

3Q 2024

Global trends and tactics

Real estate opportunities and risks in the current environment

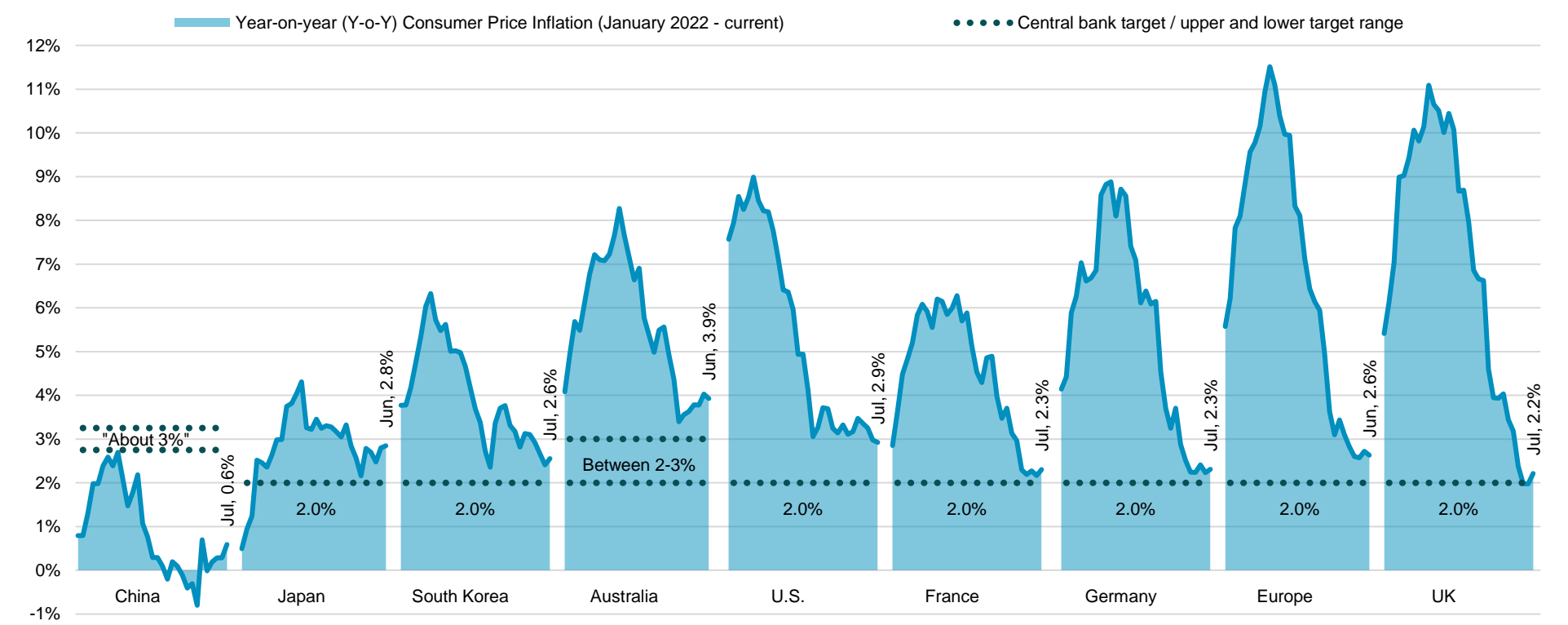
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Disinflation prevalent across global markets

Although inflation is still above official targets in most countries, disinflation seems to have taken hold nearly everywhere. Most major economies are seeing inflation rates within 100 basis points of central banks' targets.

Annualized inflation since January 2022 versus central bank targets



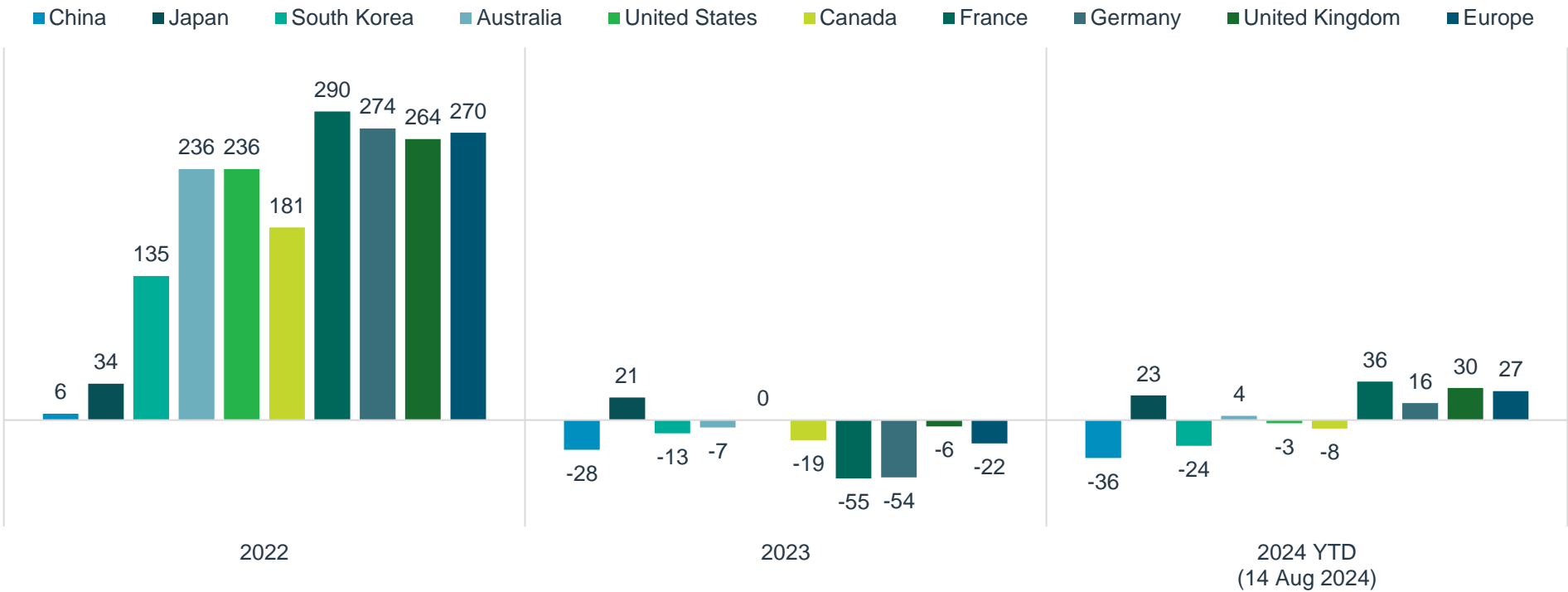
Sources: Macrobond; Central banks' websites; Nuveen Real Estate Research (Data through June or July 2024 depending on country; most current as of 14 August 2024)

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Major rate increases seem to be behind us

Large interest rate increases were the story of 2022. Since then, there has been volatility, but rates are +/- where they ended in 2022 in most countries.

Change in 10-year government bond yields (bps)

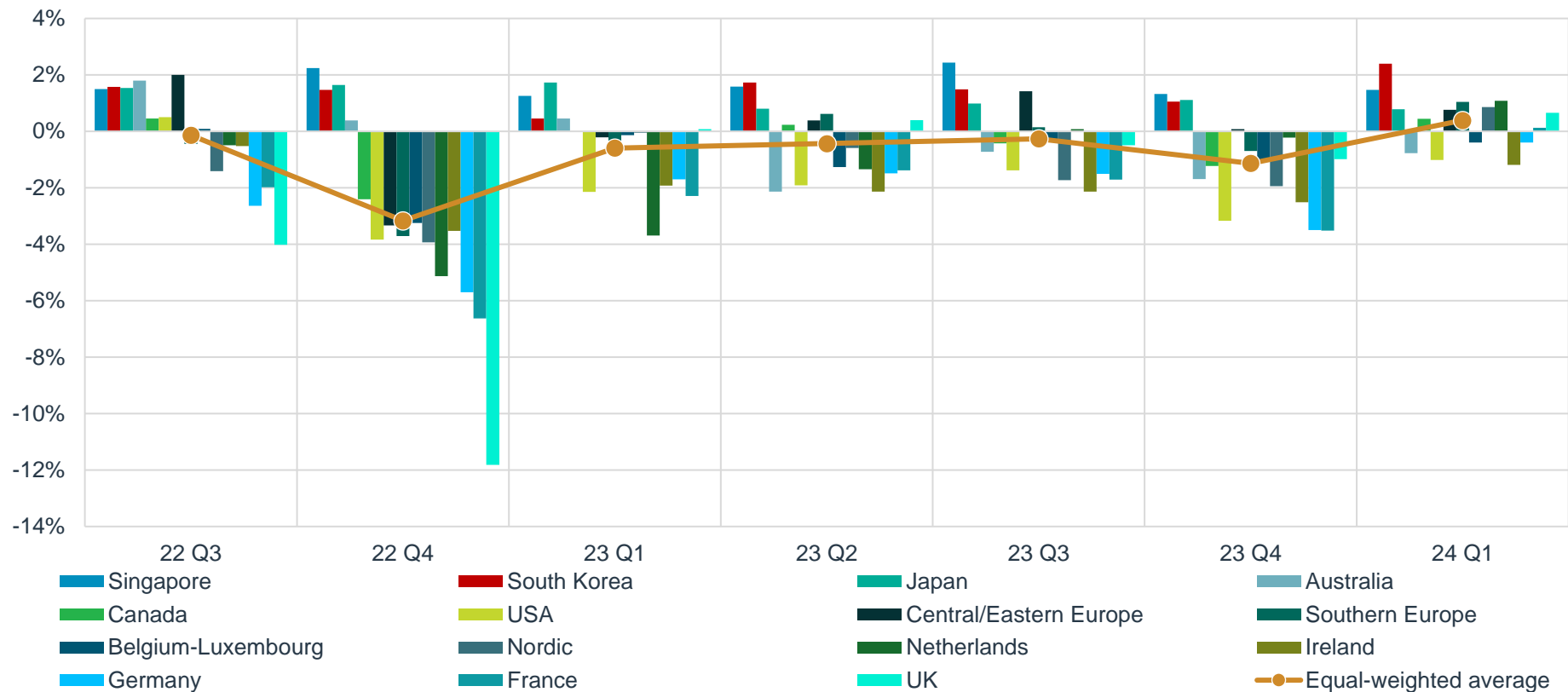


Sources: Macrobond, Nuveen Real Estate Research
Note: 2024 YTD is the most recent data for each country as of 14 August 2024
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Total returns positive in a majority of countries

In the first quarter of 2024, total returns turned positive in a majority of countries as value losses moderated and income returns helped push total returns into positive territory

