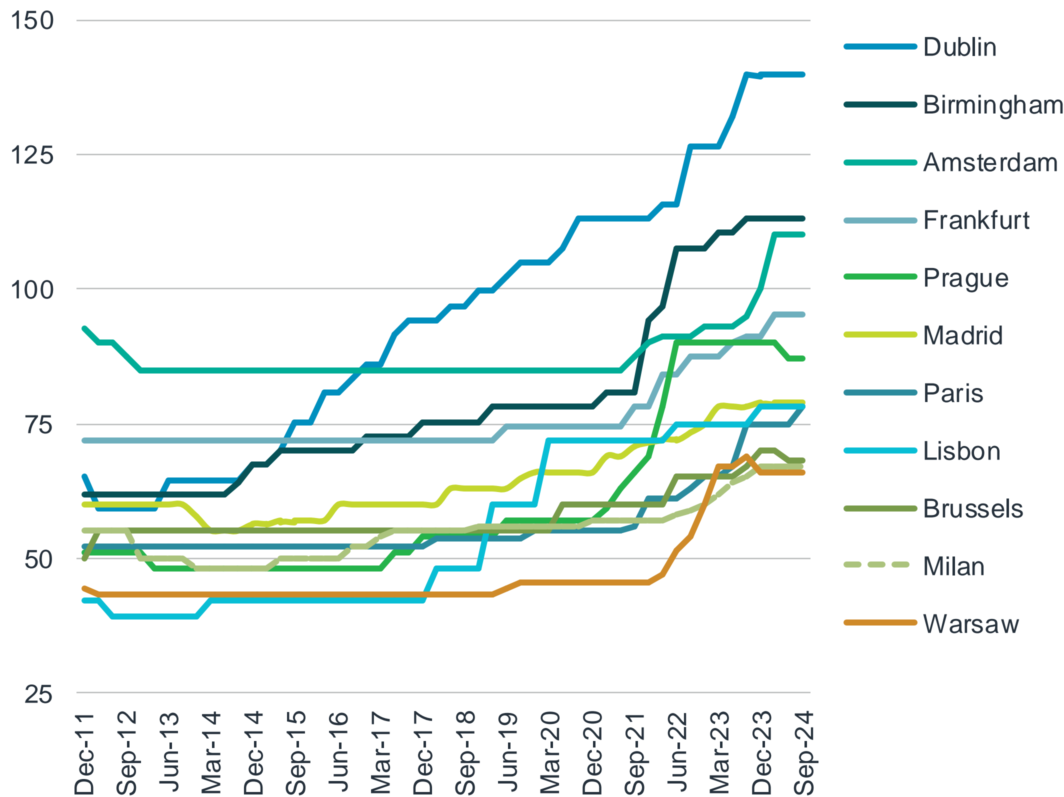
Source: Nuveen Real Estate, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

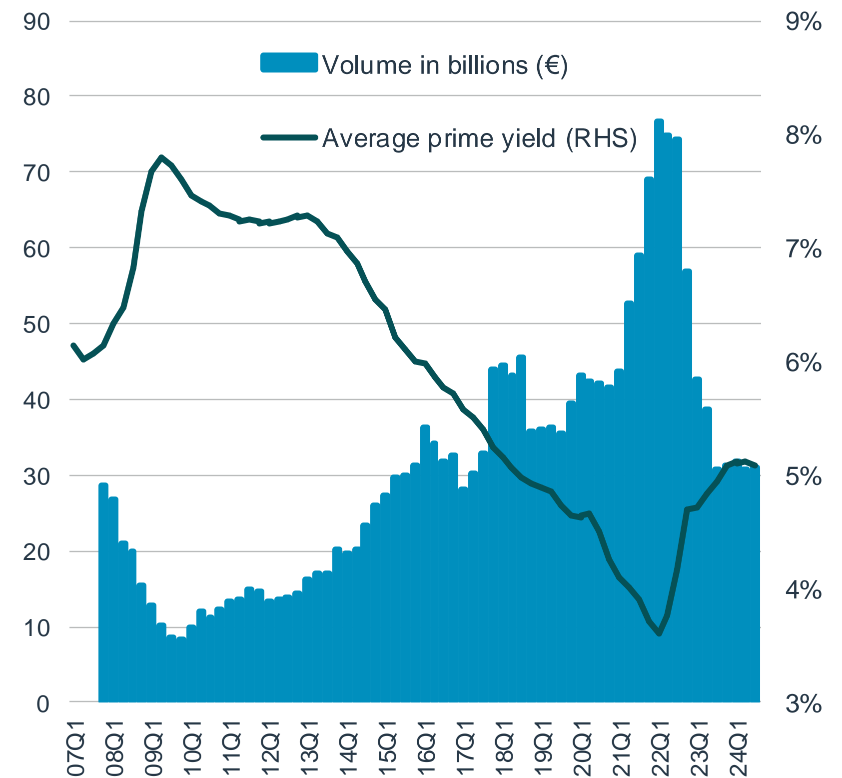
European logistics

Rental growth has stalled but still mostly positive – investment volumes have stabilized and prime yields started to compress

Prime rents in selected locations, €/£ psm p.a.



Investment volumes, €B, 12 months rolling (LHS) and average prime yield Europe, % (RHS)



Source: JLL, 4Q 2024; MSCI, 4Q 2024: Nuveen Real Estate, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European residential

We believe there are opportunities in nascent sectors of single-family rental and affordable housing

- Residential occupier markets remain buoyant as supply and demand imbalance continues to drive rental tones in 2024
- A structural shift in institutional investors' portfolios will drive the share of allocation to the living sector with CBRE predicting a move from 20% to c.30% in the next 12-to-18 months
- We see the potential for strong opportunities in nascent sectors such as single family and affordable housing which can be accessed at higher yields and have strong occupier fundamentals

Housing shortage issues across Europe remain acute and are well versed across European cities. As an example, the Centre for Cities estimate that "the U.K. housing deficit would take at least half a century to fill, even if the Government's current target is reached". The supply and demand imbalance continues to drive rental tones with residential rental growth outstripping house price inflation. High demand for renting continues due to barriers and elevated costs of home ownership. JLL reported that new-let residential rental tones increased by 8.2% (year-on-year) across 31 key European cities in Q2 2024 with double digit growth in the tensest markets.

A shortage of supply in European markets will continue to support the occupational market, but rental affordability needs to be considered, and we believe rental growth will drop back to more sustainable levels with growth at a lower rate compared to the elevated positions we saw in 2023. There is an expectation that rents will increase by a more sustainable 3-4% over the medium-term outlook.

Investor sentiment remains strong and institutional investors continue to scale up and pivot towards residential and alternative sectors. Over the past 15 years, the residential sector has grown from around 5% to 20% of commercial real estate investment volumes. JLL's latest report showed a 45% increase in residential investment volumes compared to Q1 2024 and 15% up on Q2 2023.

Residential values have started to stabilize, and investors are looking to enter or re-enter the market as supply/demand characteristics remain favorable. A structural shift in institutional investors' portfolios will drive the share of allocations to the living sector with CBRE predicting a move from 20% to c.30% in the next 12 to 18 months.

We continue to see the potential for strong opportunities in nascent sectors such as single family and affordable housing, which can be accessed at higher yields and have strong occupier fundamentals. Multifamily housing has continued to take the lion's share of investment volumes in H1 2024 at 78%, but, according to JLL, the single family, co-living and affordable sub-sectors are now accounting for a much larger share at 22% (up from just 5% between 2019 and 2024).

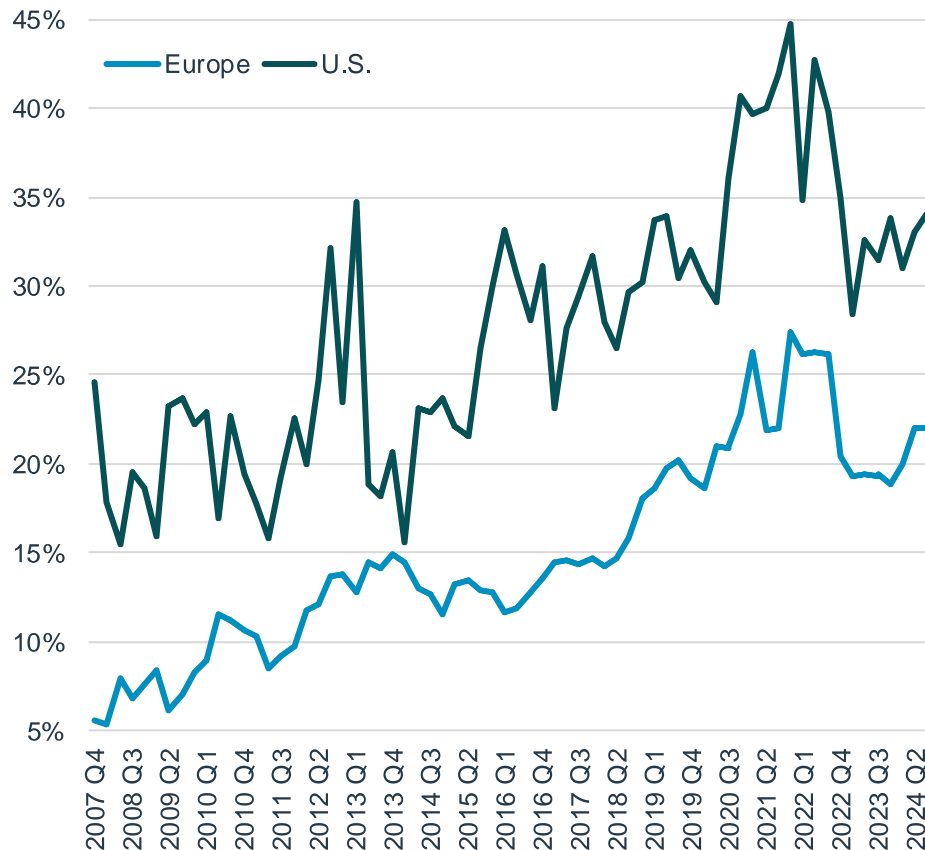
Source: Nuveen Real Estate, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

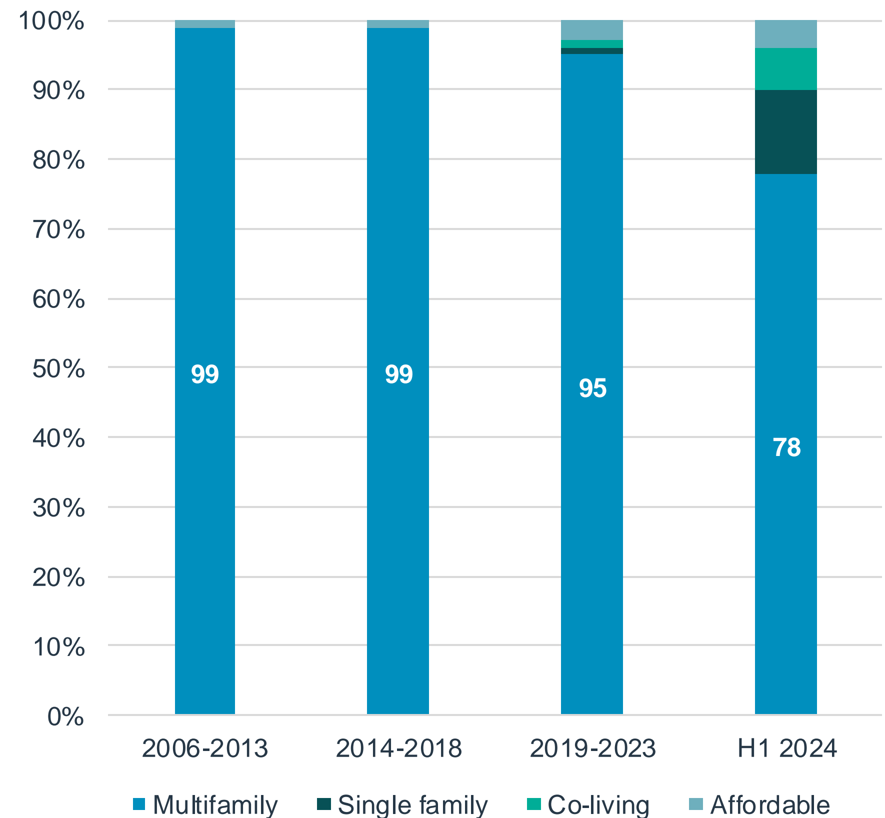
Residential investment moving into nascent sectors

