

October 2024

Is it time to reallocate to real estate?



Donald Hall
Global Head of Real Estate Research

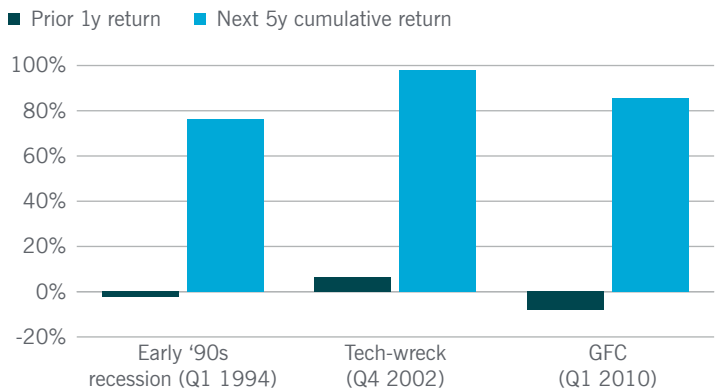
Global real estate returns turned positive in the second quarter following two years of cumulative losses, suggesting a budding recovery in the asset class.

In the era of low interest rates, real estate values were flying high. Globally, total returns reached 5.0% quarter-over-quarter in Q4 of 2021 and 17.8% year-over-year in the subsequent quarter – figures that were well above long-term averages. The tightening cycle that followed more than unwound those gains, with values now back to 2018 levels globally.¹

We believe the real estate market correction is nearly complete and investors should take a fresh look at the asset class, which has historically generated stable income returns and portfolio diversification benefits over the long-term – and can offer robust returns during a recovery period. For example, after the early 90s recession, investors experienced a 76% cumulative return over the next five years. Following the tech-wreck, the five-year cumulative total return was 98% and

in the aftermath of the Global Financial Crisis, 86% (Figure 1).

Figure 1: Total returns, U.S. NCREIF ODCE Index



Source: NCREIF ODCE Index (as of 2024); Nuveen Real Estate Research
Past performance is no guarantee of future results. It is not possible to invest in an index.

EVIDENCE OF A TURNAROUND IN... VALUATIONS

In the second quarter of 2024, global value losses moderated to 0.74%, the lowest quarterly adjustment of the prior two years. With offsetting income returns of 1.07%, global real estate notched a positive 0.33% return, the first positive quarter since the second quarter of 2022 (Figure 2).

FOR PUBLIC DISTRIBUTION IN THE U.S. OR PROFESSIONAL INVESTOR USE IN OTHER JURISDICTIONS WHERE APPLICABLE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

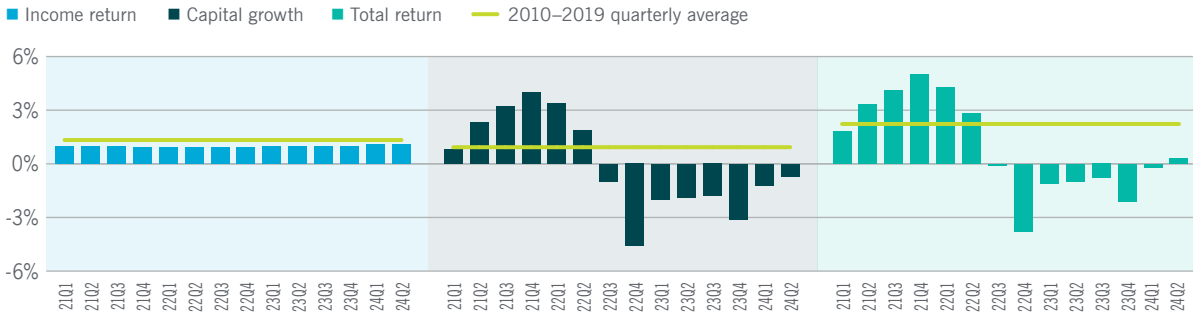
Across the 15 global markets that comprise of the MSCI Global Property Index, a slight majority experienced write-ups in real estate values during the second quarter for the first time since Q2 2022. Eight markets saw values increase from the prior quarter: Japan, South Korea, Singapore, Southern Europe, the Nordics, the Netherlands, France, and the United Kingdom.

