TD Asset Management

Investor Knowledge + 15 Minutes
= New Thinking

Is Now the Right Time to Invest in Global Real Estate?

As global economies re-open thanks to COVID-19 vaccine roll-outs, commercial real estate assets worldwide are proving their resilience. This includes assets that were impacted by government shutdowns during the earlier days of the pandemic, such as retail, which is now beginning to rebound. As a result, commercial real estate continues to offer attractive opportunities to institutional investors seeking stable long-term risk-adjusted returns.

However, not all countries are re-opening at the same pace. This means investors need to be strategic about their global real estate holdings by increasing exposure to regions that have the most attractive risk-adjusted returns, while effectively managing risk. This paper highlights the merits of gaining exposure to a global real estate allocation in the current environment.

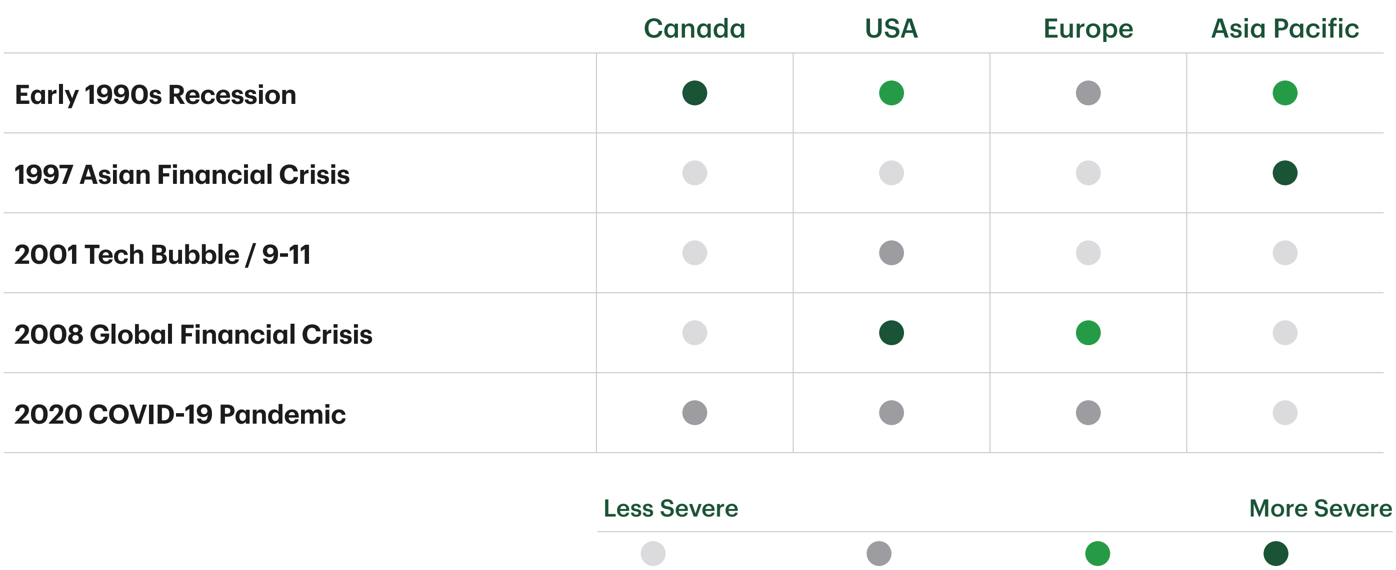
Proven Resiliency Through Economic Disruption

The COVID-19 pandemic has tested the resiliency of various investment asset classes. Institutionally-owned commercial global real estate has proven to be relatively resilient, especially compared to other economic disruptions.

Economic shocks tend to have different levels of impact across the world. As a result, allocating to a diversified global real estate solution mitigates the impact that particular economic shocks might have on a portfolio (see **figure 1**).

This has been true in the COVID-19 pandemic as well, partly due to countries' staggered points of entry into the global health crisis and the varying response mechanisms imposed by governments. For example, most developed Asia Pacific countries have demonstrated the ability to contain the virus well. This is likely due to their early entry into the pandemic and previous experience with other health crises, such as dealing with outbreaks of the Severe Acute Respiratory Syndrome and the Middle East Respiratory Syndrome. As demonstrated by economic disruption due to an exogenous event like the COVID-19 pandemic, having a balanced exposure across multiple geographies has the potential to improve portfolio resiliency and diversification outcomes.

Figure 1: Impact of Historical Shocks on Global Real Estate



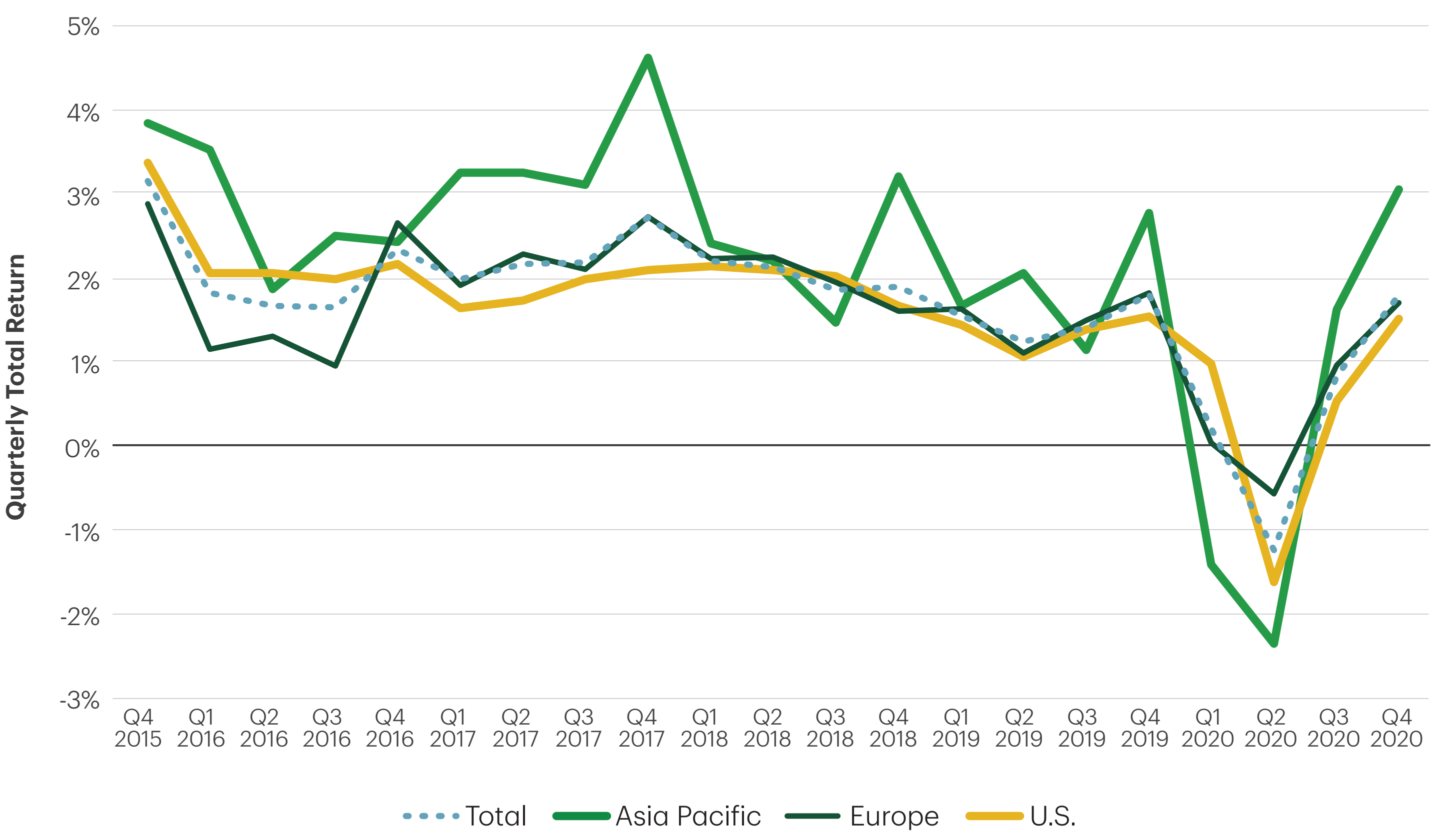
Source: TD Asset Management Inc.

