PGIM

REAL ESTATE INVESTMENT RESEARCH

PUBLIC AND PRIVATE REAL ESTATE

A Blended Approach

Executive Summary

Blending real estate investment trusts (REITs) with private real estate enhances sector diversification, increases opportunities for active management, optimizes risk-adjusted returns while reducing drawdown severity, and improves liquidity. REITs have evolved from a niche exposure to nearly 30% of the investable real estate market, making them a core component of a market-neutral real estate allocation. We find that a strategic allocation of roughly 30% REITs and 70% private real estate is market-representative and optimizes risk-return.

Four Reasons to Blend Public and Private Real Estate

AUGUST 2026

REITs: Nearly 30% of Professionally-Managed Investment Real Estate

"Public" and "private" real estate should not be interpreted as a choice between two asset classes. Rather, public and private vehicles are two access points into the same underlying real estate market.

Real estate has played a central role in institutional portfolios since the 1980s. It offers income, inflation offsets, diversification relative to traditional stocks and bonds and exposure to the physical economy through property cash flows.

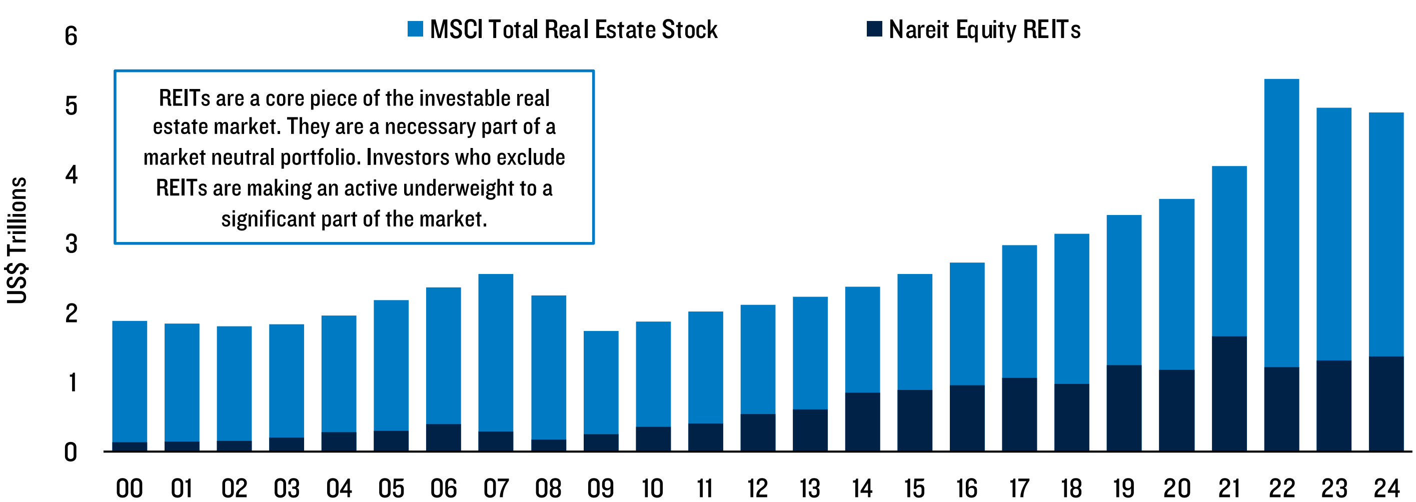
Initially, institutional investors gained this exposure primarily through private vehicles. REITs made up a small portion of the investable real estate market. However, the structure of the investable real estate market has changed, and REITs have grown in scale, breadth, and market relevance.

Now at nearly 30% of the investable market, REITs represent a major channel through which capital owns commercial real estate and are required for a market-neutral exposure to the asset class.

If an investor's goal is to capture the long-term return of institutional real estate, the portfolio should reflect the structure of the investable market. A portfolio that owns only private real estate may appear diversified within private benchmarks, but it remains incomplete relative to the full real estate universe. It may be overweight property types and valuation mechanisms common in private funds, while being underweight those that are primarily represented in the public market.

A market-neutral perspective does not mean an investor must rigidly hold REITs at exactly their market weight in every environment. Strategic allocation ranges and tactical tilts may be appropriate. The point is that the baseline allocation should recognize REITs as a core component of the real estate market, not a peripheral or optional add-on. When nearly one-third of invested real estate is represented by REITs, excluding them requires a strong active view. In the absence of such a view, the more balanced approach is to incorporate REITs into the strategic real estate allocation.

Exhibit 1: REIT and Total Real Estate Market Size



Sources: MSCI, Nareit, PGIM. As of August 2026.

