

Real estate recovery: Navigating the new landscape

Real estate markets are showing promising signs of recovery following significant turbulence. For institutional investors, this is a unique opportunity to reassess and reallocate portfolios. We explore the factors driving this real estate 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 has entered the recovery phase. Research by Nuveen Real Estate supports this outlook.

Stabilizing valuations

On a global level, values were essentially flat in the third quarter of 2024, down just five basis points. There appears to be growing momentum for values, too. Across the 21 countries in the MSCI Global Property Index, approximately half (11 of 21) saw real estate values increase during the third quarter. This is up considerably from the end of 2023 when only two countries had positive write-ups, a figure which continued to grow throughout the year (five countries with capital value growth in first quarter 2024, eight countries in the second quarter and 11 countries in the third quarter).

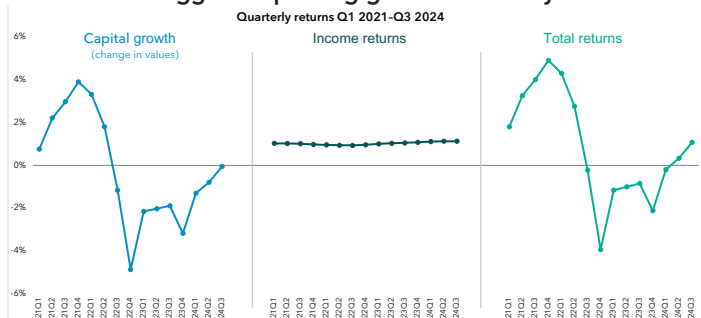
Positive total returns

Global real estate has delivered two consecutive quarters of positive total returns, as of third quarter 2024. Despite only half of the countries in MSCI's Global Property Index seeing value write-ups, all 21 saw positive total returns as a result of moderate value losses being more than offset by income returns. Even at a sector level, there were very few markets that did not perform; of the 51 country-and-sector combinations tracked by the index, 45 delivered positive total returns in the third quarter. While the level of returns thus far may not get investors excited, the turning point is noteworthy. Using the NCREIF ODCE index as a case-study, when total returns first flipped positive after the 1990s recession, U.S. core real estate went on a 15-year run before total returns turned negative, delivering an 11.2 percent annualized return over the time period. Following the global financial crisis, when total returns ticked positive in 2010, the run-up lasted 10.25 years until the COVID-19 pandemic, with an annualized return of 10.1 percent.

Sector-specific resilience

Certain sectors demonstrating remarkable resilience are leading the recovery.

Total returns suggest improving global market dynamics



Source: MSCI Global Quarterly Property Index (Q3 2024)

Logistics: The ecommerce boom continues to drive demand for warehousing and distribution centers, particularly in strategic locations near major urban centers in Europe and the United States. The pressure from construction activity is rapidly abating, and shifting supply chains will create opportunities in the years ahead.

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

Healthcare: Occupancy levels in medical office and senior living in the United States continue to rise as a result of an aging 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 Nashville and Miami, continue to attract businesses and residents, but opportunities have also emerged in cities such as Chicago and Boston, which saw less supply growth during the recent boom years. 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 favor 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. The pullback in construction bodes well for medium-term fundamentals across sectors.

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 cash flows: 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. There is solid evidence to support this reasoning, too. Since the inception of the NCREIF ODCE index in 1978, U.S. core real estate has delivered an annualized 7.7 percent total return, with 91 percent of that attributable to income.

Return potential: Real estate has historically demonstrated strong return potential, especially during recovery periods. For example, according to the U.S. NCREIF ODCE index, after the early 1990s recession, investors experienced a 76 percent cumulative return during the subsequent 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.

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

Long-term thesis: Megatrends shaping 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:

Aging demographics: The global population aged 65 and older 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: (1) supplying dedicated healthcare facilities, (2) refurbishment opportunities for senior care in urban cities and (3) 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 19 to 44 according to Centers for Medical and Medicaid Services 2024, medical office is currently 93 percent occupied, highlighting opportunities in medical office buildings, senior living and life sciences facilities.

Rising inequality: We have seen a widening wealth gap across regions, leaving the majority of global wealth in the hands of a few, while many people in lower-income areas are facing the same challenges globally: a cost-of-living crisis, poor financial knowledge, and difficulty in accessing necessities, such as grocery and healthcare facilities. Affordable housing initiatives help regenerate communities, providing sustainable places for people to work and live. The sector is backed by various government initiatives, which provide a degree of government credit and support, providing a potentially low-volatility model for investment. Alongside this, affordable housing presents an opportunity to mix meeting a global demand by delivering housing and facilities that positively impact daily lives, from grocery shopping to education at all levels.

Investing for success: The Nuveen advantage

In this complex and evolving real estate landscape, partnering with a manager that 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 crosspollinate 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 specialization: Our dedicated teams focus on growth sectors (for example, logistics, life sciences and multifamily housing), allowing for deep operational expertise. This specialization 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 realize 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 for long-term success. By understanding the drivers of recovery, recognizing 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 capitalize on the opportunities emerging in this new cycle.



CONTRIBUTOR

Donald Hall
Global Head of Research
Nuveen Real Estate

COMPANY PROFILE

Nuveen Real Estate is one of the largest investment managers in the world, with \$147 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 more than 750 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/realstate

CORPORATE CONTACT

Wendy Pryce | Real Estate Product Specialist, Nuveen Real Estate
+1 212-207-2064 | Wendy.Pryce@Nuveen.com

*Includes more than 385 real estate investment professionals, supported by a further 400 Nuveen employees. Source: Nuveen, Sept. 30, 2024 110946-1126

This article presents the author's opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

Copyright © 2025 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.