Expect enhanced investor activity into the residential market

Residential investment volumes as % of total CRE



Residential investment by sub-sector



Source: Nuveen Research, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European alternatives

Green shoots across the board

Self-storage:

- The operating trough has been evident in early 2024, but since then markets have started to improve
- The development pipeline has been increased, but absorption shows that demand is building up as well

Student housing:

- Continental players have continued to see robust demand for the new academic year
- Capital market appetite remains healthy for the sector, with strong pick-up of investment volumes and record fundraising activities
- JLL report that in total c.€450 billion of investment is required to meet current levels of unmet student demand across 16 key European countries

Self-storage

September REIT trading updates have provided upbeat results pointing to incremental improvements across Europe. The cyclical trough can now be placed at the beginning of 2024. Operating revenue growth accelerated mainly based on improving occupancy rather than rental growth as sign-up discounts are still eating into effective rents. Lower mortgage rates have boosted demand from private customers moving house. At the same time, business demand, providing up to half of the tenant base in some countries, appears to be bottoming out. Operating cost pressures are easing, albeit some items have been stickier, for example insurance. All three listed companies have increased their development pipelines. The strong development profits on offer are cyclically high, attracting new players striving to build European self-storage platforms. The pace of new supply will be accelerating in the medium-term while the total stock per capita remains structurally low. With some local exceptions most markets have been able to absorb new deliveries; absorption of space is pacing reasonably well so far in 2024.

Student housing

JLL's recent research report noted the number of students in Europe is expected to grow by a further 10% between 2021/22 and 2030/31, reaching 23.5 million students. This equates to an additional two million students by 2030/31, with around half of them expected to be internationals. Whilst demand grows, the purpose-built student accommodation (PBSA) supply pipeline will fulfill only 11% of current unmet demand in European cities once completed, highlighting continued strong demand/supply imbalance. European student housing continues to demonstrate strong performance in 2024 following consecutive years of stellar demand. The biggest operator on the continent, Unite, revealed that the reservation rate for the 2024/25 academic year stands at 94% and revised its like-for-like rental rate growth guidance to 7% (up from 6% previously).

There is a growing appetite for PBSA which is echoed in fundraising activity, with a record number of funds targeting the sector. Vintage 2023 and 2024 funds collectively aim to raise €25 billion, having already secured €10 billion during this period. JLL report that in total, c.€450 billion of investment is required to meet current levels of unmet student demand across 16 key European countries.

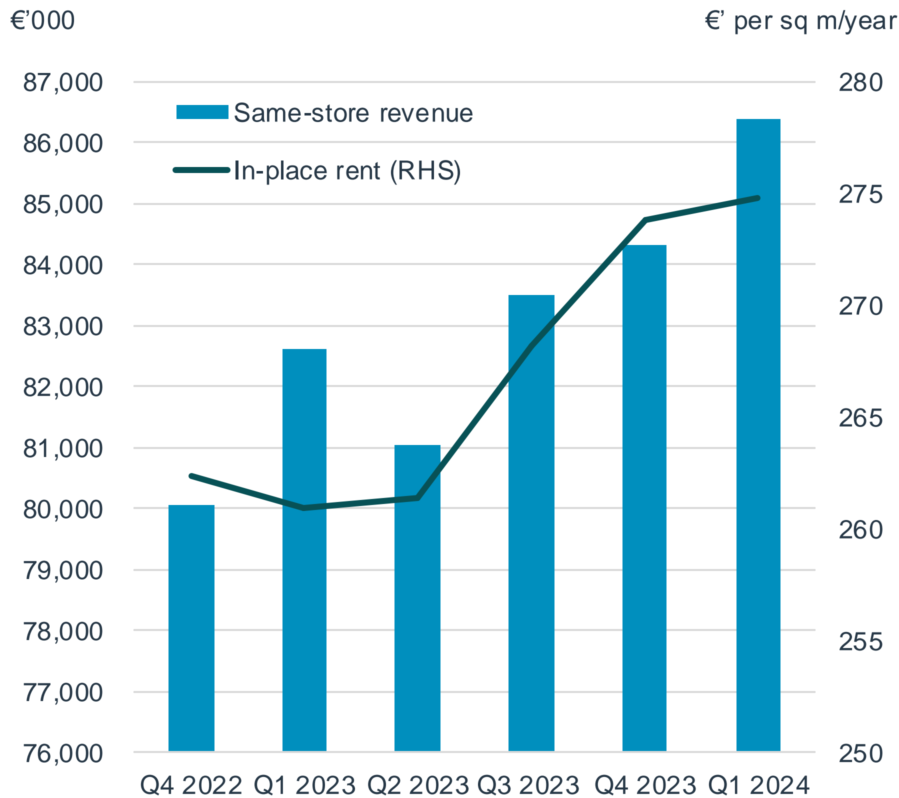
Source: Nuveen Real Estate Research, as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European alternatives

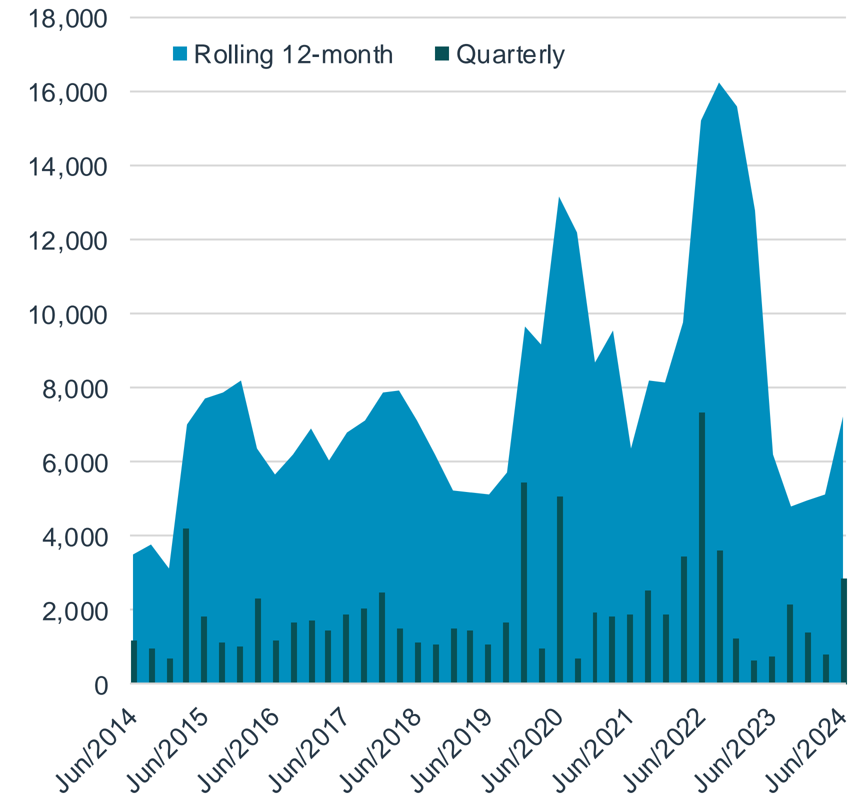
Fundamentals bottoming for storage; NOI margins set to improve for continental PBSA operators

Shurgard KPIs



Source: Shurgard company reports, 2024.

Investment volumes (€ million)



Source: RCA, August 2024.

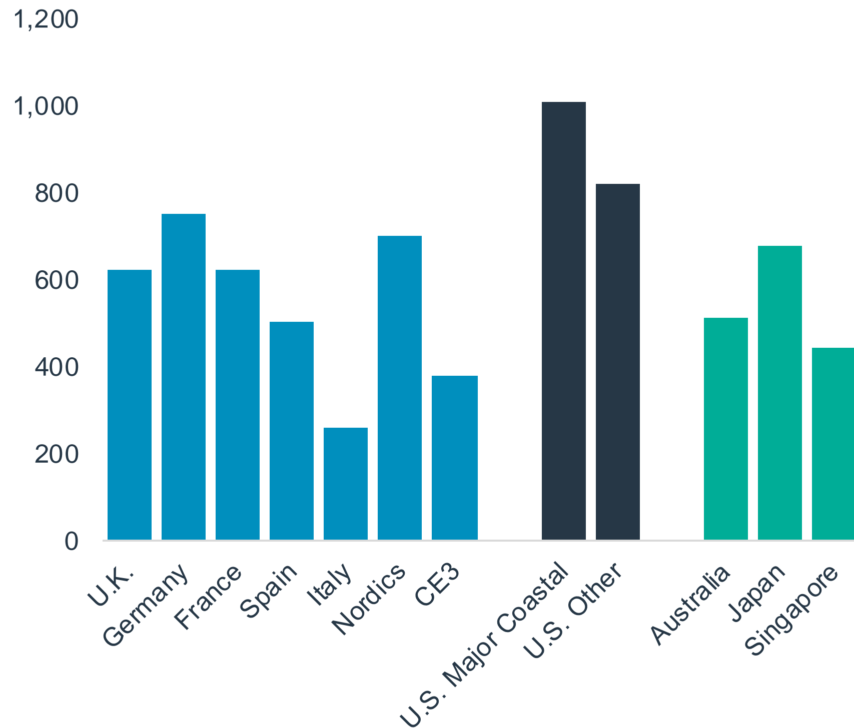
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

European sustainability

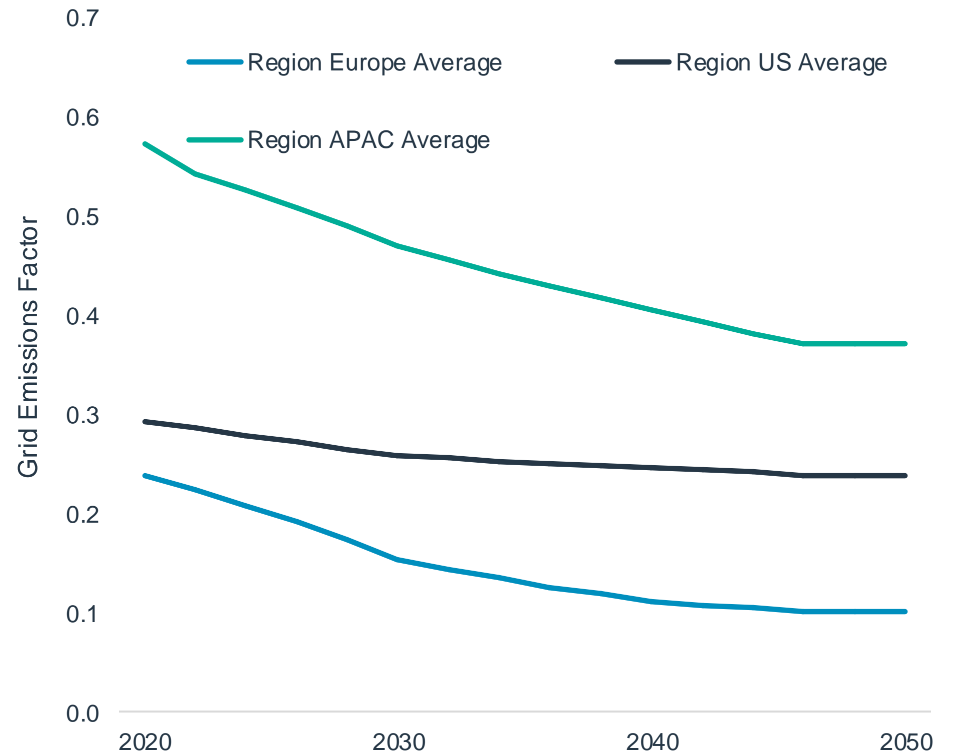
Europe offers a more cost-effective route to net zero carbon

Research shows that the European market is well positioned to support those asset owners looking to decarbonize their portfolios. This is driven by the relatively lower transition costs associated with undertaking brown to green activity when compared with wider global regions, alongside its rapidly decarbonizing electrical grid which reduces the stringency of operational energy performance benchmarks for the real estate sector. Favorable sectors such as self-storage and retail parks have a lower brown to green cost, when compared to traditional sectors such as covered-retail schemes and offices, given their lower complexity and adaptability.

