

# Changing the role of U.S. alternatives real estate within an institutional portfolio

## Executive summary

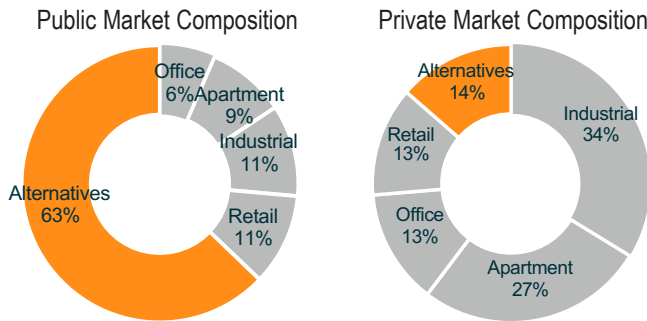
For decades, institutional real estate portfolios have been built around four core property types – office, industrial, retail, and apartments. As of March 2026, these traditional sectors still account for 86 percent of the Expanded NCREIF Property Index (NPI). Yet the public REIT market tells a different story, with alternative property types making up more than half of total market value.

Investor interest in alternatives has grown meaningfully since the COVID-19 pandemic, driven largely by their demonstrated resilience. Even so, we believe institutional portfolios remain meaningfully underallocated to these property types – and that gap represents a real missed opportunity.

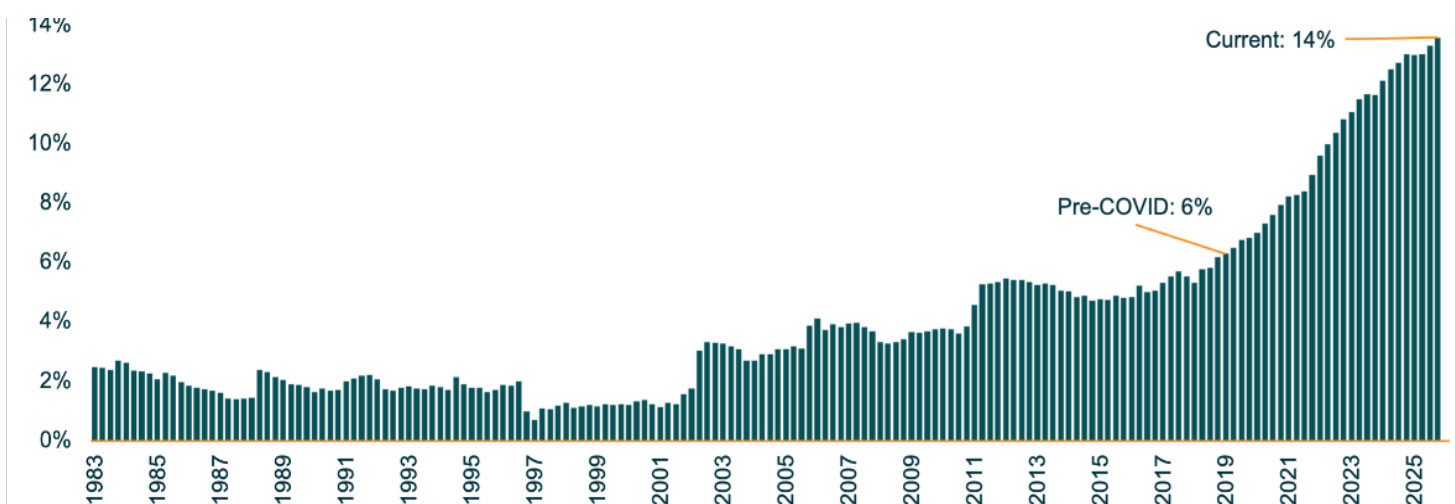
The case for alternatives is compelling across several dimensions:

- Stronger historical and projected risk-adjusted returns
- Lower capital expenditures relative to net operating income (NOI)
- Greater portfolio diversification, highlighted clearly during the COVID-19 pandemic
- Exposure to durable megatrends (demographics, healthcare and technology) rather than broader economic cycles

**Figure 1. Alternatives' share of private vs. public market value**



**Figure 2. Institutionalization of alternative property types (% share of expanded NPI market value)**



Source: Nuveen Real Estate Research; NCREIF, March 2026

Because alternative property types are driven by structural, long-term megatrends rather than near-term economic conditions, they are well-positioned for resilience and outperformance across market cycles (Figure 1).

We expect their role in institutional real estate portfolios to grow significantly in the coming decades.

## A broader investment universe

While often overlooked, real estate alternative property types provide investors with the ability to execute upon their views on key thematic or structural changes that could not otherwise be expressed through an allocation to the four traditional property types. For example, exposure to the digital economy can be achieved not only through warehouses tied to ecommerce demand, but also through cell towers, data centers and cold storage. Beliefs around the continued shift toward renting can be expressed not just through apartments, but also through manufactured housing and self-storage. Ownership structures vary meaningfully as well – medical offices, senior housing, manufactured homes and single-family rentals tend to feature fragmented ownership, while technology-driven sectors like data centers are more concentrated.

Investors have a wide array of alternative property types available, both established and emerging (Figure 2). While many are established and offer a sizable investible universe, there are several emerging alternatives that warrant attention. Alternatives' share of institutional market value grew from 6 percent in 2019 to 14 percent in 2026 (Figure 2), driven predominantly by established alternatives like self-storage, medical office, and senior housing.