Six markets saw value losses between 0.3% and 1.5%, all of which had moderated from the previous quarter. Only Australia recorded a larger write-down in the second quarter than it did in the first – a 4.2% correction which brought valuations more in line with the country’s peer set. However, change in capital values is only one component of real estate returns. Historically, the larger component of total returns is income.²

...TOTAL RETURNS

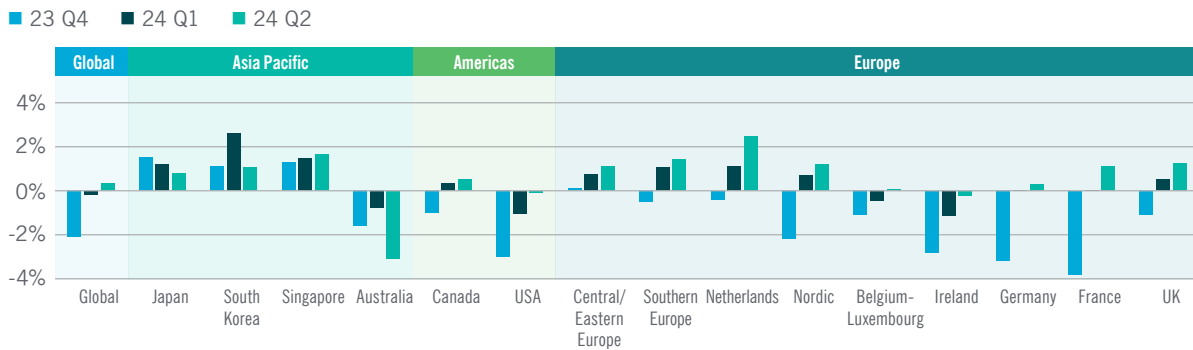
Income returns are generally stable by nature and are often cited by investors as one of their primary reasons for investing in the asset class.³ Capital returns plus income returns equal total returns, and in the second quarter total returns were positive nearly everywhere – twelve of fifteen countries (Figure 3). They were essentially flat in the U.S. (-0.09%), marginally negative in Ireland (-0.22%), and only significantly negative in Australia (-3.07%). Global data for the third quarter was not available at the time of publication, but preliminary data from the NCREIF ODCE index showed U.S. total returns ticking positive in Q3 (0.25%). With evidence of values beginning to rebound, we expect the positive trajectory in total returns to continue.

Figure 2: Quarterly returns Q1 2021 – Q2 2024



Source: MSCI Global Quarterly Property Index (Q2 2024 data as of 4 September 2024 data release); Nuveen Real Estate Research
 Past performance is no guarantee of future results. It is not possible to invest in an index.

Figure 3: Total returns



Source: MSCI Global Quarterly Property Index (Q2 2024 data as of 4 September 2024 data release); Nuveen Real Estate Research
 Past performance is no guarantee of future results. It is not possible to invest in an index.

...AND AROUND THE WORLD

Using the most recent data from the transaction market (Figure 4), we are starting to see further signs in a budding recovery. Of 11 countries with data available through MSCI’s Commercial Property Price Index, five saw transaction prices increase in the second quarter — Japan, Canada, the United States, France and the United Kingdom. Prices in the U.S. were up more than any other country with gains in Chicago, Washington DC, Los Angeles, Orange County, New York City Suburbs and San Jose.

In each country, there is significant variation by property type and by market. For example, as of August prices in the beleaguered U.S. CBD office market fell 27.4% year-over-year but prices in the more resilient industrial market increased 6.9%.

Orange County in California saw price gains of 2.5% in the second quarter across property types, while the Greater San Francisco area experienced a 3.0% price decline. Even within a market there can be large differences — within the Greater San Francisco area, the city of San Francisco saw a 4.8% decline while the San Jose market saw a 1.7% increase in prices. This differentiation highlights the opportunity for outsized returns during a period of price discovery, if you invest in winning markets and property types (Figure 5).

