

The Enduring Case for Private Real Estate:

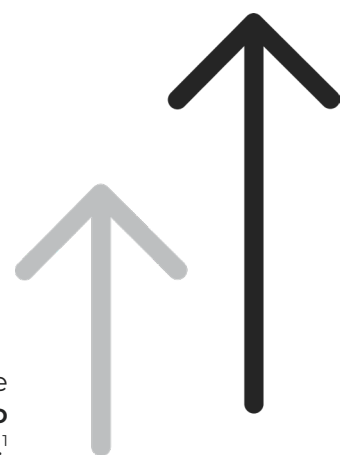
Private real estate can be a powerful component of multi-asset portfolios, offering potential for growth and income, inflation protection, diversification, and tax advantages

Before we take a closer look at these benefits, let's clarify how private real estate fits within the broader universe of real estate investments. Private real estate is largely limited to accredited investors, who generally take a passive stake in a syndication or fund structured as a pass-through entity, such as an LLC. Financial advisors and their clients can choose from a wide variety of private real estate vehicles and managers, with strategies spanning the risk-return spectrum.

Listed shares of real estate investment trusts (REITs) represent another real estate investment category—one that's arguably more well-known among individual investors than private real estate. REIT shares are issued by companies that own and manage pools of commercial property. Available to the general public, exchange-listed REIT shares are more liquid than private real estate investments; however, these characteristics leave public REITs open to the volatility of broader stock market.

Private real estate may be less familiar to individual accredited investors—but “smart money” institutional investors have a long-standing appreciation for the asset class.

In a survey of large institutional money managers, data from Pensions & Investments showed that private real estate AUM rose 11% to \$483 billion in 2022.¹ Here we consider the four key benefits of private real estate that build the enduring case for an allocation within the portfolios of individual and institutional investors alike.



Private real estate
**AUM rose 11% to
\$483 billion in 2022.¹**

¹ <https://www.pionline.com/largest-money-managers/private-markets-continue-increase-aum-write-downs-are-coming>

DIVERSIFICATION

As an alternative investment, private real estate can work to diversify a traditional portfolio of stocks and bonds, resulting in reduced volatility and improved returns. As the correlation data shows below, private real estate investments offer significant diversification benefits—perhaps even more so than publicly-traded REITs, given that private real estate has a uniquely distinct risk-return profile.

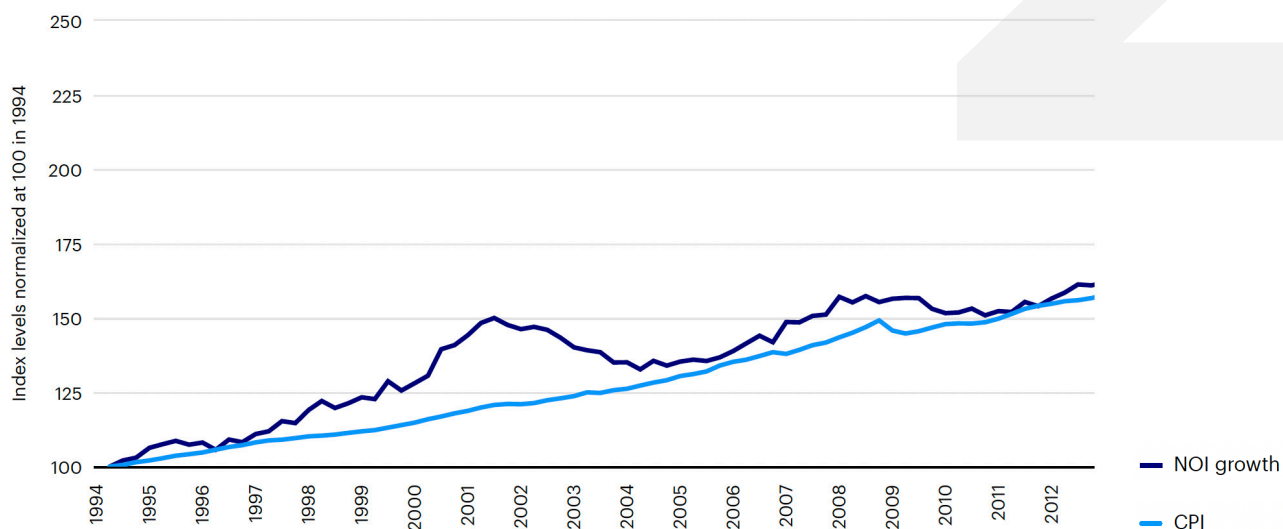
CORRELATIONS BETWEEN US REAL ESTATE, BONDS, AND STOCKS | 2000 – 2020²

	Private Real Estate	Listed REITs	Stocks	Bonds
Private Real Estate				
Listed REITs	0.25			
Stocks	0.14	0.68		
Bonds	-0.12	0.04	-0.34	

BALLAST AGAINST INFLATION

While a perfect hedge is hard to come by, private real estate is positioned to fare better in preserving real returns than traditional assets. Historically, the income generated by private real estate investments has kept pace with—and often outpaced—rising consumer prices, as illustrated below. The resilience of private real estate income can be attributed to multiple factors, including the ability to reset leases in line with prevailing prices and the “cap” that rising construction costs place on new supply pipelines.