Estimates across global office markets ($ psm)



Grid carbon intensity forecasts (kgCO2e per kWh)



Source: PMA, 2024.

Note CE3 includes Poland, Czech Republic and Hungary.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

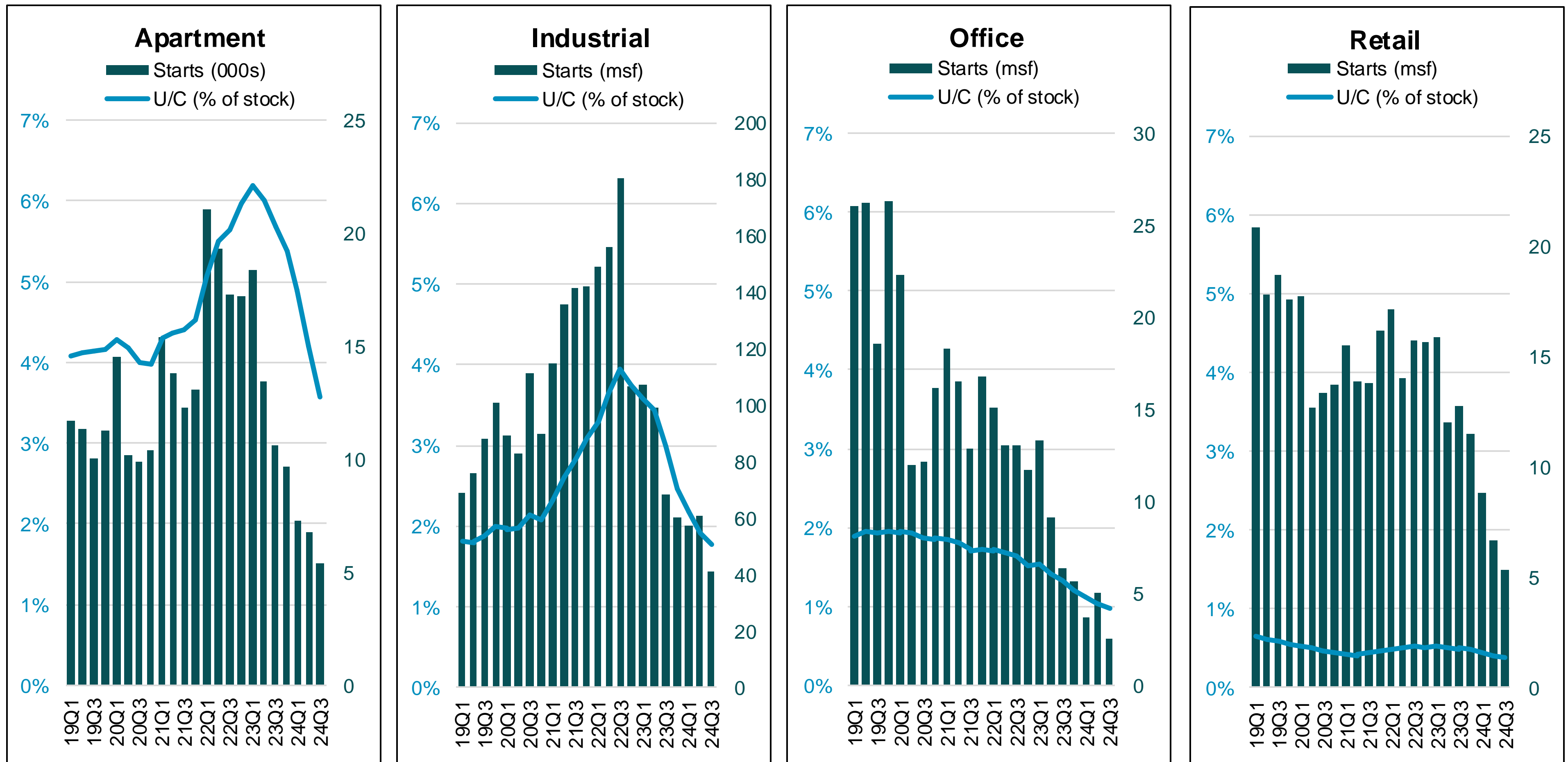
4

U.S.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Construction waning across property types

The number of new projects getting started has dropped significantly across sectors, which will bode well for future fundamentals as new supply will become less of a headwind



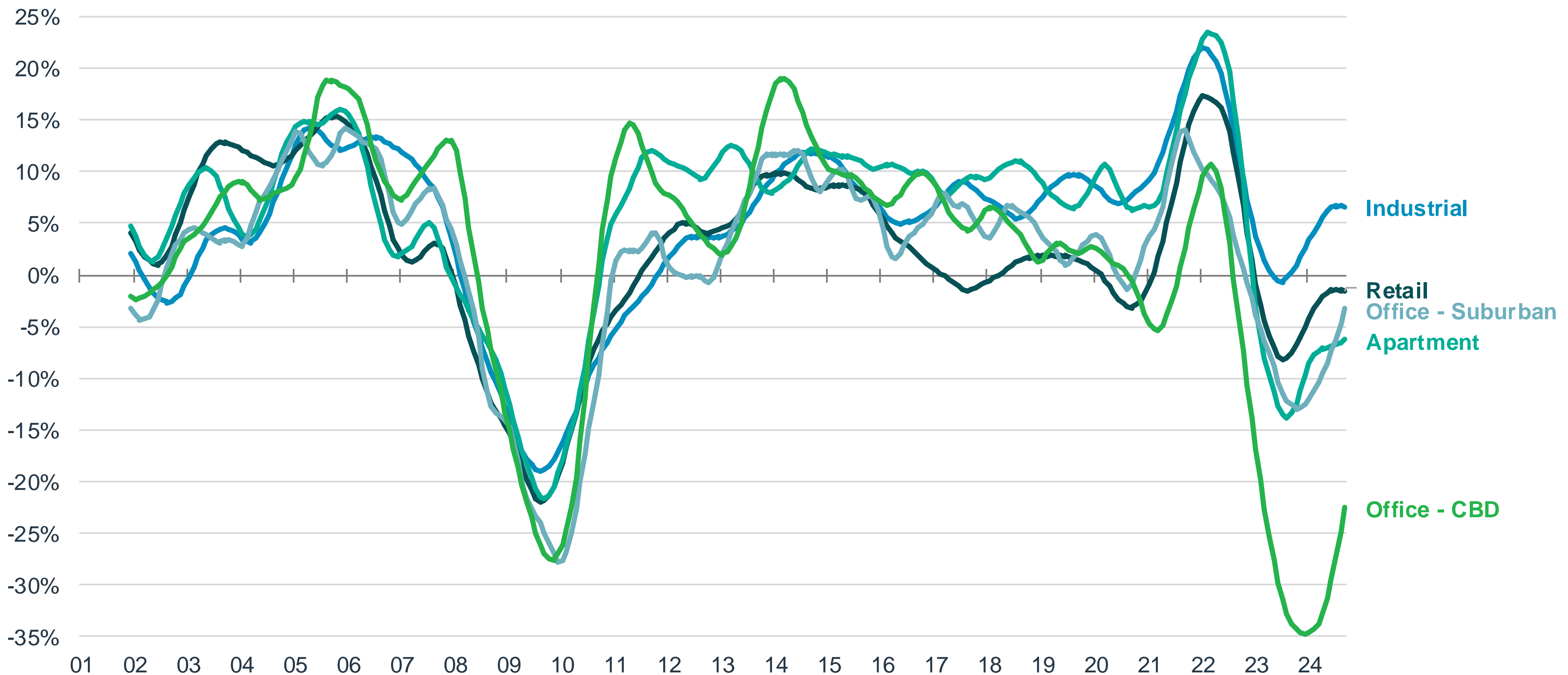
Sources: CoStar (Q3 2024 data as of 3 October 2024); Nuveen Real Estate Research. Note: U/C stands for under construction.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

CRE prices seem to be at a turning point

Industrial properties saw price gains on a year-on-year basis, and the rate of change across the other major sectors is looking up. Office properties in central business districts (CBDs) continue to face the brunt of value losses as a result of hybrid work policies and associated negative investor sentiment.

U.S. commercial property price index (year-on-year)



Source: Real Capital Analytics; Nuveen Real Estate Research (data through September 2024 as of October 2024 release).

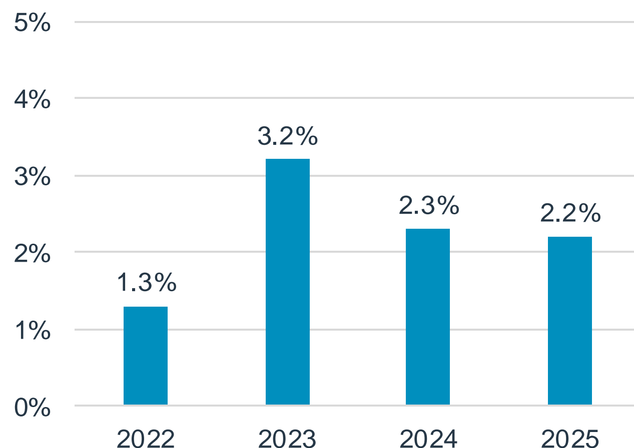
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. economics

Growth has remained resilient through the first half of 2024, but risks remain

- Growth has continued to outpace expectations, and inflation is nearing the central bank's target
- Growth prospects remain solid following the Fed's first rate cut in over four years

U.S. real GDP growth forecast



Source: Moody's Analytics, October 2024.

Activity is holding up as the Fed enters a rate-cutting cycle

Despite expectations at the start of the year of a significant slowdown in growth throughout the course of 2024, jobs and output data has broadly outperformed during the first three quarters. Real GDP continues to rise at a healthy clip, and stock prices remain high while bond spreads have been relatively narrow. While most major economies face notable risks, it appears increasingly likely that growth will continue in 2024 at an above-trend pace.

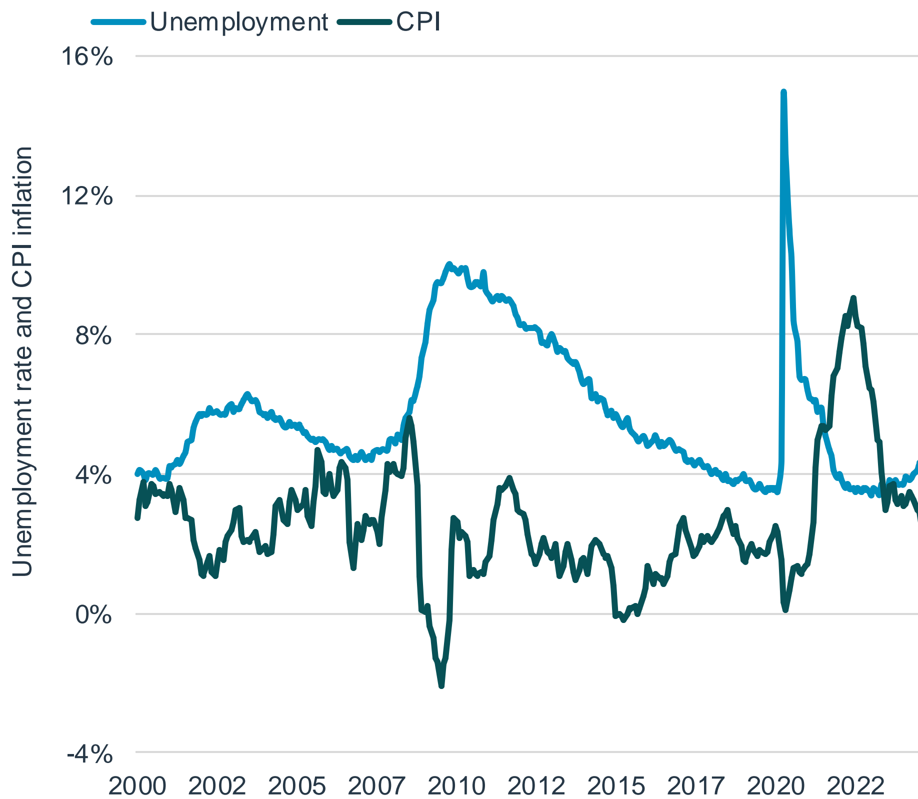
Growth in the U.S. economy continued at a healthy pace in the third quarter, as 2024 has outpaced expectations of a more significant slowdown after robust growth in the second half of 2023. U.S. GDP grew at an annualized pace of 2.8% in the third quarter, down slightly from the 3.0% pace in the second quarter while year-over-year growth remained solid at 2.7%. Job growth held steady in the third quarter at a monthly average of 148,000 jobs added per month after slowing significantly in Q2. The unemployment rate also held steady at 4.1% at the end of the quarter as a result, helping to ease concerns over the health of the labor market and the underpinnings for consumer spending in the economy.