ENHANCED ACCESS TO ALTERNATIVES

REITS PROVIDE ACCESS TO ALTERNATIVE SECTORS

01

A strategic advantage of blending public and private real estate is sector access. Private core funds' exposure remains mostly concentrated in the traditional core property sectors: industrial, residential, office and retail. Those sectors represent a minority of the REIT universe. Instead, REITs now primarily provide exposure to alternative real estate sectors such as data centers, towers and health care, and other niche categories.

This sector breadth is important because different property types are driven by varying economic variables. Industrial demand may be tied to trade flows and e-commerce, while residential demand depends on affordability, migration, and local labor-market conditions. Office demand is influenced by employment growth and corporate space utilization, while retail depends on consumer spending and experiential demand.

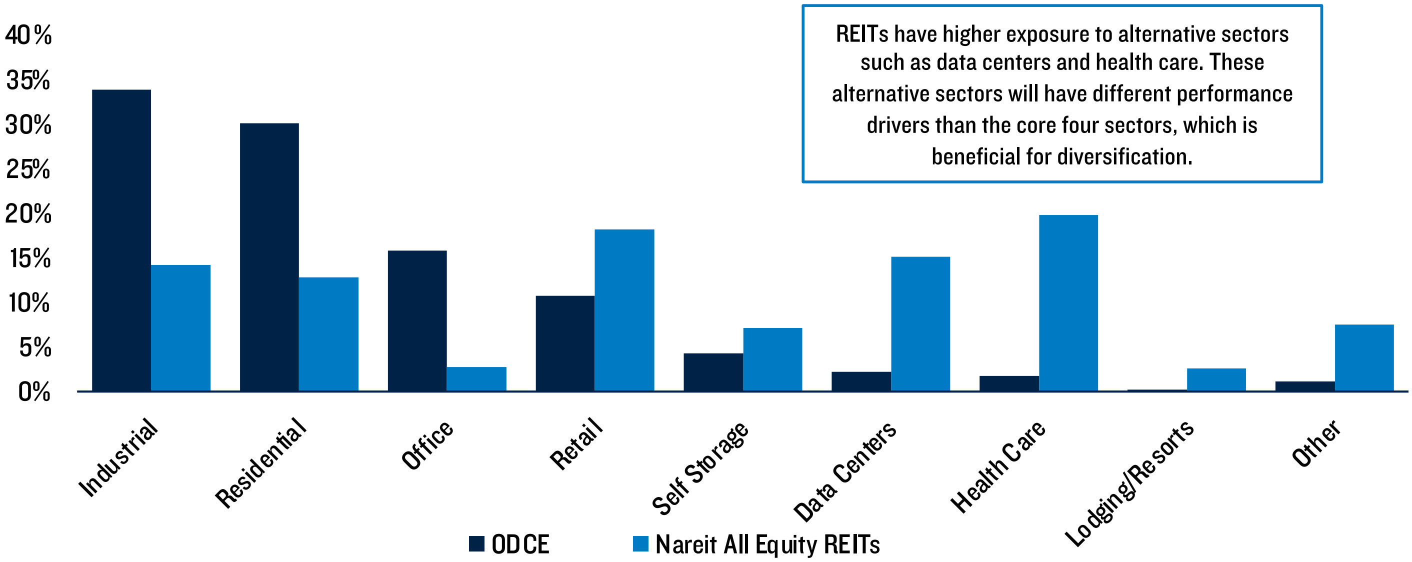
Alternative sectors add additional drivers. Data centers are linked to cloud adoption and artificial intelligence workloads. Health care real estate depends on demographics and medical demand, while self-storage can be affected by housing turnover and life events.

By adding alternative sector exposures, REITs can reduce reliance on any single set of sector fundamentals.

This matters because real estate portfolios can become unintentionally concentrated in sectors that are large, liquid, and historically dominant. REITs allow investors to broaden the sector mix and capture real estate-linked growth themes that may be less accessible through private vehicles.

Sector diversification also has a portfolio-construction benefit. A more diversified sector mix can reduce sensitivity to shocks that affect individual property types. For example, a portfolio with meaningful exposure to data centers, towers, health care, and self-storage should behave differently from one dominated by office, industrial, residential, and retail. The goal is not to choose between public and private real estate, but to complement one with the other.

Exhibit 2: ODCE* and Nareit Equity REITs Sector Allocation



*ODCE is an open-end diversified core equity real estate fund index
Sources: MSCI, Nareit, PGIM. As of August 2026.

REITs: Immediate Price Discovery

One of the biggest differences between public and private real estate is measured volatility. Publicly-traded REITs are priced daily and react immediately to equity-market sentiment, interest-rate moves, changes in risk appetite, and macroeconomic news. Private real estate, by contrast, is valued less frequently and often through appraisal-based processes that smooth short-term movements. As a result, REIT returns are more volatile than private real estate returns.

