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REAL ESTATE

TH Real Estate's rebrand to Nuveen Real Estate consolidates global offering

CONTRIBUTOR

Michael Sales is CEO of Nuveen Real Estate. With over 25 years' experience within the real estate industry, he is a member of the Global Executive Leadership Team, which sets and executes strategic goals for the business. Working closely with senior investment managers, he ensures the business delivers investment performance and world-class service that is in line with clients' expectations. He also assists the Investor Relations Team in developing and maintaining client relationships.



You have recently rebranded. What prompted the decision to change your name?

Given that we were already part of Nuveen (the investment management arm of TIAA), rebranding to Nuveen Real Estate will bring greater clarity and consistency to our brand across the globe. It represents the next step in our corporate evolution, in which we will continue to develop our vision to be a top-tier real estate manager investing in tomorrow's world for the enduring benefit of our clients and society.

We benefit from the support and scale of Nuveen's investment platform and services, and it made sense to consolidate the offering to our clients and partners worldwide. Nuveen offers a broad array of traditional equity and fixed-income assets, as well as access to a wide range of liquid and illiquid alternative strategies in asset classes such as real assets (farmland, timber, infrastructure), private equity and debt. We can now more easily discuss cross-asset-class solutions with clients, tailored to their specific risk-and-return appetite.

How has your business grown geographically over the past year?

We continue to expand our local footprint across the key regions of the globe. The past 12 months have seen new office openings across the United States and key strategic hires across the United States, Europe and Asia Pacific. Asia is a particular growth focus for the business. We see a lot of emerging opportunities in that region and would like to help our clients take advantage of those. Over the next 10 years, Asia is going to account for half of the world's output, 30 percent of global consumption and about 60 percent of the increase in the urbanization rate. We are in the process of opening an office in Tokyo and have recently appointed a partner in Korea to enhance our access to investment stock in its key cities, such as Seoul.

How does investment philosophy guide your investment decisions?

Our investment philosophy is guided, first and foremost, by our global cities strategy. We believe it is the smart selection

of global cities, which are considered secularly resilient and sustainable from an economic and environmental perspective, that may help to underpin a robust real estate investment strategy over the long term. In doing so, we aim to deliver attractive, risk-adjusted portfolio returns to investors.

We use a proprietary research process to identify these top 2 percent of global cities. This methodical and balanced approach takes into account a wide range of characteristics: scale, transparency, stability and, most importantly, structural megatrends, helping to future-proof a portfolio for long-term relevance and growth. Overlaying and complementing our cities strategy is a clear tactical understanding of market fundamentals, which aims to deliver alpha to a portfolio at different points of the cycle. This involves a broader appreciation of sector dynamics across the whole city, as well as a deep dive into submarket conditions to supplement our house view of the broader economic and capital-market environment.

How are you responding to investors' needs for varying outcomes?

We provide clients access to our series of solutions through a range of products and structures, tailored to what best suits their requirements. We also co-invest alongside investors on a range of assets and products. We focus on three investor objectives, which we believe best address current concerns:

- Generating income and capital growth, despite the low-rate environment, by focusing on demographic needs to grow assets and match liabilities
- Managing risk in a world of ongoing uncertainty by focusing on structural trends to insulate against short-lived market cycles
- Managing assets cost-effectively via optimal scale and access by leveraging our global scale to bring like-minded investors together.

We have developed our range of real estate solutions to offer the resilient series, enhanced series and debt series. Each is tailored to help address additional bespoke investor requirements.

- Our *resilient series* is designed for investors who are focused on diversification, income and long-term capital growth. Our strategies focus on investing in high-quality assets in leading cities that are well positioned in terms of long-term structural trends, including demographic change, urbanization and technology.
- Our *enhanced series* applies strategies that work within market cycles, use a more active asset management and repositioning approach, and/or invest in emerging sectors and locations. These strategies are designed for investors that are looking for an enhanced level of capital growth.
- Our *debt series* is designed to provide investors with access to secure, income-focused returns. Our strategies may suit cautious investors seeking attractive levels of income with a measure of downside protection against short-term capital cycles.

What are the main challenges that real estate must overcome in reacting to technology, innovation and disruption?