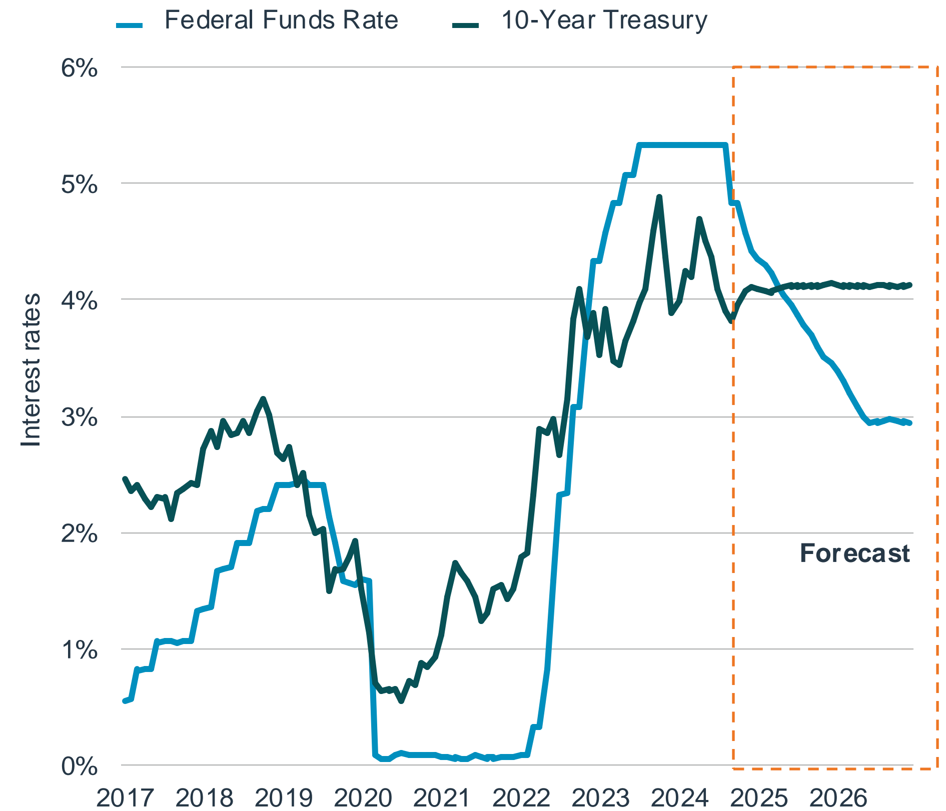
The U.S. economy also continued to make progress in its fight against persistent inflation during the third quarter. Year-over-year inflation as measured by the Consumer Price Index remained slightly above the Federal Reserve's target of 2% but continued a general downward trend, finishing the third quarter at 2.4%. This marks the slowest pace of inflation in the economy in three and a half years. Given this backdrop, Federal Reserve officials cut the federal funds rate by 50 basis points in September, marking the first cut in the policy rate since the start of the COVID-19 pandemic. Yields on 10-year Treasury bonds, which began to trend downward late in the second quarter in anticipation of looser monetary policy, continued a downward path in the third quarter finishing at 3.81%.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. economics

Inflation continues to trend down and unemployment remains low, setting the stage for a soft landing in the U.S. economy as the Fed enters an easing cycle





Source: Bureau of Labor Statistics, Moody's Analytics October 2024.

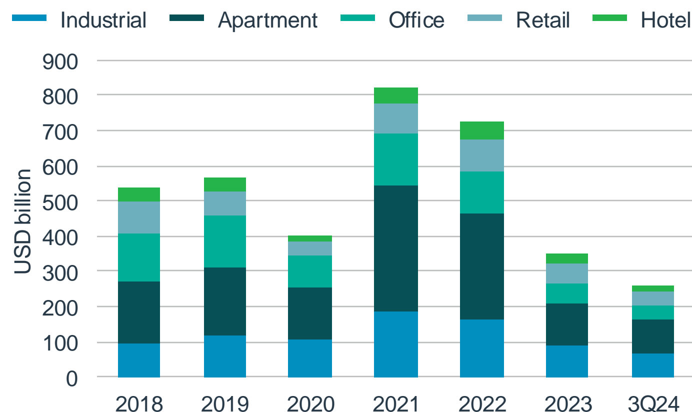
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. investment market

The bottom is likely in for sales volume

- Volatile interest rates continue to limit sales due to wide bid-ask spreads across sectors
- Alternatives, industrial, pockets of retail and housing continue to display strong fundamentals and offer good relative value

U.S. commercial real estate investment volume



Source: RCA, October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Volatile interest rates keep investors on the sidelines

Elevated long-term interest rates have introduced a significant amount of uncertainty in commercial real estate pricing. The combination of pricing uncertainty, tighter lending standards, and concerns about the outlook for the broader macroeconomy curbed deal activity throughout 2023, and into the first half of 2024. According to Real Capital Analytics (RCA), sales of commercial properties in the U.S. in the third quarter of 2024 totaled $97.5 billion, up slightly from the $97.3 billion sold in Q3 2023. Year-to-date sales volume of $282.7 billion is down only 1.2% from the same comparable period year-over-year.

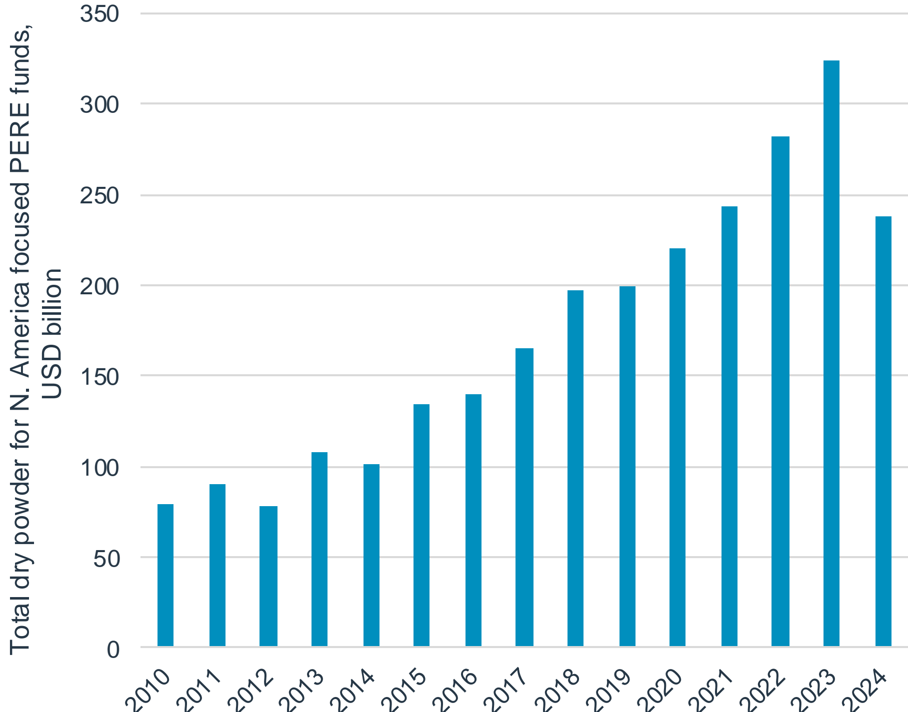
Stable rates should close the bid-ask spread later this year

The Fed's shift in monetary policy should reduce some of the volatility in long-term yields, particularly if the U.S. avoids a recession. Heightened expectations for rate cuts have caused long-term rates to drift downward into the third quarter of 2024, with the 10-year U.S. Treasury rate falling below 4% as of early August. This, in turn, should bring some stability to pricing in most sectors and lead to increased transaction activity. Fundamentals remain solid in target areas like industrial, alternatives, and pockets of retail and housing, which benefit from high occupancy rates and healthy net operating income growth.

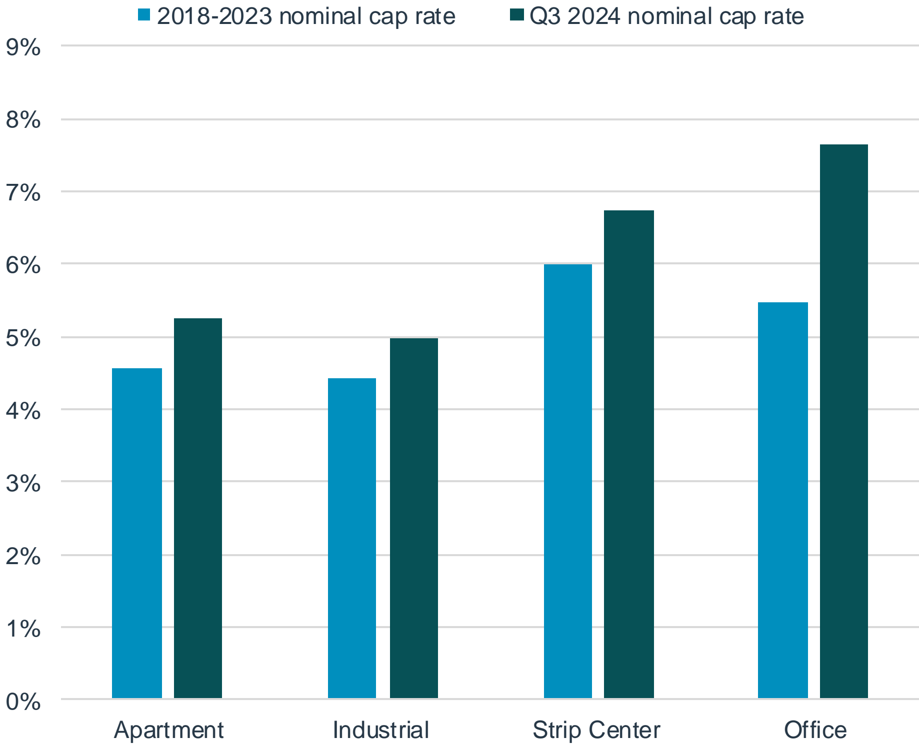
U.S. investment market

Ample dry powder and attractive pricing

Dry powder remains high



Cap rate expansion creates opportunities for new investment



Source: Preqin, Green Street, November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. office

The overall market continues to weaken but record low supply over the mid-term sets up a potentially strong recovery for new product

- High-quality assets are gaining market share despite demand shrinking overall
- Construction starts have fallen to the lowest level on record setting up a future shortage in high-quality options for tenants
- Tenants will continue to right size footprints for the next few years, further weighing on fundamentals
- Tenants are generally spending more rent on a per square foot basis when consolidating, further strengthening the top end of the market

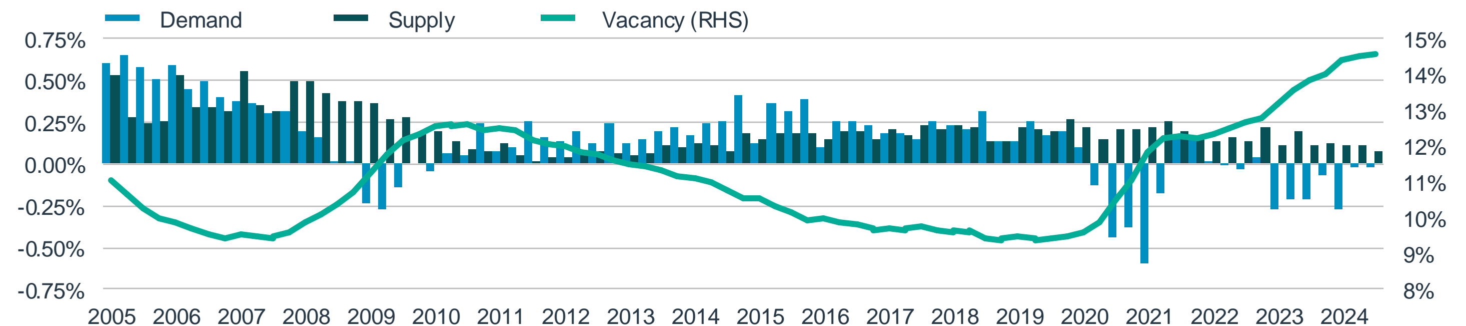
Offices continue to face strong headwinds

Fundamentals softened once again in the third quarter, but at a decelerated rate. Vacancies rose by 10 bps to 14.6% but have now expanded by five percentage points since early 2020. Leasing activity over the past year was 75% of the previous decade's annual average due to slowing job growth and continued portfolio consolidations, driven by the prevalence of hybrid schedules. New supply added 0.4% to existing inventory over the past twelve months, which is 26% below the 10-year average. Looking ahead, construction starts over the past year were just 0.2% of existing inventory, which is the lowest level recorded since the early 1990s.