Quarterly change in private real estate total returns



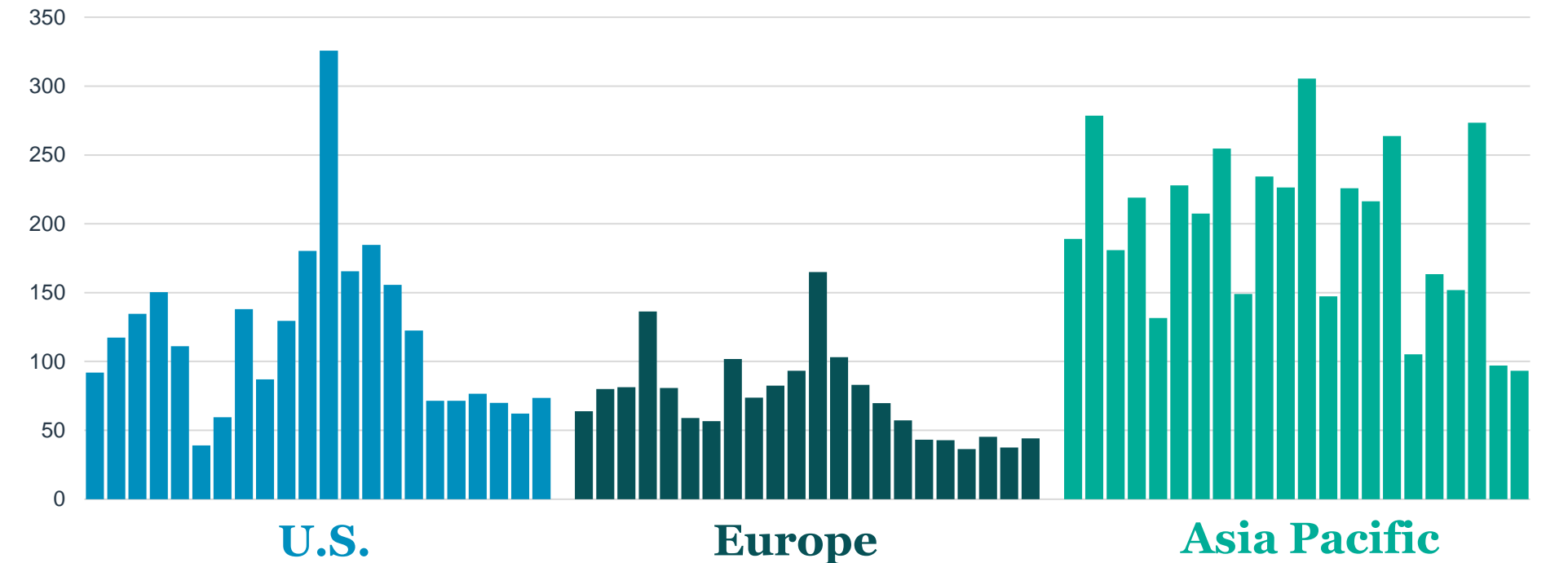
Source: MSCI (Q4 2023); Nuveen Real Estate Research (May 2024)

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Deal volume seems to have bottomed

Global transaction volumes likely bottomed in Q1, with a moderate uplift in Q2 transaction volume in the U.S. and across Europe. Deal activity seems to be picking up in the market and we expect to see stronger transaction volumes in H2 2024 and H1 2025.

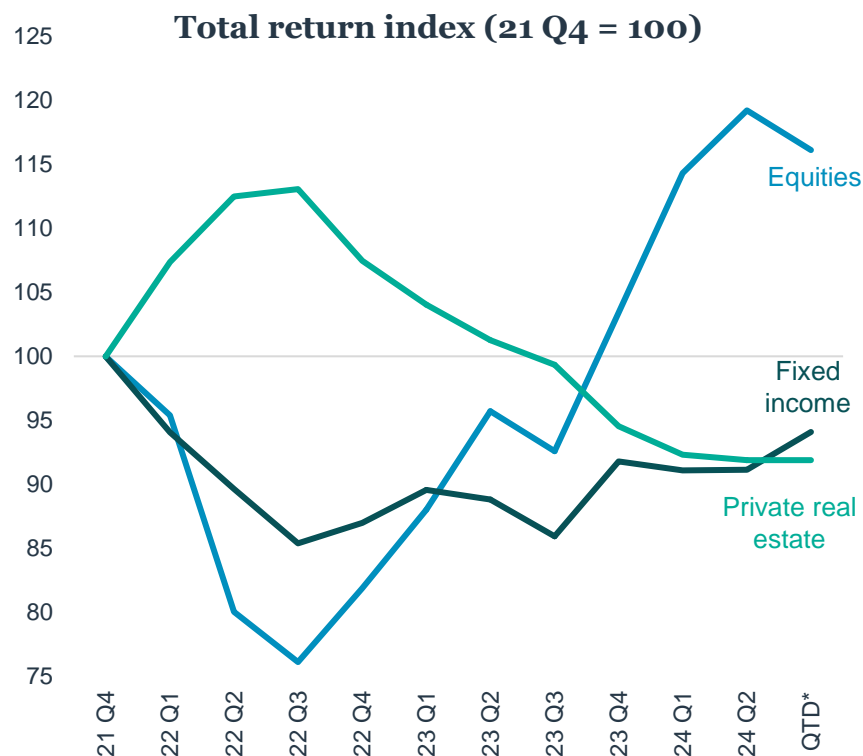
Quarterly investment volume (USD billion)
1Q 19 – 2Q 24



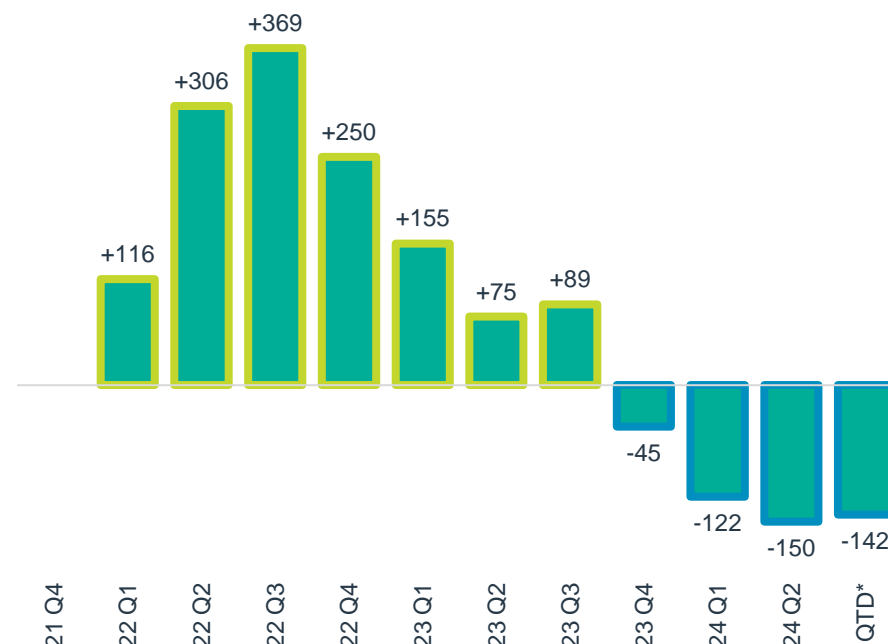
Source: Real Capital Analytics (24Q2 data as of 2 August 2024)
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Investors likely underweight to real estate

By the third quarter of 2023, the “denominator effect” was a common phrase uttered in private real estate circles, as falling equity and fixed income portfolios caused portfolios to shrink and for private real estate to suddenly be above many investors’ target allocations. Since then, equities have reached new peaks as private real estate values reset, causing real estate allocations to fall. With many investors now below their target real estate allocations — and with real estate significantly repriced — real estate is beginning to see more interest from investors again.



Modeled overweight / underweight to private real estate, bps
(Assumes 21 Q4 starting point of 60% equities, 30% fixed income, 10% real estate)



Source: Bloomberg, Nuveen Real Estate Research, Nuveen Portfolio Strategy & Solutions

*QTD is as of 7 Aug 2024 for equities and fixed income and assumes Q224 values for real estate. Notes: Modeled portfolio assumes a starting 60% allocation to equities, 30% to fixed income, and 10% to private real estate with portfolio changes due to market movements, not rebalancing. Source: Equities = S&P 500 Total Return Index; Fixed Income = Bloomberg U.S. Aggregate Total Return Index; Private Real Estate = NCREIF ODCE Total Return Index

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Commercial real estate debt markets

The upcoming vintage of CRE loans will benefit from relatively high returns and relatively low lending risk, but lenders have difficult issues to work through on their existing books



- Lending risk is falling as capital values stabilize
- Debt returns are set to benefit from the “higher for longer” interest rate environment
- Lenders have the opportunity to lend at above core risk levels with unusually low lending risk
- Existing loans are likely to see problems increase however, as appraisals lag the market cycle and deliver more stress during 2024
- Regulatory changes are reducing competition among lenders which is increasing spreads available

Lower lending risk is pointing towards higher risk loans

CRE debt lending returns are set to benefit from “higher for longer” base interest costs over the short to medium term, boosting the appeal of core and core plus lending. But the continuing stabilization of CRE capital values in most major markets is also significantly reducing impairment risks on new lending and with a recovery in values widely forecast, albeit a modest recovery, lenders have the opportunity to target higher spreads by lending at above core risk. This could involve lending at higher LTVs and/or in junior formats with no recourse. Leveraging the initial loan capital also becomes more feasible as collateral values firm up. This style of lending was prohibitively risky in the period of a peaking, and then falling, market. But with the market now stabilizing and set for recovery, the next vintage of CRE loans is set to be high returning and with much lower risk.

Existing loan impairment risk

Lenders can expect to encounter continuing problems with their existing loan books. Although CRE capital values are becoming more positive, appraisals are lagging that trend so recorded collateral book values have further to fall in most sectors in the U.S., Europe and Australasia. The most vulnerable sector is offices, and the most extreme impairments are likely to be in the U.S., but impairments are likely in European and Australian office as well — particularly in loans collateralized on secondary assets. Retail remains problematic in Europe especially and will likely generate further stress in existing loan books.

Regulatory changes are generating a funding gap outside core lending

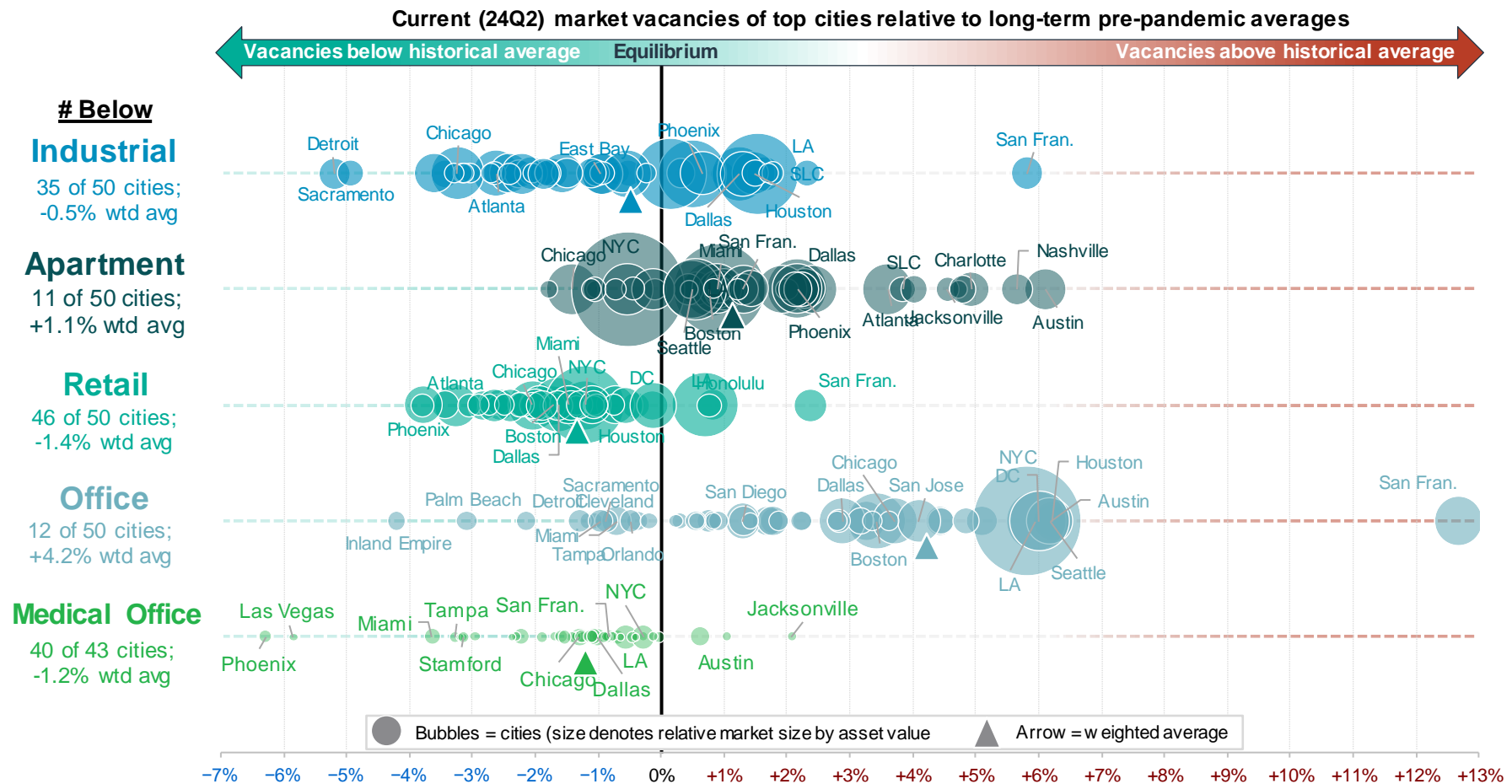
The trend in banking sector regulation since the global financial crisis (GFC) has been to increase the capital charges levied on banks in their CRE lending, which has produced a downward trend in lending multiples. That trend is most noticeable in the U.K. where a “slotting” regime was first introduced. With regulation in other markets moving closer to this model, there will be increased downward pressure on lending multiples, increasing the spreads available at lending at 60% LTV or above where traditional banks are due to reduce their exposure. This will reduce the core lending space to sub-60% LTV and increase returns for lending in the value-add space above 60% LTV.

