nuveen
REAL ESTATE

Investing in *commercial real estate debt*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Commercial real estate debt (CRE) continues to see strong interest

from investors globally, especially in today's volatile, rising interest rate environment. The ability to offer attractive returns with low volatility, steady income flows, and fixed or floating rate structures make real estate direct lending attractive to a wide swath of institutional investors.

"The investment attributes of CRE debt are becoming increasingly sought after, offering stability, diversification and contracted income."

"Private CRE debt funds are structured to deliver solid and reliable returns over the cycle with much lower volatility than equity funds and offer attractive risk-adjusted returns. Available data shows a history of debt products performing strongly."

What is commercial real estate debt — and why does it matter?

Commercial real estate debt refers to loans secured by commercial real estate properties including assets such as multifamily, apartment buildings and industrial facilities. Three features make debt attractive for investors:

1

INCOME-FOCUSED RETURNS WITH PERIODIC INTEREST PAYMENTS ON A CURRENT BASIS

2

THE REPAYMENT OF THE REMAINING PRINCIPAL AT LOAN MATURITY

3

DOWNSIDE CAPITAL PROTECTION DUE TO ITS STRUCTURAL AND PAYMENT PRIORITY RELATIVE TO EQUITY

Real estate markets are currently experiencing significant volatility and heightened uncertainty due to inflation and political related risks while investors are seeking investments that can produce strong but predictable income returns.

CRE debt investments are becoming increasingly sought after as they provide relatively high and stable incomes returns, downside protection and diversification benefits, competitive returns relative to other fixed income and direct real estate investments.

These structural benefits are now open to CRE lenders beyond the traditional banking sector as a result of the significant regulatory and market changes which have occurred since the global financial crisis (GFC).

Although CRE debt has traditionally been a fundamental part of the real estate market, investment opportunities in CRE debt for alternative investors/lenders have previously been difficult to access. Since the GFC and, more recently, the COVID-19 pandemic, stricter regulatory, capital and liquidity requirements have increased the burden on banks' balance sheets, which has led to tighter underwriting standards, significantly reduced loan leverage, substantially increased loan pricing and even rationing credit in some sectors. The resulting retrenchment of traditional lenders, as well as the reduction and repricing of available debt capital, has created a permanent, attractive and executable investment opportunity for non-bank lenders and debt funds to provide a meaningful share of future CRE debt finance requirements.

Reasons to invest in CRE debt:

In our opinion, it is an opportune time to add commercial real estate debt to a real estate equity or multi-asset portfolio given the abundance of lending opportunities offering strong relative value and attractive risk-adjusted returns.

In 2021, real estate transaction records were set in the Americas, EMEA and Asia Pacific. According to RCA, transaction volumes were up 17% YoY as of end of Q2 2022, but down as of Q3 2022.

CRE debt outperformed public equities in the first half of 2022. The real estate sector's relatively strong performance in 2022 is likely to have pushed real estate above the target allocation of many institutions, causing a pullback in real estate transaction volumes in the second half of the year. Historically, real estate debt often provides higher risk-adjusted returns than real estate equity at points such as this in the cycle, as real estate debt provides stable capital returns during times of economic volatility.

Relatively low default risk

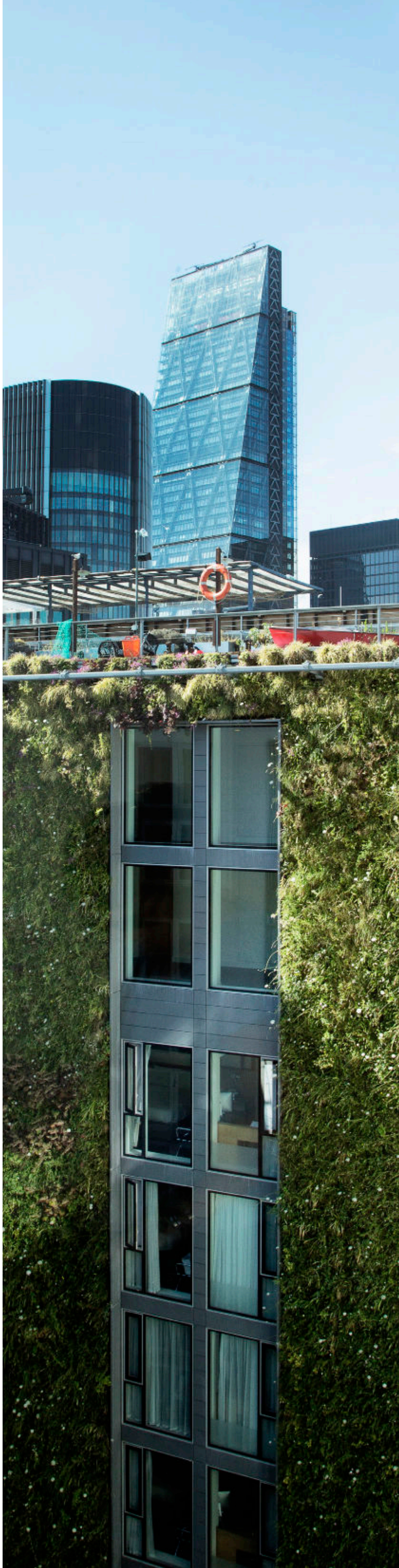
CRE debt has security over real estate collateral and has lower loss and higher recovery rates than comparable corporate bonds.