High-quality assets have maintained demand

Despite the negative momentum for the market overall, higher-quality, newer assets have maintained demand with properties built between 2015 and 2022 showing improved occupancy in recent quarters. Construction starts have dropped to record low levels due to higher interest rates, a challenging lending environment, and the sector generally being out of favor. An expected shortage in new inventory over the mid-term should be beneficial to existing, high-quality assets, as tenants will have somewhat limited options for newer space.

Overall vacancy still rising, already past previous peaks



Source: CoStar Group, Inc. (Q3 2024), Nuveen Real Estate Research (November 2024).

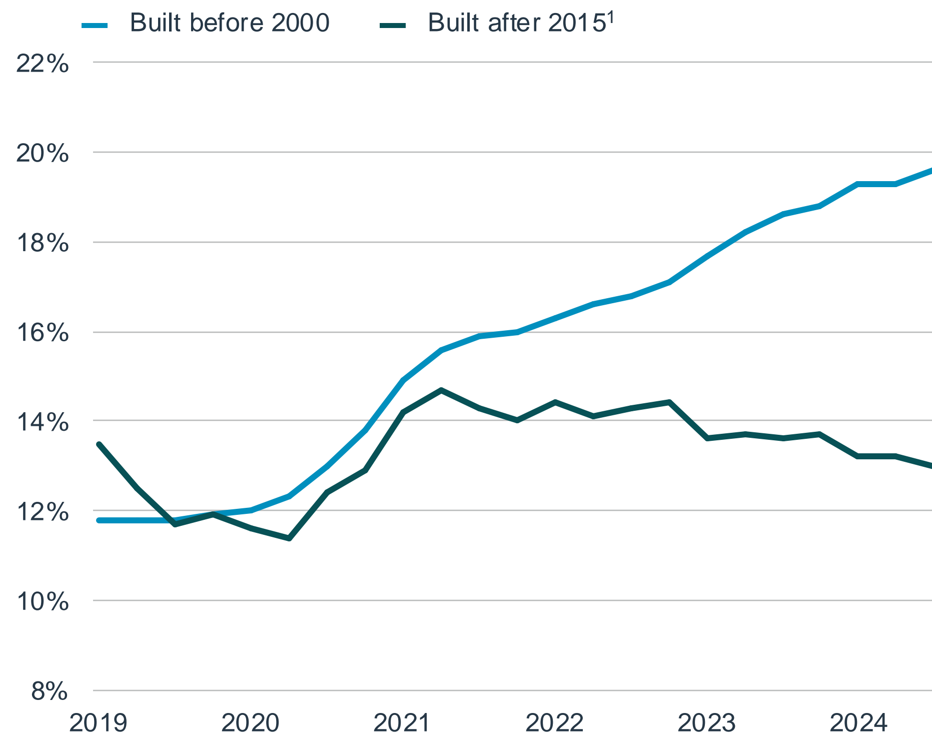
Note: Data based on Nuveen's 35 Resilient U.S. Cities.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

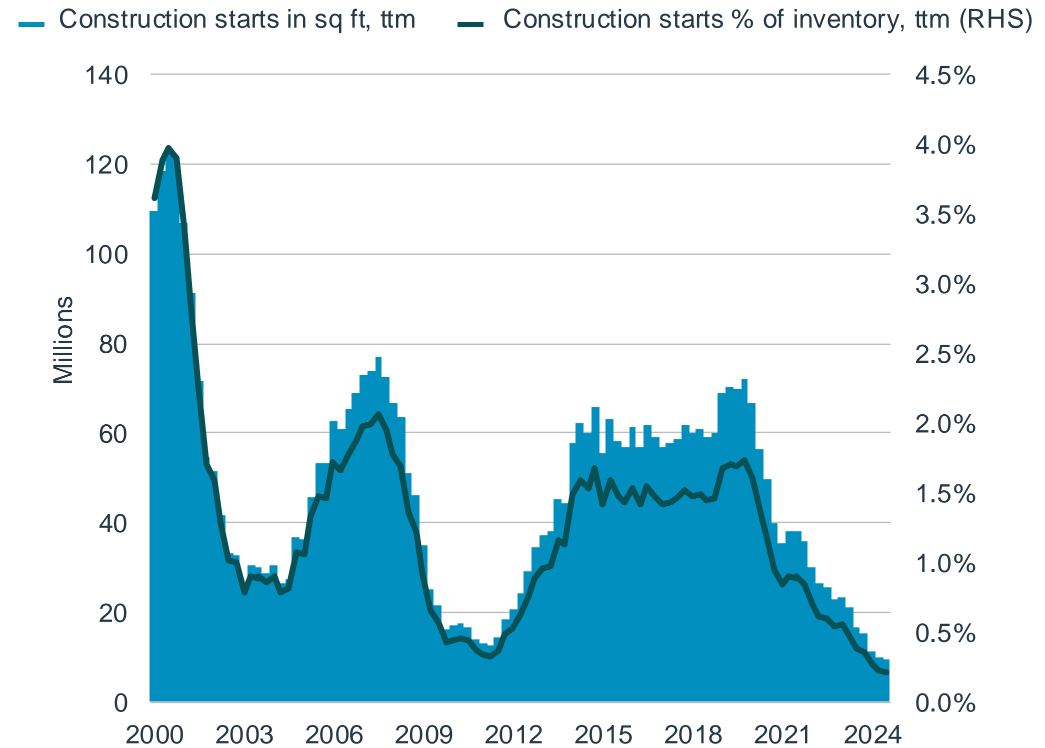
U.S. office

High-quality assets in growing markets should outperform

Vacancy by building age



New supply will soon be scarce



Source: CoStar Group, Inc. (Q3 2024), Nuveen Real Estate Research (November 2024).

Note: Data based on Nuveen's 35 Resilient U.S. Cities.

1 Properties delivered after year-end 2022 not included to allow for lease-up period.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. medical office

Aging population underpins strong demand

- Medical office is much less impacted by remote working. Virtual visits are only possible for a few specialties.
- Already tight fundamentals should only strengthen further as developers pull back. Existing landlords will gain enhanced pricing power.

Aging population continues to drive strong demand

The medical office subsector continues to outperform the rest of the sector, helped by favorable demographic trends that support medical care spending. Unlike traditional office, the medical office sector is far less impacted by remote working and most visits continue to be necessary in person. This sector also has far more favorable demand drivers underpinned by a rapidly aging population. The sector is resilient through cycles and demographic tailwinds remain strong as the aging population continues to drive increased demand. Supply remains in check and occupancy rates are near peak levels in many markets.

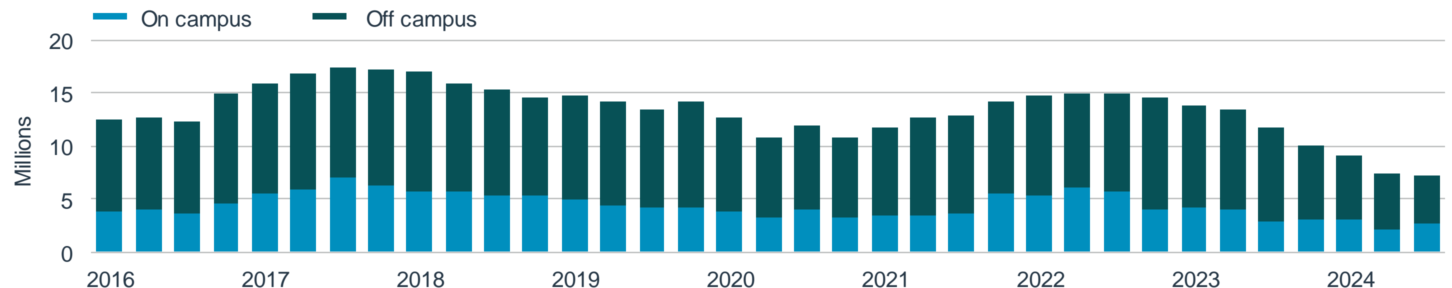
Providers continue long-term shift to outpatient care

The ongoing secular shift in patient visits from hospitals to outpatient care in recent decades will continue to benefit medical office buildings and ambulatory surgical centers. Outpatient visits reduce healthcare costs for both the patient and the provider. They also typically provide a more convenient option than traveling into congested city centers.

Slowing starts will lead to a supply shortage

Occupancy is at a cyclical high level of 93% with demand outpacing supply for thirteen straight quarters. Construction starts are 40% below their 10-year average, setting up a medical office shortage in the coming years. Market strength is widespread with only three of the 50 largest markets having current vacancy rates higher than their five-year average.

Construction starts cut in half since early 2022 peak



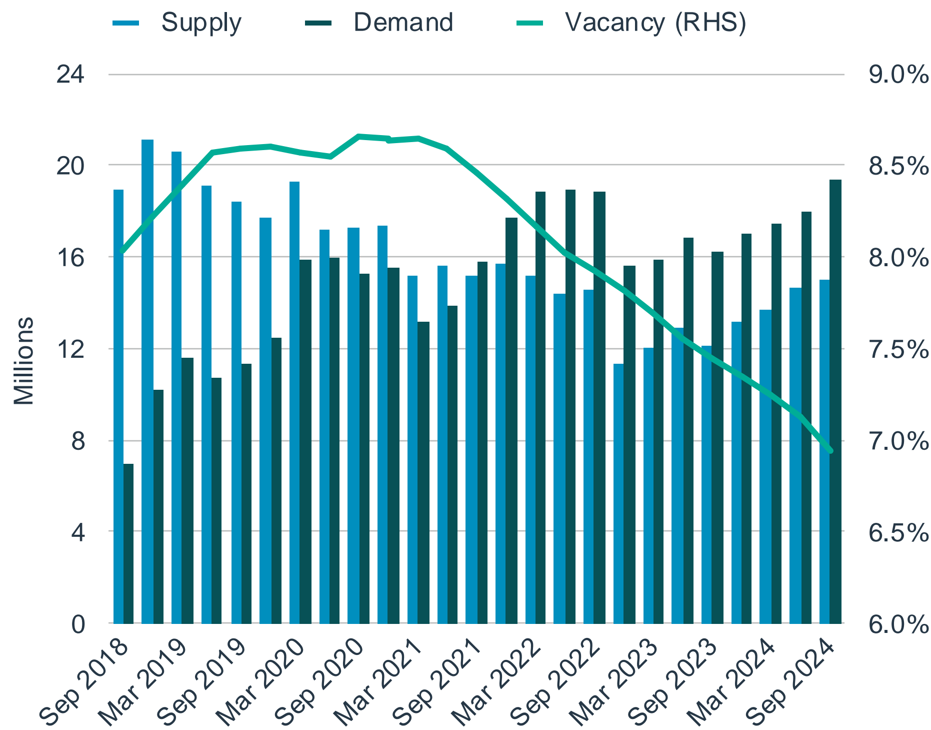
Source: Revista (Q3 2024), Nuveen Real Estate Research (November 2024).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

