Nuveen's Clark Says Covid Disrupted The Stability For Real Estate And Infrastructure

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Chuck Jaffe, in The NAVigator podcast, interviewed James Clark, client portfolio manager at Nuveen Asset Management. Read the Q & A below as James says that real assets and infrastructure investments – normally consistent, defensive investments – have seen those appealing characteristics under attack because of the pandemic shutdowns, but he noted that Covid-19 tended to accelerate trends that were in place rather than disrupting those movements. With the development of a vaccine, he expects pricing to firm up as uncertainty starts to melt away – 'the worst case scenario has been taken off the table for a lot of folks' – but for those positive trends to continue, particularly in an area like industrial real estate.

James Clark

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: James Clark, client portfolio manager for Nuveen Asset Management is here and we're talking real assets now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator's brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it's pointing us in the direction of James Clark, client portfolio manager for Nuveen

Asset Management, specifically for Nuveen's Real Estate Securities Global Infrastructure and Real Asset Income Strategies. If you want to learn more about what the firm does, it's Nuveen.com, on Twitter @NuveenInv. If you want to learn more about investing in closed-end funds, you want to go to AICAlliance.org, the website for the Active Investment Company Alliance. James Clark, thanks for joining me on The NAVigator.

JAMES CLARK: Thanks for having me, Chuck. It's great to be here.

CHUCK JAFFE: We need to start with a definition of real assets because people hear the term and they've got a picture in their head of what it is, but in the investment world you guys have your own definitions for just about everything. So let's start there, because it's important about what is a real asset and what is an investable real asset.

JAMES CLARK: Yeah, that's a great point and really important to get to the bottom of. From our perspective in our group, real assets is a location-specific hard asset that garners a fee per use for a long-term contract or concession agreement. And what that really boils down to from an investable universe standpoint for us is real estate and infrastructure. So these are assets and facilities that are utilized and people are paying a fee for that utilization or paying a lease to gain access to that particular facilities. Some of the other areas of real assets that certainly are included, things like natural resource stocks or commodities, we don't do anything in that investment realm more specific to real estate and infrastructure. And it has everything to do with those cashflow metrics that are really provided by that lease or that contract.

CHUCK JAFFE: So for you it's physical tangible property and infrastructure, and not a broader definition than that. But within those things there's been a lot of impact and fallout from Covid-19, hasn't there?

JAMES CLARK: Yeah, it's really been pretty amazing to see the impact that Covid and social distancing has had on this group. When you think about the contractual obligations that govern the cashflows, what that usually means is that these are more defensive areas of investment. And if you think of things like infrastructure and potential service facilities that are really there for the general public, they really usually have a very consistent cashflow profile and you don't see as much volatility on the stocks as you do with broader equities. But Covid really did change a lot of that for a lot of the sub-property types within real estate or some of the industries or sectors within infrastructure, and it has everything to do with the fact that people just weren't allowed to go anywhere and utilize these facilities. So if you think of airports in the world of infrastructure as an example, when the whole world is staying at home, nobody needs to utilize that facility and you've seen global airport passenger traffic numbers that at the [inaudible] and sort of the height of the crisis early on in the April-May timeframe, passenger traffic numbers were down 99% year over year. Which almost sounds like a made-up number, it's so stark in terms of what you usually see through those airports. So you've really seen a varying degree of impact by sector type, industry group, or particular company whether if you're real estate or infrastructure because of Covid. On the other side of that coin though, you've seen industries whose business models really haven't been impacted at all. So if you think of things like technology infrastructure and the REITs of cellphone towers and data centers, the demand profile for these companies really hasn't changed at all, and in some cases for the longer term may actually have even benefited from Covid. It's really a pretty heterogeneous experience across both types depending on business models, and really depending on whether or not people were, one, allowed to utilize the facility or, two, are required to manage or oversee that particular facility. So it's been quite varied in terms of the experience at the property level or the asset level.

CHUCK JAFFE: Are we going to get a lot more variance and a lot of change now that it appears that we're heading towards a resolution with the vaccine? Is there going to come a time when we're really looking at, here's how things are going to resolve themselves, or here's what it's going to mean to real estate, or we'll at least see the changes and truly understand what's happening?