PRIVATE REAL ESTATE INCOME GROWTH HAS HISTORICALLY KEPT PACE WITH U.S. INFLATION | Real estate income (NOI growth) vs. inflation (CPI) since 1994³



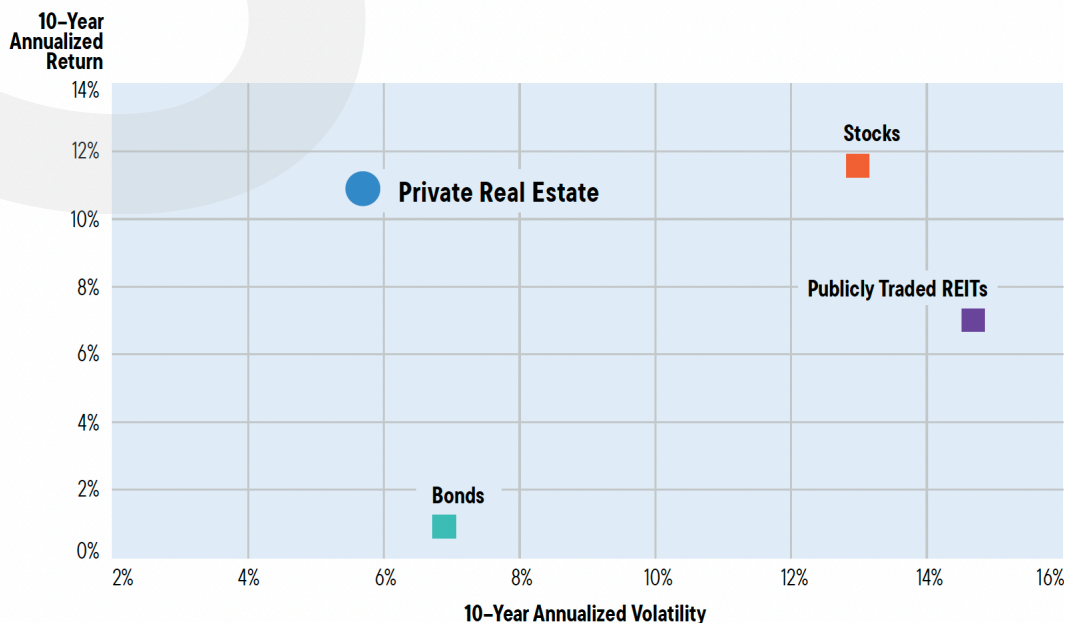
² MacroBond, as cited by TIAA. Data as of December 2020. Private real estate: NCREIF Fund Index-Open End Diversified Core Equity (NFI-ODCE); REITs: FTSE Nareit US Real Estate Index; US stocks: S&P 500 Index; US bonds: Bloomberg Barclays US Aggregate Bond Index. |

³ Green Street Advisors, Bureau of Labor Statistics as of December 31, 2022, as cited by Invesco. Private equity real estate represented by the NFI-ODCE Index.

POTENTIAL FOR ATTRACTIVE, STEADY RETURNS

Private real estate provides opportunities for consistent income and compelling capital appreciation while experiencing less volatility than traditional asset classes. Notably, some private real estate strategies may emphasize income while others focus on capital appreciation or even a blend of both return divers. As a whole, private real estate has historically posted strong risk-adjusted returns, as shown here.

PRIVATE REAL ESTATE GENERATES COMPELLING HISTORICAL RISK-ADJUSTED RETURNS | Annualized 10-year total return and volatility⁴



TAX ADVANTAGES

Many advisors are drawn to private real estate for its numerous **tax advantages**, which can **help investors keep more of what they earn**.

DEPRECIATION

Creates paper losses to **offset** passive income

TAX-FREE “RETURN OF CAPITAL” DISTRIBUTIONS

Commonly received in conjunction with **refinancing**

OPPORTUNITIES TO DEFER CAPITAL GAINS TAXES

Via **1031 exchange** or **Opportunity Zone** program

⁴ Bloomberg, as cited by Franklin Templeton, as of September 30, 2022. Annualized volatility is based on standard deviation. Private equity real estate: NFI-ODCE Index; stocks: S&P 500 Index; bonds: Bloomberg US Aggregate Bond Index; publicly traded REITs: FTSE NAREIT All Equity REITs Index.

