NEW RULES OF THE GAME:

CHALLENGES AND OPPORTUNITIES IN THE LIGHT OF COVID

Interview with **Reisa Bryan**
Managing Director, Global Chief Operating Officer, Nuveen

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The pandemic has affected financial markets more deeply and extensively than initially expected. Real estate asset management is likely to take its share in the short run. However, with the crisis accelerating change, for example in digitalisation, and confirming structural trends that are shaping the industry, such as ESG (Environmental, Social and Governance), the long term outlook for the industry is positive.

Deloitte Managing Director John D'Angelo talks to Reisa Bryan, Managing Director and Global Chief Operating Officer at Nuveen, for an update on the challenges and opportunities in real estate asset management.

Reisa is Managing Director, Global Chief Operating Officer for Nuveen Real Estate which consists of approximately $125 billion in real estate equity and debt assets under management across the globe. In her current role, she leads all business planning, business management, and business project coordination globally. Reisa is a member of the Global Executive Leadership and the Americas Executive Leadership teams, serves as the Chief of Staff to the Global Head of Nuveen Real Estate, and is the central point of contact for senior leaders.

In prior roles, Reisa has served as Head of Business and Investment Operations where she led investment governance and operations and supported the planning, coordination, and execution of the US investment business processes. Prior to that, she was Head of Human Resources for Nuveen Real Estate Americas.

Reisa graduated with a B.A. in Communications from Hofstra University, an M.B.A. in Finance from the University of Phoenix, and a certificate of financial planning from Queens College.

What has been the impact of COVID on your day-to-day operations?

Changes in operations since the onset of COVID have come about mostly because we have been immobile for many months. For obvious reasons everything needed to be conducted remotely. As an organisation, we're slowly allowing investment teams to go out and conduct in-person due diligence and interact in appropriate ways. But this interaction needs to overcome a high bar: it needs to be business-critical and our colleagues who travel need to be comfortable doing so. By and large, the office is pretty much closed, with a handful of exceptions. Maybe somewhat surprisingly, we adapted fairly seamlessly to remote working. Like so many others, we had to adjust quickly in the first weeks, and secure printing was an issue, but we were better prepared than I think we expected. At first there were very frequent touch points with asset managers and property managers / JV partners to get a pulse on what was happening / what we were seeing in our properties, but the frequency of those touch points has reduced now that we have a better sense of activities and trends. We don't need to take a pulse check so often. Of course, we have people who are anxious to return to the office, and they will do so on a large scale when it's appropriate and we can be assured that our people are safe.

Have you made changes in your investment strategy as a result of COVID?
How do you see this playing out over the next 12 / 18 months. Do you expect changes?

Our investment strategy hasn't really changed as a result of COVID. We have a growth strategy, focused on logistics, multifamily and alternatives, and we don't expect that to change in any meaningful way over the next year to 18 months (or even in the foreseeable future). We're having to play defence on our existing retail portfolio, which has been under obvious stress. Office is hard to predict, but there will be a pervasive need for office. In general, businesses want to get back to the office, but at least in the near- to mid-term the office is going to be different from the office that people left. We're likely to see some reconfiguration of open plan with an increasing focus on providing a safe environment for people to work in.

Medical office is certainly on our radar as well as storage, which were already part of our strategy, are seeing huge demand as supply chains have shifted and continue to shift.

What's changed in last 12 years? Do Limited Partners (LPs) understand better? How about retail investors?

Institutional investor due diligence has been very similar to what we experienced before the pandemic, with investor focus shifting a little with respect to valuations and the deal / transaction pipeline. For obvious reasons, there has been a significant increase in scrutiny of valuations. And since we're in unusual times, we're seeing more interest in our transaction pipeline. Overall, investors are cautiously optimistic: they still need to put money to work and have an allocation to real estate. With respect to how the current environment is different from during the global financial crisis, there is a substantial difference in the amount of liquidity in today's market. Whereas liquidity dried up significantly during the GFC, debt is readily available in the current market.

Do you have a view on positive impacts / opportunities?
What will be the main challenges for asset managers?

One thing that hasn't changed is the question about how we find value in the current environment. Because there is still dry powder and liquidity, and bargains haven't started showing up (at least not for property sectors that fit our investment strategy).
With respect to the main challenges facing asset managers, a new thing is the focus on healthy buildings. This isn't such a big deal for industrial, but for our other sectors, it's a new area of focus for us. Not because we didn't care prior to the pandemic, but now the challenge is very different and we're very serious about our fiduciary duty as owners who use it to keep people who use our real estate safe. And it's not as though there was an established playbook and set of protocols to follow, so our asset managers have been hard at work in collaboration with property managers and JV operating partners to design and implement appropriate cleaning and safety protocols.

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Shifting to sustainability – one of the mega trends in real estate, and also other industries.
According to Abigail Dean, Nuveen's Head of Sustainability, sustainability "is part of your DNA.

What sets us apart is that sustainability is integrated within our investment decision making and isn't something that is just dealt with by the sustainability team – and that's really important to us. One of the practical steps we have taken to achieve this is to introduce a process for assessing sustainability at acquisition –this is documented in a sustainability paper presented to Investment Committee and is a requirement or every acquisition that we make. However the integration of sustainability goes much deeper than this. We have developed bespoke ESG strategies for all our funds: we have set a target to improve the energy efficiency of our global portfolio by 30% by 2030 (based on a 2015 baseline year), and we are on track to meet that. We provide training on sustainability for all investment professionals and we conduct annual reviews of business plans to incorporate sustainability items. The sustainability performance of our partners, such as property managers, operating partners and development managers, is also critical. We won't achieve our sustainability vision unless everyone in our business has sustainability as a core part of their role, so supporting and enabling our colleagues across the business to develop their knowledge and understanding further will continue to be at the centre of our approach.

Why is sustainability important to you as investors? Why do you think it should be important to all real estate investors?

Over the next few decades, the transition to a low carbon economy and the physical effects of climate change will have an impact on real estate values. Buildings that aren't resilient to climate change and aren't able to meet market expectations for net zero carbon are at risk of obsolescence. Buildings that are ahead will have the potential to benefit from greater demand from tenants and investors. Sustainability is therefore good asset management and it plays a critical role in our job of protecting and enhancing value for our clients. Having a deep understanding of how the pace of change will vary across affect different real estate sectors and regions will enable us to deliver performance alpha. That's ultimately why it should be important to all real estate investors.

How do you think initiatives / actions on sustainability are likely to change (or not) in the future?

The COVID-19 outbreak seems to have accelerated a trend that was already emerging for a greater focus on the social aspects of sustainability. The fact that enhancing environmental performance can protect value was already quite well established, but the focus on the role of real estate in the community and the socio-economic value that a building can have is a more recent emerging area. I foresee greater expectations from investors for the total impact of a building –economic, social and environmental – to be recorded, reported and managed. I also think that we will see tenants starting to demand buildings that are designed for climate change and that help them meet their own environmental commitments, by being net zero carbon. I expect that will become a standard for many tenants over the next decade.