Resiliency

Economic Recovery Is Well Underway Across the Globe

Economic recovery is well underway in a number of countries thanks to broad containment of the virus, easing restrictions and accelerated vaccine rollouts. The United Kingdom and the United States have made significant strides in their vaccination programs, which has tilted these regions towards normalcy. Since the initial onset of the pandemic at the beginning of 2020, total global real estate returns by region have seen a quick rebound.

Figure 2: Global Real Estate Total Returns by Region Have Rebounded



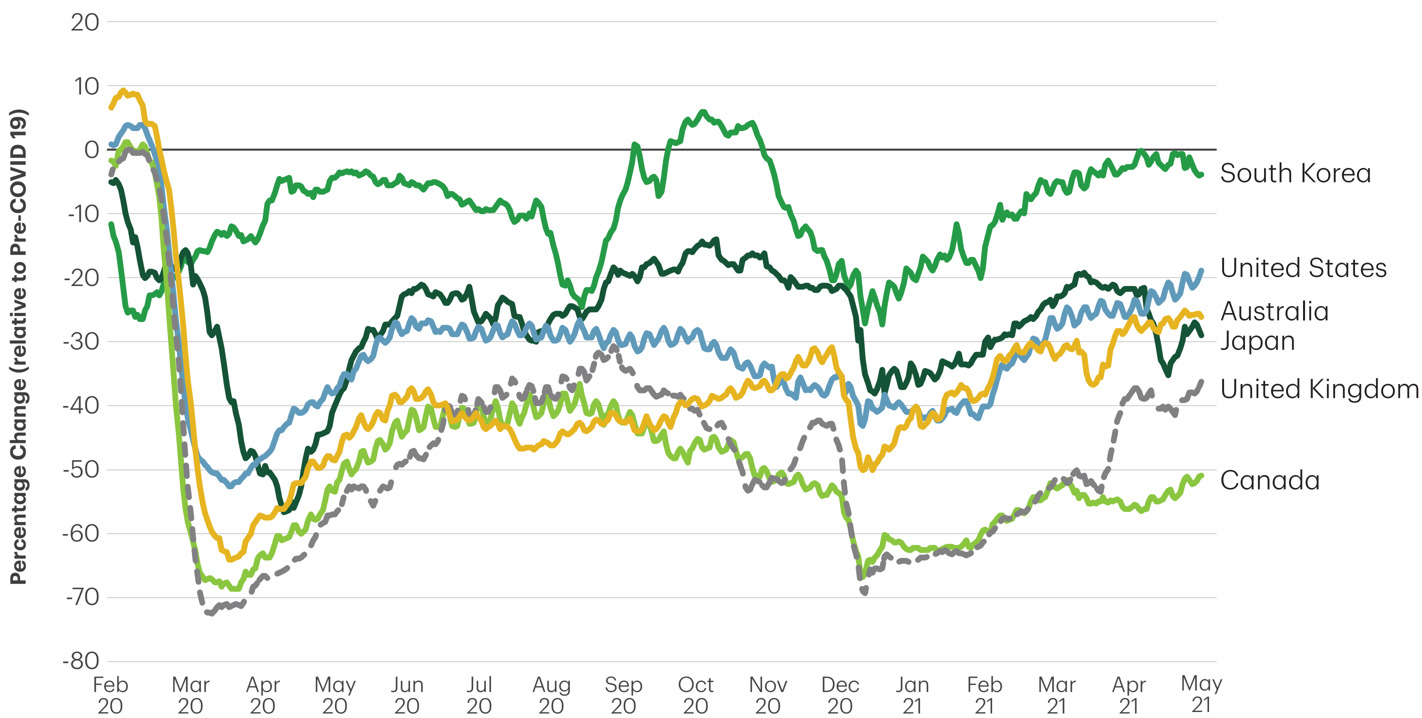
Source: ANREV/INREV/NCREIF Global Real Estate Fund Index. As at Dec 31, 2020.

Recovery

Improvement in Transit Ridership

We have seen a decline in transit use during the pandemic. Interestingly, countries such as South Korea, which had more experience with viral infections, saw a less pronounced decline in transit use. With more successful containments of the virus and vaccination rollouts, transit use hesitancy is starting to wane. This emphasizes the importance of transit-oriented and urban locations as the global economy approaches a full recovery. As shown in **figure 3**, transit ridership is slowly approaching pre-pandemic levels across multiple countries since hitting its largest decline in ridership during the pandemic.

Figure 3: Transit Ridership Rising as Infection Rates Decline



Note: This data shows the number of visitors to transit stations has changed relative to the period before the pandemic.

Source: Google COVID-19 Community Mobility Trends, Our World in Data. As at May 2021.[1]

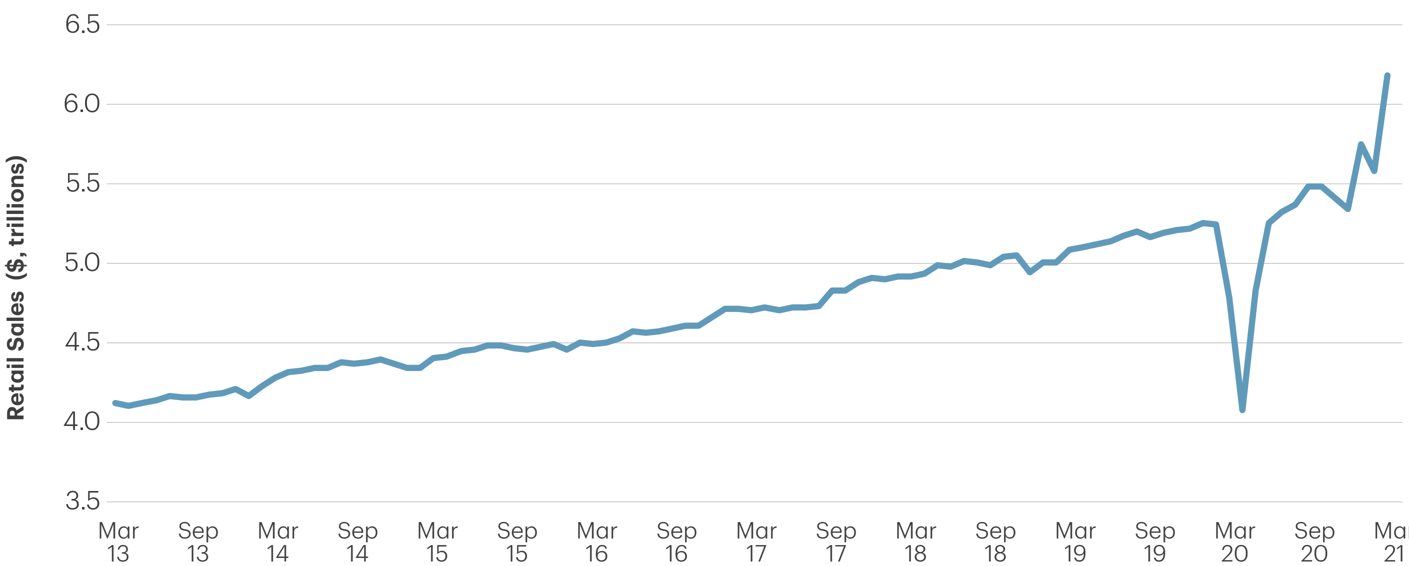
[1] Source: https://www.google.com/covid19/mobility/

