

TH Real Estate

a nuveen company

THINK Global: 10 reasons to consider real estate in your portfolio



This document is intended solely for the use of professionals and is not for general public distribution.

Introduction

Direct real estate is defined as 'private investments in institutional-quality commercial property'. It covers traditional sectors, such as office buildings, apartments, retail malls, and industrial space, as well as structural sectors, which are as diverse as healthcare, student housing and datacentres. Real estate can provide stable, bond-like cash flows, with the advantage of adding value through asset management - similar to equity. Regulated and contracted revenues, and long lease terms that deliver predictable return over time, provide a compelling option for investors with regular cash distribution requirements. A growing number of domestic and international investors are turning to real estate to increase diversification, and by making long-term commitments to the sector, they amplify what is a structural, not cyclical, re-allocation of capital.

Why real estate?

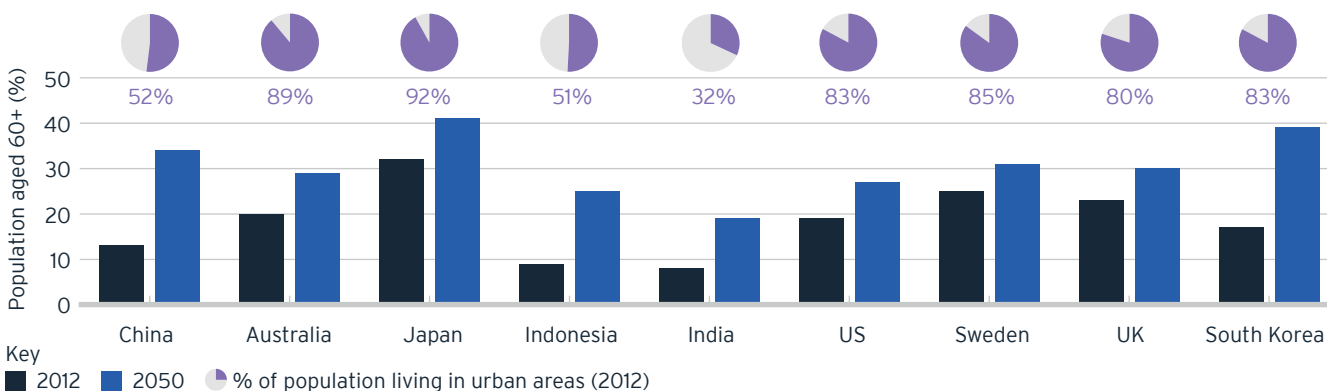
The growing realisation of a lower-for-longer global interest rate horizon, coupled with meagre bond and equity returns, have contributed to a secular shift to real assets. As investors contemplate the implications of political and economic uncertainty on capital markets, it seems a pertinent time to readdress the rationale for real estate in a multi-asset portfolio, and how to optimise performance in an evermore globalised economy.

Against a backdrop of sluggish economic growth, depressed interest rates and market instability, there has been a greater desire for investors to broaden their exposure outside traditional equity and fixed income positions, attracted by the attributes of real assets. For investors reappraising risk and reward, real estate can fulfil a need for stability, diversification, performance, and importantly yield, in a world starved of income. As some economic commentators debate whether a 'return to the old normal' is beyond the reach of Central Banks, one can expect allocations to real estate to continue to increase.

Optimising performance

Higher life and pension fund allocations, the evolution of sovereign wealth funds, legislative change, and socio-demographic developments, all imply an expansion in real estate capital allocations. Institutions in emerging markets are becoming increasingly active in the global market place, with a desire to find safe havens for their expanding pools of domestic savings; and traditionally have high allocations to real estate. In combination, these trends favour an international approach to real estate investment to enhance market return and reduced risk. We believe this investment mantra, borne out of our megatrends research, will drive long-term performance. Investment strategy must be aligned to evolving global trends as the world's population ages, migrates to cities, embraces technological advancements, and the developing nations grow richer and more influential. Megatrends, by definition, are multi-jurisdictional, but their impacts are local. Incorporating these developments, and understanding how they will impact at a city level, will be critical as real estate capital flows become more concentrated. Embedded within these trends is an appreciation that investor requirements are constantly changing, against a backdrop of challenging market conditions and heightened sustainability pressures. We believe the key to outperformance will be to identify those cities and industry sectors poised to benefit from ongoing structural change, and apply that insight alongside local expertise to benefit from an early-mover advantage. Long-term investors could enjoy above-average returns, lower-than-average volatility and modest downside risk, when following a city-based real estate strategy that is underpinned by long-term, structural trends. This approach strikes the right balance of risk and diversification, while taking advantage of short-term pricing opportunities.

