Jay McNamara in conversation with Mike Sales, Nuveen Real Assets

Jay McNamara: Hi everyone. I'm Jay McNamara. I'm head of real estate at MSCI and in this edition of the real estate conversations, I'll be speaking to Mike Sales, head of real assets and real estate at Nuveen. Mike it's great to see you.

Mike Sales: Good to see you too, Jay, even though it's virtual.

Jay McNamara: Yes. How are you and the team finding the interactions with tenants, with developers, with various partners that you've made investments in or managing assets for along the way?

Mike Sales: Yeah, that's a great question because the reality is I think if everyone's really honest, we're getting to know a lot of our stakeholders even better than we did before. And that's because frankly we're having conversations with them all about a number of different things. If you talk about our platform, you know, 130 billion of which 40 billion is commercial real estate debt. We're talking to borrowers who've got properties that aren't collecting any rent. You know, say it was in the hospitality sector. And then we've got the equity piece where, you know, we own a lot of retail, you know, we have a lot of offices that are lying, vacant, so we're having all sorts of discussions with our tenants. Trying to try to do the right thing, but also, being creative about, you know, solutions for some of those tenants. As far as developers and construction sites, you know, we're being very much guided by, you know, local government and restrictions on the ground. But I'm pleased to say in most cases we are nearly back on site all be it on a very restricted basis on all our major developments globally.

Jay McNamara: Right, and the investors in your funds, how are, how are those conversations changing? I mean at the types of questions that your client teams receiving, are they changing? Are they, are they looking for more information, less information? Are they backing off? What's that sort of engagement on the other side of the equation?

Mike Sales: I think it's, it's a two-way thing. We're certainly communicating a lot more. So, again, I think it's a positive for us in terms of we're learning to communicate with them a lot more and on a far more regular basis because things have obviously moved quickly, but they've also sort of stabilized quickly, dare I say it, for you know, financial markets. So keeping the clients on top of what that means from a real assets or real estate perspective is important, but that stabilisation in markets is also important for us to get that two way communication back from clients because you know, when markets crashed at the start of this crisis, you know, real assets and real estate allocations suddenly looked above allocate patient level. So clients are having to stop pause, rethink. They would have done that anyway, of course.

So I think, um, it's a two way process. We have to understand how clients are thinking about their allocation decisions, how they're thinking about liquidity and we've got to keep them informed of, you know, are they getting rent in on the buildings that they own and what are the things we expect to see happen over the coming months. So I think it's been good and I think everyone wants information. That peaked probably into week four or five as the sort of news flow has got steadier and steadier or we at least know how things are panning out. But it's all about that communication piece.

Jay McNamara: Yes. We found actually it was quite interesting that that some of our larger institutional clients who we've been having conversations with and have been long time clients of MSCI both for real estate and our other asset class solutions as I think you timed it, that three, four week mark where everybody kind of just tried to go to the high ground and freeze and pause and figure out what actually was happening as they started to take a deep breath and say, okay, let's lean into this a little bit more. We were starting to get the level, a lot of it was us reaching out at first and then now you were finding, "could you help us with this?" "Is this the sort of thing?" "Can you help me with my income risks?" "Can you look at some attribution" and "hey, what do you have for data on X, Y, Z market or sector?" And I think it was about that same time we were equally seeing that kind of pivot away from freeze, let's survive what is actually happening in the world around us to, Okay, this could be around for a while now we need to engage and continue on,

Mike Sales: I think that's a great point, Jay, because you know, some of the communication has changed from purely fact data-based, you know, analysis on the real estate they own too far more about thought leadership, you know, behavioral psychology and the impact that this is having on people's potential future work patterns, shopping patterns, all these sorts of things. So I think that communication shift is that investors want to be informed about how we think the retail markets or what the future retail looks like. You know, 12, 24, 36 months ahead, exactly the same for the office market. So I think we're having far more interesting conversations now about, okay, what does it look like and therefore what do we need to do to prepare their assets for that eventuality?

Jay McNamara: Yeah. Actually on the first episode with Will Robson, our global head of research, we were talking about that, and this was weeks ago, will we see people saying, what do I do when we quote unquote come out of this? Like what comes next? What is this new world order? Actually I was reading something you guys put and in the quote you had in one article was "crises do not break systems but reveal what is broken". I thought that was a great line. What did you guys mean by that when you put that out?