Improving

Renewed Optimism in the Retail Sector

Investor sentiment towards retail assets is starting to shift favourably, particularly with regards to enclosed shopping centres that saw a disproportionate impact due to government-imposed restrictions and periodic shutdowns. Retail assets are now displaying their capacity to rebound. According to Placer.ai's Mall Index, 50 of the top shopping malls in the U.S. experienced a 25% increase in foot traffic over the first quarter of 2021.[2] Pent-up demand from consumers keen to spend excess savings accumulated during quarantine have since translated to increased retail expenditures, a key signal which suggests that these trends support a continued rebound in retail sales going forward.

Figure 4: Retail Sales in the USA have Rebounded



Source: United States Census Bureau. As at Mar 31, 2021.

[2] Source: https://www.placer.ai/blog/mall-index-march-2021-update/

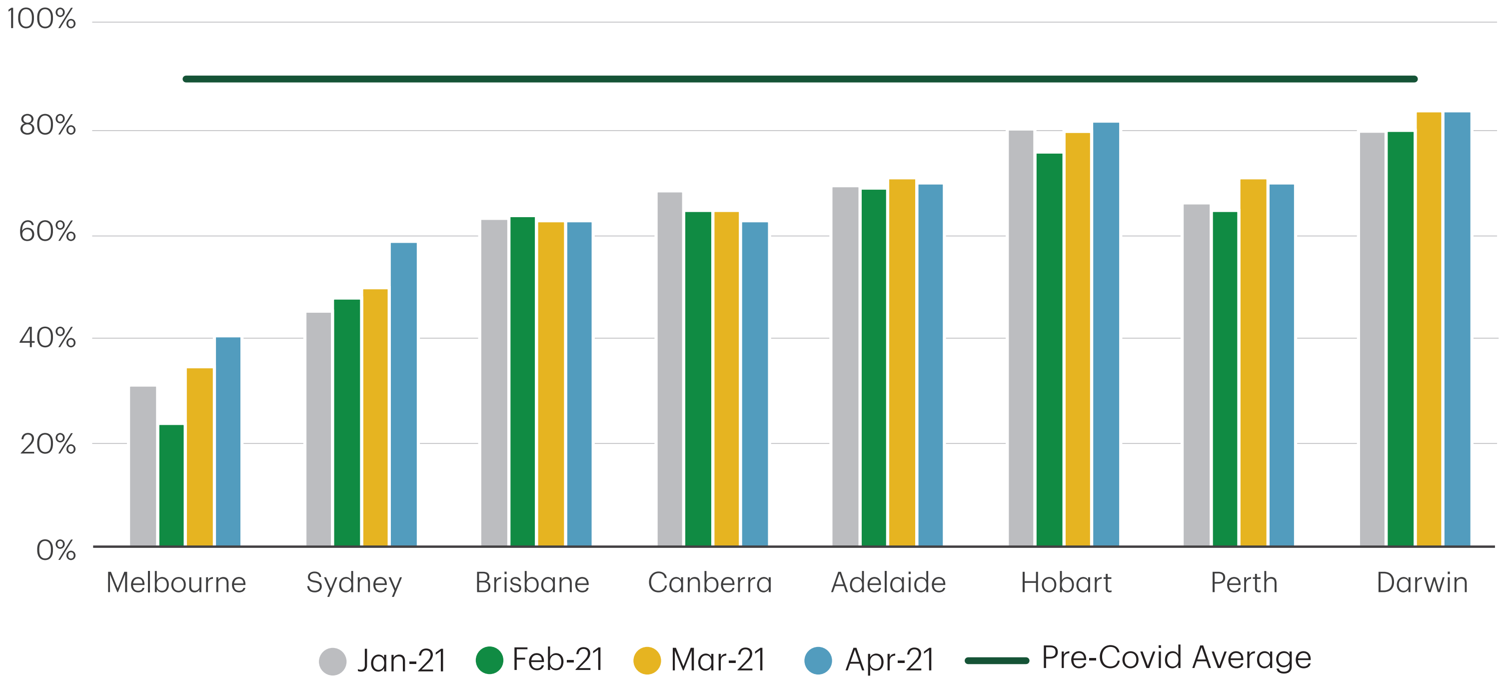
Optimism

Resilience of High-Quality Office Assets

There has been a lot of discussion on working from home. Australia is a useful example as a country that has seen some cities with periodic COVID-19 outbreaks while others have had more success containing the virus. Cities with success in containing the virus have seen marginal reductions in office use, whereas those with less success have seen greater reduction in physical office occupancy. Melbourne and Sydney were able to contain the virus from January through April 2021 and thus saw increased physical occupancy of office spaces (see **figure 5**). We are observing similar themes globally: as workplaces reopen, cities are witnessing progression towards increasing physical occupancy in offices.

According to an Australia occupier survey conducted by ARA Asset Management in 2021, the move towards greater work-from-home flexibility is likely to be a long-term trend.[3] However, most respondents expect that their physical office footprint will remain unchanged in the near term with a long-term focus on modifying and improving physical offices for activities that are done better in person, such as collaboration and client meetings.

