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Nuveen Real Estate

Real estate recovery: Navigating the new landscape

The real estate market is showing promising signs of recovery after a period of significant turbulence. For institutional investors, this is a unique opportunity to reassess and reallocate portfolios. In this article, we explore the factors driving the real estate market's resurgence, the enduring benefits of real estate investments and how investors can successfully navigate this evolving landscape.

Real estate markets: Poised for recovery

The real estate market correction that began in early 2022 is nearing completion, setting the stage for a recovery phase. Research by Nuveen Real Estate supports this outlook.

Stabilising valuations

Across the 15 global markets comprising the MSCI Global Property Index, a slight majority experienced write-ups in real estate values during the second quarter of 2024 for the first time since the second quarter of 2022. This suggests that, globally, markets are finding their feet after a period of adjustment. Eight markets saw values increase from the prior quarter – Japan, South Korea, Singapore, Southern Europe, the Nordics, the Netherlands, France and the United Kingdom.

Positive total returns

In the second quarter of 2024, total returns were positive in 12 of 15 countries tracked by MSCI. They were essentially flat in the United States (–0.09 percent), marginally negative in Ireland (–0.22 percent), and only significantly negative in Australia (–3.07 percent). The NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE), which is available earlier than the MSCI Global Property Index, showed positive US total returns in the third quarter (0.25 percent), indicating a continuing positive trajectory.

Sector-specific resilience

Certain sectors demonstrating remarkable resilience are leading the recovery.

Logistics: The ecommerce boom continues to drive demand for warehousing and distribution centres, particularly in strategic locations near major urban centres in Europe and the United States.

Multifamily housing: Across Asia and Europe, there is a growing trend toward professionally managed rental apartments offering modern amenities, which individual landlords typically cannot provide. In the United States, apartment demand has reaccelerated as supply headwinds begin to wane, setting up the sector for a rebound in fundamentals.

Healthcare: Occupancy levels in medical office and senior living in the United States continue to rise as a result of an ageing demographic and limited supply pressure. In Europe and Asia, senior living is experiencing similar undersupply and demographic tailwinds.

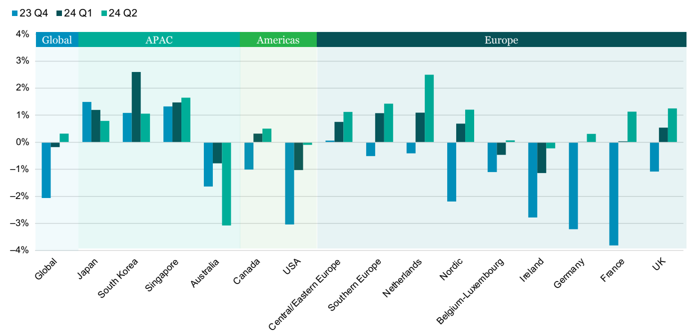
Regional variations

Recovery patterns differ across regions, offering diverse entry points for investors. In the United States, for example, Sun Belt cities, such as Austin, Nashville and Phoenix, continue to attract businesses and residents, driving demand for commercial and residential real estate. Meanwhile in Europe, logistics corridors in the Netherlands and Germany are seeing increased activity as supply chains reconfigure. And in Asia Pacific, Singapore and Tokyo are finding favour among international investors wary of shifting geopolitical trends.

Construction slowdown

A pullback in construction activity across sectors bodes well for property fundamentals in the medium term. In the United States, for instance, apartment and industrial 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.

Total returns suggest improving global market dynamics



Sources: MSCI Global Quarterly Property Index, Q2 2024 data as of 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.

Long-term benefits of real estate investments

While cyclical fluctuations can be unsettling, the fundamental attributes that make real estate an attractive asset class remain intact.

Stable cashflows: Well-located, high-quality real estate assets can provide consistent income streams, particularly valuable in a changing rate environment. 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.

Return potential: Real estate has historically demonstrated strong return potential, especially during recovery periods. For example, according to the NFI-ODCE, after the recession in the early 1990s, investors experienced a 76 percent cumulative return during the next five years. Following the tech-wreck, the five-year cumulative total return was 98 percent, and in the aftermath of the 2008 global financial crisis, it was 86 percent.

Portfolio diversification: Real estate's low correlation with other asset classes can enhance overall portfolio stability and risk-adjusted returns. This diversification benefit is particularly valuable during periods of market volatility.

Inflation hedge: Real estate has historically served as an effective hedge against inflation, with rents and property values often rising in tandem with broader price increases.

Long-term demand drivers: Urbanisation, demographic shifts and evolving work and lifestyle preferences continue to underpin demand for various real estate sectors.