Trade-Offs to Keep in Mind:

When considering an allocation to private real estate, advisors should carefully consider the potential benefits as well as the trade-offs, which may include:

ILLIQUIDITY

Private real estate investments may be harder to exit and price regularly. Private real estate investments do not trade on the open market, so investors should understand whether the degree of illiquidity in a particular investment suits their personal situation.

MINIMUMS

Fees and investment minimums:

While private real estate strategies can be accessed via a variety of vehicles—some of which feature lower fees and investment minimums—the category generally has higher fees and investment minimums than publicly traded real estate.

COMPLEXITY

Private real estate investments are often more complicated than traditional equity and fixed income investments.

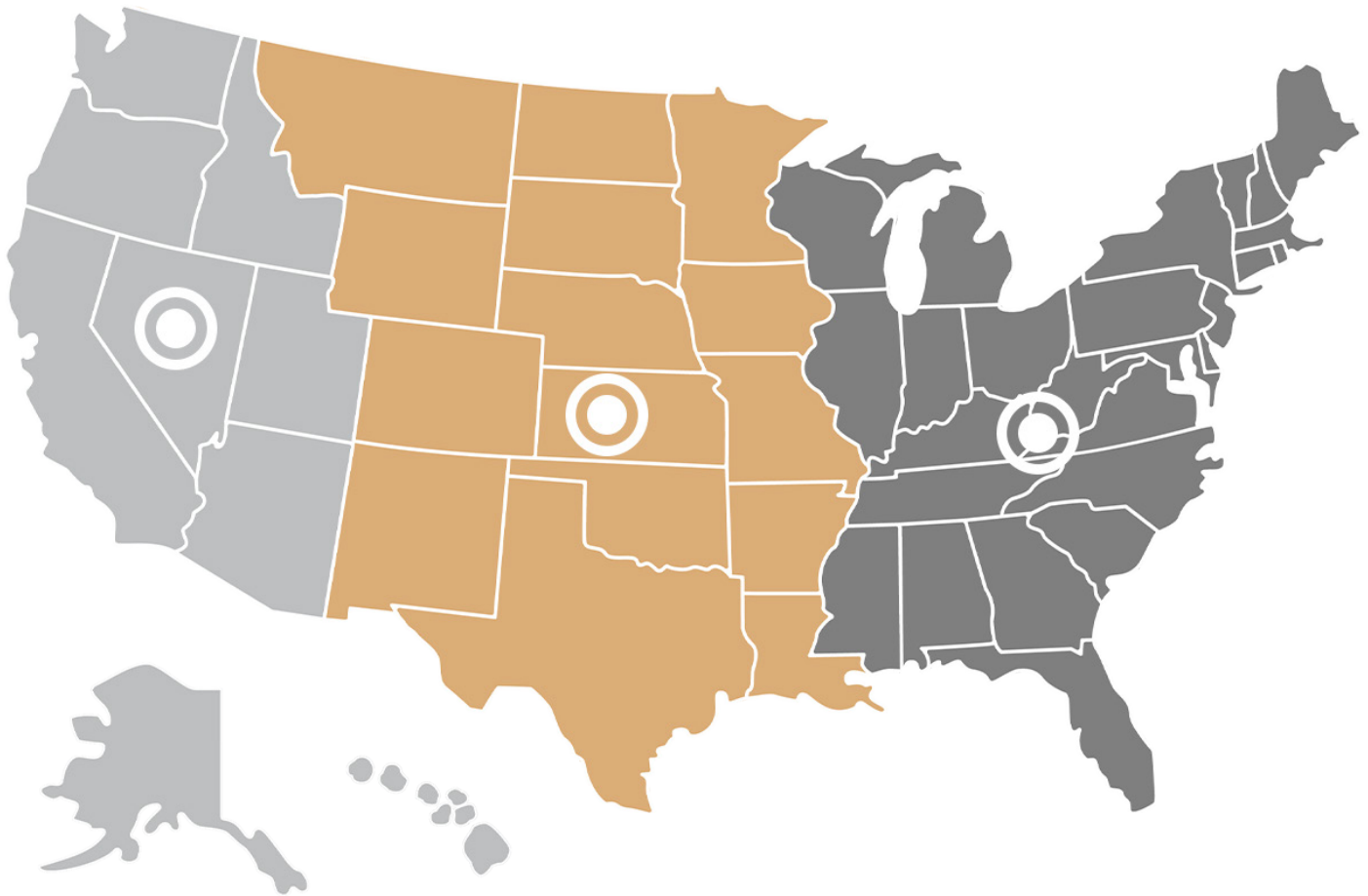


Advisors can help mitigate these challenges by focusing on disciplined due diligence.

The goal is to identify top quality sponsors with demonstrated ability to successfully execute their investment strategy while providing transparent information and education to their investors in a true partnership capacity.

Learn Caliber's Approach To Private Real Estate.

Contact our capital markets team to learn more on how private real estate can fit in your client's portfolios.



Contact Us

Speak with the capital markets team today at invest@caliberco.com

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