This volatility can make REITs appear riskier, especially when investors compare public and private returns without adjusting for differences in valuation methodology. However, the observed volatility of REITs is not necessarily equivalent to a permanent impairment of underlying property value. Public markets reprice quickly, and prices may overshoot in both directions. In periods of stress, REITs may sell off sharply before private valuations adjust. In recoveries, they may rebound before private appraisal-based indexes fully capture improving fundamentals.

Avoiding REITs solely because they are more volatile may be counterproductive. A portfolio that excludes public real estate may report smoother returns, but that smoothness can partly reflect appraisal lag rather than lower economic risk. If underlying real estate values are changing, private returns may simply recognize those changes later. In this sense, REIT volatility can be seen as the price of liquidity and price discovery. Investors who understand that tradeoff can use REITs more effectively rather than treating volatility as a disqualifying feature.

Exhibit 3: Nareit Equity REIT Quarterly Returns*

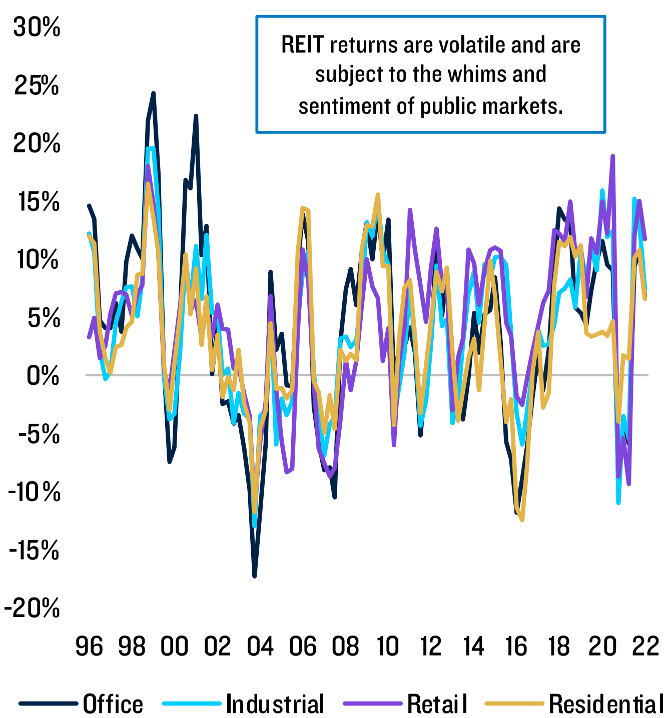
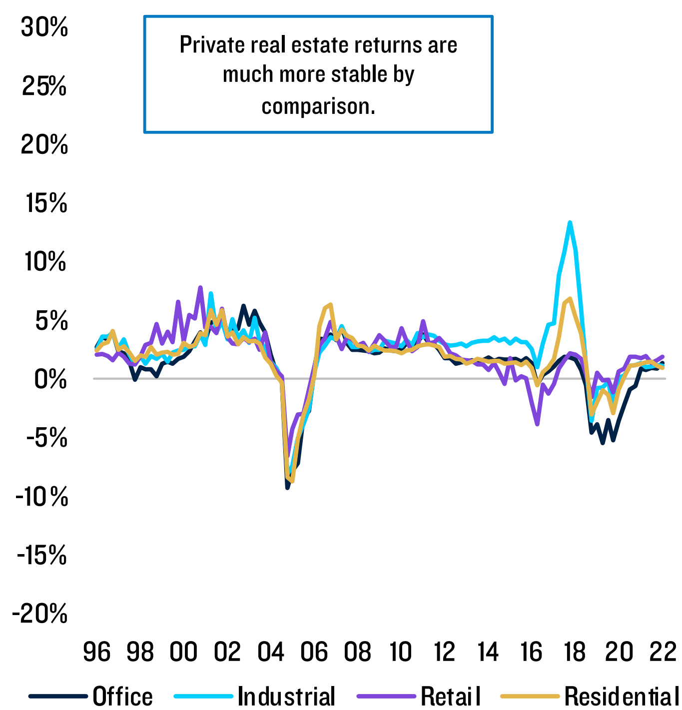


Exhibit 4: NCREIF Unlevered Quarterly Returns



*Returns are gross of fees.
Sources: MSCI, Nareit, PGIM. As of August 2026.

INCREASED OPPORTUNITIES FOR ACTIVE MANAGEMENT

THE HIGHER RETURN DISPERSION IN REITS CREATES ARBITRAGE OPPORTUNITIES

02

REIT's high returns dispersion can be an advantage because it rewards successful active management. If returns across all sectors and companies are similar, there is limited opportunity to outperform through selection. When return dispersion is wide, investment decisions matter more.