Attractive relative returns

Capital allocations to CRE debt can increase expected returns and can lower return volatility in a multi-asset portfolio.

Stable and predictable returns during recession

A well constructed CRE debt portfolio can generate stable, income-based returns derived from a diverse portfolio of loans across borrowers, sectors, properties and tenants of various sizes, in multiple industries and with staggered lease expirations.



Why invest in commercial real estate debt now?

Capital protection

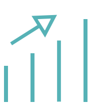
Debt benefits from an equity "buffer", which we believe can provide performance protection particularly in times of increased uncertainty

Stable income

Stable, income-focused returns with low correlation to wider property and investment markets

Diversification

CRE debt acts as a diversifier and stabiliser in a well-constructed portfolio



Relative value

Attractive risk-adjusted returns relative to fixed income investments and direct real estate on a current income and total return basis

Market opportunity

Structural and regulatory changes in global CRE lending marketplace have created a long-term opportunity for alternative lenders

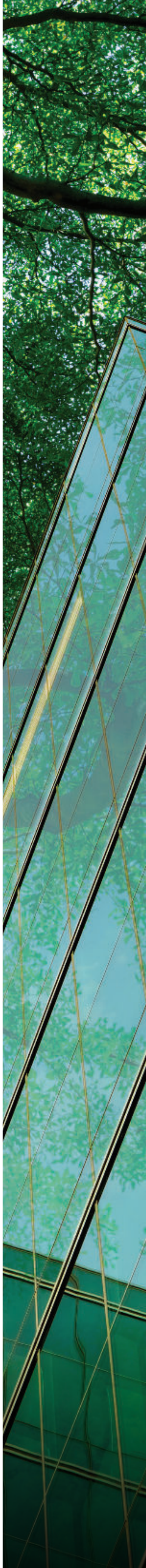
What are the risks? *Adding CRE debt to a traditional portfolio*

Lenders need to identify where loans are at greater risk due to market volatility and ensure margins are high enough to compensate for that risk. Lenders should also manage risk through sponsor selection, asset analysis, loan structure and leverage and they can target their desired risk by adjusting leverage and capital structure.

Underpinning risk and performance is the loan-to-value (LTV) ratio that creates an equity cushion that reduces downside risk. This downside protection helps explain why debt funds can deliver expected returns even if capital values are falling. Lenders can insulate themselves from a weak market if their portfolio has been protected sufficiently with debt service and LTV covenants that protect the lender in the event of default. These buffers and performance covenants may reduce the loan balance at risk.

CRE debt investments provide resilient returns given that they provide low capital value volatility and stable income flows. However, capital volatility differs between CRE sectors over the course of the real estate cycle and between countries, which creates differences in lending risk.

Investors who intend to invest in CRE debt should partner with experienced and expert CRE lenders. These partners will have developed the sponsor relationships and have the expertise to structure transactions with features that are reliably shown to reduce risk. Lenders who are active in the real estate equity market themselves can leverage their knowledge and experience, as well as access to proprietary and market data, to better analyze and underwrite risk. Such vigilance and risk management are especially necessary when the economic outlook is uncertain.



What are C-PACE loans?

One interesting subset of real estate debt that is attracting investor attention is U.S. Commercial Property Assessed Clean Energy (C-PACE) loans. C-PACE is a public-private partnership enabled by state law and county/municipal ordinance. The program is designed to help commercial building owners invest in their property while subsidized C-PACE financing has been enacted by many U.S. state governments allowing commercial building owners and developers to obtain low-cost, long-term, fixed-rate financing for energy efficiency, water conservation and renewable energy projects. 38 states have adopted C-PACE policies. Some of the most interesting characteristics of C-PACE loans for investors to consider include:

- Senior to all debt secured by the property with the exception of taxes and other assessments
- Long-dated with stable, risk-adjusted returns and investment-grade ratings
- Exposure to ESG products due to financing of energy efficiency and renewable energy improvements

Nuveen Green Capital is a national leader in sustainable commercial real estate financing solutions and an affiliate of Nuveen, the investment manager of TIAA responsible for $1+T in assets under management. Established in 2015 by the C-PACE industry's founders and standard-setters, Nuveen Green Capital is a private capital provider dedicated to making sustainability a smart financial decision for commercial real estate owners who seek to improve the energy, water performance and resiliency of their property.