Source: Nuveen Research, 2024

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U.S. property type fundamentals

Vacancies remain below average across the majority of industrial, retail and medical office markets

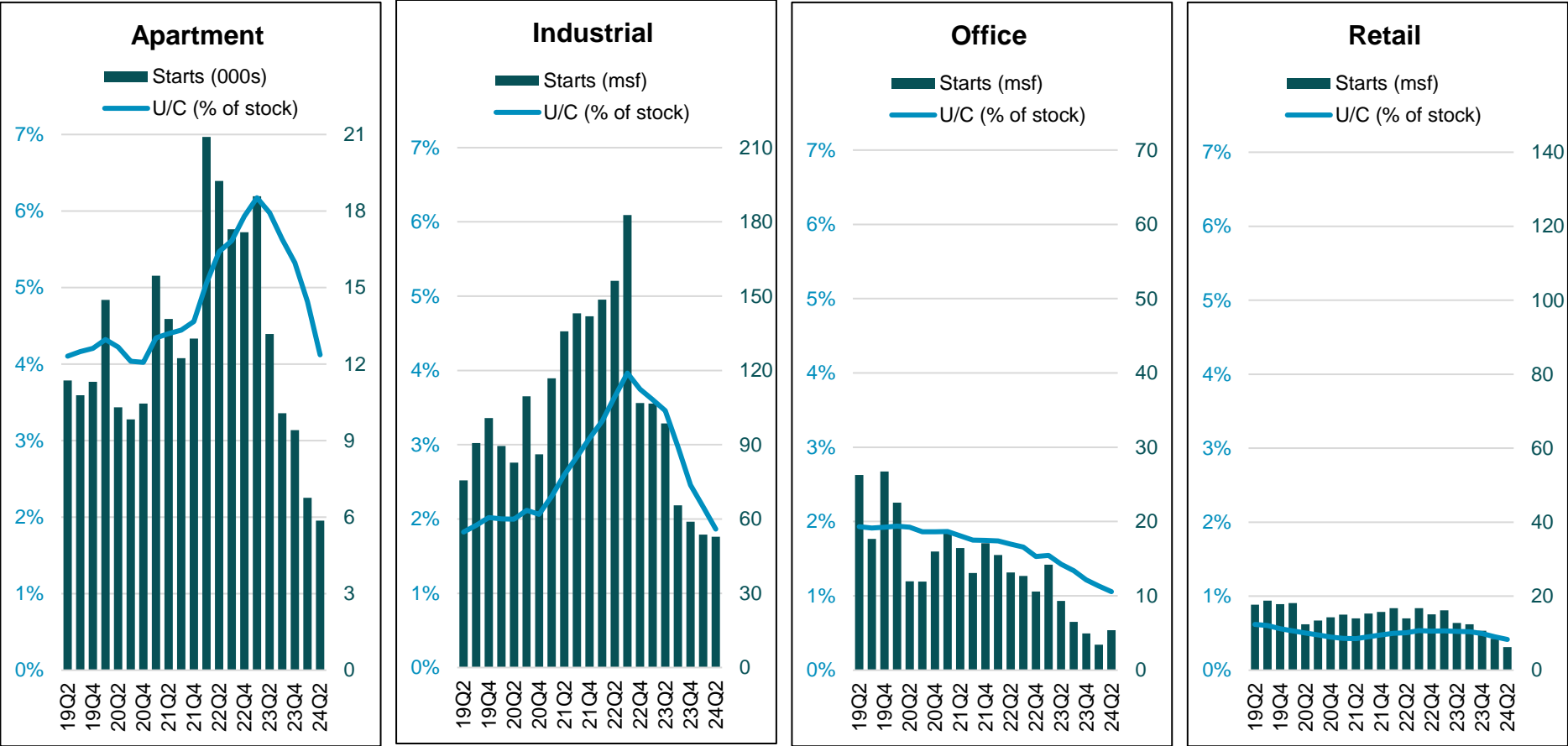


Sources: CoStar; Revista; Nuveen Real Estate Research (Q2 2024); Note: the length of the pre-pandemic average vacancy varies due to differences in data availability by market and sector

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Construction waning across property types

The number of new projects getting started has dropped significantly across sectors, which will bode well for future fundamentals as new supply will become less of a headwind



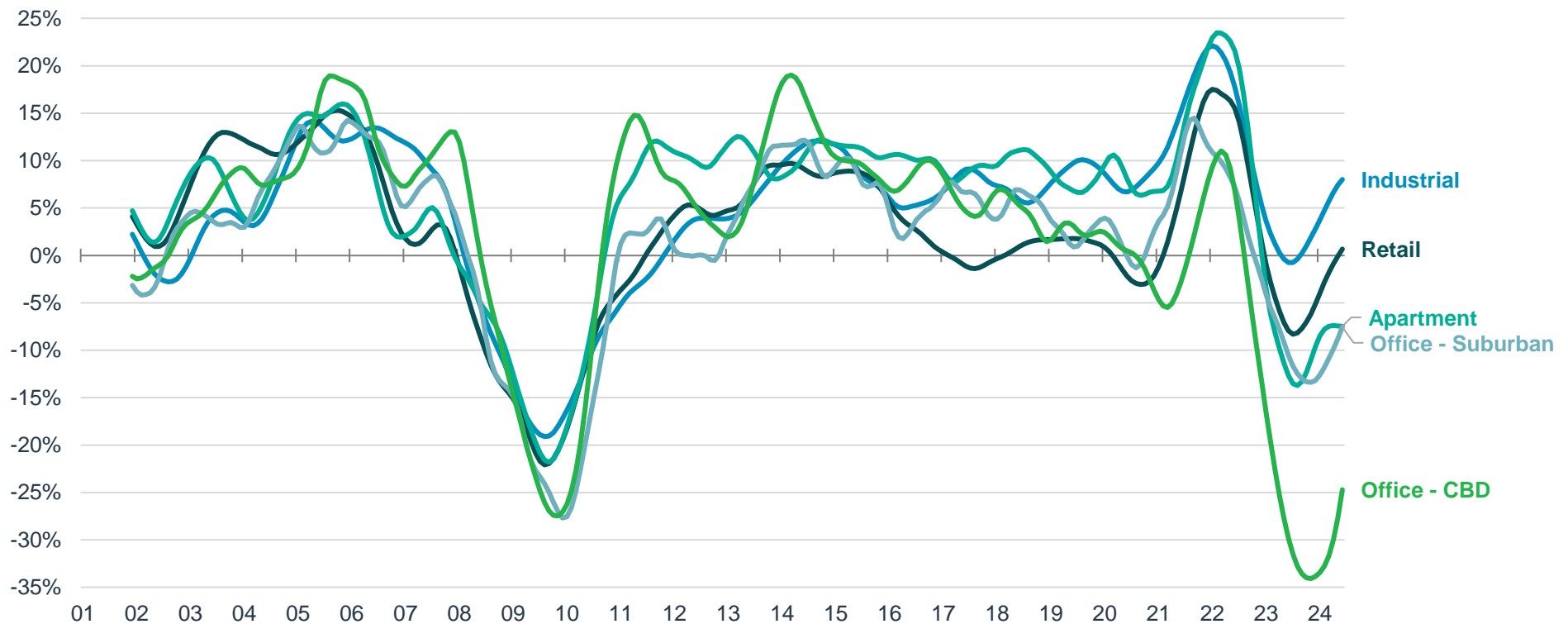
Sources: CoStar (Q2 2024 data as of 24 July); Nuveen Real Estate Research. Note: U/C stands for under construction.

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CRE prices seem to be at a turning point

Industrial and retail properties saw price gains on a year-on-year basis, and the rate of change across the other major sectors is looking up. Office properties in central business districts (CBDs) continue to face the brunt of value losses as a result of hybrid work policies and associated negative investor sentiment.

U.S. commercial property price index, year-on-year



Source: Real Capital Analytics; Nuveen Real Estate Research (data through June 2024 as of 25 July 2024 release)

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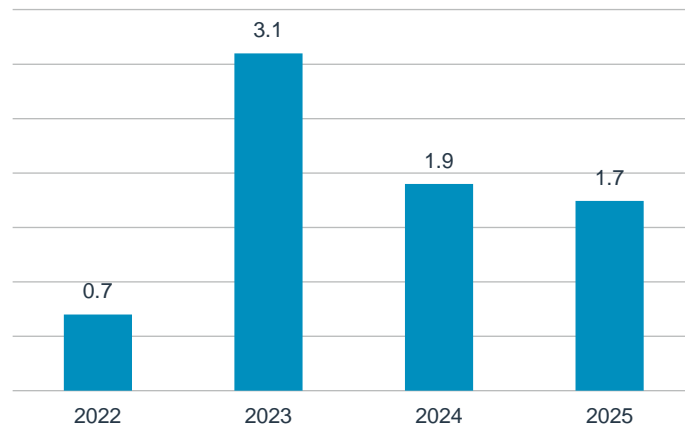
U.S. economics

Growth has remained resilient through the first half of 2024, but risks remain



- Growth is likely to moderate after impressive economic performance in 2023
- Growth prospects remain solid, given more supportive monetary policy and generally better global economic conditions

U.S. real GDP growth forecast, %



Source: Moody's Analytics, August 2024

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Activity is slowing as the Fed nears first rate cut in four years