Mike Sales: Well, I think the best way of illustrating that quote is, you know, the retail market. We've known that the current retail model, you know, post e-commerce, you know, look at all the department stores struggling to, to sell their wares. We know the retail market was effectively, you know, needed re-engineering this has been a few like, this has sped it up. You know, you've had about two years worth of progression because of the pandemic, and so what it's gonna do is it's going to force, landlords, developers, so all imagined, as I mentioned, what do we think consumers are gonna want going forward on the basis that perhaps behaviorally they're going to order a lot more to the door. When are they going to go out? Is it just going to be convenience? If they go big, what are they going to want?

What are they going to want to see in that shopping center? And some of the things that we will all, and ourselves included, we're talking about two years ago or even a year ago about experience and making it an attractive way to get lots of people together and get them into the center, some of those things are going to take a while to come back. So that's the point, is that in certain areas where we're almost at the end of the old retail and now it's "right, what does a new retail look like?" "what is the lease of life for a new retailer today?" "is it purely turnover based?" "how intensively are we going to manage shopping, now's going forward?" Et cetera. So I think that's exciting in a way.

Jay McNamara: Yeah. And you all have been very visible and very active in promoting a lot of the city funds and these sorts of things and taking real plays but from a city, when we talk a lot about in real estate geography sector, do you see on the city side and the views that you and the team are having, whether it be real estate or some of the other real assets in the broader portfolio, do you see that changing at all in terms of the approach that you'll take or equally the types of questions that client - exposures clients would want to gain by coming to intervene?

Mike Sales: Yeah, look, I think absolutely the city's approach, we think on a long-term basis, but all the reasons we came to that approach, four or five years ago. I think over time assuming we don't have a rash of pandemics, I think will still hold true. All those cities that people want to live in, that are technologically advanced, smart, youthful, affluent, all those sorts of things over time people will still want to be because they're social beings in that they'll jump on the urbanization bandwagon. Now, admittedly that may not be for a period of time. So of course we are now looking at our cities that we have and if you take the U S for example and you look at someone like Las Vegas, new Orleans, Miami, very big tourist- cause one of the big things for the city's filterings is all about incoming tourism and hospitality and you look at some of those cities - no city's averse to what's just happen.

But those that are really influenced, somewhere like a Vegas, you have to make some short-term decisions on when you think that Vegas will return to normal and when people start flying again. So we're absolutely looking at things on that basis.

Jay McNamara: Yeah. And if we pivot back to the clients, those that are investing in your funds, right? We've discussed them, you and I over the years have discussed what outcomes are clients seeking when they invest in real estate infra vis-a-vis a reap or some sort of publicly listed security. When you think about real assets you got to reflect back - it's not a short-term trade. So we talked a bit about the types of questions and engagement, the depth, the analysis that they were seeking, but when you think about it, even just the broader asset allocation, real assets, the role that it plays in a large institutional asset owner, pension plan, sovereign wealth funds, portfolio - is that changing, do you think? Do you think that, to your point earlier, the press was talking about the denominator effect at the beginning, as equity markets sold off or yields changed in a rapidly- do we sell out of these things? But it's the nature of real assets, it's a longer-term play and you get outcomes that you can't get from other types of securities and instruments.

Is that going to change? Or do you see people now as they emerge kind of saying "I'm more convinced than ever that I need to have the type of growing allocations we saw prior to the pandemic."

Mike Sales: Yeah, I actually think, again it's a getting back to normal state of course, I absolutely think we are in that world where there was a growing allocation to alternatives, whether that be a real estate, real assets, private credit, private equity, for all the well laid out reasons, whether it be the lack of volatility, the inflation hedge, the income component. So I think we expect allocations even though they may be temporarily out of kilter because of where equity markets are, we actually expect with low interest rates that appetite to potentially pick up. Now clearly from a real estate perspective and indeed a social infrastructure perspective, income's going to be challenged in the short-term, but we absolutely expect that to come back. And that income component, which offers the investor of course long-term growth over time as well,

and of course, the biggest point is around the parts of those different real assets or real estate markets that you play in. So right now, of course, you're not going to go out and buy a shopping mall, right? And if you did, you'd probably go and buy it listed rate, which is trading at a 40, 45% discount. On the other hand, some areas of the market continue to hold up well and we see long-term trends, meaning that they will continue to do well. And as long as the banks are still lending and that's a big question, then these offer very, very attractive income returns.

Jay McNamara: Mike, you and I have known each other now for a couple of years, and despite being a crystal palace fan and me being a West ham fan, we can still get along quite well. One of the observations I've had in the last few years, it's just amazing about how many really fascinating and interesting FinTech companies have come to real estate and the idea that you could leapfrog maybe a decade or two in terms of operations and technology and things of this nature. Now, leaving aside the obvious one, we're all doing these things via various video apps like Zoom and Microsoft Teams and things of this nature, when you think about the broader real assets, is this FinTech boom that was occurring quite clearly in the last few years coming into early March, let's say, is this going to accelerate or do you see people reverting back to the more interpersonal once we can start to get back together?