Fig.1: Global population trends



Source: United Nations, World Bank, 2016

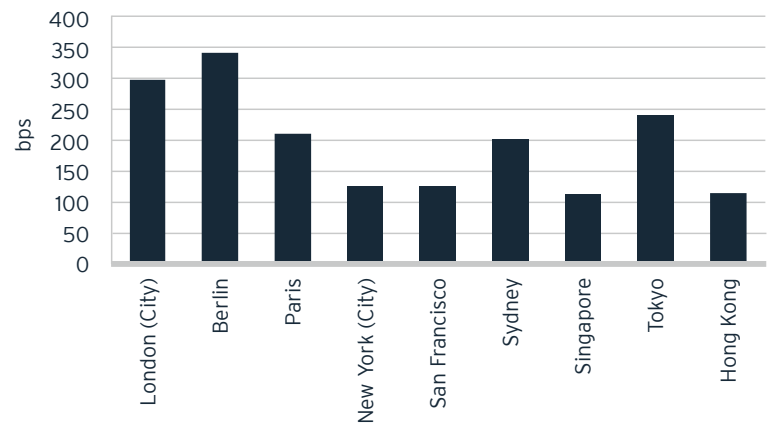
10 key reasons to invest in commercial real estate



Income

In the current and forecasted muted economic and inflationary environment, resilient levels of rental income underpin the attraction of commercial real estate. Against yields on traditional income-bearing products, such as government bonds, income that is distributed from property is very appealing. Fundamentally, while dividends from equity-based investments are discretionary, rental income from commercial property is contractually agreed, ranging globally from 3 to 15 years lease terms, this provides income security from a range of quality tenants.

Fig.2: Yield spread of prime offices vs. benchmark country 10-year government bond yield



Source: MacroBond, TH Real Estate, Oxford Economics, PMA, Macrobond, end-Q4 2016. Past performance is no guarantee of future results.



Stability

The income component of real estate may have the effect of tempering volatility. Traditionally, property cycles are less pronounced, with staggered long lease terms helping to mitigate the impact of economic fluctuations on income, which remains fairly consistent even during times of economic distress. Capital appreciation introduces volatility into returns, highlighting the importance of investment timing. History has shown that real estate exhibits much greater stability – more akin to bonds than to stocks, or even publicly traded REITs across most global real estate markets.



Diversification

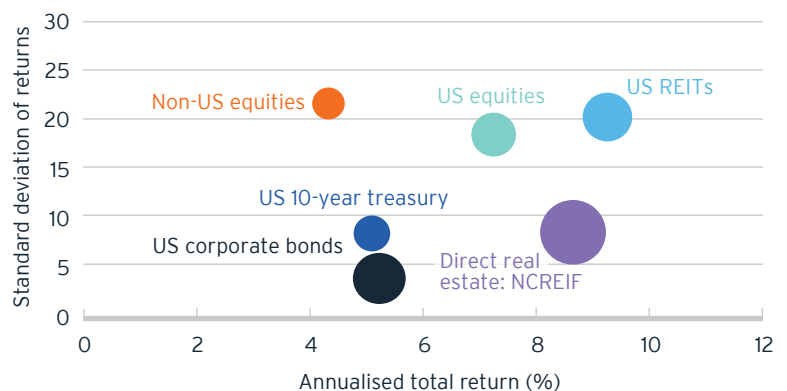
Low correlation of real estate returns with those for equities and fixed income products is one of the main arguments for including real estate in a mixed-asset portfolio. Commercial real estate is a longer-term investment with established, lengthy lease terms and sensitivity to development activity, as well as other factors giving commercial real estate a meaningful ability to reduce portfolio volatility through diversification. As property is an intricate part of the economic and social fabric of a city, geographical real estate investment diversification can be captured by structural socio-economic variables.



Return

Direct or private real estate has historically shown lower levels of volatility than other asset classes but also superior total returns over the longer term. Given a large component of performance results from its income, annualized returns have historically proven very healthy.

Fig.3: US risk and return, 20 years



Source: MSCI, MacroBond, Q4 2016

Note: It is not possible to invest in an index. Performance for indices does not reflect investment fees or transactions costs. The indices in the above chart are US equities: Russell 3000 US index; Non-US equities: MSCI ACWI-ex USA IMI; Direct real estate: NCREIF all property, US REITs: NAREIT all equity REITs index (REITs); US corporate bonds: Bloomberg Barclays US aggregate bond index; US 10-year treasury: Total return from yield (10-year).