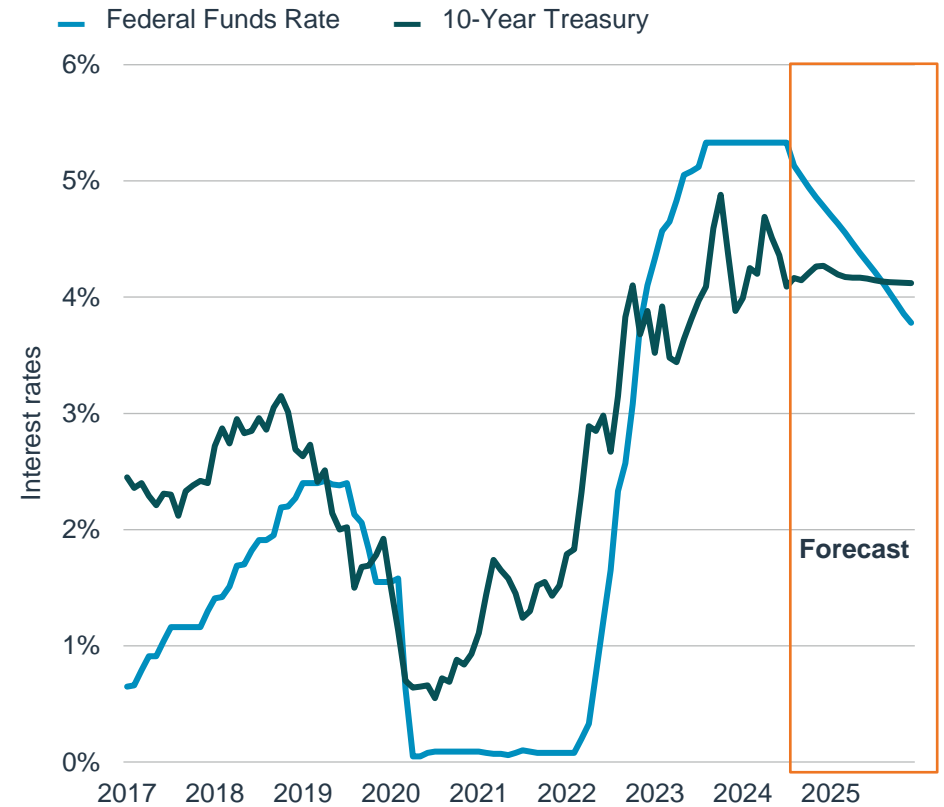
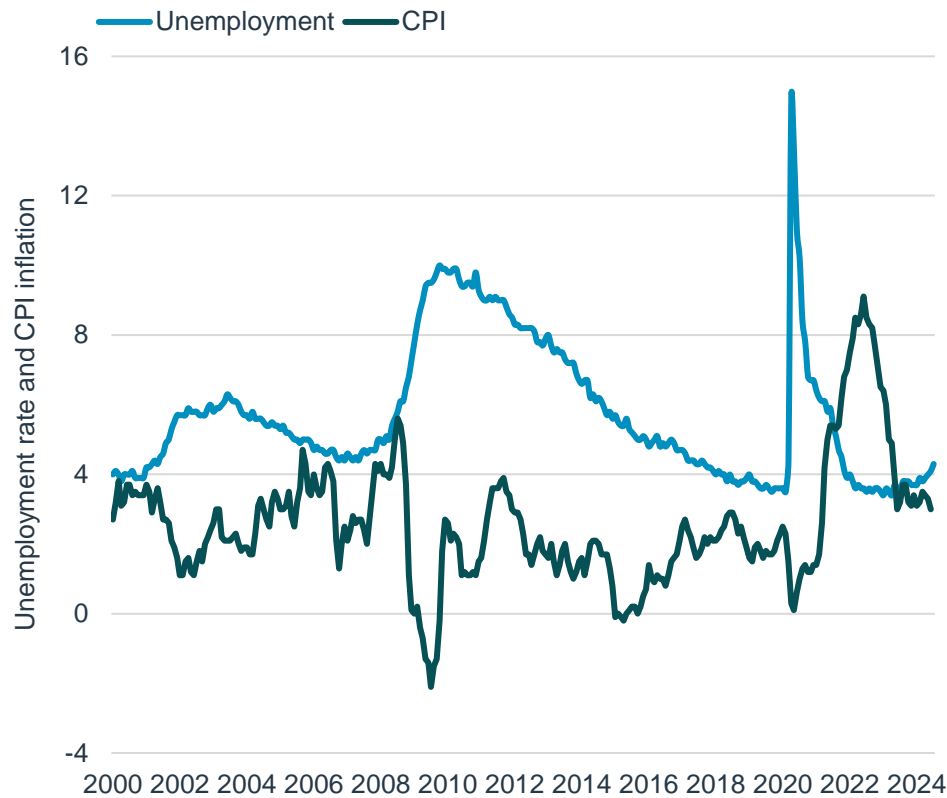
Despite expectations of a material slowdown in growth throughout the year, jobs and output data has broadly showed a tempered deceleration during the first half of 2024. Real GDP continues to rise at a healthy clip, and stock prices remain high while bond spreads have been relatively narrow. While most major economies face notable risks, it appears increasingly likely that growth will continue in 2024, albeit at a measured pace.

Growth in the U.S. economy surprised on the upside in the second quarter and outpaced expectations of a more significant slowdown after robust growth in the second half of 2023. U.S. GDP growth accelerated to an annualized 2.8% pace in Q2 2024, double the pace of growth in Q1 as year-on-year growth climbed to 3.1%. However, other metrics suggest that the economy is beginning to show signs of a material slowdown. Job growth moderated in the second quarter to a monthly average of 168,000 jobs added per month, down from the impressive 267,000 jobs added per month in the first quarter and the softest quarter of job growth since the start of the COVID-19 pandemic in Q2 2020. As a result, the unemployment rate ticked up slightly to 4.1% at the end of the quarter, still low by historical standards, but up nearly 50bps since Q2 2023.

The gradual deceleration in the labor market has provided some relief on the inflation front. Year-on-year inflation as measured by the Consumer Price Index has been persistently high over the past three years, finishing the second quarter at 3.0%. Core inflation, excluding volatile energy and food prices, also finished the second quarter above the Federal Reserve's target of 2% but remains on a general downward trend. Given this backdrop, Federal Reserve officials have signaled that the central bank is closer to cutting interest rates given inflation's improved trajectory and a labor market that is continuing to soften. These remarks may set the stage for a reduction in borrowing costs in September. Yields on 10-year Treasury bonds, which jumped at the start of the quarter, began to trend down in response to prospects of a rate cut, finishing the second quarter just 13bps higher than the end of Q1 2024. The Treasury yield curve remains inverted, and short-term interest rates remain high, with the federal funds rate at 5.33% in the second quarter.

U.S. economics

Rising unemployment and falling inflation has set the stage for the Fed to begin cutting rates in upcoming months



Source: Bureau of Labor Statistics, Moody's Analytics August 2024

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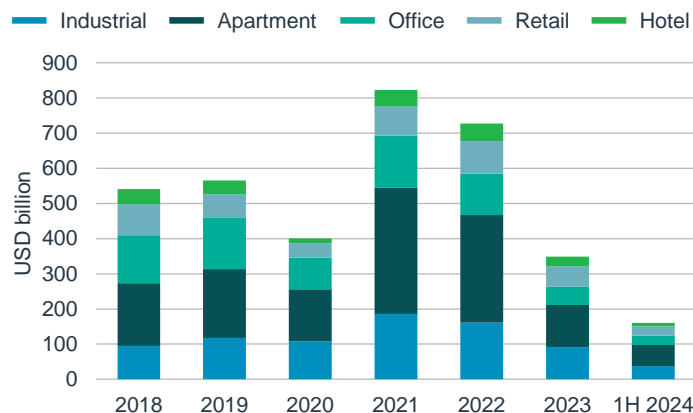
U.S. investment market

The bottom is likely in for sales volume



- Volatile interest rates continue to limit sales due to wide bid-ask spreads across sectors
- Alternatives, industrial, pockets of retail and housing continue to display strong fundamentals and offer good relative value

U.S. commercial real estate investment volume



Source: RCA, July 2024

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Volatile interest rates keep investors on the sidelines

Elevated long-term interest rates have introduced a significant amount of uncertainty in commercial real estate pricing. The combination of pricing uncertainty, tighter lending standards, and concerns about the outlook for the broader macroeconomy curbed deal activity throughout 2023, and into the first half of 2024. According to Real Capital Analytics, sales of commercial properties in the U.S. fell to \$174.4 billion year-to-date as of the second quarter. Trailing 12-month sales volume fell to \$366.0 billion, down 31% from the same comparable period year-over-year.

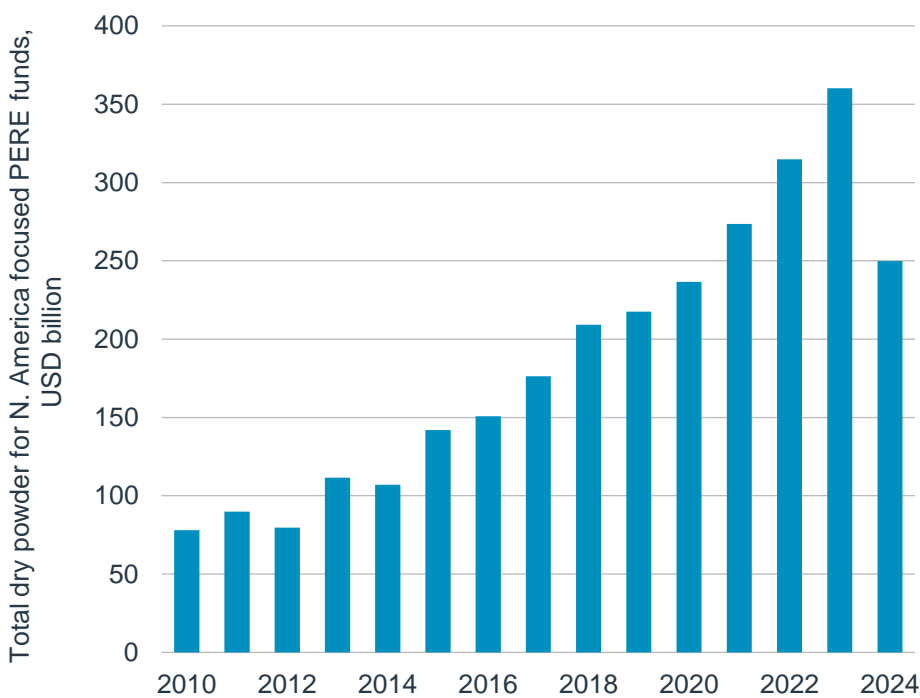
Stable rates should close the bid-ask spread later this year

The Fed's shift in monetary policy should reduce some of the volatility in long-term yields, particularly if the U.S. avoids a recession. Heightened expectations for rate cuts have caused long-term rates to drift downward at the end of the second quarter of 2024 into the third quarter of 2024, with the 10-year U.S. Treasury rate falling below 4% as of early August. This, in turn, should bring some stability to pricing in most sectors and lead to increased transaction activity. Fundamentals remain solid in target areas like industrial, alternatives, and pockets of retail and housing, which benefit from high occupancy rates and healthy net operating income growth.

