

## The hidden risk inside traditional portfolios

For decades, diversification inside traditional portfolios was relatively straightforward. Equities drove growth. Bonds provided income and stability. When one struggled, the other generally helped offset the damage. That relationship became the foundation of modern portfolio construction and, for a long time, it worked.

But markets evolve. Inflation, rising interest rates, and macro-driven volatility exposed a growing challenge inside public markets: Many assets increasingly move together. In 2022, stocks and bonds both declined materially at the same time, challenging one of the foundational assumptions behind the traditional 60-40 portfolio. The result is a portfolio construction problem that investors are still working through today.

**The problem: Effective diversification is harder to achieve.** Owning more public assets does not necessarily create more diversified return streams when many of those assets are reacting to the same economic forces, policy expectations and investor sentiment. That is one reason private real estate has regained attention within modern portfolios. Not because it is “alternative,” and not because institutions allocate to it. Rather, because the underlying economics of private real estate are fundamentally different from traditional public market assets.

**In many ways, the case for private real estate can be summarized through four numbers: -0.26, 4 percent, 8 percent and 100 percent.** Each reflects a characteristic that has historically made private real estate valuable within diversified portfolios.

### -0.26: Differentiated return streams matter

Over the past 15 years, private real estate has demonstrated approximately a -0.26 correlation to U.S. equities. In today's market environment, that characteristic may be more important than ever.

For years, diversification largely meant combining stocks and bonds. But inflation changed the equation. During

	Private real estate	REITs	U.S. stocks	Bonds
Private real estate	1.00	-0.22	-0.26	-0.45
REITs	-0.22	1.00	0.60	0.47
U.S. stocks	-0.26	0.60	1.00	0.08
Bonds	-0.45	0.47	0.08	1.00

LOW CORRELATION  
between private real  
estate and U.S. stocks

HIGH CORRELATION  
between REITs and  
U.S. stocks

periods of rising rates and inflation uncertainty, both asset classes experienced pressure simultaneously, weakening one of the core assumptions behind traditional portfolio construction.

At the same time, public markets themselves have become increasingly synchronized. Large portions of the market now react simultaneously to the same macroeconomic headlines, interest rate expectations and liquidity conditions. Even sector diversification within equities has become more concentrated as market leadership narrows. The number of publicly traded companies in the U.S. has shrunk by more than 50 percent since the 1990s,<sup>1</sup> while today the 10 largest companies in the S&P 500 account for roughly 40 percent of the index's market capitalization, one of the highest concentration levels in decades.<sup>2</sup> With a small group of megacap companies, many concentrated in technology and AI-related businesses, driving an outsized share of index performance, portfolios become increasingly exposed to the same influences.

Private real estate is unique. Its cash flow comes from leases, and its performance is tied to occupancy, rent growth, replacement costs, local supply constraints and long-term demand. Properties are not continuously repriced based on short-lived market narratives and volatility. Instead, their economics are tied to physical assets generating steady income. That difference becomes increasingly important as public markets synchronize.

### 4 percent: Durability of income

The second number is 4 percent, the historical income component of the NFI-ODCE Index.

For much of the post-global financial crisis period, investors operated in a world dominated by appreciation. Ultra-low interest rates pushed capital toward growth-oriented assets, while dependable income generation became less central to portfolio construction.

Today's environment has shifted. Investors are placing greater emphasis on the durability and sources of return. Higher interest rates, elevated volatility, and persistent inflation concerns have renewed investor focus on cash flow and portfolio resilience.

Private real estate has historically stood out because income is generated directly from operating assets and long-term leases. Tenants pay in-place rental rates tied to real economic activity rather than financial engineering or short-term market momentum.

Importantly, private real estate income has also historically demonstrated sensitivity to inflation over time. Rising replacement costs, constrained new supply, and rent growth have often supported increases in property income and value during inflationary periods.

**That combination – durable cash flow supported by real assets with inflation-sensitive characteristics – has become increasingly valuable in modern portfolios.**

### 8 percent net Income and appreciation from the same allocation

The third number is 8 percent – the long-term total return profile historically associated with core private real estate.