Figure 5: Australian Employees Are Returning to the Office



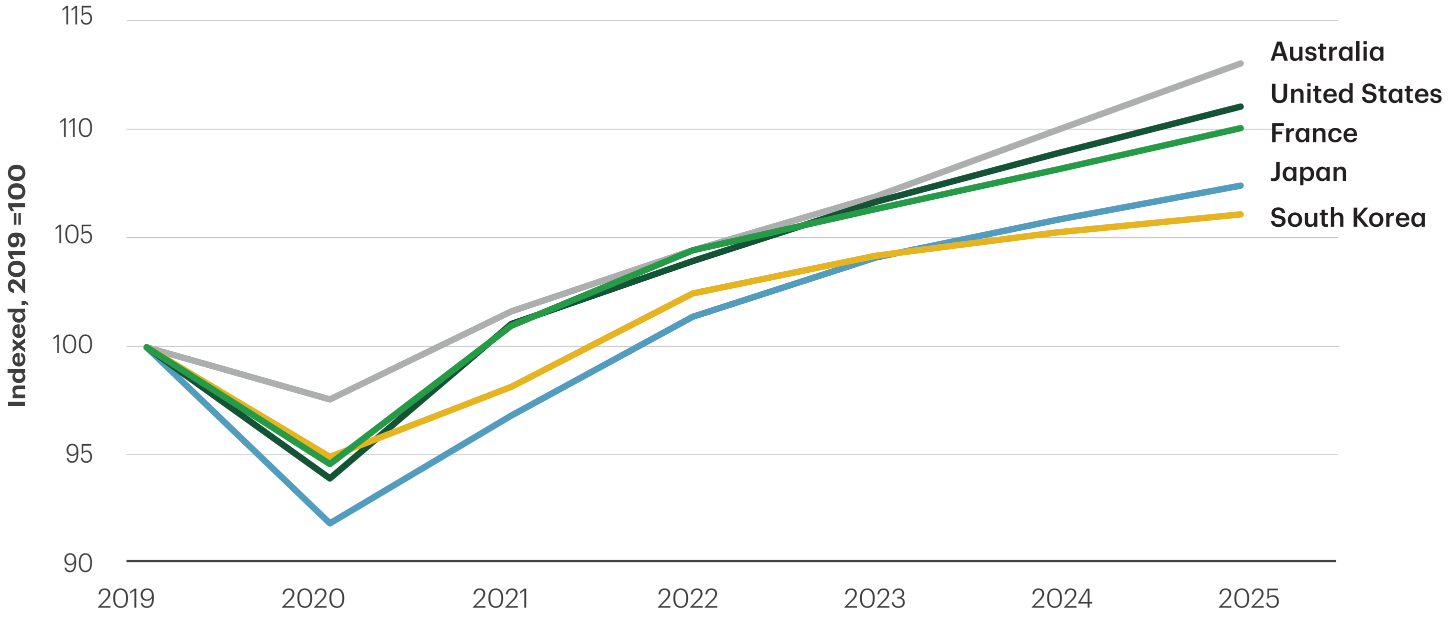
Source: Property Council of Australia. Figures are based on responses from Property Council members who own or manage CBD office buildings. Results for Perth were recorded during the recent lockdown, but reflect an overall assessment of occupancy for the month of April. As at April 2021.

[3] Source: https://www.ara-group.com/docs/default-source/default-document-library/future-of-office---australia-occupier-survey-report-may-2021262ac8fa14366a6a9174ff000052427f.pdf?sfvrsn=0

Positive GDP Growth as Economies Re-open

As economies continue to re-open, GDP is forecasted to increase across multiple countries and will be a favourable tailwind for growth in the global commercial real estate market. As depicted in **figure 6**, Australia's effective containment of the virus has resulted in the country becoming one of the global leaders in GDP growth, followed by the United States.

Figure 6: Strong GDP Growth Expected in the Next Five Years



Source: Oxford Economics. As at June 2021.

Accelerated Trends to Watch Out For

What makes the current economic environment unique is that while there are impacts that have altered certain real estate fundamentals, there are notable pre-pandemic trends that have accelerated to become more structural in nature. Investors considering a global real estate allocation should contemplate the ability to tactically position portfolios to take advantage of current market conditions while taking long-term strategic positions that are able to serve structural trends. An actively managed real estate strategy can help investors allocate to different property types and geographies that are experiencing favourable trends.

E-commerce Adoption

Purchasing goods online is not new to the typical retail consumer. As some stores had to endure intermittent closures throughout the pandemic, consumers have altered their shopping habits by using alternative venues, like e-commerce. The adoption of e-commerce has been growing in the past several years, but with this shift in consumer shopping habits, e-commerce penetration is forecasted to increase in the next several years. For example, in the UK e-commerce as a percentage of total sales was 21.8% in 2019 and is forecasted to be 32.1% by 2024.[4]

The rise in e-commerce demand has translated into a substantial increase in tenant demand for warehousing, logistics and distribution space. Rental rates have grown at a rapid pace, while vacancy rates remain at historical lows, particularly in supply-constrained markets.

The industrial market in Australia is a prime example of a market that stands to benefit from accelerated e-commerce adoption. While Australia's online retail sales have lagged other countries like the U.S., growth in Australian population, coupled with modest industrial supply growth, should push industrial rents higher and further compress cap rates in the near term. This is in addition to the fact that most major Australian markets like Melbourne and Sydney remain attractively priced relative to several global gateway cities.

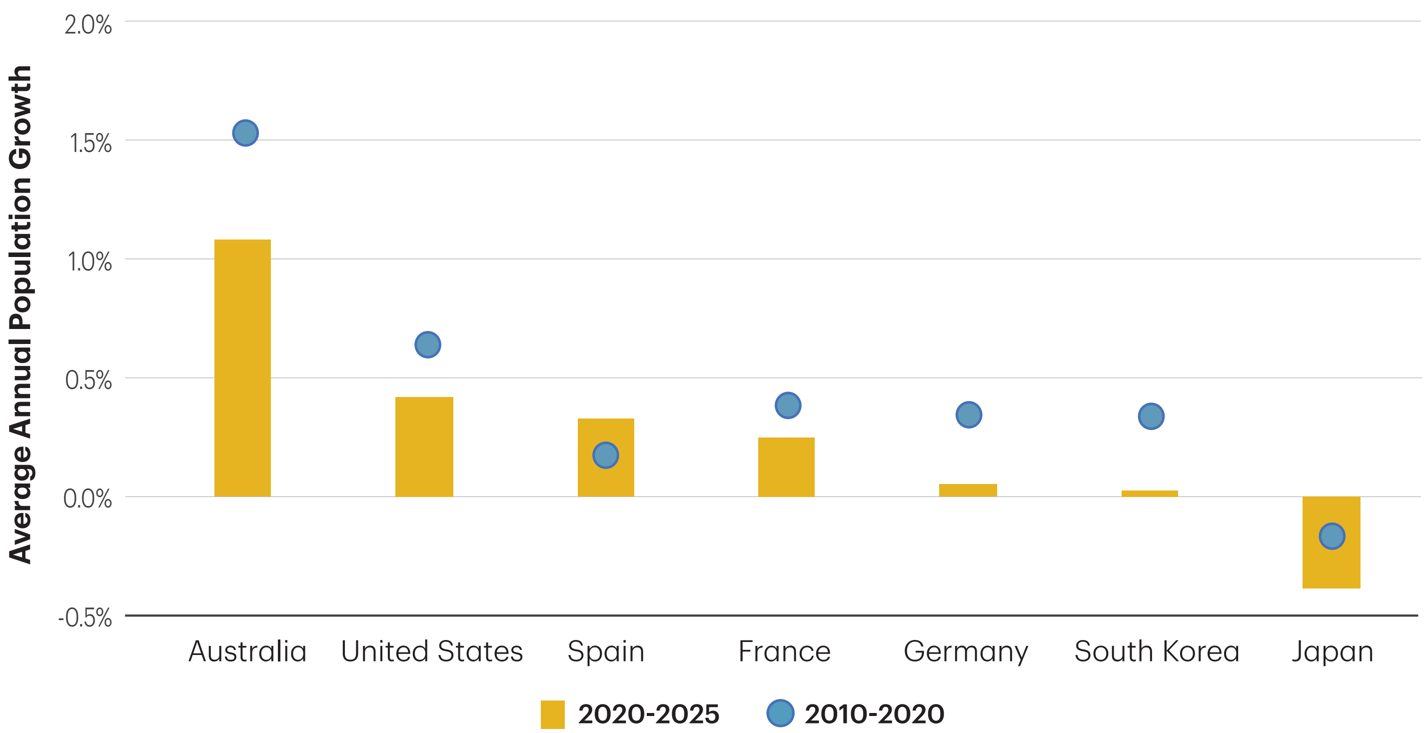
[4] Source: Insider Intelligence Inc.: UK Ecommerce 2020 report: https://www.emarketer.com/content/uk-ecommerce-2020