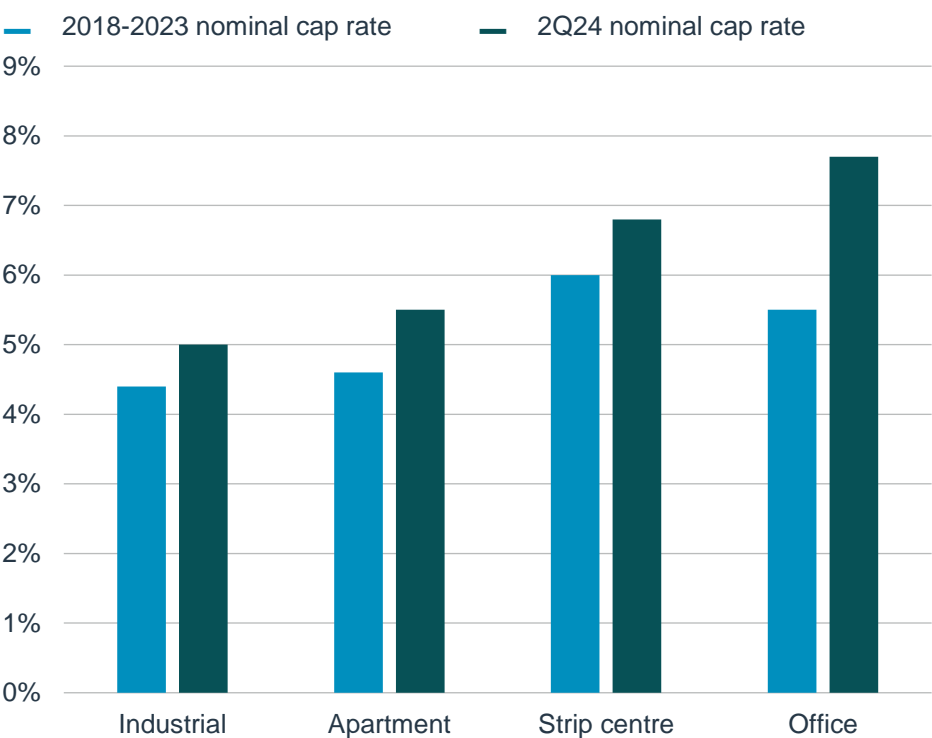
U.S. investment market

Ample dry powder and attractive pricing

Dry powder remains at cyclical high levels



Cap rate expansion creates opportunities for new investment



Source: Preqin, Green Street, July 2024
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U.S. office

The overall market continues to weaken but record low supply over the mid-term sets up a potentially strong recovery for new product



- High-quality assets are gaining market share despite demand shrinking overall
- Construction starts have fallen to the lowest level on record setting up a future shortage in high-quality options for tenants
- Tenants will continue to right size footprints for the next few years, further weighing on fundamentals
- Tenants are generally spending more rent on a per square foot basis when consolidating, further strengthening the top end of the market

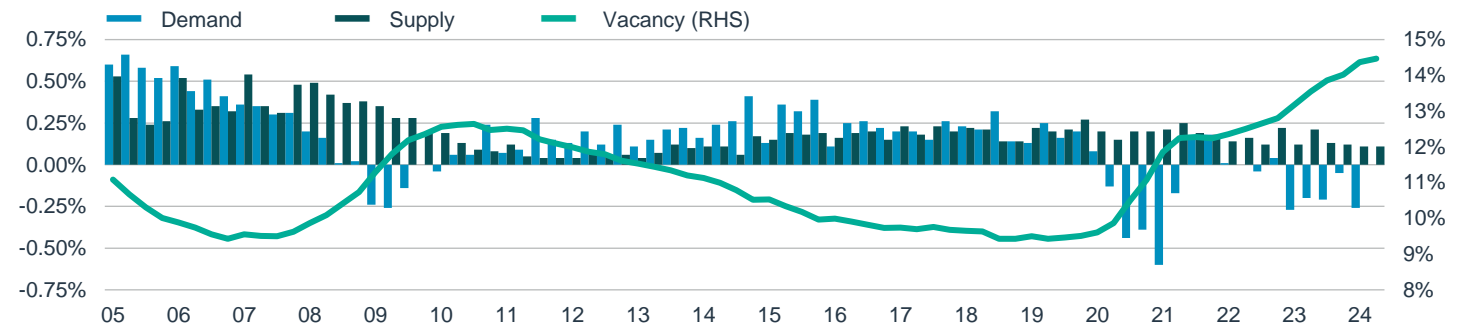
Offices continue to face strong headwinds

Fundamentals softened once again in the second quarter, but at a decelerated rate. Vacancies rose by 10bps to 14.5% but have now expanded by five percentage points since early 2020. Leasing activity over the past year was 71% of the previous decade's annual average due to slowing job growth and continued portfolio consolidations, driven by the prevalence of hybrid schedules. New supply added 0.5% to existing inventory over the past twelve months, which is 34% below the 10-year average. Looking ahead, construction starts over the past year were just 0.2% of existing inventory, which is the lowest level recorded since the early 1990s.

High-quality assets have maintained demand

Despite the negative momentum for the market overall, higher-quality, newer assets have maintained demand with properties built between 2015 and 2022 showing improved occupancy in recent quarters. Construction starts have dropped to record low levels due to higher interest rates, a challenging lending environment, and the sector generally being out of favor. An expected shortage in new inventory over the mid-term should be beneficial to existing, high-quality assets, as tenants will have somewhat limited options for newer space.

Overall vacancy still rising, already past previous peaks



Source: CoStar Group, Inc. (Q2 2024), Nuveen Real Estate Research (August 2024)

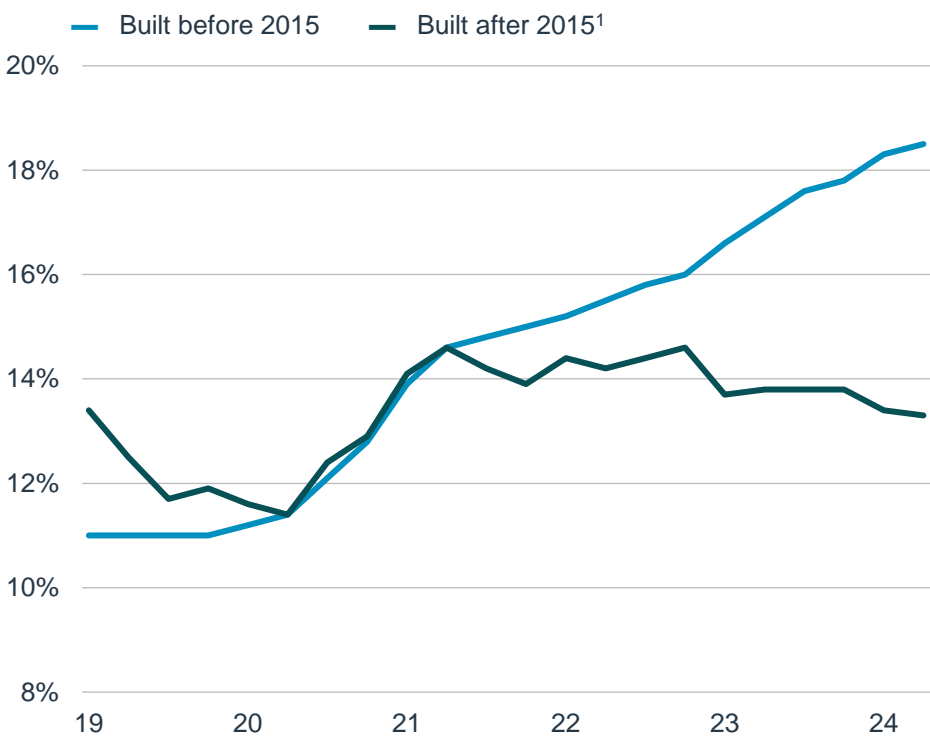
Note: Data based on Nuveen's 35 Resilient U.S. Cities

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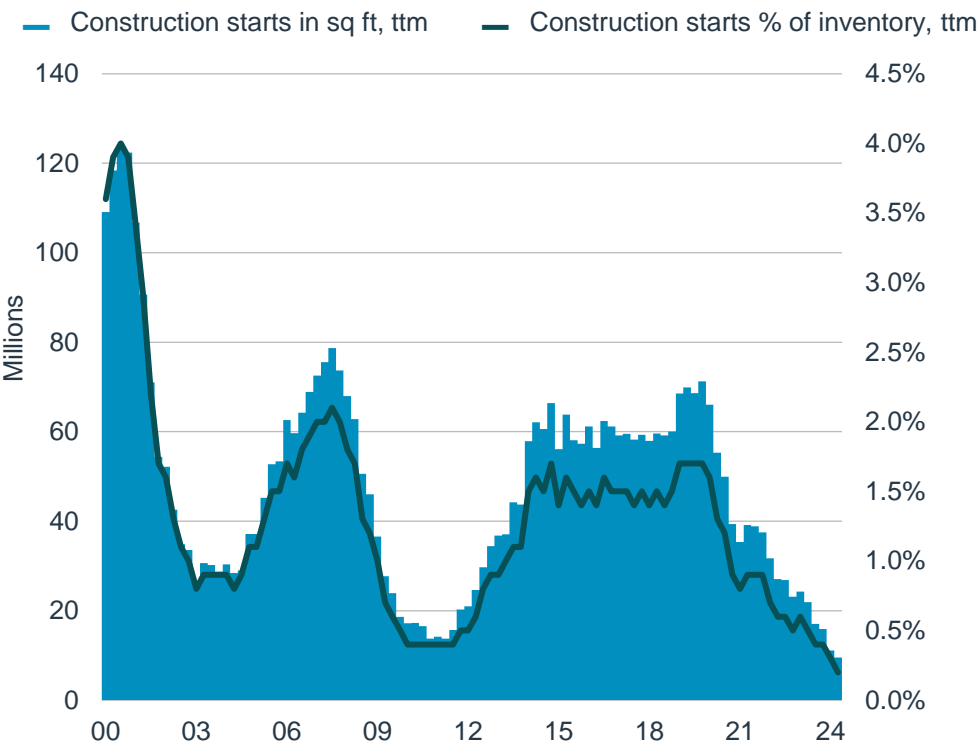
U.S. office

High-quality assets in growing markets should outperform

Vacancy by building age



New supply will soon be scarce



Source: CoStar Group, Inc. (Q2 2024), Nuveen Real Estate Research (August 2024)

Note: Data based on Nuveen's 35 Resilient U.S. Cities

¹ Properties delivered after year-end 2022 not included to allow for lease-up period

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. medical office

Aging population underpins strong demand



- Medical office is much less impacted by remote working. Virtual visits are only possible for a few specialties.
- Already tight fundamentals should only strengthen further as developers pull back. Existing landlords will gain enhanced pricing power.

Aging population continues to drive strong demand

The medical office subsector continues to outperform the rest of the sector, helped by favorable demographic trends that support medical care spending. Unlike traditional office, the medical office sector is far less impacted by remote working and most visits continue to be necessary in person. This sector also has far more favorable demand drivers underpinned by a rapidly aging population. The sector is resilient through cycles and demographic tailwinds remain strong as the aging population continues to drive increased demand. Supply remains in check and occupancy rates are near peak levels in many markets.

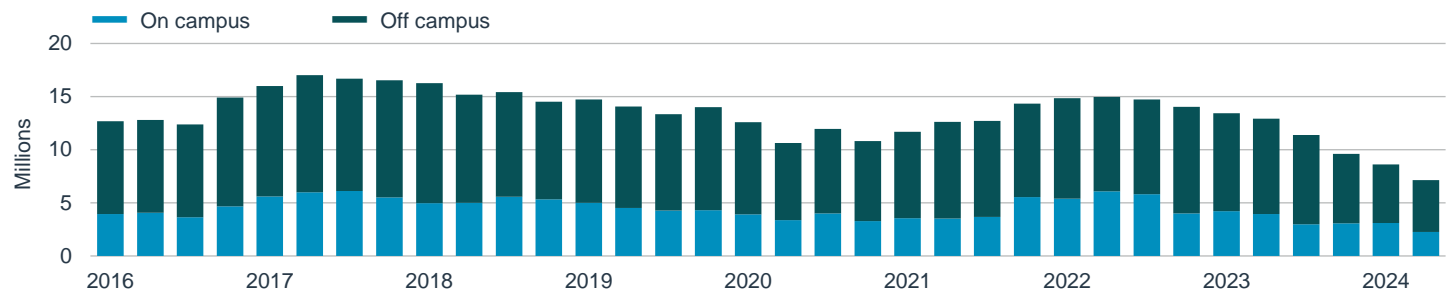
Providers continue long-term shift to outpatient care

The ongoing secular shift in patient visits from hospitals to outpatient care in recent decades will continue to benefit medical office buildings and ambulatory surgical centers. Outpatient visits reduce healthcare costs for both the patient and the provider. They also typically provide a more convenient option than traveling into congested city centers.

