



Private real estate: A dynamic investment opportunity

Compelling conditions in the private real estate market present an attractive entry point for investors. *Real Assets Adviser* recently sat down with PGIM Real Estate executive director and portfolio manager **Brandon Short** to talk about the current real estate landscape, discuss recent investment opportunities driving demand, and explore why now is an opportune time for advisers to take notice. Below is an excerpt from that conversation.

Let's talk about real estate market dynamics. What is the appeal of private real estate in particular?

Commercial real estate is the third-largest asset class after equities and fixed income.¹ More than 90 percent of the \$22 trillion U.S. commercial real estate is privately owned², making the private opportunity set the primary avenue for real estate investing.

Real estate offers stable income, capital appreciation, inflation protection and diversification from traditional asset classes. Private real estate focuses on income-generating commercial properties such as multifamily housing, industrial facilities and necessity-based retailers. It is generally less volatile over the long term due to limited exposure to capital market fluctuations. Private real estate remains underallocated in many investor portfolios, presenting attractive opportunities for investors to tap into this essential market segment.

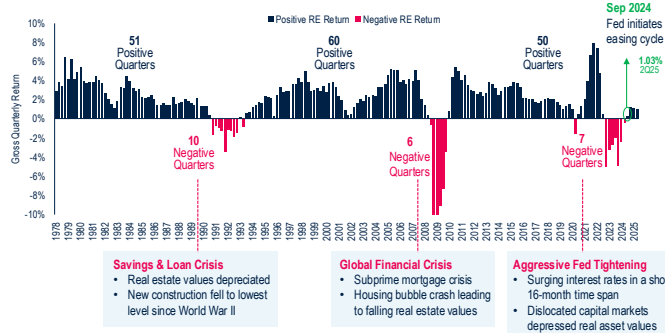
What is the current outlook for the private real estate market?

Historically, real estate downturns have been followed by extended periods of strong growth, which is why the current market presents a compelling entry point for investors. Following COVID, the Federal Reserve began aggressive rate hikes to fight inflation, which caused real estate values to decline. The Fed began to lower rates in the third quarter of 2024 to boost the economy. This led to positive performance and the current real estate recovery. After losing approximately 20 percent of its value during the past two years, real estate has already recouped its losses, making it an attractive complement to public equity amid elevated stock valuations.

“The current market offers investors a prime opportunity to explore private real estate investments, driven by strong fundamentals, declining capital costs and the potential for stable income and diversification.”

Core real estate yields now compare favorably to many fixed-income alternatives, offering investors attractive risk-adjusted return potential.

Real estate market at an inflection point with a rebound under way



Sources: NCREIF, PGIM Real Estate as of June 2025

What insights do current valuations reveal?

Valuations in residential, industrial, and select office sectors align with long-term return expectations, while retail and senior housing show potential for cap rate compression and income growth, with potential for rising values through income growth.

How does rate policy impact the market?

Real estate values are closely tied to the cost of debt. The real estate market has been in a recovery since the Federal Reserve's easing cycle began in September 2024. Both transaction volumes and property values have increased. The Federal Reserve is anticipated to continue gradually lowering rates, which will cause transaction activity to accelerate and support ongoing growth in property values. Lower interest rates make borrowing more affordable, encouraging more buyers and sellers to participate in the market, which enhances property values.

What are some of the structural investment opportunities that are driving demand and unlocking access to high-value opportunities? Which sectors show the most promise for investment?

Based on today's market dynamics, we see several sectors that are positioned for strong performance:

- **Residential:** The U.S. faces a significant housing shortage of 3.3 million units annually over the next decade amid persistent demand. Rental demand remains strong as high interest rates are limiting construction and homeownership. Additionally, millennials and baby boomers boost demographic demand for suburban housing and senior living, respectively.
- **Industrial:** Technological advancements are fueling e-commerce growth, but rapid expansion has caused oversupply in low-barrier industrial markets. Smaller infill properties in high-barrier areas are positioned for strong performance.

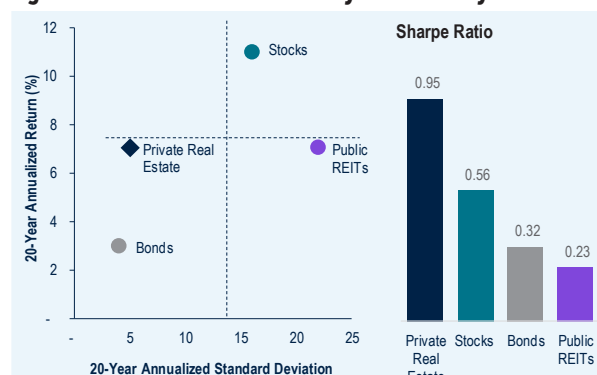
- **Necessity-based retail:** While discretionary brick-and-mortar retailers face challenges due to ecommerce, necessity-based storefronts see strong traffic and higher occupancy. Grocery-anchored and essential properties maintain premium valuations, supported by growing suburban demand for staple goods.
- **Alternative sectors:** Student housing and senior living, driven by demographic trends rather than economic cycles, offer stable investment opportunities as demand for student housing and senior care remains consistent regardless of economic conditions.

What are the key benefits of investing in private real estate?

Private real estate has historically delivered strong risk-adjusted returns with lower volatility compared with public REITs and stocks. It serves as a powerful diversifier, showing low to negative correlation with traditional assets. Additionally, it offers an attractive, inflation-hedged income stream and potential tax advantages, as a significant portion of distributions may be classified as return of capital.

- **Strong risk-adjusted returns:** Historically, private real estate has delivered higher Sharpe ratios and lower volatility versus stocks, bonds and public REITs.
- **Diversification:** Private real estate demonstrates low-to-negative correlations with traditional assets like stocks and bonds, making it a valuable addition to diversified portfolios.
- **Inflation-hedged income:** Private real estate income consistently outpaced inflation by 4 percent annually during the past 20 years.
- **Tax advantages:** Significant portions of distributions may qualify as return of capital (ROC), reducing tax exposure.

Strong historical returns with relatively low volatility



Past performance is not a guarantee or reliable indicator of future performance. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Sources: NCREIF, FTSE/NAREIT, Bloomberg, PGIM Real Estate as of August 2025. Annualized returns and standard deviation for risk/return are based on indexes. Private Real Estate: NCREIF Property Index; REITs: FTSE NAREIT All Equity REITs; Stocks: S&P 500 Index; Bonds: Bloomberg US Aggregate Bond. All indexes are unmanaged. Investors cannot invest directly in an index.

How should asset managers strategically approach private real estate investing?

For asset managers, success requires a disciplined, research-driven approach to identify the most attractive opportunities and deliver stable risk-adjusted returns to clients. Locating resilient sectors, understanding shifting demand, and leveraging local and global expertise are essential.

Scale matters. The ability to source and structure deals, drive operational improvement, and unlock value sets leading managers apart. With shifting capital flows and evolving investor needs, private real estate offers portfolio stability, inflation protection, and potential for long-term growth – hallmarks of a well-constructed alternatives allocation.

Important Information: 1. Cerulli Associates, U.S. Alternative Investments 2024 2. Federal Reserve, as of June 30, 2024

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