Population Growth and Favourable Migration Patterns

Population growth driven by international immigration has seen a dramatic halt due to the closure of international borders. But strong population growth is expected to resume as borders reopen and cities regain their footing in attracting migration due to employment opportunities, quality of life and rich amenities. For example, Australia's migration program will prioritize attracting highly skilled and educated newcomers in the next couple of years in order to increase migration numbers.[5]

Overall, growth in international immigration is expected to serve as a favourable tailwind for all property types, especially for multi-unit residential assets in markets that see high costs of homeownership and are supply-constrained.

Figure 7: Population Growth Expected to Resume



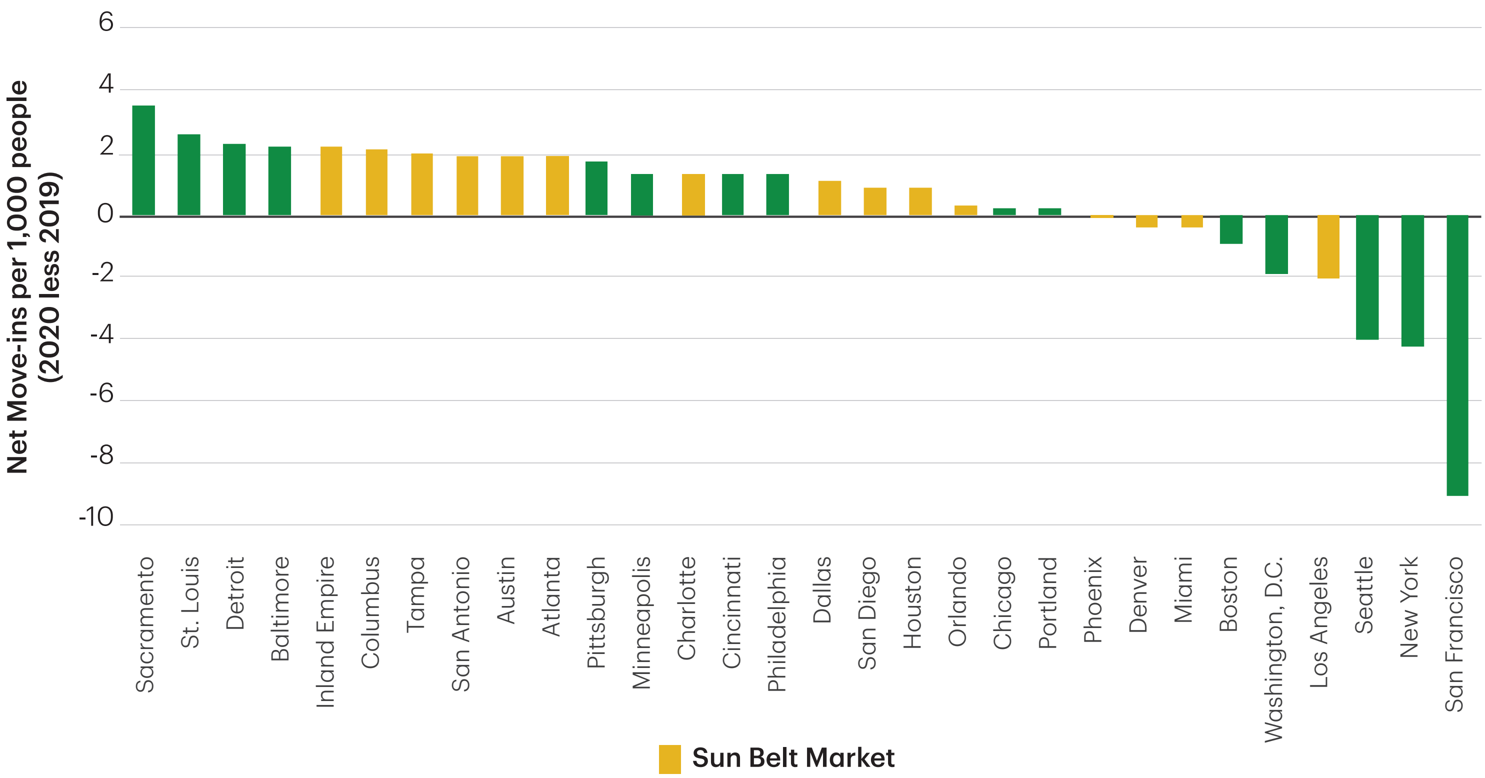
Source: Oxford Economics. As at June 2021.

[5] Source: Australian Government Department of Home Affairs: https://immi.homeaffairs.gov.au/what-we-do/migration-program-planning-levels#:~:text=The%20Migration%20Program%20is%20designed,of%20160%2C000%20for%20 2020%2D21.&text=At%20least%203%2C000%20Child%20places%20will%20be%20available%20in%202020%2D21.

In the U.S. we saw a noticeable shift in demographics over the 10 years leading up to COVID-19. We've seen sunbelt markets leading in total population growth, with total population growth driven by domestic migration. With some businesses and individuals looking for a reprieve from more expensive gateway markets like New York and San Francisco, certain sunbelt markets have become the net beneficiaries of out-migration from traditionally larger city centers (see **figure 8**).

With a pattern of domestic in-migration to sunbelt markets established before the pandemic, COVID-19 appears to have escalated another pre-existing trend of high-profile corporate expansion and relocations to the sunbelt. This has become more pronounced with recent announcements from Apple, CBRE, Hewlett Packard Enterprise, Oracle and Tesla to open offices in the sunbelt markets. These relocations present an opportunity for sunbelt markets to see accelerated population and economic growth going forward and will continue to make them attractive from a commercial real estate perspective.