Slowing starts will lead to a supply shortage

Occupancy is at a cyclical high level of 93% with demand outpacing supply for twelve straight quarters. Construction starts have fallen by half over the past year, setting up a medical office shortage in the coming years. Market strength is widespread with only two of the 50 largest markets having current vacancy rates higher than their five-year average.

Construction starts cut in half since early 2022 peak



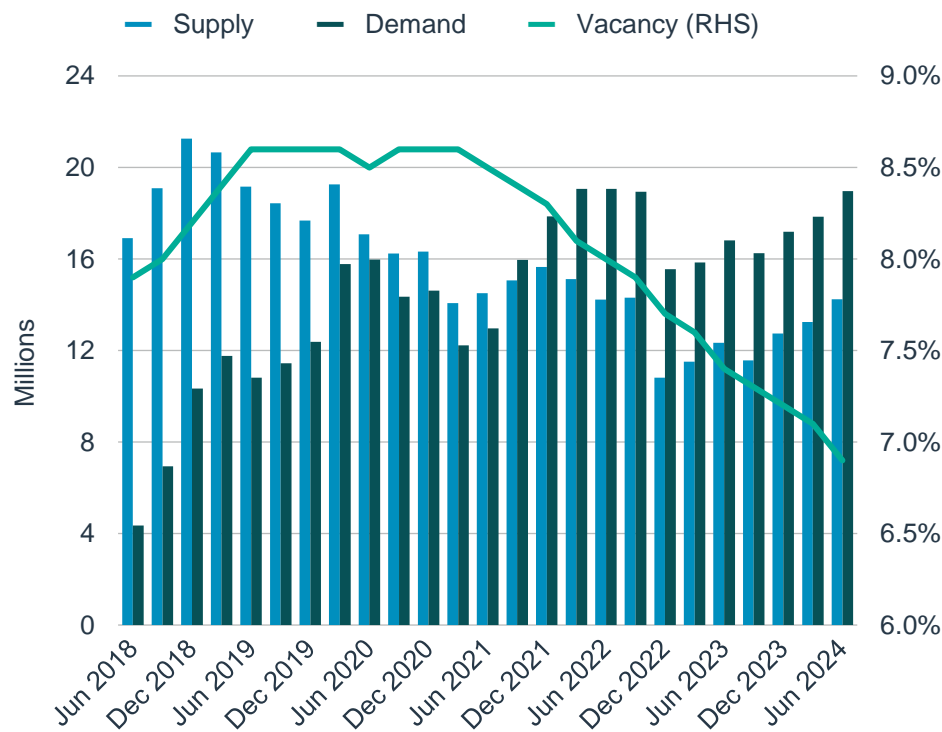
Source: Revista (Q2 2024), Nuveen Real Estate Research (August 2024)

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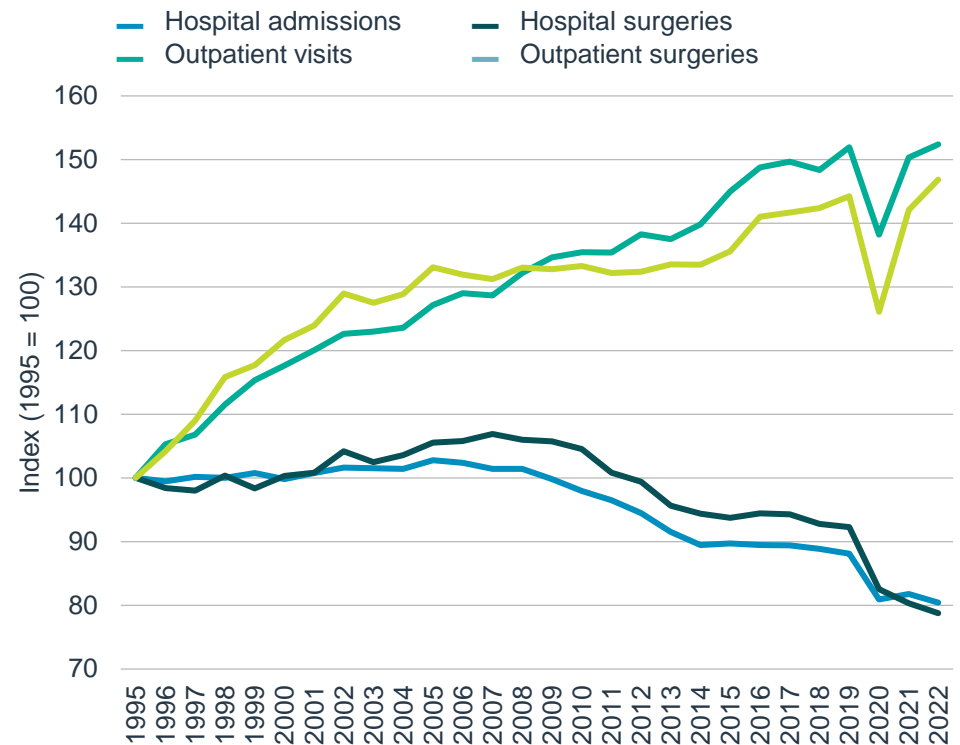
U.S. medical office

Fundamentals have never been stronger

Supply, demand and vacancy



Outpatient care continually gains market share



Source: Revista (Q2 2024), American Hospital Association (June 2024), Nuveen Real Estate Research (August 2024)

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. retail

Strategic investment themes are aligned



- Property fundamentals are healthy, particularly across open-air and necessity segments with vacancy rates below their long-term average
- The best opportunities for investment are grocery-anchored and open-air centers that fulfil daily needs which consumers visit multiple times a week

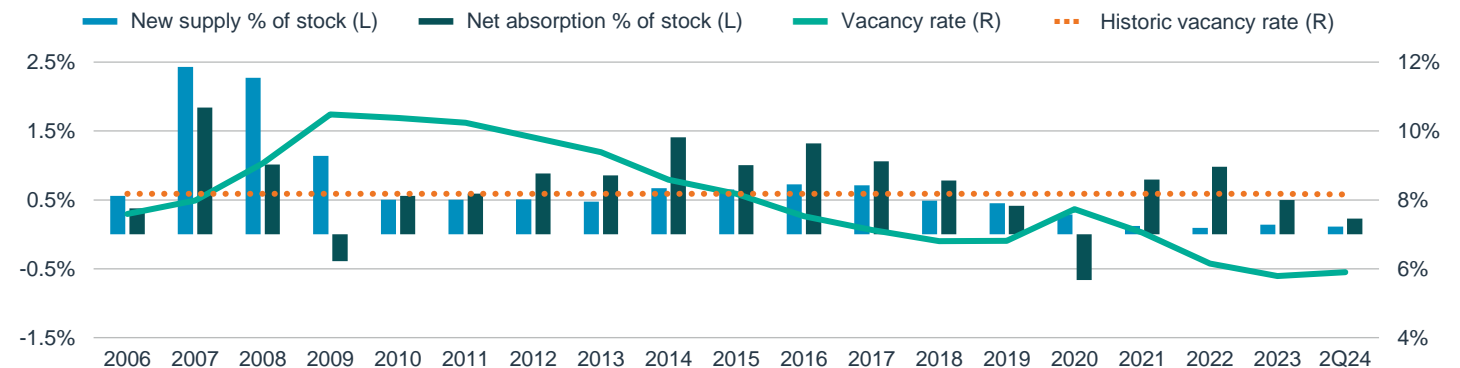
We see good potential for essential retail in 2024

We maintain high conviction in this segment of the retail market and believe the sector is poised to outperform given its healthy fundamentals. The sector has been stress tested and sits in a better position today compared to recent history. As consumers continue to require essential goods and services, trade down, seek convenience and stay local due to hybrid work, we remain focused on retail formats which will benefit. Vacancy at open air-shopping centers remains tight on the back of steady tenant demand. Net absorption remains in positive territory as demand continues to outpace new supply. Construction activity remains depressed, which helped occupancies recover in many markets. With market rents still 40% below levels that justify new construction, we anticipate a quiet pipeline going forward. At 5.9%, vacancy remains near historic lows. As a result, market rents growth remains healthy and reached 3.8% year-on-year. Prospects for future growth remain favorable and may surprise to the upside with vacancies remaining below its historical average.

Necessity retail is positioned to outperform

We see several strategic investment themes and property attributes aligning which could make for an attractive entry point in the coming years. Value declines for high-quality retail real estate have abated. The inefficiency of the capital markets and lack of dry powder are keeping investors on the sidelines. Investor sentiment is slowly starting to shift towards what we expect to be a strong opportunity. In our view, these factors are setting the stage for compelling investment conditions and a better vintage year.

U.S. neighborhood retail supply and demand trends



Source: Costar data as of June 2024. 2Q24 represent TTM totals.

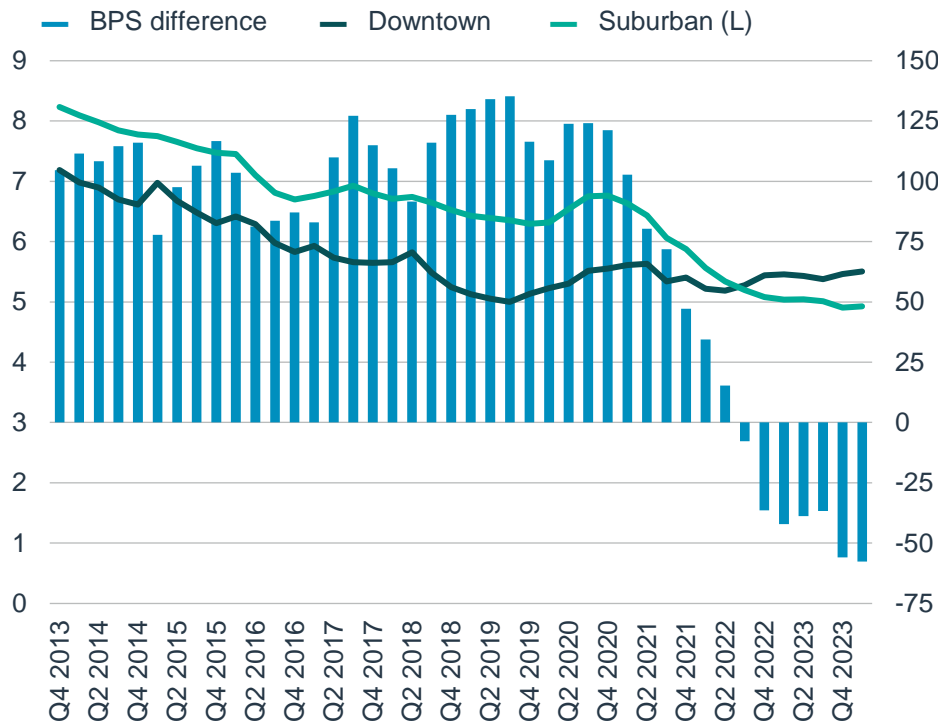
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U.S. retail