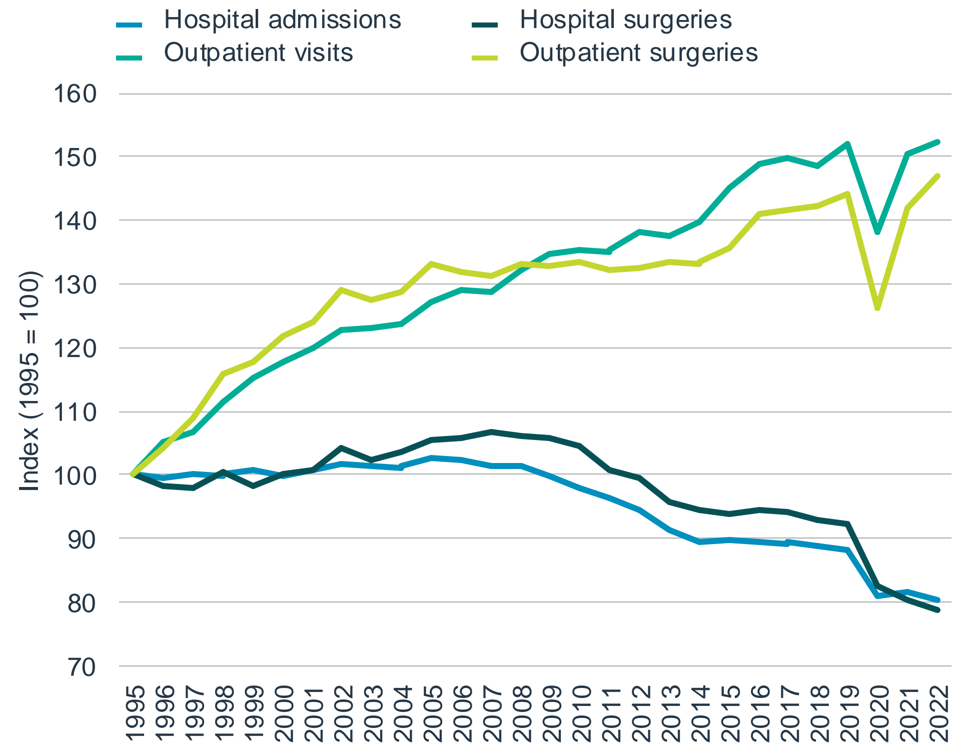
U.S. medical office

Fundamentals have never been stronger

Supply, demand and vacancy



Outpatient care continually gains market share[1]



Source: Revista (Q3 2024), American Hospital Association (June 2024), Nuveen Real Estate Research (November 2024).

1 Data is updated on an annual basis with a 2-year lag.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. retail

Strategic investment themes are aligned

- Property fundamentals are healthy, particularly across open-air and necessity segments with vacancy rates below their long-term average
- The best opportunities for investment are grocery-anchored and open-air centers that fulfil daily needs which consumers visit multiple times a week

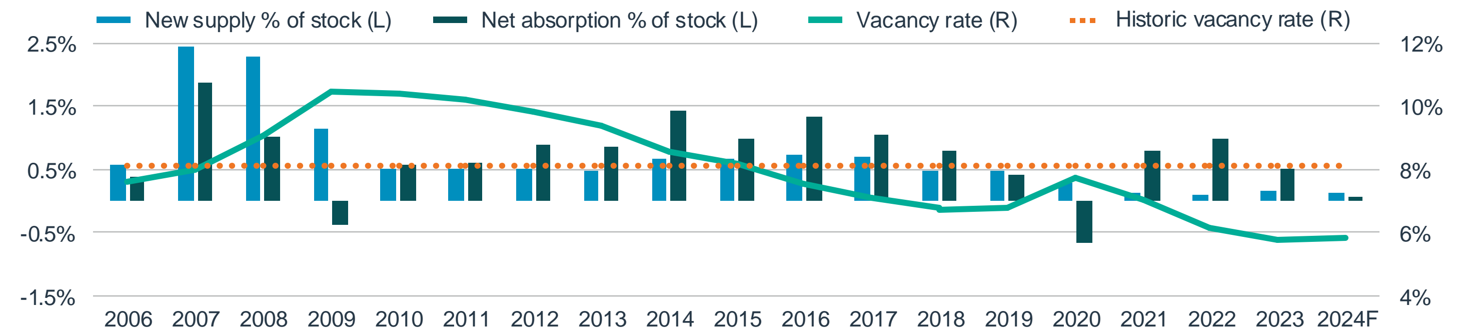
We see good potential for essential retail in 2024

We maintain high conviction in this segment of the retail market and believe the sector is poised to outperform given its healthy fundamentals. The sector has been stress tested and sits in a better position today compared to recent history. As consumers continue to require essential goods and services, trade down, seek convenience and stay local due to hybrid work, we remain focused on retail formats which will benefit. Vacancy at open air-shopping centers remains tight on the back of steady tenant demand. Net absorption remains in positive territory as demand continues to outpace new supply. Construction activity remains depressed, which helped occupancies recover in many markets. With market rents still 40% below levels that justify new construction, we anticipate a quiet pipeline going forward. At 5.9%, vacancy remains near historic lows. As a result, market rents growth remains healthy and reached 3.4% year-on-year. Prospects for future growth remain favorable and may surprise to the upside with vacancies remaining below its historical average.

Necessity retail is positioned to outperform

We see several strategic investment themes and property attributes aligning which could make for an attractive entry point in the coming years. Value declines for high-quality retail real estate have abated. The inefficiency of the capital markets and lack of dry powder are keeping investors on the sidelines. Investor sentiment is slowly starting to shift towards what we expect to be a strong opportunity. In our view, these factors are setting the stage for compelling investment conditions and a better vintage year.

U.S. neighborhood retail supply and demand trends



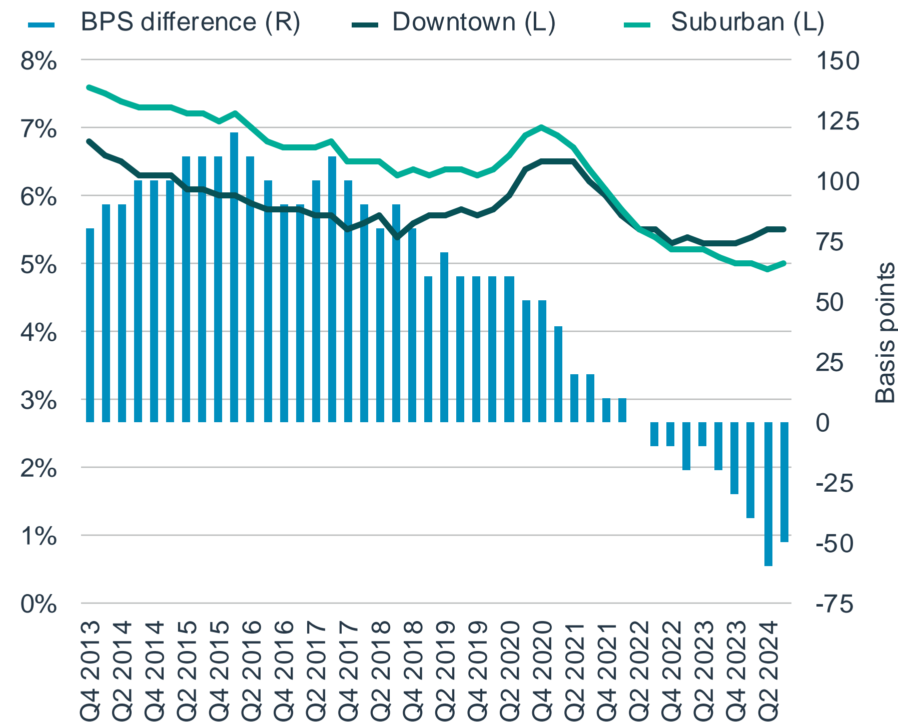
Source: Costar data as of October 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. retail

Retailers are still growing and following customers to the suburbs

Retail availability
By suburban versus urban submarkets and spread (BPS)



Suburbs and exurbs continue to capture population growth
2021-2023 U.S. population growth by county type

Source: Newmark, Data of September 2024. John Burns Consulting, LLC & U.S. Census Bureau Estimate 2023. Data published September 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. industrial

Short-term headwinds persist but industrial remains healthy

- Elevated supply and muted demand growth has pushed industrial vacancy to a nine-year high
- The industrial pipeline has normalized and supply growth has already begun to ease, signaling some stabilization in industrial fundamentals

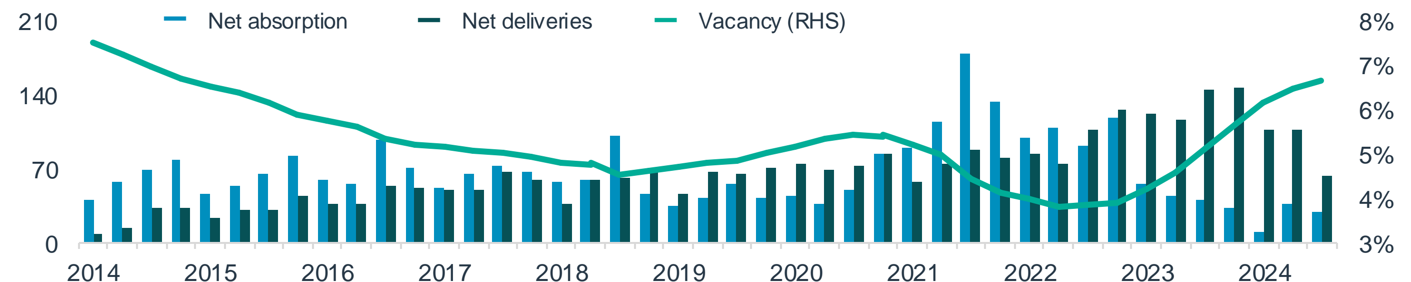
Elevated supply growth continues to drive vacancy higher

Demand for warehousing and logistics space remained muted in the third quarter, as the sector continues to be weighed down by soft manufacturing activity and subdued residential home construction in the U.S. economy. According to Costar, demand growth for industrial space slowed to 29.6 million sq ft in Q3, down from 36.6 million sq ft in the previous quarter and 25.3% below the 40.9 million sq ft absorbed in Q2 2024. Supply growth slowed significantly during the quarter, however, declining from 107.5 million sq ft in Q2 2024 to 62.1 million sq ft in the third quarter. This marks the first time in over two years that supply growth has failed to top 100 million sq ft in the industrial sector and is the slowest pace of supply growth since early-2021. As a result, industrial vacancy inched up by just 0.1%, finishing the third quarter at 6.6%.

Industrial remains well positioned for long-term performance

Looking forward, demand is poised to improve in upcoming quarters as many of the demand drivers of industrial space are sensitive to interest rates and are likely to benefit from the Federal Reserve entering a rate-cutting cycle. On the supply side, the number of new deliveries slowed sharply in the third quarter of 2024 after record supply growth over the past two years. The construction pipeline for industrial spaces has quickly normalized and the number of new industrial construction starts is near decade-lows, so the supply risk that has driven the rapid rise in vacancy rates and loss of rent growth momentum should subside in coming quarters. Over the medium/long term, industrial still benefits from structural tailwinds from e-commerce, and should outperform other areas of commercial real estate.