STABILIZING FUNDAMENTALS

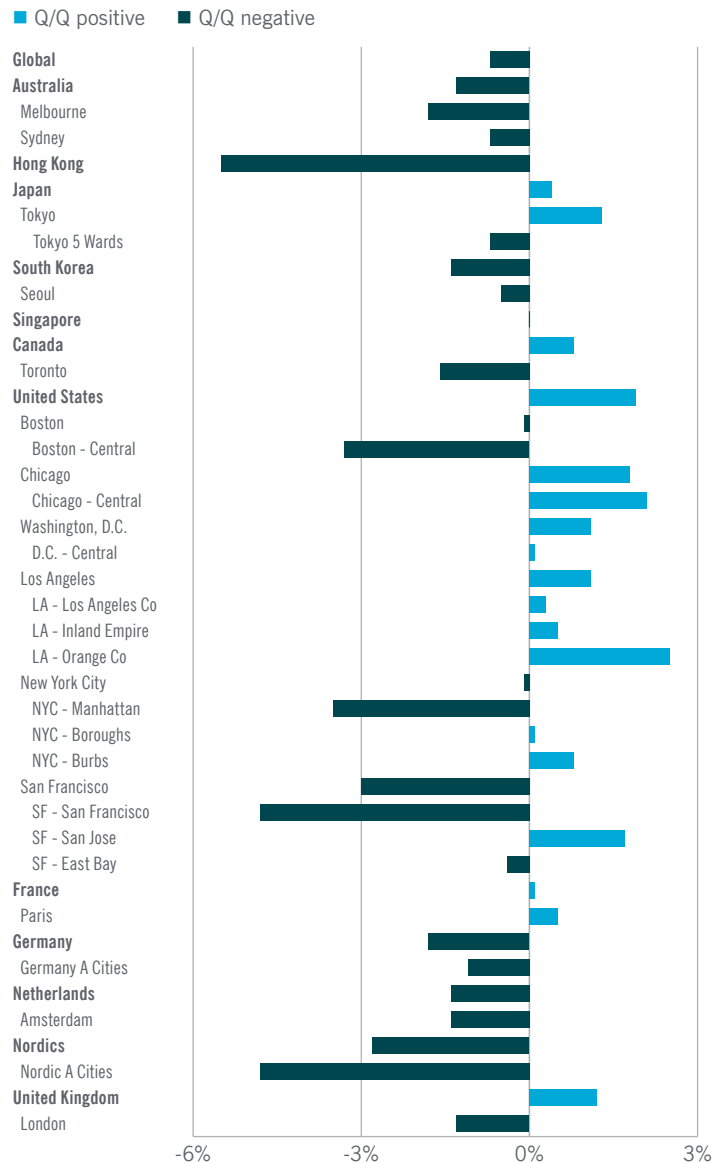
Stabilizing valuations and transaction market pricing both point towards a market that is likely near its bottom, but these signals alone would not indicate an attractive entry point for real estate. For market pricing and valuations to increase going forward, we would ideally see declining interest rates and strengthening property fundamentals going forward.

Most developed market central banks are beginning to taper interest rates, which should put downward pressure on financing rates, discount rates, and property capitalization rates — boosting the value of real estate assets.

A pullback in construction activity across sectors bodes well for property fundamentals in the medium term. The U.S. apartment and industrial

Figure 4: Global transaction pricing

Q/Q change in transition pricing (RCA CPPI)



Source: MSCI Real Capital Analytics (as of Q2 2024); Nuveen Real Estate Research
 Notes: Price indexes are for commercial real estate (office, industrial, retail); Cities are metro areas unless otherwise indicated; German A Cities are Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart; Nordic A Cities are Copenhagen, Helsinki, Oslo and Stockholm

markets are seeing new construction starts less than one-third of peak levels with the amount of space currently under construction already back down to pre-pandemic levels (Figure 6). Interest rates may be moderating, but construction financing is still expensive. A pullback from local and regional banks (which often finance

construction) should equate to a decline in construction activity going forward.

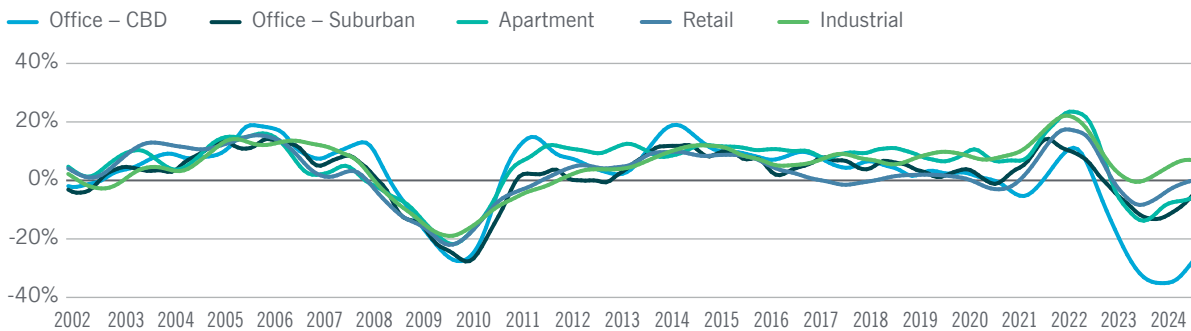
While these dynamics may offer challenges to property developers, for landlords and investors this is a welcome development. With supply headwinds waning, for markets that have positive demand due to population growth or structural changes (e.g. ecommerce), occupancies are set to increase in the medium term. Historically, occupancies and rent growth are well correlated, giving investors an opportunity to see gains from

occupancies, rents, and the associated increase in property values going forward.