Retailers are still growing and following customers to the suburbs

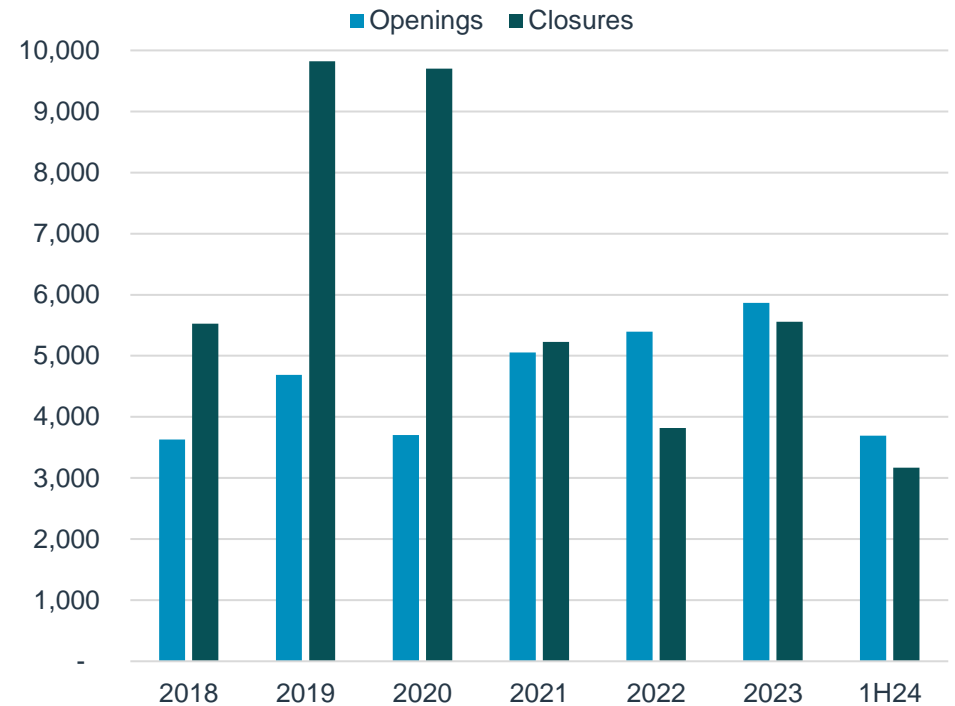
Retail availability (%)

By suburban versus urban submarkets and spread (BPS)



Store openings continue to outpace closures

New store openings favor open-air centers



Source: CBRE, Data of April 2024. Economic Innovation Group & U.S. Census Bureau Estimate 2022

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. industrial

Short-term headwinds persist but industrial remains healthy



- Elevated supply and muted demand growth has pushed industrial vacancy to a nine-year high
- Supply risks are beginning to subside in the sector and industrial still benefits from significant long-term demand tailwinds

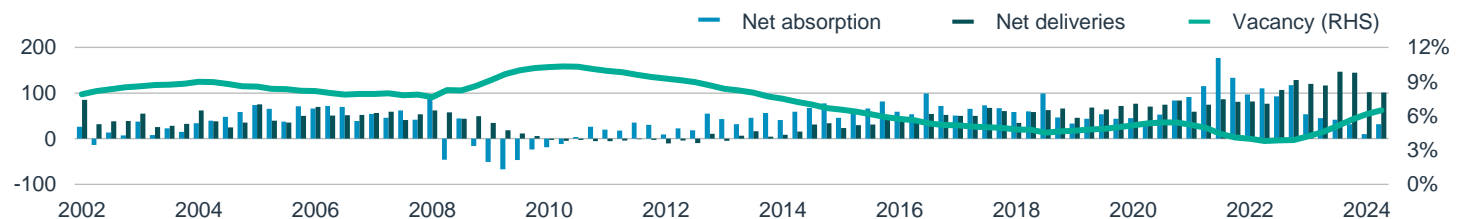
Elevated supply growth continues to drive vacancy higher

The warehousing sector continues to contend with dual headwinds stemming from a wave of new supply hitting the sector while mixed economic conditions have weighed on demand. Consumer spending on goods, particularly through e-commerce channels, remains strong and international trade volume has improved noticeably since the end of 2003. However, manufacturing activity has continued to stall in recent quarters and elevated interest rates have dampened housing activity, weighing on industrial demand. According to Costar, demand growth for industrial space improved noticeably in Q2 2024 to 31.2 million sq ft, up from 9.5 million sq ft in the previous quarter but still well below the pace of demand growth seen in recent years. Supply growth has begun to ease in the sector in recent quarters but remained above 100 million sq ft for the eighth consecutive quarter in Q2, with 101.6 million sq ft of new industrial space delivered. This combination of continued elevated supply growth and below-average demand growth continued to push the vacancy rate in the sector closer to historical averages, reaching a nine-year high of 6.5% in Q2 2024.

Industrial remains well positioned for long-term performance

Prospects for outperformance are still strong for the industrial sector in the medium to long term. Supply growth is likely to remain strong over the next few quarters as the existing construction pipeline hits the market, but the number of new industrial projects breaking ground has slowed significantly since the start of 2023 and have hovered near decade-lows in 2024. As a result, most of the current projects under construction in the sector should be delivered by late-2024 into early-2025 and supply growth will quickly normalize. Vacancy rates have climbed quickly in the sector overall but should stabilize once the supply risk subsides, and most markets will still have vacancy rates that are near or below historic norms despite recent increases. On the demand side, the sector benefits from long-term tailwinds from e-commerce and supply chain diversification.

Industrial fundamentals



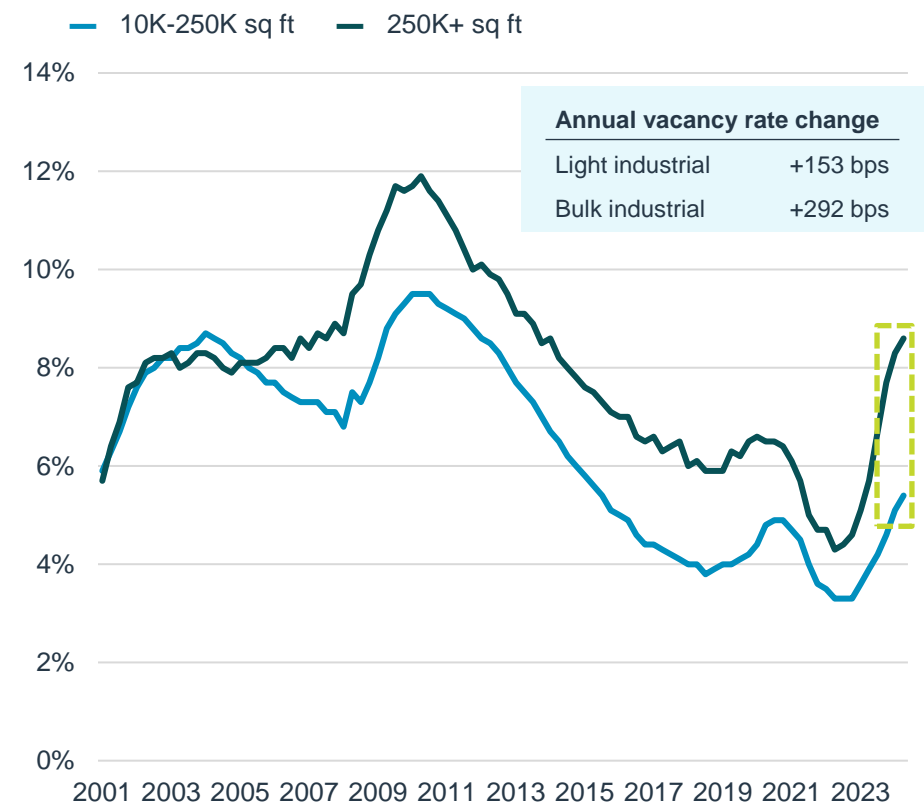
Source: Costar as of August 2024

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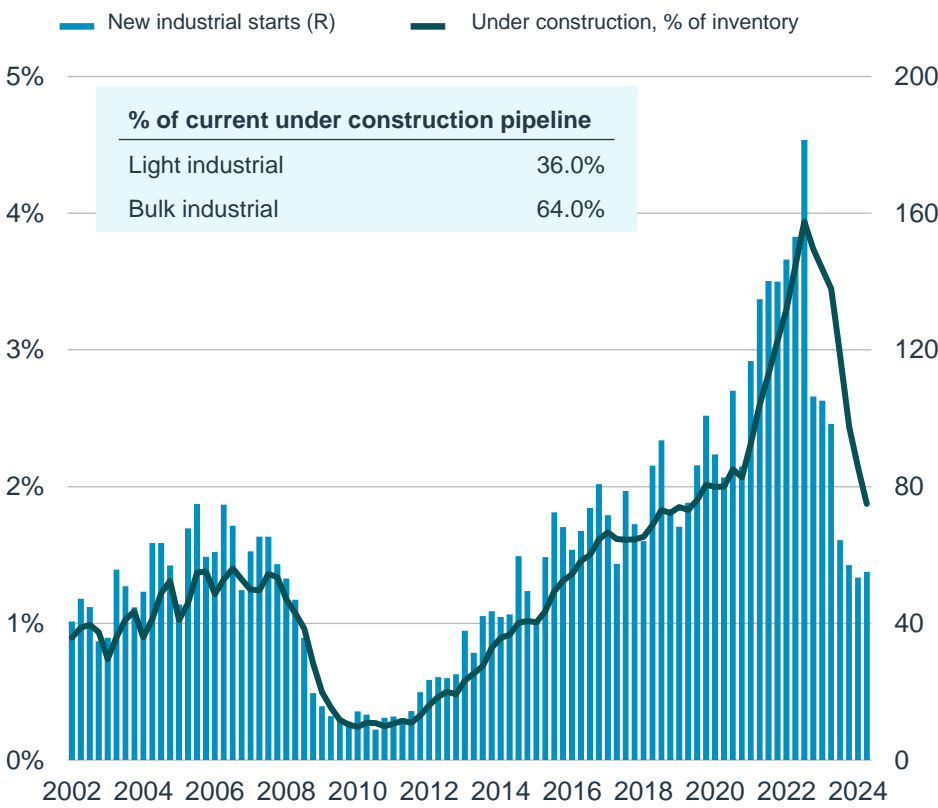
U.S. industrial

Vacancy rates are significantly lower in light industrial properties, providing opportunities for investment while the supply pipeline normalizes

Industrial vacancy rate (% of inventory)