Figure 8: People Are Willing to Move to Sunbelt Markets in the United States



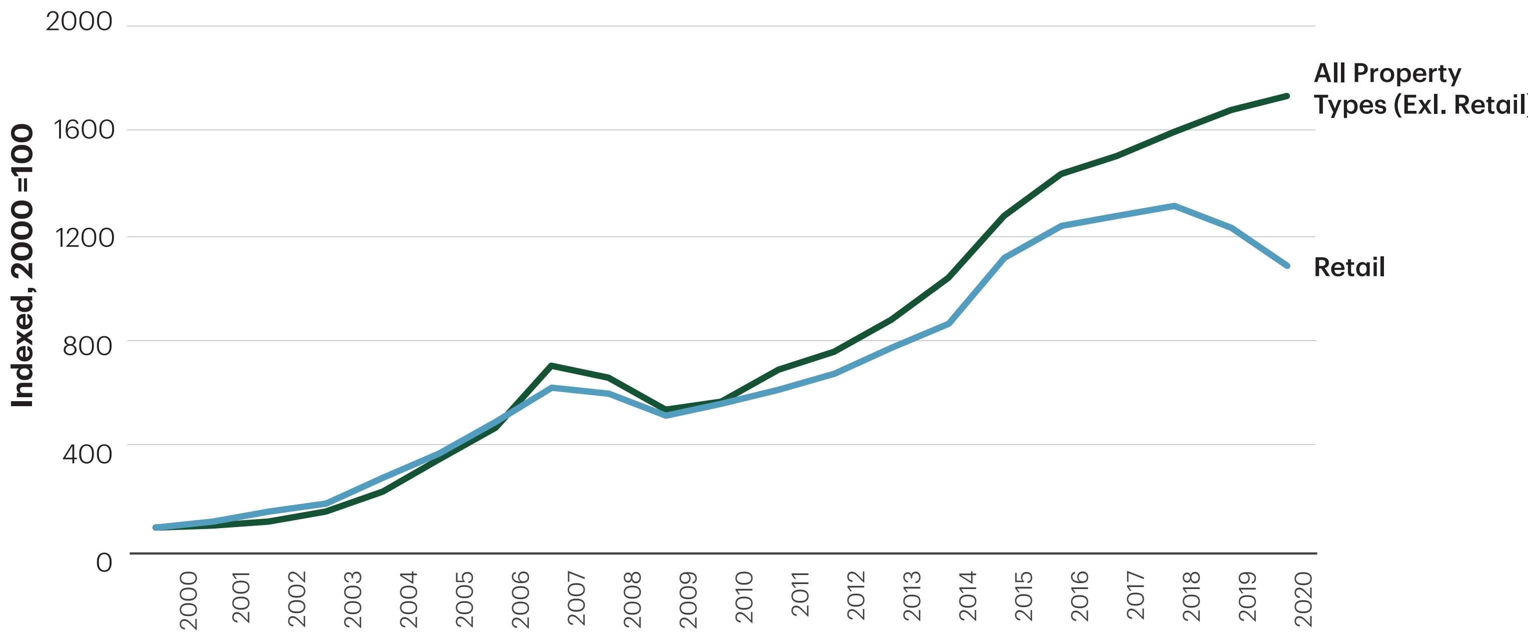
Source: CBRE with data from U.S. Postal Service. As at a Dec 31, 2020.

Migration

Opportunities in Retail

From a valuation perspective, retail assets have been the most negatively impacted compared to other property types. In fact, in the U.S., retail price growth has trailed other property types since 2010, which is largely explained by the effects of e-commerce and now further impeded by pandemic-induced uncertainty (see **figure 9**). However, as stores open up, there is reason to believe that pricing on many of these assets (such as enclosed shopping centres) have been disproportionately impacted and that this pricing gap in retail is unlikely to be sustainable over the long term. This presents investors with the opportunity to continue holding or to acquire top-tier retail assets in more densely populated and transit-linked locations.

Figure 9: Retail Valuation Gap Has Widened in the U.S.



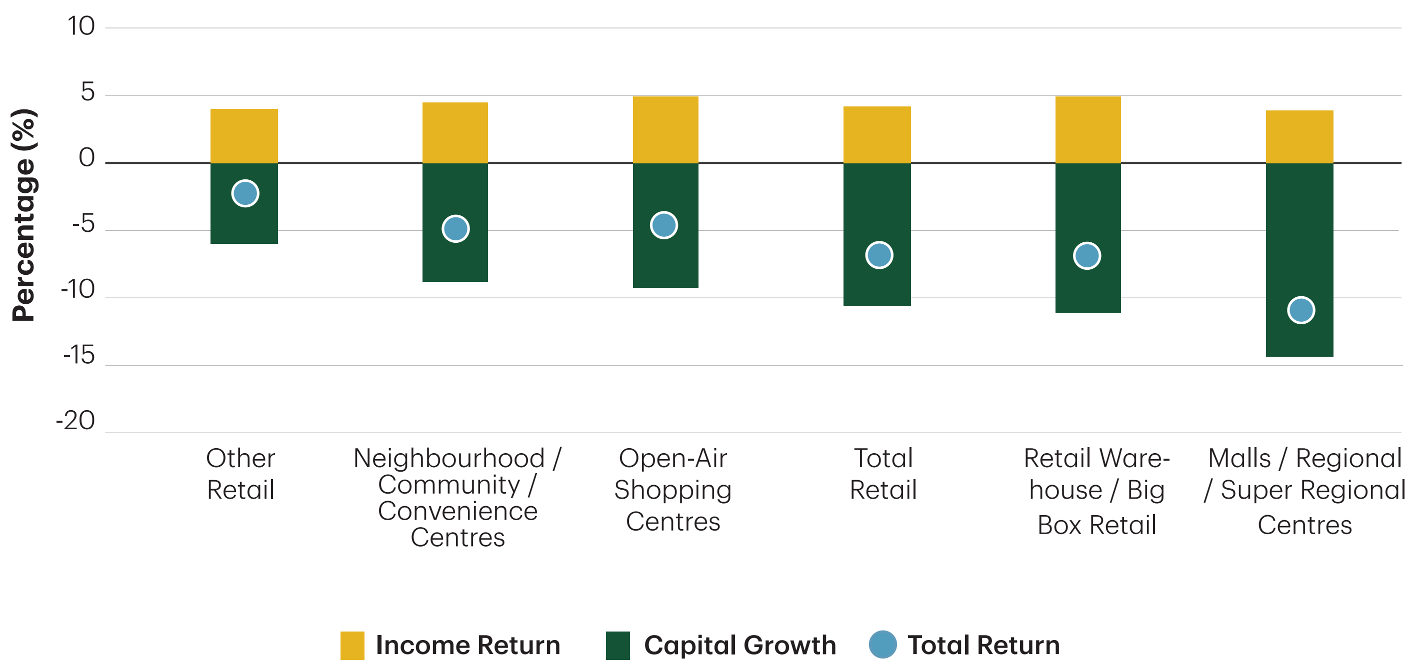
Source: MSCI U.S. Annual Property Index. As at Dec 31, 2020.

Furthermore, holding a diversified portfolio of retail subtypes allows investors to mitigate economic cyclicality and volatility through strategic positions to essential-based and grocery-anchored retail sites. Through the pandemic, retail has broadly faced downward valuation adjustments; however, grocery and essential-based retail assets (i.e., neighbourhood and convenience stories, variety stores, banks, etc.), have seen less of an impact (see **figure 10**). For example, German grocery-based assets have played a critical role in the last mile distribution of food to consumers.

Diversified

Given that these sites tend to be both essential in nature and high in functional convenience, we have seen strong rental rate collections in the mid to high 90s throughout the pandemic. Even with the growth of e-commerce, these assets are expected to remain resilient due to the essential nature and perishability of the items they sell as well as their proximity to the consumer.