JAMES CLARK: Yeah, I think what Covid did was there were really trends or themes already existing in various marketplaces. If we look at property as a more specific example, and you think of the dynamics between retail real estate and industrial real estate at each end of the spectrum in terms of impact from Covid. So if you think of bricks and mortar retail real estate, there were pretty firm and solid trends in the marketplace already with this movement towards e-commerce. As a percentage of overall retail sales, e-commerce continued to gain market share. And when you looked at store closures, and even prior to Covid in years like 2018 and 2019, they were already sort of at peak levels in terms of downsizing of space in retail. And Covid really accelerated or exacerbated that trend and moved everybody by default to more of an e-commerce situation. And so as a percentage of sales through 2020, you've seen this pretty substantial spike in terms of people utilizing e-commerce for retail sales. And you're really accessing a demographic that prior to Covid probably didn't utilize it that much. So coming out of Covid, certainly the good news from a vaccine standpoint is going to firm pricing at the asset level. It's really eliminated the uncertainty from how long is this likely to go on? And whether or not a lot of businesses are going to be able to sustain a long period of interrupted or disrupted cashflows. And so the worst case scenario is probably taken off the table for a lot of folks. But going forward, they're still going to have to be flexible, they're still going to have to learn new ways to attract footfall to that particular group of assets. Whereas the industrial front is the large beneficiary and you've seen an uptick in logistics services and fulfillment centers with the same dynamics in place. So industrial the big winner as more people are driven to e-commerce and the need to distribute those goods and services as you and I sit on our couch and really order online versus the traditional bricks and mortar. So worst case scenario has probably been taken off the table for most companies thanks to the vaccine, which is great news for real estate and infrastructure in general. But some of those trends that were in the marketplace are going to continue even after a vaccine has been widely distributed.

CHUCK JAFFE: Not only will the vaccine potentially and the end of the pandemic or the theoretical end of the pandemic effect things, but we could see some political changes occurring. So what do you see happening with the change of administration, but also all the issues that we might be having with say, municipal bonds? Because municipalities have been unable to necessarily get some of their traditional revenues that might have been used to fund some of their improvements and their infrastructure stuff. So what do you see happening in those spaces as a result of the political situation?

JAMES CLARK: With an incoming administration, and when we look at infrastructure from an investment standpoint on the listed side, we invest more on the equity front. And in the United States that really leans itself more towards regulated utilities, water companies, electric transmission distribution, and energy actually in the United States. Whereas you're perfect right to acknowledge the way most infrastructure is funded in the United States, especially transportation infrastructure, is through the municipal model. The good news at least so far as we've seen it here in Minnesota which is where I'm located, is there's actually has been a pretty sizeable budgetary shortfall anticipated in Minnesota. But the reality of the situation is tax revenues and the impact at the local level has been much more muted than a lot of people anticipated. And so from a bonding bill standpoint, it looks as though those markets are likely to remain open. As it really impacts our investable universe, the incoming administration, the clearest positive we can see from what we invest in would be on the utilities side. The reason really being the change in power production mix for utilities moving away from fossil and towards renewables. Which was well in place prior to the election, but certainly stands to continue to receive some tailwinds as you have some benefit from a left-leaning administration and people who are supportive of that change. So you've got positive momentum on the utility front from a political standpoint with the incoming administration. Positive on the regulatory front as the regulators have been really supportive of the move towards more renewable sources of power. And you've got a pretty substantial amount of ESG institutional investor interest in companies who are becoming a little bit more green in terms of their power production mix. So that's the one area that we think within infrastructure, which is probably the largest area of opportunity in the United States for an infrastructure investor, that seems to have some tailwinds regarding the administration and some other things that were in play prior to the change in administration as well.

CHUCK JAFFE: James, thanks so much for joining me on The NAVigator to discuss it.

JAMES CLARK: You're absolutely welcome. I appreciate the time and the conversation.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, James Clark, client portfolio manager for Nuveen Asset Management. Learn more about him and the firm at Nuveen.com and on Twitter @NuveenInv. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about investing with closed-end funds. Until then, stay safe everybody.

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