Arbitrage opportunities arise because listed companies differ across many variables including:

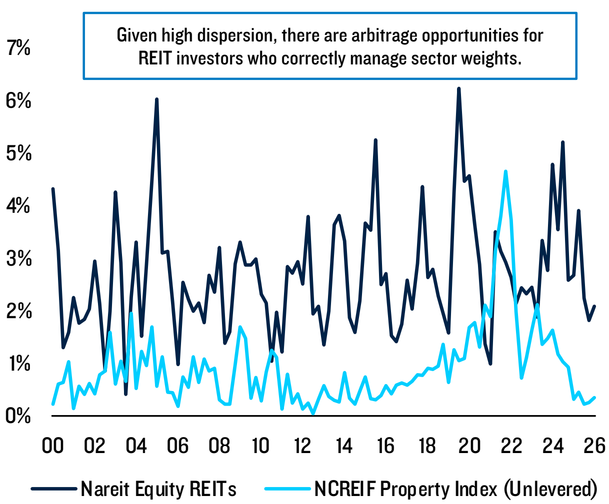
- Sector exposure
- Property quality
- Geographic footprint
- Tenant mix
- Lease duration
- Development pipeline
- Leverage
- Access to capital
- Management strategy
- Valuations.

Market sentiment can also create large differences in pricing across sectors. A data-center REIT, a tower company, a health care REIT, an apartment REIT, and a mall owner may all be classified as real estate, but their fundamental drivers and market valuations can diverge substantially.

That dispersion creates opportunity for investors who can identify mispriced securities and favorable sector exposures.

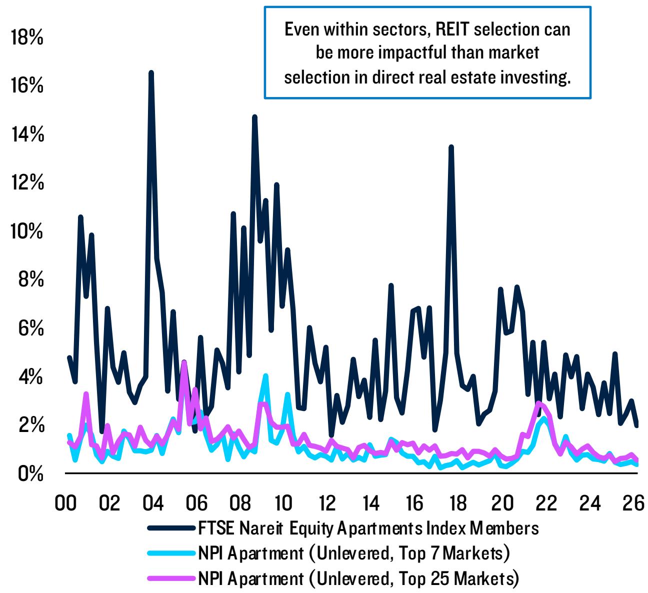
The same logic applies within sectors. Within apartments, REIT selection can be more impactful than market selection in direct real estate investing. This suggests that company-level selection may provide a powerful complement to private-market property or market selection.

Exhibit 5: Quarterly Return Dispersion Across Core Sectors*



Sources: Nareit, NCREIF, PGIM. As of August 2026.

Exhibit 6: Apartment Quarterly Return Dispersion*



*The dispersion for Nareit Equity REITs is measured as the standard deviation of gross returns across the apartment, office, industrial, and retail equity REIT indexes. The dispersion for the NCREIF Property Index is measured as the standard deviation of returns across the aggregate performance of apartment, office, industrial, and retail properties within the index. The dispersion for the FTSE Nareit Equity Apartments Index Members is measured as the standard deviation of returns across index members. The dispersion for NPI Apartments is measured as the standard deviation of returns across apartment markets (CBSAs) in the index.
Sources: Bloomberg, NCREIF, PGIM. As of August 2026.

OPTIMIZES RISK-ADJUSTED RETURNS

ADDING REITS TO A PRIVATE PORTFOLIO ENHANCES RISK-ADJUSTED RETURNS

03

Because of different volatility profiles, a model portfolio analysis combining private core and REITs lowers volatility and increases returns, as compared to purely private or public real estate exposures.

This challenges the intuitive assumption that adding a more volatile asset increases portfolio risk. However, portfolio risk depends not only on the volatility of individual components, but also on their correlation relative to each other. If public and private real estate do not move in perfect sync, combining them can improve the overall portfolio.

The model suggests that the focus should not be public versus private in isolation, but the blended outcome. The blend can enhance returns, reduce volatility and improve the return per unit of risk. Therefore, the investment policy should evaluate public and private real estate jointly rather than separately.