The outlook today for global private real estate seems to be looking up, but the rising tide is unlikely to lift all boats. For example, the U.S. office market still has challenges to work through and a broad recovery in that segment of the property market seems highly unlikely in the near-term. This supports the need for research and selectivity when investing.

Figure 5: U.S. commercial property index (2000-2024, annual)

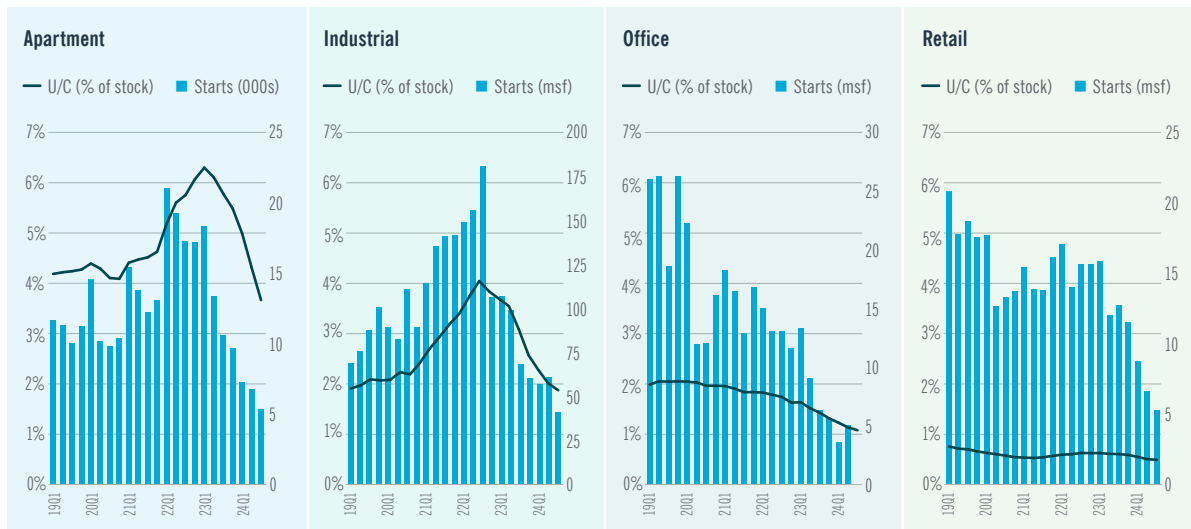
U.S. commercial property price index (Y/Y)



Source: MSCI Real Capital Analytics (data through August 2024 as of September 2024); Nuveen Real Estate Research

Figure 6: U.S. construction activity by property type

U.S. commercial property price index (YoY)



Source: CoStar (Q3 2024); Nuveen Real Estate Research

REBALANCE WITH REAL ESTATE

An uncertain economic and geopolitical environment creates additional risk, but the same could be said across all asset classes. Over the last two years, the weight of real estate in investors' portfolios has decreased materially — a result of resetting real estate values and a record stock market.

Investors today may consider fresh allocations to the private real estate market to bring their allocations up to a strategic weighting. Over the long-term, private real estate offers low correlations to other asset classes, strong income returns, and a degree of inflation-hedging. While there may yet be a bump or two in the road, we believe the market is starting to look up and there are excellent investment opportunities today for savvy investors.

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

Endnotes

Sources

- 1 MSCI Global Quarterly Property Index (Q2 2024 data as of 4 September 2024 data release)
- 2 MSCI Real Capital Analytics CPPI (as of Q2 2024)
- 3 ANREV/INREV/NCREIF Fund Manager Survey 2024. Survey illustrated rankings of 96 fund managers globally by AUM as of 31 Dec 2023.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. 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 market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example.

Past performance is no guarantee of future results. Investing involves risk; principal loss is possible.

Important information on risk

Investing involves risk; loss of principal is possible. Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties. The real estate industry is greatly affected by economic downturns or by changes in real estate values, rents, property taxes, interest rates, tax treatment, regulations, or legal. Prices of equity securities may decline significantly over short or extended periods of time.

Nuveen Real Estate is a real estate investment management holding company owned by Teachers Insurance and Annuity Association of America (TIAA). All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Notice to persons in ADGM: This material is issued by Nuveen Middle East Limited ("NMEEL") in or from Abu Dhabi Global Market ("ADGM"). NMEEL 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. NMEEL 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. The Fund(s) named herein has been notified, or will seek to be notified to FSRA as may be required, under the FSRA Fund Rules for offering and sale only to Professional Clients. Nothing in this material has the effect of exempting NMEEL from any liability imposed under any law of the ADGM or the FSRA rules.

This information does not constitute investment research as defined under MiFID.

Nuveen, LLC provides investment solutions through its investment specialists.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

nuveen
REAL ESTATE