Industrial fundamentals



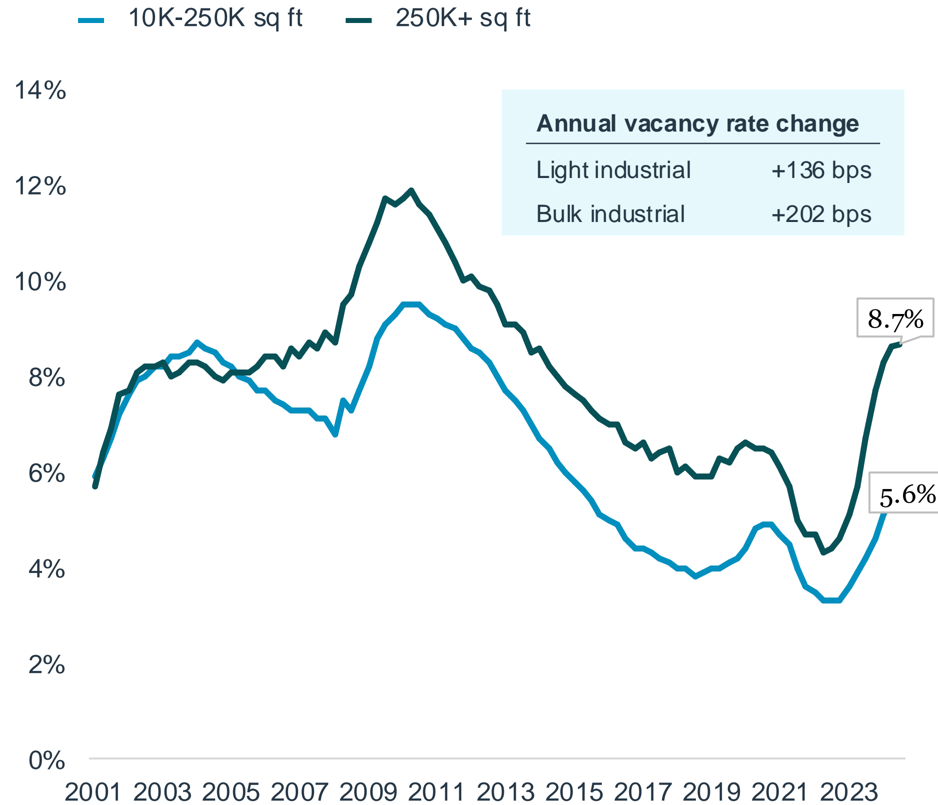
Source: Costar as of November 1, 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

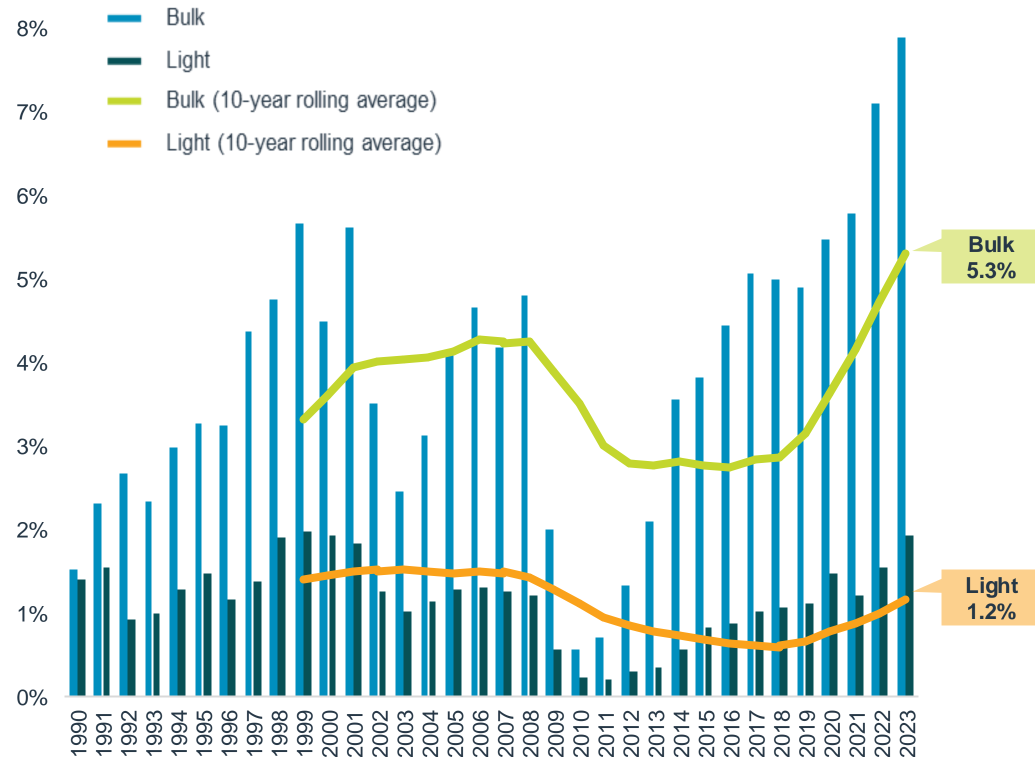
U.S. industrial

Vacancy rates are significantly lower in light industrial properties and supply growth has historically been slower, providing opportunities for investment while the supply pipeline normalizes

Industrial vacancy rate (% of inventory)



Annual new deliveries (% of stock)



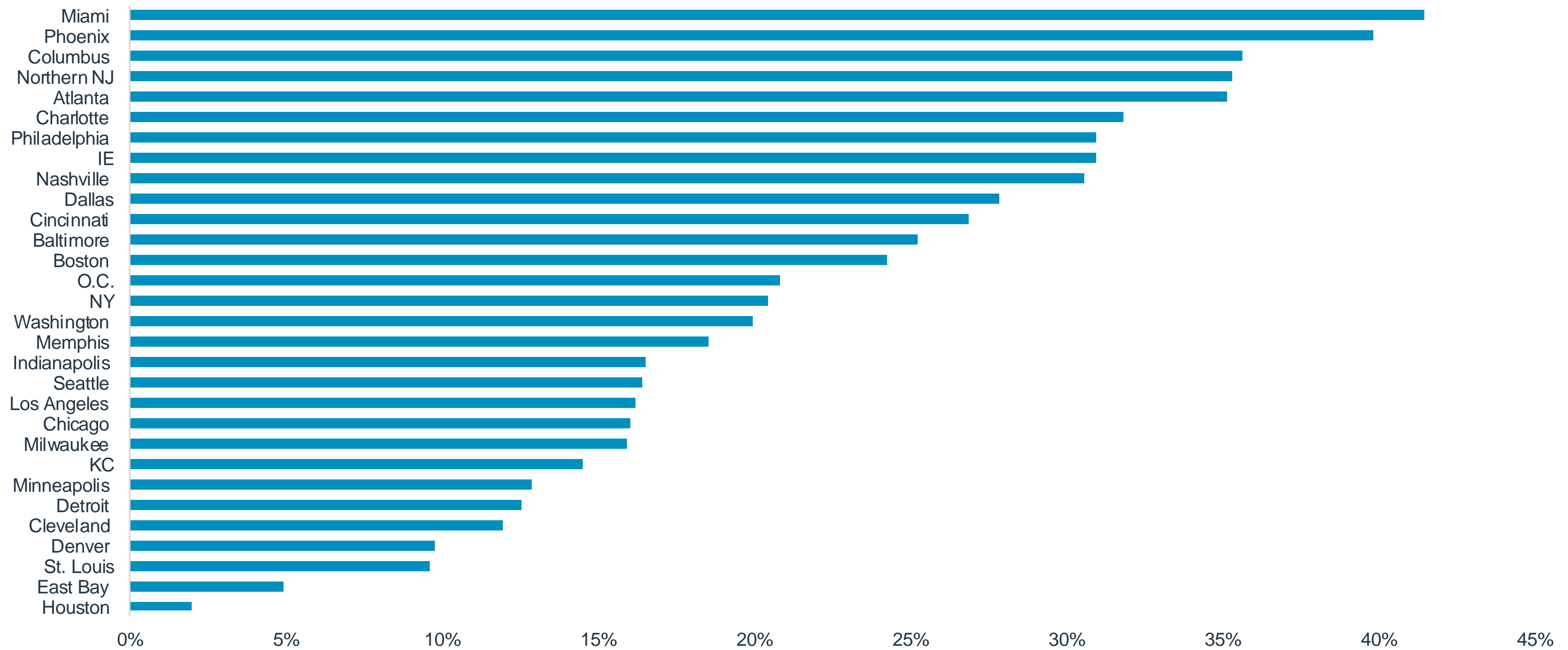
Source: Costar as of October 24, 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. industrial

Low-WALT properties still have embedded NOI growth opportunities following a record-high period of rental growth in the sector

Rent gap for expiring leases, 30 largest markets



Source: Costar as of November 1 2024. Rent gap is calculated as the difference between current market rents and rents at expiry of a 5-year lease signed in 2019 Q3 with 3% annual escalations.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. housing

Apartment demand outpaced new supply in the third quarter of 2024

- Apartment occupancy stood at 94.8% in October 2024
- Apartment rents grew 0.3% year-on-year as of October 2024
- Single-family rents grew 3.4% year-on-year as of August 2024

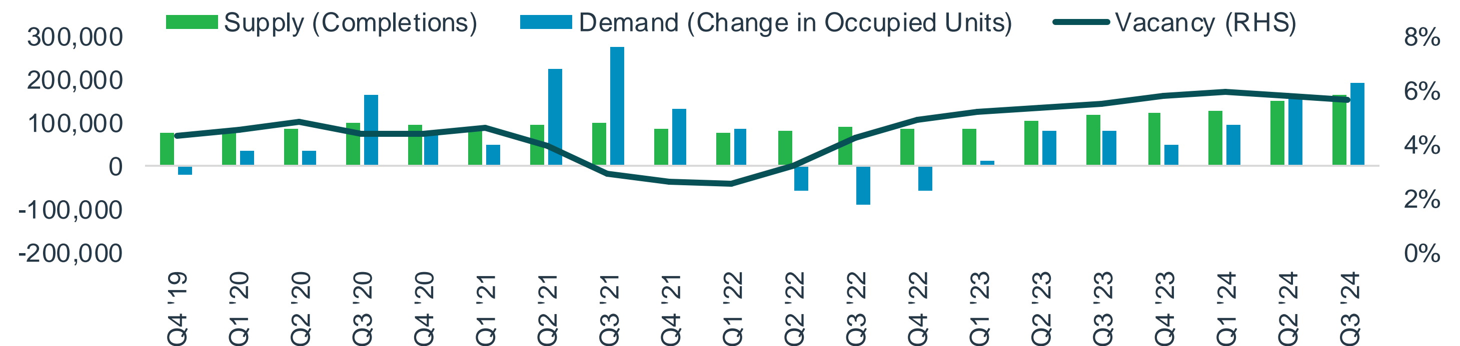
Apartment demand outpacing new supply

The apartment market added nearly 193,000 new renters in Q3 2024, above the 163,000 units that delivered, according to RealPage. October's marginal 0.3% year-on-year increase for rents marked 15 months of near-zero year-on-year effective rent growth. Near-term growth may be challenged as the market absorbs peak levels of new supply. Several Northeast markets have maintained positive year-on-year rent growth including NYC/Jersey City, Boston and Washington, D.C. However, supply heavy Sunbelt markets have experienced rent cuts including Austin, Raleigh, and Phoenix.

Single-family rental growth remains strong

Current single-family rental market conditions are favorable as rents grew 3.4% year-on-year as of August 2024, according to John Burns Research & Consulting. Single-family rentals are favorably positioned to benefit from various demand drivers in the next several years including the demographic wave into the prime single-family rental age cohort, continued migration to suburbs and Sunbelt markets, millennials outgrowing apartments, and millennials' financial headwinds to homeownership.

