

Private Real Estate: A Performance Lag May Create Investment Opportunity

Introduction

Private real estate seeks to offer a range of benefits for investors that can help strengthen portfolios: stable income, attractive long-term real returns, resilience to inflation, and portfolio diversification. While both public and private real estate can play important, albeit somewhat dissimilar, roles in individual investors' portfolios, they may respond differently to a particular market environment. With that in mind, we believe a number of factors suggest a favorable outlook for private real estate in the current environment.

Three Key Differences in How Private and Public Real Estate Perform

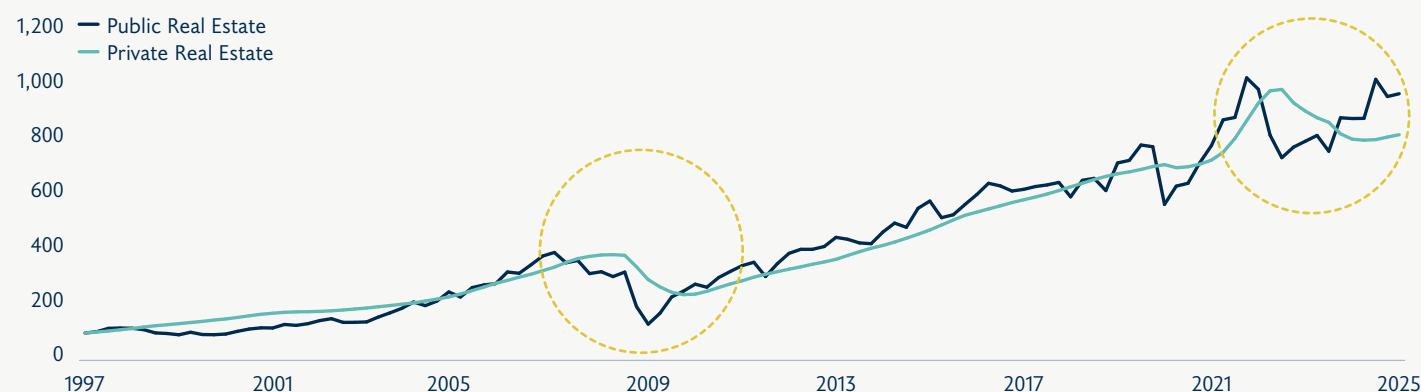
Over the long term, public and private real estate historically have generated similar returns. However, a closer observation of how the two assets perform in specific market environments reveal a few key differences that are important to understand.

First, publicly listed Real Estate Investment Trusts (REITs) often serve as leading indicators to private real estate in both economic downturns and recoveries. The current cycle has been no exception. The daily mark-to-market of real estate equities can result in an imbalance between stock valuations and net asset values (NAVs) in private markets—where price discovery unfolds more slowly. As a result, in previous cycles, private real estate has experienced lagged recovery periods to public real estate.

Second, history suggests that most public real estate selloffs have been driven by macroeconomic worries and investor sentiment rather than by real estate fundamentals. This is supported by the fact that public real estate net asset values (NAVs) have tended to hold steady (like private real estate NAVs), even while the equity trades off due to market moves.

Finally, as shown in the chart below, private real estate has rarely followed public real estate into its frequent drawdowns—drawing down only three times since 1978 versus twenty-five times for public real estate over the same period. On those occasions when private real estate did draw down, it only moderately followed public real estate, and did so by a lag of nine months, on average.

Figure 1: Following Market Downturns, Private Real Estate Has Historically Tracked Public Real Estate Performance with a Lag



Source: MSCI, NCREIF as of June 2025. Public real estate is represented by the MSCI US REIT Index and Private real estate is represented by the NFI-ODCE Value Weighted Index (Gross).

The Current Outlook

Recently, public real estate performance has significantly recovered since the last downturn. We expect private real estate to experience a similar recovery, albeit at a slower pace that lags its public market counterparts. Valuations have seemingly bottomed in private real estate, creating an investment opportunity as private real estate potentially continues to rebound.

Meanwhile, we believe the Fed funds rate is likely to remain stable for some time. The Federal Reserve remains patient in its approach to managing inflation, jobs reports continue to hold steady, and there is greater confidence in the economy. Improved rates of return on property investment should drive real estate investment activity, despite somewhat elevated cost of debt capital.

The Bottom Line

Now could be the time to act to invest in a potential rebound in private real estate performance and access the key investment benefits it offers.

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