Value-add

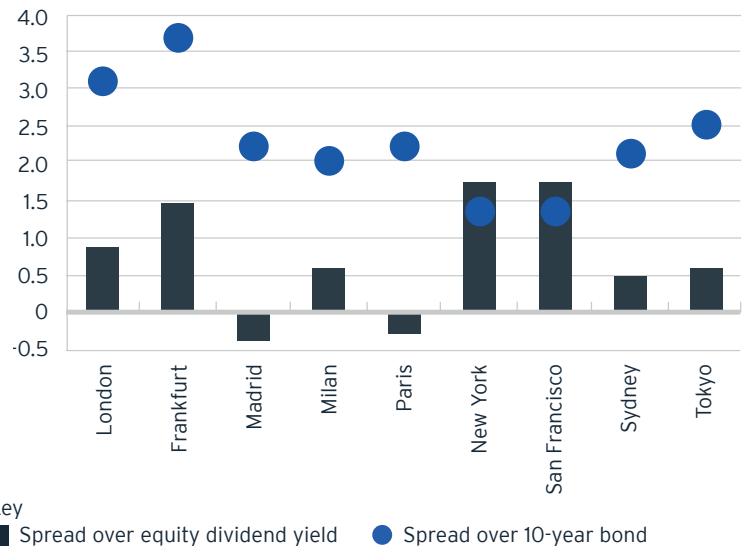
Real estate can provide bond-like income with potential equity-like returns through opportunistic investment strategies and quality asset management. Real estate managers with good market relationships and partnerships with developers, agents, local authorities, private and institutional players, are essential to source attractive value-add opportunities. A sound knowledge of the planning system, coupled with business plans that extend, refurbish, and change the asset use, or improve the property's sustainability credentials, can all unlock and enhance value. An ability to reposition an asset and drive income expansion are defining components in delivering alpha.



Structural and cyclical

Real estate investment can incorporate short (cyclical) and long-term (structural) market strategies. A tactical, time-sensitive deployment of capital would typically represent a cyclical, possibly contrarian, investor approach, with a goal to achieve enhanced performance. A structural strategy implies a longer-term commitment to a market or sector, and a realisation of a solid, more defensive return profile. Investment strategies, combining both long-term structural trends and shorter-term cyclical opportunities, should continue to enjoy superior risk-adjusted returns.

Fig.4: Office property yield premium, %



Source: MacroBond, TH Real Estate, PMA, end-Q4 2016



Tangible

Property is a real asset, with 'hard' credentials, which means it has intrinsic value. The structure has value, as well as the land upon which the asset resides. Well-chosen properties, in locations of long-term value which can benefit from favourable demand and supply dynamics, or infrastructure developments, provide security that some residual value will be retained even if the property or location does not reach its anticipated full potential. In short, the value of a tangible asset can rise and fall, but should not fully disappear.



Inflation protection

The potential for rental income to keep pace with, or outstrip, inflation strengthens the case for real estate as an asset class. Property assets normally feature leases with open market rent reviews, upward-only rent terms, or rental uplifts based upon inflation. Real estate returns are often considered as a natural inflation hedge, notably when inflation has resulted from strengthening economic demand. As prices of goods, services and profits increase in the broader economy, tenant demand and the prices they are willing to pay for space, move in tandem.



Liability matching

Market cycles are becoming shorter and harder to navigate, and the investment strategies of life, pension and sovereign wealth funds are responding to an expanding world population that is becoming more affluent and living for longer. This has prompted leading investment managers to form real assets groups in response to the structural shift of global portfolios rebalancing to asset classes, such as property, that deliver a high income component of return, offer a healthy relative risk-adjusted return, and a clear diversification benefit.



Macro-environment considerations

There will always be headwinds in the real estate industry. To focus solely on the risks, and not the attractive investment opportunities that market volatility can present, would be a mistake. Real estate is multi-dimensional, and investors should take comfort in the versatility of the sector, and the range of markets, deployment strategies and reward opportunities that are ever-present. Given wider global uncertainty and asset volatility, it is no surprise that allocations to global real estate are projected to continue increasing in the future.

About TH Real Estate

TH Real Estate, an affiliate of Nuveen, the investment manager of TIAA, is one of the largest real estate investment managers in the world with \$109bn in AUM. Managing a suite of funds and mandates spanning both debt and equity across diverse geographies, sectors, investment styles and vehicle types, we provide access to every aspect of real estate investing. With over 80 years of investing experience, and more than 520 real estate professionals located across 22 cities throughout the US, Europe and Asia Pacific, the platform offers unparalleled geographic reach, which is married with deep sector expertise.

Our investment, asset management and corporate strategies grow from a deep understanding of the structural trends that we believe will shape the future of real estate and responsible investing beyond market cycles. This 'Tomorrow's World' approach sits at the core of our investment process and business operations, informing our long-term view of real estate investments for the enduring benefit of both clients and society.