Apartment supply versus demand



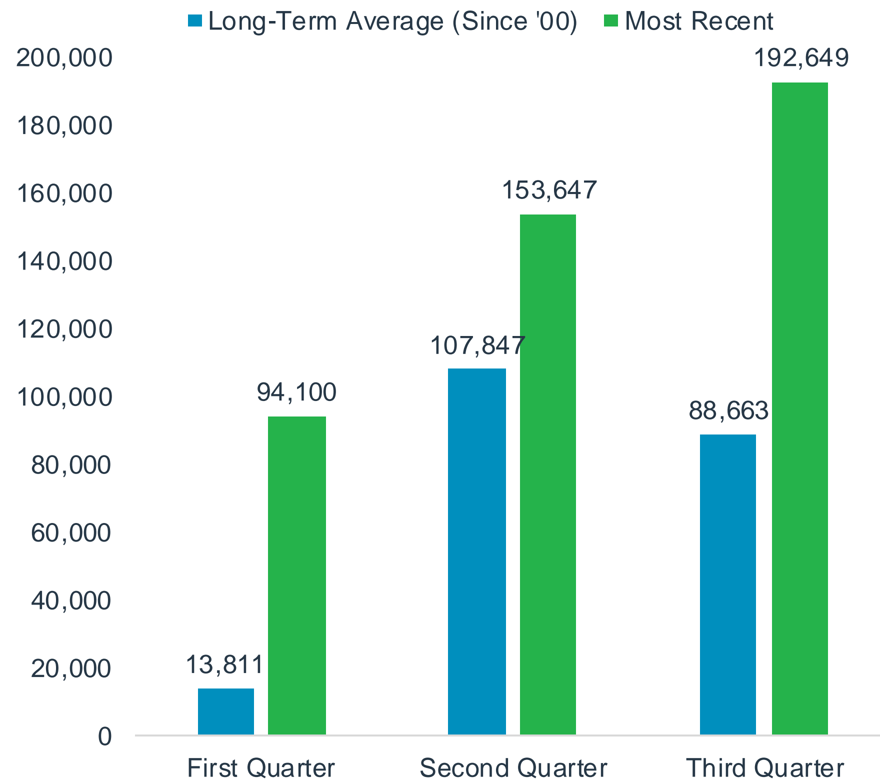
Source: Nuveen Real Estate Research; RealPage; John Burns Research & Consulting, November 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

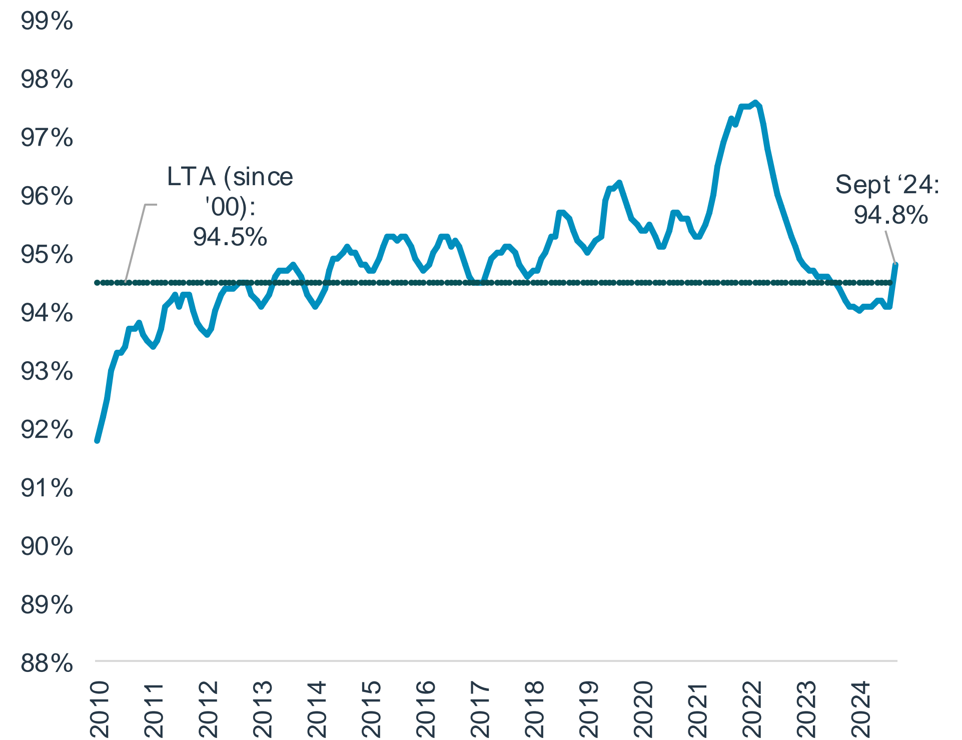
U.S. housing

The apartment market added nearly 193,000 new renters in Q3 2024, which was over 100,000 units above the third quarter's long term average demand, according to RealPage

Quarterly apartment net absorption



Apartment market occupancy



Source: Nuveen Real Estate Research; RealPage, November 2024

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. sustainability

The march to a low carbon economy continues

Conviction remains, key drivers: policy, occupiers and global investors

Policy

- Continuation of localities adopting commercial building energy or carbon regulation, with 30+ more planned in 2024
- White House Zero Emissions Building definition, and Federal Building Performance Standards
- Expect regulations to ramp up during the second half of the decade (2025-2030)
- "…by 2030 net zero will be the new building code" E.g. San Francisco All Electric Building Code for new builds

Investors

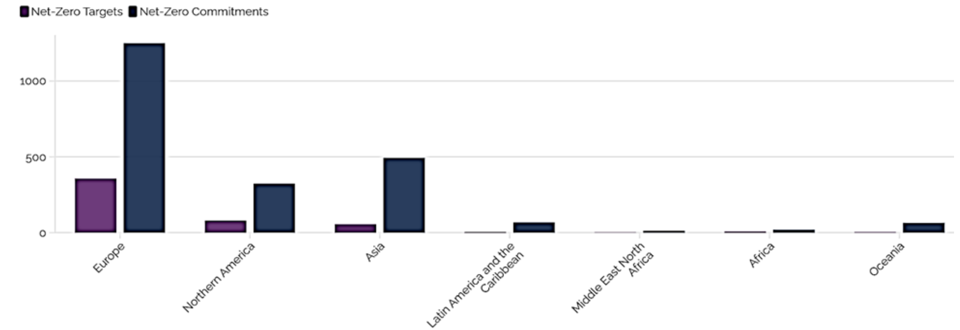
- 2024 GRESB: 15% increase in net zero goals, now reaching 65%
- INREV survey – 62% of global investors consider net zero carbon commitments when investing
- 68% of North American investors are committed to net zero carbon

Occupiers/owners

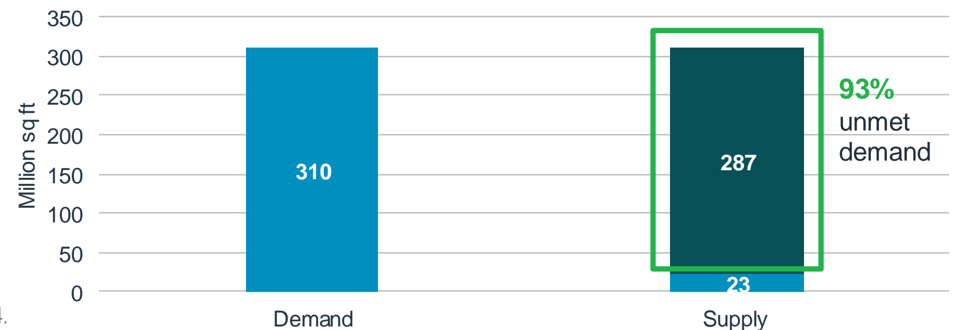
- U.S. government committed to using national net zero definition for federal leasing standard beginning 2030
- 49% of U.S. companies set net zero targets
- Total number of zero energy buildings in North America has grown by 42% since 2018
- Supply deficit – 310 million sq ft of current office space among top 20 office occupiers have made commitments to net zero carbon by 2050, but only 23 million sq ft current space with LEED Zero certifications
- Global net zero energy buildings market is forecasted to grow 29% CAGR through 2027

A strategic, long-term focus on net zero carbon responds to market trends anticipating value creation opportunities, given the existing supply-demand imbalance of decarbonized assets which are attractive to tenants and investors alike

80 North American companies have validated net zero targets, and 323 more have net-zero commitments



Data suggest demand for net zero buildings outweighs supply[1]



Source: JLL. Transwestern. Net Zero Trackers Partners. New Buildings Institute. ABI Research. GRESB. DOE. October 2024.

1 Source: JLL Research, September 2023.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Disclosures

This document is intended solely for the use of professional clients in Europe, Wholesale Clients in Australia, Professional investors in Hong Kong, and Institutional Investors in Singapore and United States, is not for general public distribution.

Any assumptions made or opinions expressed are as of the dates specified or if none at the document date and may change as subsequent conditions vary. In particular, the document has been prepared by reference to current tax and legal considerations that may alter in the future. The document may contain "forward-looking" information or estimates that are not purely historical in nature. Such information may include, among other things, illustrative projections and forecasts. There is no guarantee that any projections or forecasts made will come to pass.

International investing involves risks, including risks related to foreign currency, limited liquidity particularly where the underlying asset comprises real estate, less government regulation in some jurisdictions, and the possibility of substantial volatility due to adverse political, economic or other developments. The value of investments and the income from them may go down as well as up and are not guaranteed. Rates of exchange may cause the value of investments to go up or down. Any favourable tax treatment is subject to government legislation and as such may not be maintained. The valuation of property is generally a matter of valuer's opinion rather than fact. The amount raised when a property is sold may be less than the valuation.

Nothing in this document is intended or should be construed as advice. The document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

This material is provided for informational or educational purposes only and does not constitute a solicitation in any jurisdiction. Moreover, it neither constitutes an offer to enter into an investment agreement with the recipient of this document nor an invitation to respond to it by making an offer to enter into an investment agreement.

This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of yields or returns, and proposed or expected portfolio composition. Moreover, certain historical performance information of other investment vehicles or composite accounts managed by Nuveen has been included in this material and such performance information is presented by way of example only. No representation is made that the performance presented will be achieved by any Nuveen funds, or that every assumption made in achieving, calculating or presenting either the forward-looking information or the historical performance information herein has been considered or stated in preparing this material. Any changes to assumptions that may have been made in preparing this material could have a material impact on the investment returns that are presented herein by way of example.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Nuveen to be reliable, and not necessarily all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Company name is only for explanatory purposes and does not constitute as investment advice and is subject to change. Any investments named within this material may not necessarily be held in any funds/accounts managed by Nuveen. Reliance upon information in this material is at the sole discretion of the reader. They do not necessarily reflect the views of any company in the Nuveen Group or any part thereof and no assurances are made as to their accuracy.

Past performance does not predict or guarantee future results. Investment involves risk, including loss of principal. The value of investments and the income from them can fall as well as rise and is not guaranteed. Changes in the rates of exchange between currencies may cause the value of investments to fluctuate.

Nuveen Real Estate is a real estate investment management holding company owned by Teachers Insurance and Annuity Association of America (TIAA). Nuveen Real Estate securities products distributed in North America are advised by UK regulated subsidiaries or Nuveen Alternatives Advisors LLC a registered investment advisor and wholly owned subsidiary of TIAA, and distributed by Nuveen Securities, LLC, member FINRA.

Notice to persons in ADGM: This material is issued by Nuveen Middle East Limited ("NMEL") in or from Abu Dhabi Global Market ("ADGM"). NMEL is a private company limited by shares established in ADGM and registered with the Abu Dhabi Global Market Registration Authority (ADGM Registered Number 18132), with its office at Unit 16, Level 7, Al Maryah Tower, Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates.

NMEL is regulated by the ADGM Financial Services Regulatory Authority ("FSRA") to engage in the regulated activities of "arranging deals in investments" and "advising on investments or credit" in or from the ADGM (ADGM Financial Services Permission Number 240040).

The information contained in this material is intended strictly for "Professional Clients" as defined under the FSRA Conduct of Business Rulebook ("COBS"). The information contained in this material, and any offer of interests is not directed to "Retail Clients" as defined under the FSRA COBS. This material must not, therefore, be delivered to, or acted upon by, a Retail Client.

Nothing in this material has the effect of exempting NMEL from any liability imposed under any law of the ADGM or the FSRA rules.

4034176-0625