Mike Sales: I think, look, technology is undoubtedly here to stay and it's understanding where it adds most value and where it's going to be, and where it's coming to the fore. So, you look at these sorts of times and okay, we've got things like Zoom and WebEx and Teams and all these things that are teaching our kids from building's perspective, for example, whether that be social infrastructure or real estate, that smart building technology, that is very much here to stay, particularly post-pandemic. And so, working out how you get your buildings savvy or smart and so they're able to give you all the data you need to make sure that your employees are safe and their health is being looked after in a building, are going to come more and more to the fore.

So, I think smart buildings technology definitely is going to be a beneficiary of what's just happened. And likewise, I think things like blockchain and tokenization down the line, we've got to work out a better way in real estate. Real estate is so clumsy in a number of different ways and there is definitely a way to tidy it up. So, I think technology is definitely here to stay, understanding and getting hold of data that allows you to look at the retail centers that we have, analyze for where people are spending - that was important before pandemic, it's going to be more vital post-pandemic. So, big fan of technology and we're an early adopter. I wouldn't say we're a market mover, but we were definitely moving more and more.

Jay McNamara: What about this trend that was definitively with us coming into the last few months, which is the rise of ESG and climate solutions and these sorts of things. what are you hearing from clients in terms of the emphasis that they want to put on clean buildings and emissions and what is the flood risk and tertiary risk and all these sorts of things? Is that going to speed up change? How are you guys thinking about those sorts of, both from an investment standpoint in terms of an acquisition, but also from a "hey look, this is the type of exposure our portfolios can give you", whether it's infra or real estate or whatever it may be. How's that going to change for you?

Mike Sales: I don't think it's going to change at all because the reality is investors were all over ESG prior to Covid and if anything, it’s gone up as a result since. So, all those things that we and others are doing in terms of when we assess a building, all our climate change work on those sort of locations and cities that we believe there are risks longer term, that work continues. That smartness of building the social and environmental impact through our impact strategies, clients won't talk to you, sophisticated institutional investors, and we're seeing that happen more and more on the private wealth side as well. They don't want to know you unless you've got an answer to all these questions and that you're trying to solve a lot of these issues and definitely have minimum standards in place, we want to be way above that, obviously. They won't even return your calls probably. It's a very, very big thing for us.

Jay McNamara: Actually, we talk a lot about at MSCI how, whatever the number of years there's looking out, but the not too distant future we will no longer be talking regardless of the asset class about what is the ESG policy. It'll just be "this is investing". It's another factor in your acquisition disposal, portfolio construction, whatever it may be. It's just all second nature and you need to factor it in just like you need to factor in any of the other risk factors. One final question I want to get your thoughts on Mike, which relates a lot to running a portfolio like you do as part of a bigger organization.

So it's head of the real assets group, as part of a broader organization and the genesis of what is Nevine real assets, the Henderson side, the TSI, these sorts of things.

When you talk to your clients, are they drawn towards an organization that can provide a multitude of asset classes, both private and public, listed and unlisted? Or do you see them now in light of some of the things we talked about? These guys are sharp, they know what they want. Do you see them being more laser focused saying "I'm going to go to a standalone farmland or infra versus somebody that can give me the whole spectrum of real assets?" How is that being part of such a large multi-asset class organization going?

Mike Sales: Do you know what Jay, that's a great question. I just wonder whether you had a camera at one of our last DC meetings actually, because I'm a big believer from a personal perspective that having all those capabilities is great on paper but going back to how you describe clients' laser focus, clients want best-in-class capabilities. They won't come to you as a single manager, cause everyone talks about biggest is best, it's only best if you're good in every single thing that you do, and if we're strong, and we're very strong in farmland, for example, we're very strong real estate, we're very strong in municipal bonds, very strong private credit. Are we strong in other real assets areas? Or have we got that third-party capability? No, we haven't. And we would never expect a client to come to us and say, "well because we like you, we're going to give you money for that strategy."

Generally, as long as you do things or you're top player in a particular area, you may benefit from that piece, and the fewer number of managers that clients say they want, but most of the time a client is going to want to go to best of breed. And for us, therefore, the emphasis is on "right, we're a big firm and we've got to make sure we're good at everything we choose to do." And it may be that you choose not to do some things because

you can't be great at everything.

Jay McNamara: Well good. Well listen Mike, huge thanks. Huge thanks. Thanks everyone. Look forward to you tuning in to the next episode of Real Estate Conversations.

TRANSCRIPT

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