The model suggests that the return per unit of volatility peaks at an allocation of roughly 30% REITs and 70% private real estate, with annual rebalancing. Because public and private real estate can diverge over shorter horizons, rebalancing between them can help maintain discipline and potentially capture mean reversion. A 70/30 public/private framework allows investors to benefit from both long-term convergence and short-term dislocation.

The 30% figure is also consistent with the market-size argument. If REITs represent nearly 30% of invested real estate, then a roughly 30% allocation aligns with a market-neutral approach while also improving modeled, risk-adjusted returns. This convergence between market representation and portfolio efficiency strengthens the strategic case.

Exhibit 7: 25-Year Return and Volatility at Various REIT Allocations*

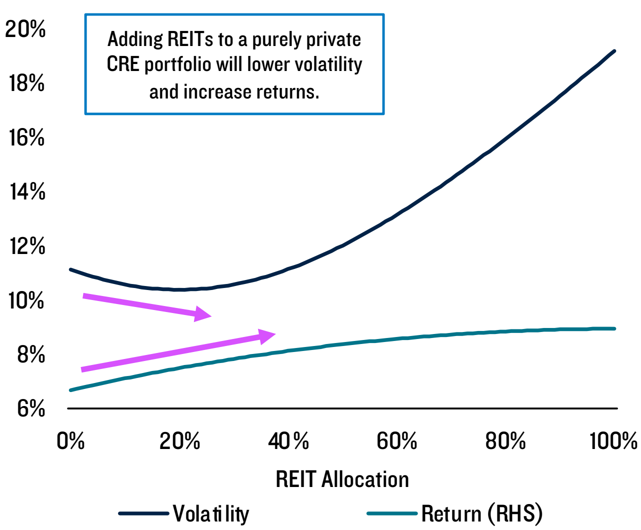
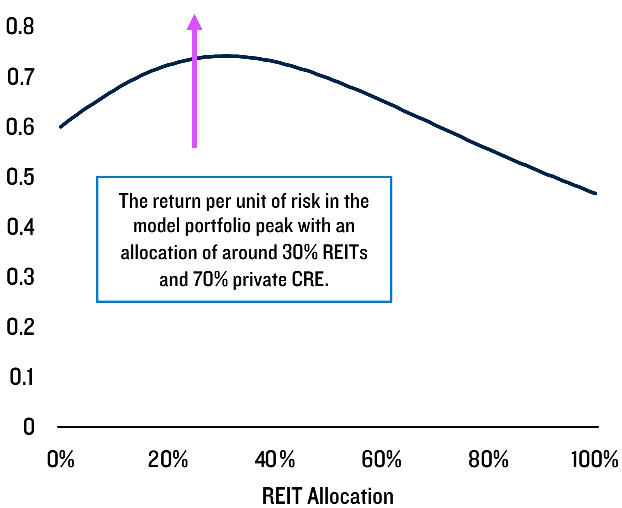


Exhibit 8: 25-Year Return-to-Risk Ratio At Various REIT Allocations



*The gross returns of the ODCE Index and Nareit Equity REITs Index were used for creating the model portfolio. ODCE is an open-end diversified core equity real estate fund index. 0% REIT allocation represents a portfolio that tracks completely the ODCE index, while a 100% REIT allocation represents a portfolio that completely tracks the Nareit Equity REIT Index. The portfolio model assumes annual rebalancing of allocations.
Sources: NCREIF, NAREIT, PGIM. As of August 2026.