AUM figures as at 31 December 2017

Contact us



Alice Breheny
Global Head of Research
T: +442037278122
E: alice.breheny@threalestate.com



Michael Keogh
Director of Research
T: +442037278160
E: michael.keogh@threalestate.com

contact@threalestate.com
threalestate.com
[@THRealEstate14](https://twitter.com/THRealEstate14)

Note: 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. Please consider all risks carefully prior to investing in any particular strategy. A portfolio's concentration in the real estate sector makes it subject to greater risk and volatility than other portfolios that are more diversified and its value may be substantially affected by economic events in the real estate industry. International investing involves risks, including risks related to foreign currency, limited liquidity particularly where the underlying asset comprises real estate, less government regulation in some jurisdictions, and the possibility of substantial volatility due to adverse political, economic or other developments.

This document is intended solely for the use of professionals and is not for general public distribution.

Any assumptions made or opinions expressed are as of the dates specified or if none at the document date and may change as subsequent conditions vary. In particular, the document has been prepared by reference to current tax and legal considerations that may alter in the future. The document may contain "forward-looking" information or estimates that are not purely historical in nature. Such information may include, among other things, illustrative projections and forecasts. There is no guarantee that any projections or forecasts made will come to pass. International investing involves risks, including risks related to foreign currency, limited liquidity particularly where the underlying asset comprises real estate, less government regulation in some jurisdictions, and the possibility of substantial volatility due to adverse political, economic or other developments. Past performance is no guarantee of future performance. The value of investments and the income from them may go down as well as up and are not guaranteed. Rates of exchange may cause the value of investments to go up or down. Any favourable tax treatment is subject to government legislation and as such may not be maintained. The valuation of property is generally a matter of valuer's opinion rather than fact. The amount raised when a property is sold may be less than the valuation. Nothing in this document is intended or should be construed as advice. The document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment. This document is not directed at or intended for any person (or entity) who is citizen or resident of (or located or established in) any jurisdiction where its use would be contrary to applicable law or regulation [or would subject the issuing companies or products to any registration or licencing requirements].

In the European Economic Area: TH Real Estate is a name under which Nuveen Real Estate Management Limited provides investment products and services. Issued by Nuveen Real Estate Management Limited (reg. no. 2137726) is an affiliate of Nuveen, LLC and is incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3BN. It is authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored.

For the activities carried out in Germany, the German branch of Nuveen Real Estate Management Limited is also subject to the limited regulatory supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin). Nuveen Real Estate Management Limited is also permitted to provide cross-border investment services to certain EEA member states. In Europe, this material is directed exclusively at professional clients and eligible counterparties (as defined under the FCA Rules, or the German Securities Trading Act (Wertpapierhandelsgesetz) or other applicable law) who are knowledgeable and experienced in investment matters.

In Australia: This document is issued by TH Real Estate (Australia) Limited ABN 98106 690 444, AFSL 460770 This document is intended solely for the use of wholesale clients, as defined in section 761G of the Corporations Act 2001 (Cth) and is not for general public distribution. This document is being provided to you solely for your information. By accepting this document you represent that you are a wholesale client.

In Hong Kong: WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

No advertisement, invitation or document relating to the interests in the Fund, has been issued or possessed for the purposes of issue, nor will be issued or possessed for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to interests in the Fund which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

In Singapore: This document is issued by Nuveen Singapore Private Limited (Company no. 201322659M), (incorporated and registered in Singapore with registered office at One George Street #14-05 Singapore 049145) which is authorised and regulated by the Monetary Authority of Singapore. TH Real Estate is a name under which Nuveen Real Estate Singapore Private Limited provides investment products and fund management services.

This information memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this information memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of investment may not be circulated or distributed, nor may investment be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

In China: This document does not constitute a public offer of any of the funds mentioned in the document, whether by sale or subscription, in the People's Republic of China (the "PRC"). The funds are not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the funds or any beneficial interest therein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

In the United States of America: This document is issued by Nuveen LLC, a member of FINRA. Nuveen Real Estate Management Limited and Nuveen Management AIFM Limited are FCA regulated UK firms and affiliates of Nuveen, LLC, which is owned by Teachers Insurance and Annuity Association of America (TIAA).

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy or sell securities, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors. TH Real Estate securities products distributed in North America are advised by UK regulated subsidiaries or Nuveen Alternatives Advisors LLC, a registered investment advisor and wholly owned subsidiary of TIAA.

This material is intended exclusively for investors who are "qualified purchasers" as defined in the Investment Company Act of 1940. For institutional investor use only. Not for use with or distribution to the public. 281943-G-INV-Y10/18