What makes private real estate particularly valuable within portfolios is that it has historically combined characteristics investors often source from separate allocations: income generation, long-term appreciation potential, and differentiated performance relative to public markets.

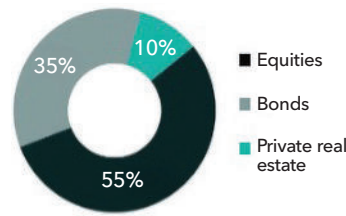
In many respects, private real estate occupies a middle ground between traditional equities and fixed income. Like bonds, it has historically generated contractual cash flow. Like equities, it has historically participated in long-term economic growth through rising rents, increasing property values, and evolving demand trends. Yet, unlike either asset class, the return stream is tied more closely to supply/demand dynamics than daily market sentiment.

That distinction becomes increasingly important during periods when investors are searching for growth opportunities that are not entirely dependent on public markets. The demand supporting many real estate sectors remains rooted in long-term structural trends. For instance, housing shortages continue supporting multifamily fundamentals across many markets, supply chain redesign continues benefiting industrial and logistics infrastructure, cloud computing and artificial intelligence are accelerating demand for data centers and digital infrastructure, and healthcare real estate continues benefiting from demographic shifts tied to an aging population. These are long-duration economic drivers tied to real-world demand. All this to say, private real estate has historically offered investors income and appreciation within a *single* allocation.

### 100 percent: Better portfolio efficiency

The final number is 100 percent.

During the past 15 years, portfolios incorporating private real estate alongside stocks and bonds experienced lower volatility across 100 percent of quarters compared with a traditional 60-40 allocation alone.<sup>3</sup> At the same time, portfolios including private real estate outperformed the traditional 60-40 portfolio in approximately 55 percent of quarters.<sup>3</sup>



Higher return & lower risk	55% of quarters	Higher return & higher risk	0% of quarters
Lower return & lower risk	45% of quarters	Lower return & higher risk	0% of quarters

Importantly, this historical data includes multiple periods of market stress, including the COVID-19 shock, rapid interest rate increases, inflation-driven volatility, and periods where both stocks and bonds experienced simultaneous pressure.

Across each environment, private real estate continued to behave differently because the underlying economics driving returns remained fundamentally different from many traditional public market assets. That is ultimately the point. The objective of diversification is not simply to own additional asset classes. It is to improve portfolio efficiency through lower volatility and more consistent outcomes across market cycles.

### The bigger picture

The strongest argument for private real estate is not simply that it has historically generated attractive returns. It is that the asset class has historically provided a

unique source of income and growth at a time when many traditional public market assets are becoming increasingly correlated. That distinction matters because the portfolio construction challenges investors face today are different than they were a decade ago. Public markets have become more concentrated. Traditional diversification assumptions have become less reliable. And investors are placing greater emphasis on the durability, source and diversification of returns.

That brings the conversation back to the four numbers: -0.26, 4 percent, 8 percent, 100 percent – four numbers that reflect why private real estate continues to play an increasingly important role in modern portfolio construction.

*Stocks (S&P 500), Bonds (U.S. Agg Bond Index), Private Real Estate (NFI-ODCE Index). All indices are unmanaged, not directly investable, and do not reflect any fund fees or charges. All stated statistics and charts based on gross return metrics for quarterly rolling 3-year periods over the past 15 years ended Q4 2025. Correlation based on gross total returns. Past performance is no guarantee of future results.*

Footnotes:

<sup>1</sup> The Washington Post, "What's behind the staggering drop in U.S. public companies," April 13, 2026.

<sup>2</sup> Slickcharts; Cumulative S&P 500 Weight Chart. Accessed May 8, 2026.

<sup>3</sup> Performance and volatility comparison between a traditional 60-40 portfolio and a 55/35/10 stock/bond/private real estate allocation.

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#### CORPORATE OVERVIEW

Accordant Investments is a registered investment adviser based in Scottsdale, Ariz. Accordant creates investment solutions that allow private wealth investors to access private real estate in a way that was once only available to the world's largest investors.

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