Drawdowns are Less Extreme

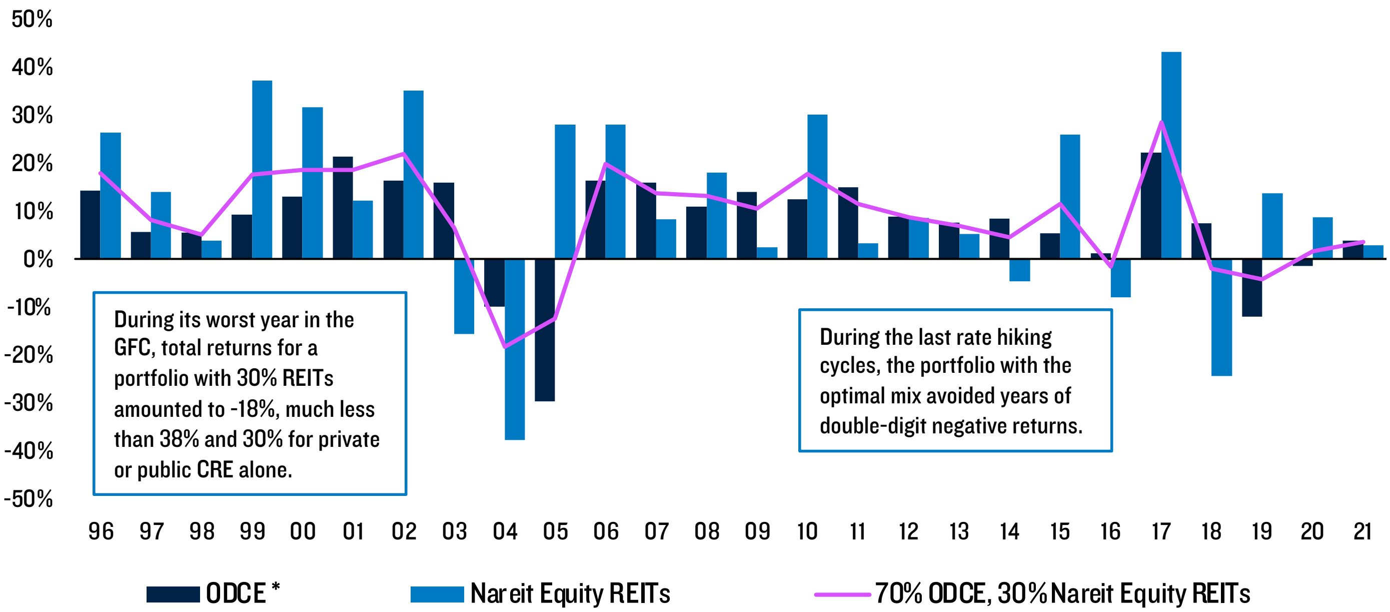
Blending public and private real estate can reduce the severity of annual drawdowns. During the Global Financial Crisis, the model portfolio with 30% REITs experienced a worst-year total return of -18%, compared with much larger drawdowns for private (-38%) or public (-30%) real estate alone. Also, during the more recent rate-hiking cycle, the 70% private and 30% public real estate portfolio avoided years of double-digit negative returns.

Public and private real estate often recognize stress at different times. Public REITs may sell off quickly when markets anticipate weaker fundamentals or higher capital costs. Private real estate values may adjust more gradually. Conversely, when public markets recover, REITs may rebound before private valuations recover. A blended portfolio can therefore smooth the timing of losses and recoveries across the broader allocation.

Real estate remains cyclical, and both public and private markets are exposed to interest rates, credit availability, property fundamentals and macroeconomic conditions. But the evidence suggests that concentrating entirely in either public or private exposure can create more extreme outcomes. The blend can help diversify valuation timing and reduce the likelihood that the portfolio experiences the worst characteristics of either market in isolation.

REITs are sometimes perceived as a source of additional downside because public-market returns are more visibly volatile, but a controlled REIT allocation can make a total real estate portfolio more resilient.

Exhibit 9: Annual Total Returns



*ODCE is an open-end diversified core equity real estate fund index. ODCE and Nareit returns are gross of fees.
Sources: MSCI, Nareit, PGIM. As of August 2026.

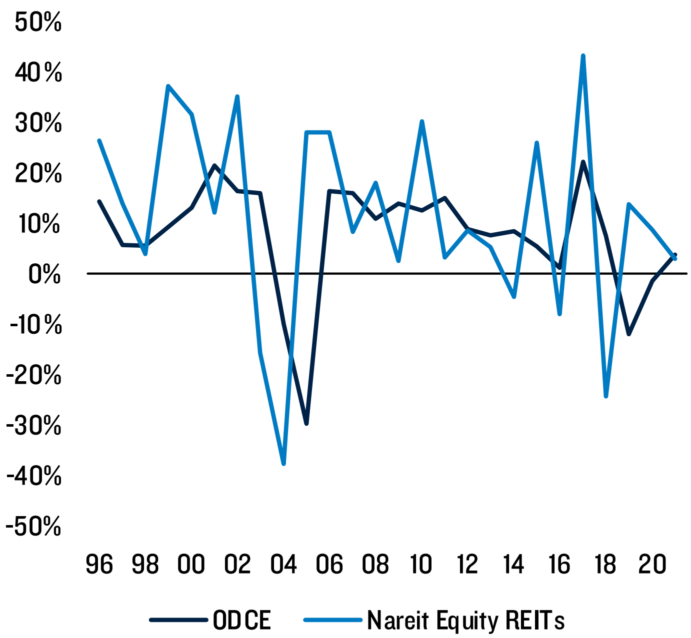
REIT Returns Lead Private Near Term, With Long-Term Convergence

REIT returns lead private commercial real estate, but those returns converge over longer investment horizons. This is consistent with the different pricing mechanisms of the two markets. Public REITs reprice continuously as investors incorporate new information. Private real estate values adjust through appraisals, transactions and fund reporting cycles, which typically occur with a lag.

The convergence of returns over longer periods shows public and private real estate are connected parts of the same asset class. While short-term returns often differ materially, longer-horizon returns are more similar. This convergence matters because it suggests that short-term dislocations are not permanent separations but valuation differences that may eventually close.

