

The five pillars of a successful residential investment strategy

It is going to be a transformative decade for the living sector. Strong structurally supportive market dynamics, evolving socio-demographics and an expanding, more-discerning occupier base will revolutionise existing living offers.

It will inevitably become a more globally institutionalised sector, as investors seek security of income, yield stability, rental appreciation and the desire to align portfolios with tomorrow's world.

How does an investor create a living model fit for the future? At Nuveen Real Estate, we believe in five pillars that will principally shape the sector's future, but also determine its evolution from a consumer and investor perspective.

1. User-centric focus

Rapid urbanisation, a failure of supply to accommodate changing demand, growing affordability concerns, embedded socio-demographic change and the globalisation of education have been at the forefront of the expansion of different forms of living. Sadly, one could argue much of the residential rental product that exists today has failed to move beyond the primary purposes of shelter and security, with little emphasis on future operational commitments.

There is a clear need to improve the traditional consumer experience of mass-market renters via the professionalisation of the leasing and property-management process. And as the consumer base for rented accommodation grows, either by choice or necessity, those needs have evolved rapidly beyond an additional desire for flexibility, into experience, community and personal wellbeing.

Professionally managed living is at the forefront of the hospitality evolution present in rental living, with design, services and technology all embodied to focus on the consumer and improve the living experience. As such, a strong, experienced and modern operator is fundamental to a well-managed residential concept.

Figure 1. The five pillars shaping Nuveen's living investment strategy



Source: Nuveen Real Estate

Residents expect more from property management, particularly if they are spending more time at home given increased remote working. Additional layers of service, whether in-house or through a third party, beyond the importance of cleanliness and reliability, will be key in both attracting and retaining residents.

2. Product-driven

At Nuveen, our global-cities philosophy still resonates within housing. A preference for a scalable concept and a growing target audience in innovative, connected, regulatory-friendly markets with strong quality-of-life indicators remains. It is our belief that people still want to be close to like-minded people, cultural attractions and entertainment. But we recognise the reignition of the working-from-home debate and a greater focus on wellbeing will influence the urbanisation trend that has been the prominent driver of market conditions for a generation.

Design is now just as important as location and affordability. Good design ensures the appropriate unit mix and amenity provision reflect the local, target demographic, as well as the delivery of best-in-class standards of sustainability, wellbeing and accessibility. As consumer demands change and evolve, it is essential that design stays relevant. Better understanding can come from effective data gathering and analysis, to constantly improve the product offering.

3. A multi-stakeholder approach to value creation

A living concept that serves the needs of all stakeholders — landlords, consumers, investors, borrowers and the society at large — will become the winning formula of the future.

There is immense opportunity to create impact and value to support the ongoing evolution of living styles and needs across many cities globally. Demographic and lifestyle changes continue to demand improvement in facilities, operational upgrades, professional management and more value-add services. To evolve as an institutional-grade asset class, residential property is going to require greater mutual understanding and closer co-operation among government, investors and developers.

4. Technology and innovation

At Nuveen, we see technology as a positive disruptor and enabler of change. Tenant demand for online information and digital interaction, such as virtual tours or ongoing building support services, will grow, driving greater efficiency in the sector. As tenants become accustomed to this level of service, we expect an improvement in the quality and depth of technology's role in the sector. We also expect changes in social norms and attitudes will increase the use of automation in greater allocations for public spaces, and potentially the physical layout of a building.

The incorporation of smart tech, including touchless solutions and the ability to

interact digitally with the building through mobile devices, will likely be appreciated and expected by residents. It must, therefore, strike the right balance between frictionless automation and people-centred hospitality.

Investors and developers will be looking for more informed micro-level analysis, aligned to changes in consumer needs. There will be more emphasis on data-driven locational, asset and liquidity market intelligence, and arguably a shift away from some of the more traditional metrics.