Long-term thesis: Megatrends shaping the future of real estate

To successfully navigate the real estate landscape, investors need to understand the megatrends shaping long-term demand. Two particularly significant trends are:

Ageing demographics: The global population aged 65 and over is projected to more than double by 2050, reaching 1.6 billion, according to the United Nations. This shift is creating three key areas for investment: supplying dedicated healthcare facilities; refurbishment opportunities for senior care in urban cities; and tapping into increased demand for alternative real estate sectors. In Japan, for example, the senior population is expected to account for approximately 25 percent of the national population by 2065. Care-home supply is expected to fall well short of the estimated 8 million increase in the senior population in this period. In the United States, where the 65-plus age group spends on average three times more on healthcare than those aged between 19 and 44 (Centers for Medical and Medicaid Services, 2024), medical office is currently 93 percent occupied, highlighting opportunities in medical office buildings and life sciences facilities as society ages.

The ageing population is also affecting office space demand, as the working-age population stagnates or declines in some regions. If the demand for office space and similar employment-focused real estate were to decline in line with a falling working-age demographic, these properties could be development opportunities to meet growing demands from sectors such as senior care, hospitality and residential.

Growth of the East: Asia Pacific's youth demographic plays a part in the thesis for the growth of the East. Half of the world's Gen Z population is expected to reside in Asia Pacific by 2030. This digitally savvy and youthful population will help to further accelerate ecommerce penetration and propagate demand for logistics assets, particularly last-mile facilities.

In the coming decades, an increasing number of people will move to cities in Asia Pacific, creating opportunities in multifamily housing, as well as driving the ongoing rise of the middle class, wealth and consumption. Increasing consumer spending power means Asia Pacific is projected to make up more than 30 percent of global consumption by 2030. The growing number of affluent consumers will entice international retailers to the region, creating demand for modern and well-managed malls.

Investing for success: The Nuveen advantage

In this complex and evolving real estate landscape, partnering with a manager who combines global reach with local expertise is crucial. Nuveen's approach offers several key advantages for investors:

Market expertise: Our research-driven approach, exemplified by our *Megatrends* series, allows us to identify long-term value creation opportunities across markets and sectors. This deep understanding of global trends, combined with granular local knowledge, enables us to uncover opportunities based on long-term, structural drivers with confidence.

Global presence: With operations in key markets worldwide, we spot emerging trends and cross-pollinate best practices across regions. Our global network allows us to provide investors with diverse opportunities and insights from mature markets, such as the United States and Europe, to high-growth regions, for example, in Asia.

Local insights: Our on-the-ground teams provide detailed market knowledge, essential for identifying mispriced assets and managing properties effectively. This local expertise is crucial in navigating regulatory environments, understanding tenant needs and identifying emerging submarkets.

Sector specialisation: Our dedicated teams focus on growth sectors, allowing for deep operational expertise. This specialisation enables us to add value through active asset management and development strategies.

Sustainability focus: Our commitment to responsible investing principles helps future-proof assets and align with the increasing emphasis on responsible investing. We are at the forefront of developing and implementing sustainable real estate strategies that not only reduce environmental impact but also enhance asset value.

Value-added capabilities: We have a proven track record in enhancing asset value through strategic improvements and repositioning. Our teams are skilled in identifying assets with untapped potential and executing strategies to realise that potential.

Flexible investment strategies: Our platform allows for tailored investment solutions, from core to opportunistic strategies, meeting diverse investor needs. We can adjust our approach based on market conditions and individual investor requirements.

Seizing opportunities in the real estate recovery

As the real estate market enters a recovery phase, institutional investors have a unique opportunity to position themselves for long-term success. By understanding the drivers of recovery, recognising the enduring benefits of real estate investments and aligning with megatrends, investors can build resilient portfolios.

Navigating this landscape, however, requires more than just capital; it demands a partner with global perspective and local execution capabilities. Nuveen's combination of worldwide presence, sector-specific expertise and on-the-ground insights allows us to help investors capitalise on the opportunities emerging in this new cycle.

CONTRIBUTOR

Donald Hall
Global Head of Research | Nuveen Real Estate

COMPANY OVERVIEW

Nuveen Real Estate is one of the largest investment managers in the world, with $143 billion of assets under management. Managing a suite of funds and mandates, across both public and private investments, and spanning both debt and equity across diverse geographies and investment styles, we provide access to every aspect of real estate investing. With more than 85 years of real estate investing experience and 750-plus employees* located across 30-plus cities throughout the United States, Europe and Asia Pacific, the platform offers unparalleled geographic reach, which is married with deep sector expertise. For further information, please visit us at **nuveen.com/realestate**

CORPORATE CONTACT

Gabi Stein | Head of Global Real Estate Distribution | Nuveen Real Estate
+44 7811 797 415 | Gabi.Stein@nuveenglobal.com

*Includes 364 real estate investment professionals, supported by a further 394 Nuveen employees. Source: Nuveen, 30 June 2024

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