

AMERICAS

REGIONAL INVESTMENT OPPORTUNITIES

BACKDROP

- As the vaccine rollout takes effect, the U.S. economy is set to benefit from several tailwinds through the second half of the year, including the prospect of a full reopening, a boost to spending from accumulated savings and further fiscal stimulus. Latin America will take longer to recover.
- Real estate tenant demand has turned a corner, supported by improving economic conditions and a strengthening labor market.
- The Federal Reserve remains committed to supportive monetary policy, and the prospect of low interest rates remaining in place points toward further yield compression.
- With parts of the retail and office markets facing structural headwinds, investors are increasingly turning to non-traditional sectors as sources of resilient, income-driven performance.
- While Mexico will only gradually recover from its domestic demand decline, the export-oriented manufacturing and e-commerce sectors continue to expand.



With the right approach to asset management, necessity-driven retail sites, such as neighborhood centers, can be adapted to benefit from online spending by acting as low-cost fulfillment centers.

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Given our assessment of the outlook for the Americas economy and real estate market, we identify the following opportunities as being among the most attractive on a risk-adjusted basis over the next 12 months.

INVESTMENT OPPORTUNITIES

● SHORT-TERM REPOSITIONING

Urban Apartments

Urban apartment markets suffered a correction but performance is expected to rebound swiftly as workplaces and amenities reopen.

- Apartments in urban locations recorded sharp rental declines in 2020 as tenants moved away from expensive locations proximate to closed workplaces.
- Demand should recover further in the near term as the economy reopens, with rental growth from a lower base driving elevated investment returns compared with sectors that did not record corrections.
- Over time, fears that aging millennials will relocate to suburban areas will dampen overall urban demand are overdone.

Grade A Offices

The future of office usage is evolving rapidly but can be seen as an extension of existing trends, with demand increasingly focused on grade A space.

- Office demand is under pressure from increased remote working, although this is an extension of an existing trend toward rising floor space density.
 - Grade A office space is in shorter supply, but it records higher demand and has greater net operating income growth potential — although the capex burden is rising.
 - There are opportunities for investors to develop or reposition grade A space, focusing on cities with supply constraints and a well-educated workforce.
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● LONG-TERM CORRECTION

Last Mile Retail

Neighborhood retail offers resilience against increased online spending and is positioned to perform well as retail fully reopens.

- Beyond a short-term recovery driven by reopenings and a rebound in consumer spending, rising online spending remains a threat to retail demand.
 - Online grocery sales are growing rapidly, but online fulfillment is expensive, and capacity is limited.
 - Neighborhood centers are proving able to adapt and serve as last-mile fulfillment solutions, keeping vacancy down and ensuring stable cash flow.
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● ONGOING TAILWINDS

Non-Traditional Sectors

Non-traditional property types are gaining the attention of institutional investors because of cash flow resilience, low capex and diversification.

- Non-traditional sectors such as data centers, senior housing and self-storage make up a small part of the private-transactions market but are much more heavily represented in real estate investment trust (REIT) markets.
 - These sectors have repriced and no longer offer elevated yield spreads, but their performance through previous downturns and, in most cases, since the outbreak of COVID-19 has been resilient.
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● ACCELERATED CHANGE

Mexico Infill Logistics

Rising amounts of online shopping are creating demand for logistics in larger Mexican cities, with low current e-commerce adoption rates providing plenty of runway for future tenant demand growth.

- During a year when overall retail sales plunged, e-commerce demand grew both as a share of all sales and in absolute terms.
 - The resulting tenant demand for logistics will create development and redevelopment opportunities in locations close to large population centers.
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Visit pgimrealestate.com/globaloutlook for global theme definitions and additional regional investment opportunities as well as to explore the full 2021 Global Outlook report.

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