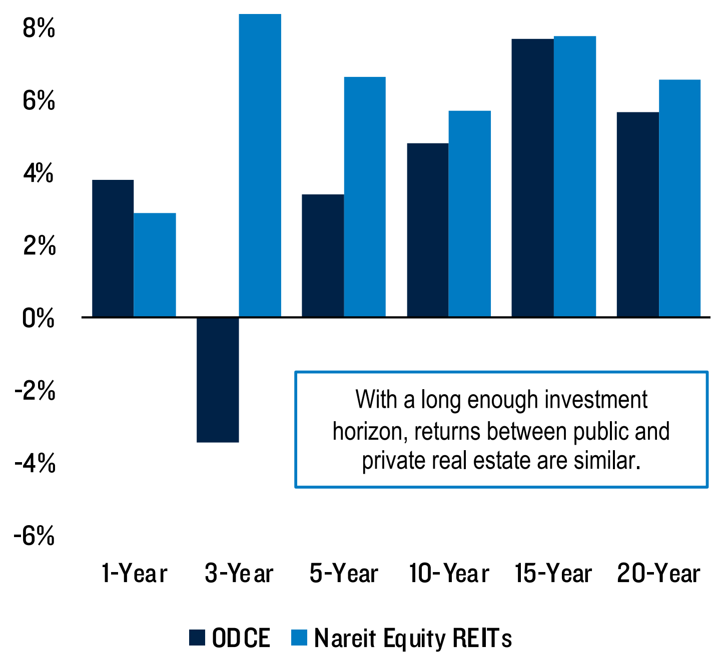
The practical result is a richer opportunity set. If REITs trade at a steep discount to private-market values, investors may be able to gain real estate exposure at more attractive implied pricing than is available in private transactions. If REITs trade at a meaningful premium, private-market exposure may be relatively more attractive, or investors may choose to rebalance away from public exposure. The blend creates flexibility to allocate across valuation regimes.

Exhibit 10: ODCE and NAREIT Equity REIT Total Returns*



Sources: Nareit, NCREIF, PGIM. As of August 2026.

Exhibit 11: ODCE and NAREIT Equity REITs Total Returns*



*ODCE and Nareit returns are gross of fees.
Sources: NCREIF, Nareit, PGIM. As of August 2026.

Value Dislocations Create Tactical Opportunities

Public and private valuations can fluctuate significantly relative to each other and this dynamic creates tactical opportunities.

REIT performance relative to direct real estate tends to be better after REITs trade at a discount to NAV, and weaker after they trade at a premium. When REITs trade at discounts, public-market investors may be able to buy portfolios of real estate assets at implied values below private-market appraisals. If private values eventually adjust down or public prices recover, the relative return opportunity can be meaningful.

Conversely, when REITs trade at premiums, public pricing may be less attractive relative to private values, suggesting the case for trimming public exposure or favoring private deployment.

Tactical allocation requires a disciplined framework for comparing public and private valuations, understanding sector fundamentals, and assessing whether public-market pricing implies attractive or unattractive real estate entry points.

The advantage of REITs is that these tactical shifts can be implemented more readily than comparable changes in private real estate portfolios. Private acquisitions and dispositions require time, due diligence, negotiations, financing, and closing processes. Meanwhile, public-market trades can be executed more quickly. This makes REITs a useful sleeve for implementing tactical real estate views while maintaining the structural benefits of a diversified allocation.

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Exhibit 12: REIT NAV Premium