## Why alternatives outperform

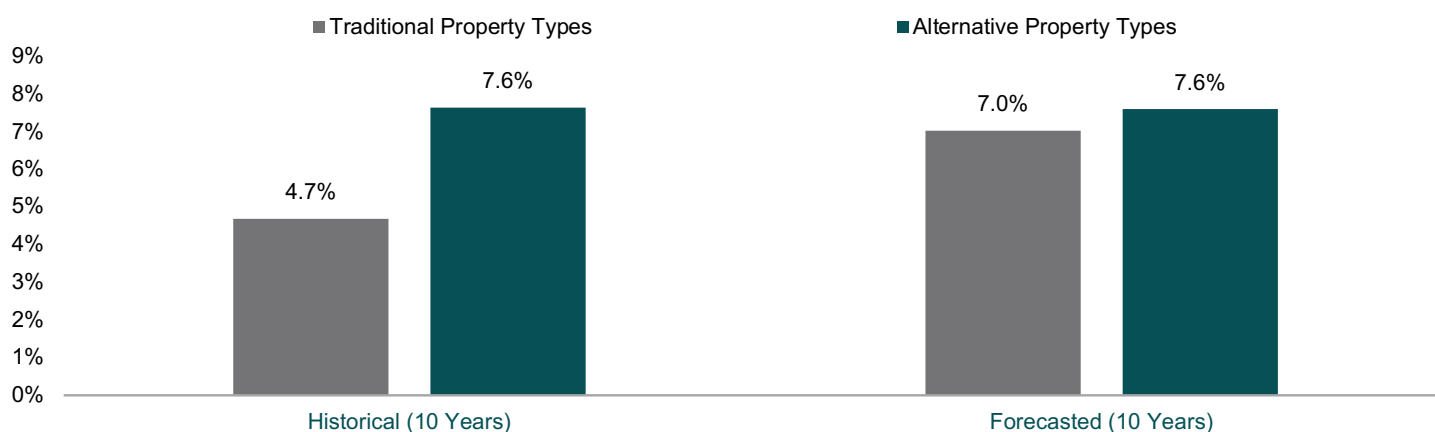
Alternative property types have consistently delivered stronger risk-adjusted returns than traditional real estate. Over the past ten years, alternatives outperformed traditional sectors by 300 basis points, and that trend is expected to continue over the next decade (Figure 3). The historical and projected future outperformance of the alternative property types is critical for investors seeking ways to either beat their benchmark or to generate enhanced returns.

A key driver of that outperformance is NOI growth. Unlike traditional property types, which tend to move in line with broader economic conditions, alternatives benefit from durable

## Conclusion

This cycle is expected to be marked by slower economic growth. That means real estate investors can no longer rely on cap rate compression – a tailwind that drove returns for much of the past 40 years – and must instead focus on property types capable of generating strong NOI growth. We believe alternative property types are favorably positioned to deliver that growth, given their foundation in durable, structural demand drivers.

**Figure 3. Institutionalization of alternative property types (% share of expanded NPI market value)**



Source: Nuveen Real Estate Research; Green Street Commercial Property Return Index, March 2026.

Note: Alternative property types include manufactured housing, medical office, self-storage, senior housing. Data centers, gaming, cell towers included in forecast but not historical due to limited data availability.

megatrends – demographic shifts, essential healthcare demand, and the ongoing expansion of digital infrastructure. These forces support more consistent income growth over time, regardless of where we are in the economic cycle.

Alternatives also require less ongoing capital investment. According to Green Street, capital expenditures for alternative property types average 14 percent of NOI, compared to 20 percent for traditional property types. It is worth noting that capital expenditure needs for some traditional sectors, particularly office, could increase further going forward.

## Diversification benefits

Beyond returns, alternative property types offer a meaningful diversification advantage. Traditional property types – particularly office and retail – tend to be highly correlated with one another and with the broader real estate market. Alternative property types, by contrast, show lower correlation to overall real estate values, which helps reduce portfolio risk.

This diversification benefit came into sharp focus during the COVID-19 pandemic. Using Green Street's Commercial Property Price Index (CPPI) as a measure, most traditional property types saw significant value declines during the pandemic-driven recession, with the notable exception of industrial. Alternative property types, however, either declined far less or actually increased in value. This divergence reflects a fundamental difference in demand drivers – alternatives are tied to structural themes like demographics, healthcare, and technology rather than economic activity.

## CONTRIBUTOR



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## COMPANY OVERVIEW

**Nuveen Real Estate** is one of the largest investment managers in the world with \$137 billion of assets under management. Managing a suite of funds and mandates, across both public and private investments, and spanning both debt and equity across diverse geographies and investment styles, we provide access to a broad range of real estate investing opportunities. With over 90 years of real estate investing experience and more than 600 dedicated employees\* located across 30+ cities throughout the United States, Europe and Asia Pacific, the platform offers global reach with deep sector expertise, providing investors access to high quality investments across the private real estate investment landscape. For further information, please visit us at [nuveen.com/realestate](https://nuveen.com/realestate)

\*Includes 360 investment team members, supported by over 1,000 shared services employees across the broader Nuveen organization.

Source: Nuveen, 31 December 2025.

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