The industry faces two main challenges. The first is navigating the short-term, technology-driven shift in the purpose of real estate. A major task will be understanding what people want from real estate, particularly in the two largest sectors: retail and office. The digital world allows people to work and shop remotely if they choose to, and real estate must differentiate itself by providing a compelling experience, or at least prioritize efficiency. The second challenge is adapting to a heightened pace of obsolescence. In order to do this, real estate must do more to encourage and reward creativity, forward-thinking and innovation. The industry must also think strategically by applying research around the nature of demand for real estate and the potential impact of key technological trends over the next 10 years.

Do you see environmental, social and governance (ESG) investing becoming more important to the real estate market?

Yes, absolutely. This is most notable from the increased focus on sustainability from institutional investors, in particular those across the Netherlands, Scandinavia and Australia. These investors are setting carbon-reduction targets and are mandating that the real estate funds they invest into are taking meaningful steps to reduce carbon and improve the energy efficiency of buildings. It is now very common that investors require funds to participate in the Global Real Estate Sustainability Benchmark (GRESB), and, in some cases, a minimum performance score is specified. Investors aren't only interested in energy efficiency. They are also focusing on climate-change resilience; fair wages in the supply chain; tenant activity (e.g., screening out tenants that manufacture weapons); and the impact of buildings on the health, well-being and productivity of occupants.

We do also see some evidence of tenants placing more emphasis on the sustainability of buildings when selecting real estate, and we expect this to increase in the future as more and more corporate occupiers and retailers set their own carbon-reduction targets. In the United States, 70 percent of our office tenants reported that an ENERGY STAR rating was important or very important in their search for office space.

How do you incorporate ESG factors into your investment strategies?

Fundamentally, we believe that by incorporating ESG into investment strategies, we are future-proofing the value of our real estate assets. Focusing on a wide range of ESG issues means that our property portfolio is better protected from risk and better placed to take advantage of opportunity. We assess the climate-change vulnerability, energy efficiency and exposure to environmental risk at the point of acquisition; then our Sustainable Property Management Requirements are in place to ensure that we improve the sustainability performance of the buildings

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Real estate investments are subject to various risks, including fluctuations in property values, higher expenses or lower income than expected, and potential environmental problems and liability.

that we own. We have a target to reduce the energy intensity of our real estate equity portfolio by 30 percent by 2030 (based on a 2015 baseline). The majority of our funds take part in GRESB and outperform their peer-group average in almost all instances.

How does incorporating ESG factors into investment strategies impact returns?

For core funds, incorporating ESG factors into investment strategy helps to protect return. This is most obviously the case for long-term investment, where the low-carbon economy transition and the impacts of climate change are most likely to have an impact. For shorter term and value-add investment, we believe ESG factors can be used to enhance return. For example, value can be added by sustainable refurbishment and by achieving sustainability certification such as LEED, BREEAM or Energy Star. Research that we have recently undertaken on our U.S. office portfolio has shown that sustainability certification is correlated with a significant decrease in vacancy.

What do you see being the main challenges of investing successfully in the real estate market in 2019?

One of the biggest challenges in 2019 will be ensuring real estate investors are getting paid for the risk they take on. For example, the U.S. real estate market is entering the ninth year of its recovery, and the cycle is, by any measure, considered to be mature. Typically during the mature stages of a cycle, investors need to take on more risk to compensate for lower yields.

Successful investors will have to find assets with long-term growth prospects, which go beyond the current cycle. And with severe shortage of stock in some of the key European growth markets, it may mean developing prime stock themselves, as we are doing in a number of key cities.

Another challenge will be managing the transition from real estate that is less in demand to emerging sectors, such as student housing or logistics. Investors will need to sell assets with weaker prospects, before values decline, and get a foot into the door with new sectors without overpaying or choosing the wrong partner.

What do you see being the major drivers of change in the real estate market beyond 2019?

One of the biggest drivers of change beyond 2019, from a values and fundamentals perspective, will ultimately be the economic cycle, since economic growth typically determines how well real estate performs. But another key driver will be technology and the disrupters this technology begets in the coming decades. The management of real estate will also become more crucial for value creation and preservation.

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681083-O-MED- 12/19