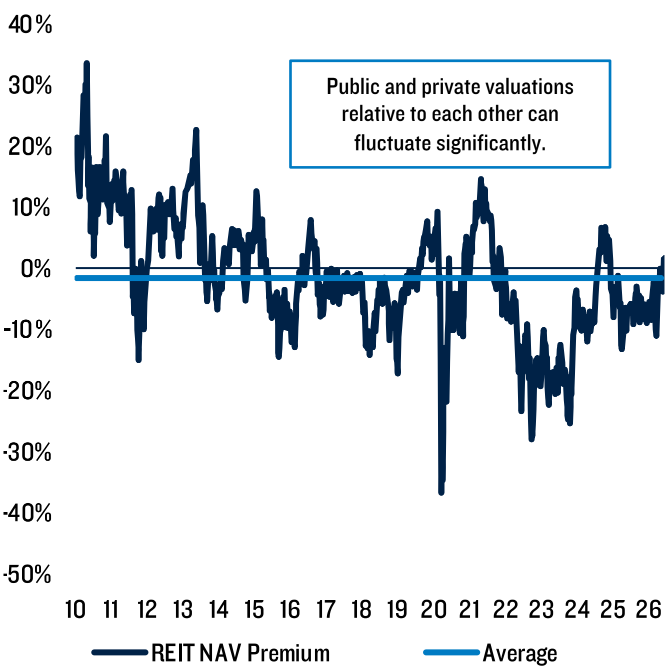
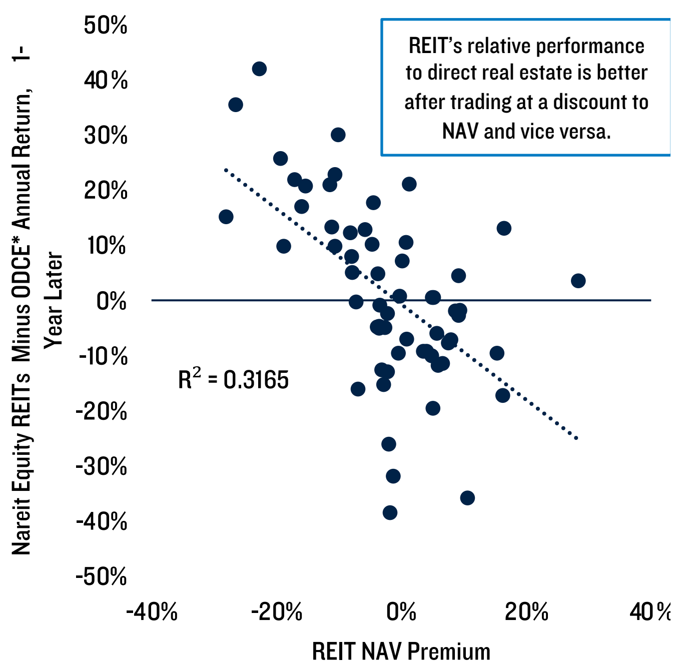


Exhibit 13: REIT Nav Premium vs REIT Outperformance*



*Returns used to calculate return performance are gross of fees.
Sources: NCREIF, NAREIT, PGIM. As of August 2026.

IMPROVED LIQUIDITY

REITS OFFER LIQUIDITY FOR TIME-SENSITIVE INVESTMENT OPPORTUNITIES AND CASH NEEDS

04

Another strategic benefit of REITs is liquidity. Private real estate vehicles often include notice periods, redemption queues, gating mechanisms and delayed payout schedules. Even when private funds are open-ended, liquidity is not the same as daily tradability. In periods of market stress, redemptions may be delayed or limited. Direct private asset sales can also take months and may require price concessions.

REITs, by contrast, offer public-market liquidity. This liquidity can serve several purposes in an institutional portfolio. First, it provides a source of cash for time-sensitive investment opportunities. If an investor needs to fund a new private-market commitment, rebalance across asset classes, or take advantage of a dislocation, the REIT sleeve can be used more quickly than private real estate holdings.

Second, REIT liquidity can support risk management. If the portfolio needs to reduce real estate exposure, adjust sector weights or rebalance after a market move, public real estate positions can be adjusted efficiently. Third, liquidity can help meet other cash needs without forcing private asset sales at unfavorable times.

A portfolio with a liquid real estate sleeve has more optionality than one that is entirely illiquid. This optionality can be especially important during periods of stress, when private redemption queues may lengthen and transaction markets may slow. Public-market liquidity may come with higher measured volatility, but it gives investors flexibility that private vehicles cannot consistently provide.

Exhibit 14: Public Versus Private Redemption Comparison

	REIT Mutual Fund	Private Real Estate Fund
Redemption Frequency	Investors generally can redeem on any business day.	Investors usually can redeem only on a periodic basis. Open-ended commingled real estate funds generally allow entry/exit monthly or quarterly.
Notice Requirement	Redemption requests do not require advanced notice.	Redemption requests often require advance notice; PREA says 90 days is the most common deadline, with some funds using 45 or 60 days.
If Redemption Demand Exceeds Liquidity	Liquidity is typically not a concern as REITs are highly liquid.	Unmet requests can build into a redemption queue.
Payout Timing	A mutual fund generally must pay redemption proceeds within seven days of receiving the request.	Funds typically pay redemption requests at or shortly after period-end to use the established fund value.
Pricing at Exit	Shares are redeemed at daily NAV in the mutual fund structure.	Exits are typically based on the fund's quarterly value/NAV framework.
Manager Discretion	Managers have limited discretion.	Governing documents usually give managers wide discretion in honoring redemptions based on available liquid assets and prudent management considerations.
Lockups and Restrictions	There are typically no lockup periods.	Some real estate funds have lockup periods than can last multiple years, though rare among core funds.
Liquidity Takeaway	Liquidity is frequent and standardized, but the investor bears public-market price volatility.	Liquidity is periodic and potentially rationed through queues and manager-controlled payouts.

Sources: PGIM. As of August 2026.