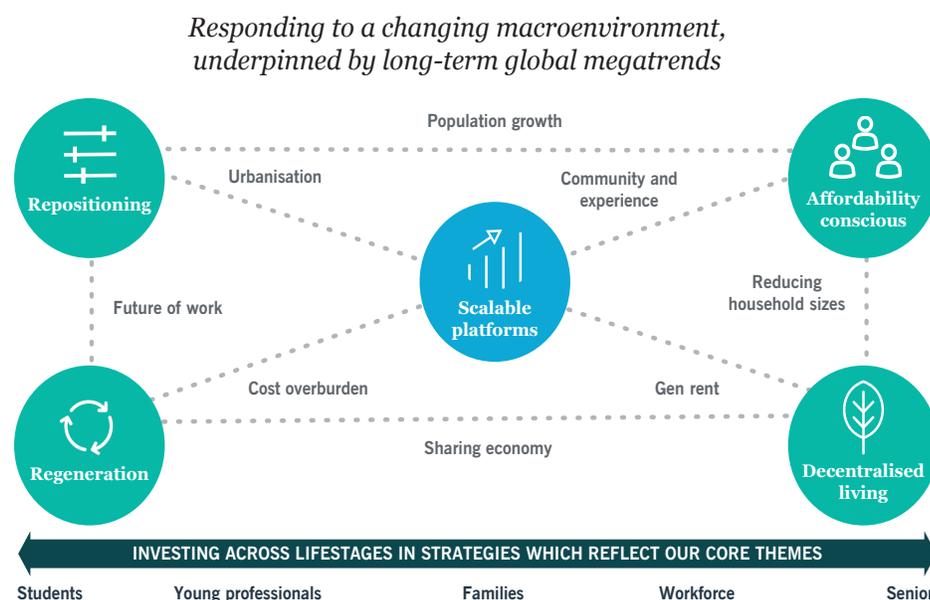
5. Sustainability

It is widely recognised that to meet the objectives of the Paris Accord, all buildings will need to be net-zero carbon by 2050. At Nuveen Real Estate, however, we are aiming to achieve net-zero carbon in our real estate portfolio no later than 2040.

Essential to our clients' investments and our fiduciary duty, at Nuveen Real Estate, we have developed a robust methodology for the assessment of our real estate assets under management globally, taking account of local, asset-specific circumstances. This will not only mean that we are able to manage transition risks more effectively, but it will also position us to unlock the value arbitrage that we expect to realise from net-zero carbon buildings.

We acknowledge the full responsibilities within the environmental, social and governance aspects of real estate investment management. There is an environmental commitment to work with partners and customers to target best-in-class environmental credentials across

Figure 2. The market and megatrend context shaping Nuveen Real Estate's living strategy



Source: Nuveen Real Estate

our whole portfolio, while incorporating thoughtful approaches to operational efficiency, including the integration of smart-building technology to optimise energy efficiencies.

Residential buildings that can operate to nurture relationships are more likely to be successful, as people are social animals. Creating sustainable communities, which create or reinforce a sense of community and wellbeing is something, we think, tenants will both value and expect going forward.

It is our belief that there is a real opportunity to be part of the institutionalisation of the residential sector.

At Nuveen, our investment, asset management and corporate strategies stem and grow from a deep understanding of the structural trends of demographics, sustainability and technology that we believe will shape the future of real estate and responsible investing beyond market cycles. Our approach combines in-depth knowledge of local demand-and-supply dynamics, market and regulatory characteristics and expected returns with a list of priority economies and markets identified for different forms of housing. This forms Nuveen's global strategy to expand in traditional multi- and single-family housing, student accommodation, co-living and retirement living.

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As director of research for Nuveen Real Estate, Michael Keogh is responsible for forecasting economic and property markets across the world, analysing long-term property trends, investment and economic cycles to project future performance and output. Keogh joined the company in 2009,

having spent the previous six years working in the economics, investment and forecasting research team at CBRE.

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COMPANY PROFILE

Nuveen Real Estate is one of the largest investment managers in the world with \$134 billion of assets under management¹. 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 over 85 years of real estate investing experience and more than 620 employees located across more than 25 cities throughout the United States, Europe and Asia Pacific, the platform offers unparalleled geographic reach, which is married with deep sector expertise.

¹ Nuveen Real Estate as of 31 March 2021

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