Nuveen Real Estate debt platform:

Nuveen Real Estate's CRE debt platform invests across the capital structure, seeking income-focused, stable and attractive, risk-adjusted as well as absolute nominal total returns for investors through a diversified portfolio of investments.

We have an extensive origination network, in-house debt structuring, syndication, risk, portfolio management and asset management capabilities that enable Nuveen to originate attractive credit investment opportunities on behalf of our clients.

Nuveen finances core loans and transitional bridge loans, and can structure loans as senior notes, whole loans, and subordinate notes, with long and short durations across a wide array of risk/return.

Our investment, asset management and corporate strategies stem from a deep understanding of the structural trends that we believe will shape the future of real estate and responsible investing.

AUM

$44B

Investing in debt since

1934

Debt specialist team of global professionals

50+

Established lender with dedicated local teams

50+ dedicated debt specialists across our global platform and $8.9B in annual global originations[1]

North America
(Investing since 1934)

$39.9B AUM

- Dedicated origination, asset management and portfolio teams
- Respected name in the lending market with 85+ years of experience
- Extensive history, resources and capabilities of TIAA debt business united with Nuveen Real Estate platform in 2016

Europe
(Investing since 2014)

$4.4B AUM

- Experienced investment team: previous track record of underwriting in excess of $34B+ of CRE debt, including over $20B in the U.K.
- Origination network, respected name in lending market
- Actively investing across senior, whole, and junior loans

Asia Pacific
(Platform launched 2018)

$494.0M AUM

- Platform created to leverage CRE Debt opportunity in Asia Pacific
- Established team of local debt professionals who understand the local markets and are actively identifying opportunities

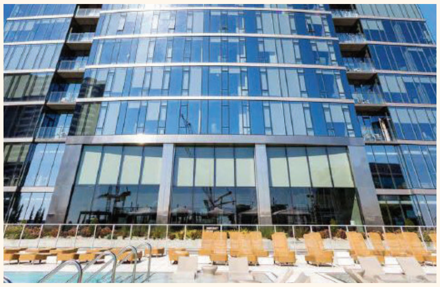
As of 30 Sep 2022

1 Based on five-year average

A selection of current portfolio assets

555 Mangum

Originated: 2021
Loan Type: Transitional Mezzanine
Property Type: Class A workplace/office
Location: North Carolina, U.S.



505 Church Street

Originated: 2019
Loan Type: Core
Property Type: Multifamily, mixed-use
Location: Tennessee, U.S.

Mandolin Apartments

Originated: 2021
Loan Type: Transitional Mezzanine
Property Type: Multifamily
Location: Texas, U.S.

Lateral Zetland

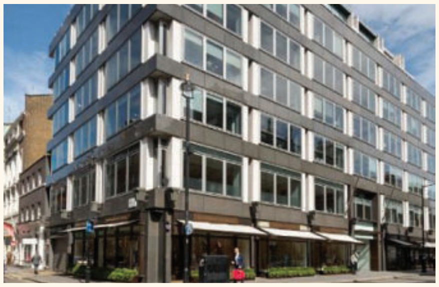
Originated: 2021
Loan Type: Core
Property Type: Multifamily
Location: Zetland, Australia

Project Lynx

Originated: 2021
Loan Type: Core
Property Type: Data centre, new development
Location: Frankfurt, Germany

Griffith Wood

Originated: 2022
Loan Type: Core
Property Type: PRS portfolio
Location: Dublin, Ireland



Burlington Gardens

Originated: 2022
Loan Type: Transitional Mezzanine
Property Type: Class A workplace/office
Location: London, U.K.

Venus

Originated: 2022
Loan Type: Core
Property Type: Multifamily, new development
Location: London, U.K.

The Oliver

Originated: 2021
Loan type: C-PACE
Property Type: Multifamily, new development
Location: Maryland, U.S.

Conclusion

Investor focus on income returns, has sharpened in light of the rising interest environment.

The relatively high current income return combined with downside protection, stability, diversification and contracted income of CRE debt are becoming increasingly sought after by investors. Against the current backdrop of volatility and heightened uncertainty in the real estate market. CRE debt presents competitive relative value compared to fixed income and direct real estate investments.

About Nuveen

Nuveen, the investment manager of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has $1+T in assets under management and operations in 27 countries. Its investment specialists offer deep expertise across a comprehensive range of traditional and alternative investments through a wide array of vehicles and customized strategies.

With over 85 years of real estate investing experience and more than 740 employees[1] located across 30+ cities throughout the United States, Europe and Asia Pacific, Nuveen Real Estate offers unparalleled geographic reach, and deep sector expertise. The breadth, scale and extensive real estate expertise of our platform enables us to deliver strong investment returns to develop bespoke and customized long-term strategies that meet our clients risk appetites and return objectives.

As of 30 Sep 2022

1 Includes 370+ real estate investment professionals, supported by a further 370+ Nuveen employees.

For more information about investing in CRE Debt, visit us at nuveen.com/debt

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