Figure 10: Grocery-Anchored and Essential-Based Retail Least Impacted



Note: "Other Retail" includes supermarkets, hypermarkets, variety stores, banks, restaurants, etc.

Source: MSCI Global Annual Property Index. As at Dec 31, 2020.

Why Allocating to A Global Real Estate Solution Is Superior to 'Do-It-Yourself' Solutions of Regional Strategies

Despite the turbulence of the pandemic, we believe that allocating to a global real estate solution continues to represent a compelling addition to an investor's overall alternative investment allocation. Global real estate's potential to act as an inflation hedge as well as its ability to generate strong income and total returns enables an actively managed global real estate portfolio to improve multi-asset class risk-adjusted return outcomes.

Active Management

We believe that significant value can be added through a single, actively managed global real estate solution that invests in multiple regions. Conversely, managing multiple real estate allocations (i.e., opting for a Do-It-Yourself solution) can create inefficiency and an operational burden for many individual investors.

As the global economy gradually opens and the world approaches a closer state of normalcy, not all regions and property types will move at the same pace. An active strategy can take advantage of regional differences by increasing exposure to regions that have the most attractive risk-adjusted returns while effectively managing risk at the same time.

For example, Asia Pacific has proven to historically be a market with higher risk-adjusted real estate returns and is currently one of the leaders in economic recovery.

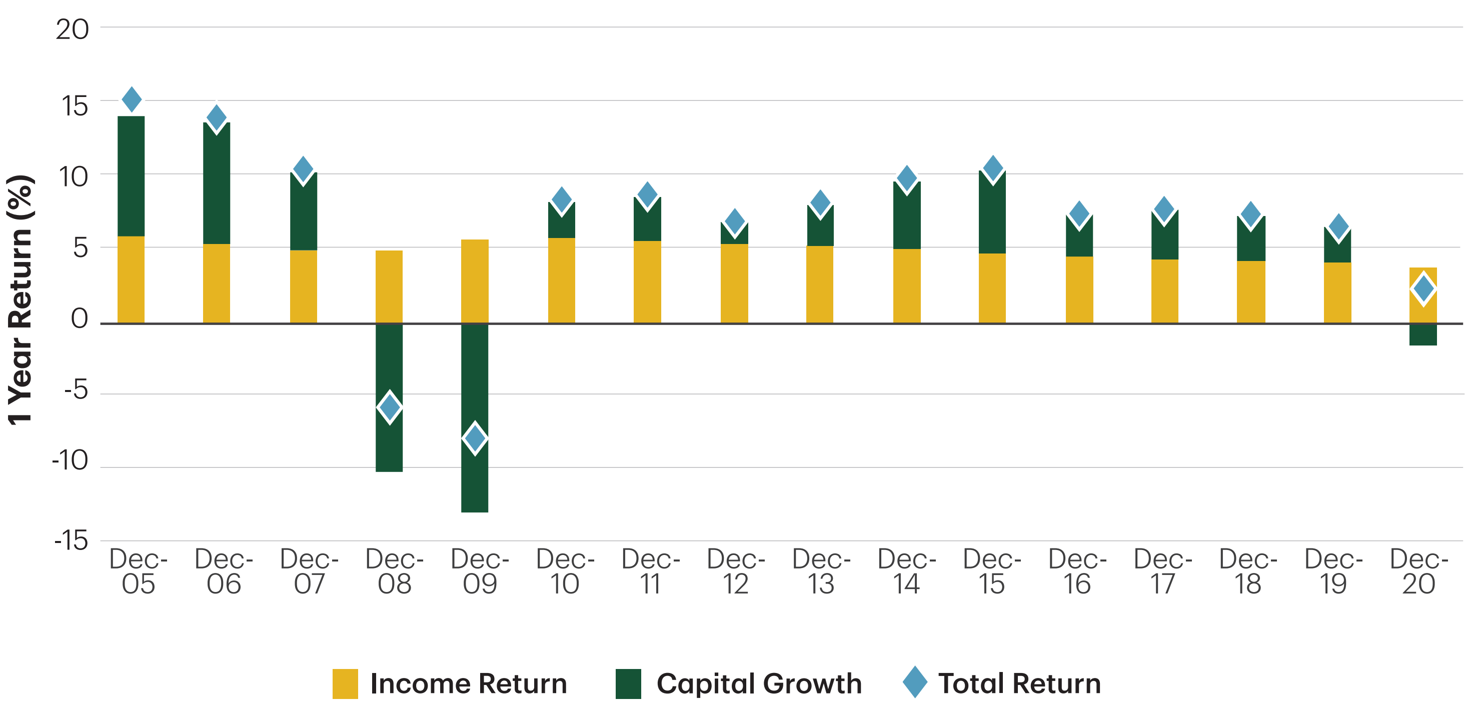
Tactically positioning to Asia Pacific can help provide investors access to markets with long-term growth return profiles. In addition, defensive retail has also historically generated high income returns. However, various regions exhibit differences in patterns of real estate ownership, resulting in pricing discrepancies. An active strategy can take advantage of these pricing differentials, generating attractive return outcomes.

Finally, global real estate is subject to a variety of taxes and transaction costs which can impact the returns a Canadian investor achieves. An actively managed global solution can help to reduce some of those transaction costs by directly negotiating fund positions or by creating feeder, holding or local vehicles.

Income Advantage

Investors should seek real estate solutions that provide stable and growing income streams, as income returns comprise the majority of total real estate returns. Through the pandemic, this income characteristic has held true (see **figure 11**) and is expected to remain an important driver of real estate returns over the long term.