Industrial starts (million sq ft) and construction pipeline

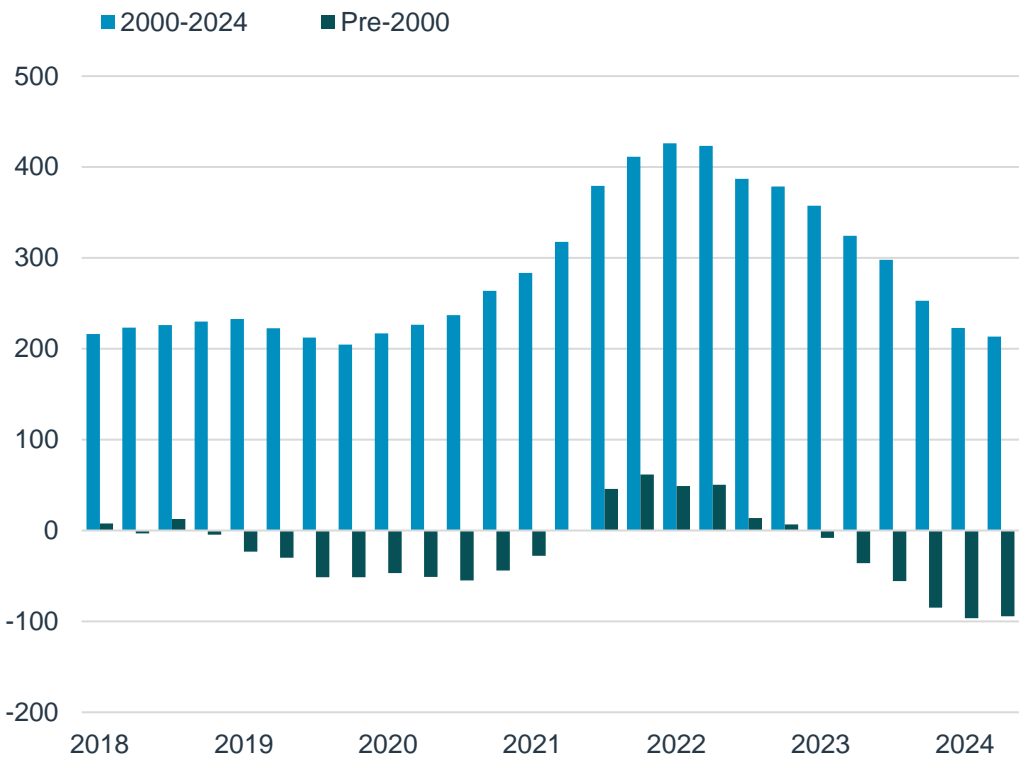


Source: Costar as of August 2024.
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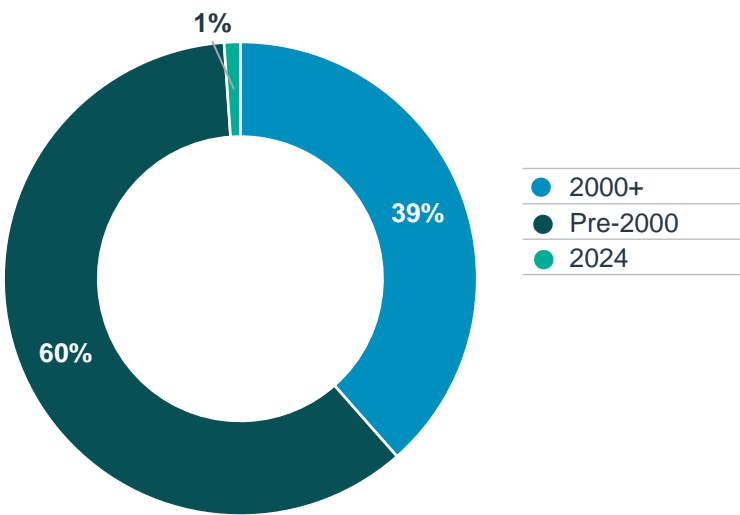
U.S. industrial

Older buildings have experienced negative net absorption since the start of 2023 as tenants continue to look to upgrade to modern facilities

4-qtr net absorption by year built (millions sq ft)



Warehousing sector assets by year built



Source: Costar as of August 2024. Data includes all U.S. warehousing, distribution, and light industrial properties
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. housing

Apartment demand marginally outpaced new supply in the second quarter



- Apartment occupancy stood at 94.2% in July 2024
- Apartment rents grew 0.3% year-on-year as of July 2024
- Single-family rents grew 3.9% year-on-year as of May 2024

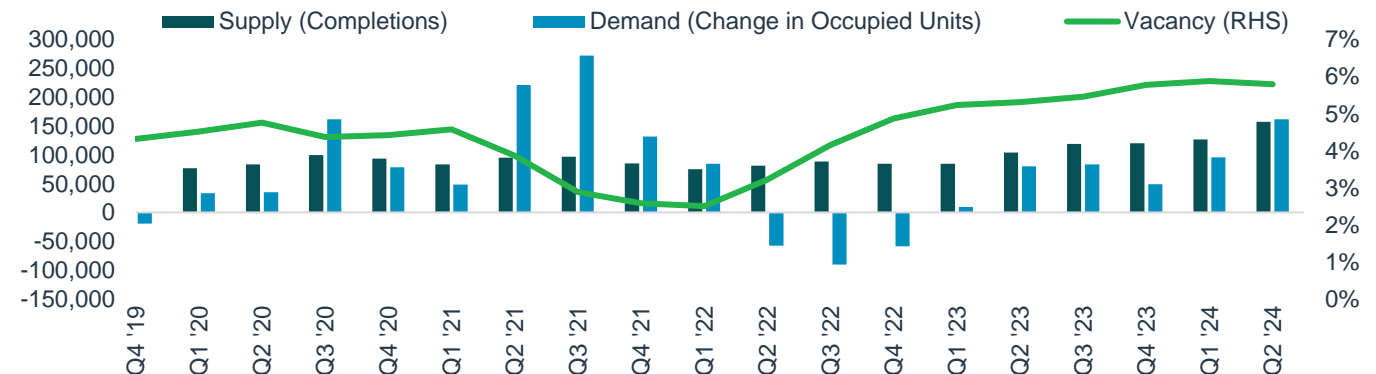
Apartment demand marginally outpaces new supply

The apartment market added nearly 162,000 new renters in Q2 2024, above the 157,000 units that delivered, according to RealPage. July's marginal 0.3% year-on-year increase for rents marked a year straight of near-zero year-on-year effective rent growth. Near-term growth may be challenged as the market absorbs peak levels of new supply. Several Northeast markets have maintained positive year-on-year rent growth including NYC/Jersey City, Boston and Washington, D.C. However, supply heavy Sunbelt markets have experienced rent cuts including Austin, Atlanta, Phoenix and Orlando.

Single-family rental growth remains strong

Current single-family rental market conditions are favorable as rents grew 3.9% year-on-year as of May 2024, according to John Burns Research & Consulting. Single-family rentals are favorably positioned to benefit from various demand drivers in the next several years including demographic wave into the prime single-family rental age cohort, continued migration to suburbs and Sunbelt markets, millennials outgrowing apartments, and millennials' financial headwinds to homeownership.

Apartment supply versus demand



Source: Nuveen Real Estate Research; RealPage; John Burns Research & Consulting, August 2024

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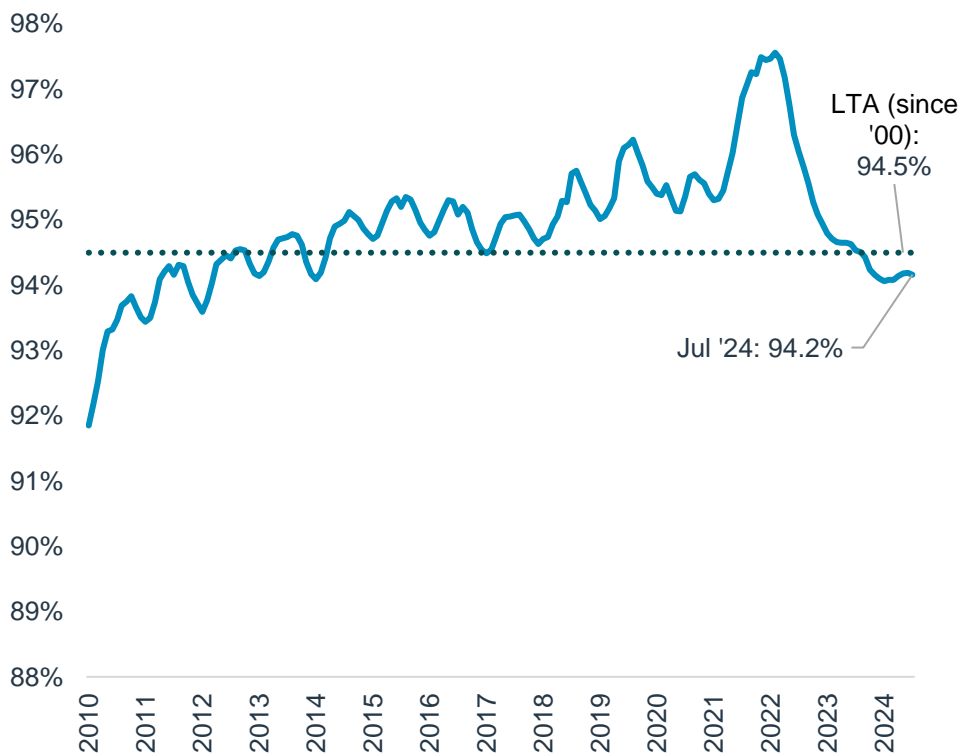
U.S. housing

The apartment market added nearly 161,000 new renters in Q2 2024, which was 54,000 units above the second quarter's long term average demand, according to RealPage

Quarterly apartment net absorption



Apartment market occupancy



Source: Nuveen Real Estate Research; RealPage, August 2024
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U.S. sustainability

The march to a low carbon economy continues

Conviction remains, key drivers: policy, occupiers and global investors

Policy

- Continued expansion of localities adopting commercial building energy or carbon regulation, with 30+ more planned in 2024
- SEC long-awaited climate disclosure ruling passed on March 6th. The fifth circuit court has since put the implementation on hold due to influx of litigation.
- CA climate disclosure regulation passed
- White House Zero Emissions Building definition, and Federal Building Performance Standards
- Expect mandatory regulations to ramp up during the second half of the decade (2025-2030)
- "...expectation is by 2030 net zero will be basically the new building code" E.g. San Francisco passed All Electric Building Code for all new builds

A strategic, long-term focus on net zero carbon responds to market trends anticipating value creation opportunities, given the existing supply-demand imbalance of decarbonized assets which are attractive to tenants and investors alike

Source: JLL, Transwestern, Net Zero Trackers Partners, New Buildings Institute, ABI Research

1 Source: JLL Research, September 2023

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Occupiers

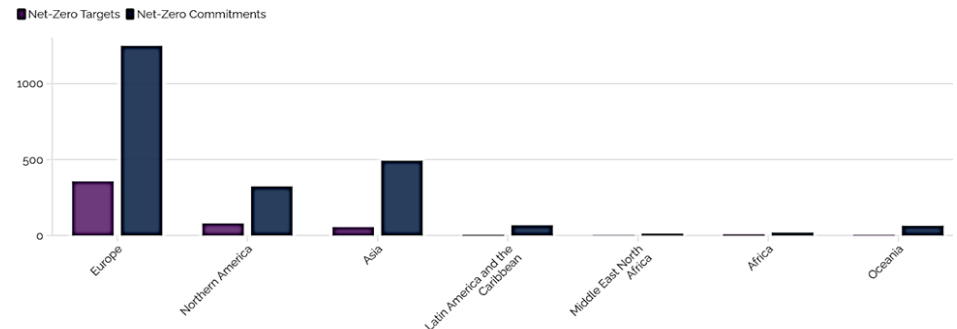
- 49% of U.S. companies set net zero targets
- Total number of zero energy buildings in North America has grown by 42% since 2018
- Supply deficit – 310 million sq ft of current office space among top 20 office occupiers have made commitments to net zero carbon by 2050, but only 23 million sq ft current space with LEED Zero certifications
- Global net zero energy buildings market is forecasted to grow 29% CAGR through 2027

Investors

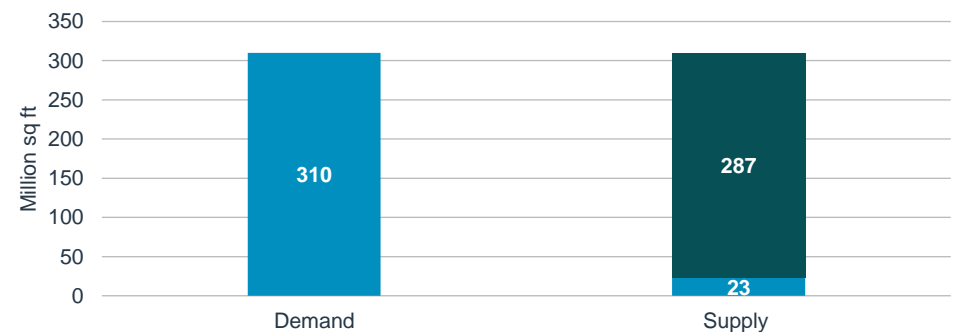
- INREV survey – 62% of global investors consider net zero carbon commitments when investing
- 68% of North American investors are committed to net zero carbon

80 North American companies have validated net zero targets, and 323 more have net-zero commitments

Companies with published corporate net-zero targets and commitments per region, November 2023



Data suggest demand for net zero buildings outweighs supply¹



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