Figure 11: Global Real Estate Can Provide Resilient Streams of Income

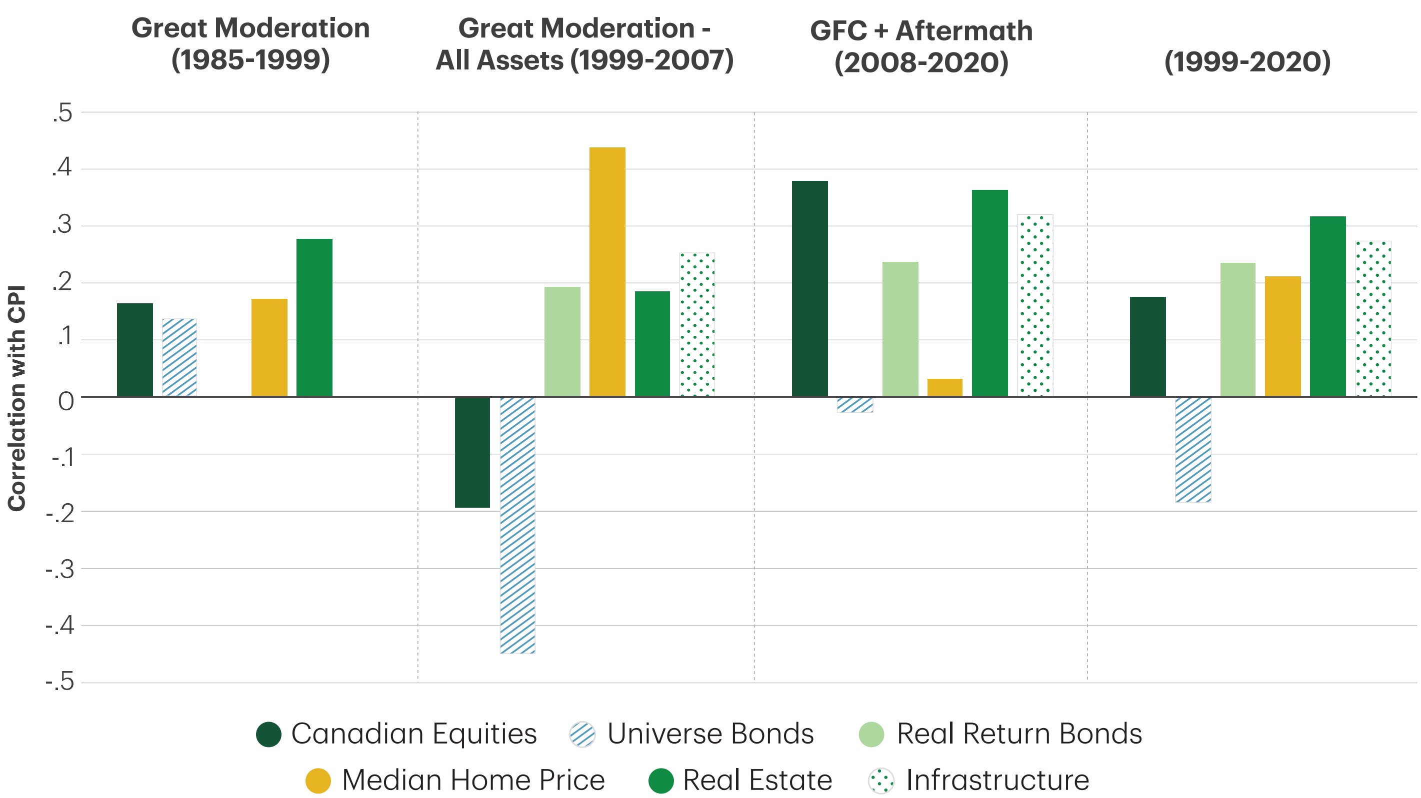


Source: MSCI Global Annual Property Index. As at Dec 31, 2020.

Inflation Hedge

In general, real estate is not a perfect inflation hedge, but it can provide investors inflation protection not available from other asset classes. First, tenant leases usually cover higher building operating costs (utilities, etc.), protecting property owners from unexpected increases in operating costs. Second, long-term leases have rental rate increases built into the lease period to compensate the owner for inflation, thus protecting income flows. Third, as inflation increases, a building's replacement cost also rises, thereby creating capital appreciation. Real estate has demonstrated its inflation-hedging abilities during different historical periods as shown through its higher correlation to the Consumer Price Index relative to other asset classes.

Figure 12: Real Estate Demonstrates Persistent Inflation Hedging



Source: Bloomberg, S&P/TSX, MSCI, Mercer Insight, St. Louis Fed, United States Census Bureau, U.S. Department of Housing and Urban Development, TD Asset Management Inc. As of Sep 30, 2020.

Hedging

Potential to Enhance Risk-Adjusted Performance

Generally, the correlation of global real estate to other asset classes such as public equities and fixed income has historically been low. In addition, global real estate can achieve strong return outcomes while displaying lower standard deviation, as shown in **figure 13**. Introducing a global real estate allocation within a broader balanced portfolio can result in greater risk-adjusted return outcomes through the reduction of a portfolio's overall volatility.

Figure 13: Lower Dispersion of Returns with Global Real Estate

Source: TD Asset Management Inc. As at September 30, 2020.

Global Real Estate, alongside an existing Canadian (domestic) real estate allocation, can also provide additional diversification benefits. While the optimal allocation between Global and Canadian Real Estate depends on an investor's specific circumstances, which include the size of the overall real estate objective and overall objectives, we believe that as Canadian Real Estate grows beyond 5-10% of a portfolio, Global Real Estate should be introduced. This can help reduce the risk of a concentrated exposure to a particular country.

Performance

Why TD Greystone Global Real Estate Fund

Key highlights of the strategy:

- 8.9% return over the past 12 months (as at June 30, 2021), 4.5% annual return over 2020 and 5.7% return since inception in July 2019, driven by our focus on broad global diversification, urbanization and transit-linked assets[6]
- 800+ high-quality global properties in strategic cities that can provide stable and resilient income streams
- Actively managed by region, property type and risk strategy
- Strategic overweight to cities in developed Asia Pacific countries that are seeing positive recovery trends
- Focused on defensive sectors including distribution and logistics facilities, grocery-anchored retail and multi-unit residential assets
- Managed to the highest Environmental, Social and Governance (ESG) standards
- Open-ended, tax-efficient, turn-key solution with one entry point, minimal legal complications, and transparent underlying fee structure
- Flexible implementation and execution through indirect and direct investments
- Highly competitive fees and favourable fees for early investors

---

We have over 30 years of experience in managing real estate and building private asset portfolios for institutional clients. The TD Greystone Global Real Estate Fund L.P. is part of the real asset business at TD Asset Management Inc., which manages over $28 billion dollars in Canadian and Global Real Estate, Private Debt (commercial mortgages) and Global Infrastructure across open-ended funds and segregated accounts.

Our scale and track record have enabled us to build extensive and deep relationships globally, which we are able to leverage when executing the Strategy. As such, we can use our experience and source unique and value-additive strategies that are not widely marketed and available.

With investments in over 800 underlying individual properties in more than 120 cities, our solution provides broad diversification by property type, region (U.S., Europe and Asia Pacific) and risk strategy (core, value-add and opportunity).

Our philosophy focuses on actively managing the portfolio to ensure it is positioned to deliver strong risk-adjusted returns over time. In addition, we relieve the burden involved in monitoring assets and the extensive research involved when investing in major property types in numerous cities. One of the tools that helps us achieve this is our proprietary modelling tool. Developed in-house, this tool incorporates economic and real estate fundamental data with the extensive data we receive on our underlying properties, which results in enhanced decision-making and dynamic analysis.

[6] Returns measured in USD.

The TD Greystone Global Real Estate Fund L.P. is also managed to the highest Environmental, Social and Governance (ESG) standards. The portfolio's average GRESB score, an overall measure of ESG performance, is 75%, which is above the global average (70%). The Strategy is also managed to the highest international standards of governance, which includes an independent board of directors, independent monitoring firms and several robust assessments of all partners conducted by TD Bank, including an assessment of reputational risk. Furthermore, each of our partners complete a diversity and inclusion survey through which gender and ethnic diversity is measured.

We understand the complexity and challenges one may face when investing in multiple jurisdictions globally – the TD Greystone Global Real Estate Fund L.P. can help solve for that. Through an open-ended solution, we have extensively reviewed and designed the structure of the Strategy to be operationally and tax-efficient for Canadian institutional investors. We offer a solution that can scale so that each client is relieved of the significant administrative and financial burden of setting up these complex vehicles. This gives our clients exposure to various types of real estate investment opportunities in an efficient way, allowing access to direct and indirect investments, multiple geographies and several risk strategies, including core, value-add and opportunistic investments.

Portfolios

Connect with TD Asset Management