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The Role of REITs in Real Estate Allocations

August 2026

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ABSTRACT

- REITs are fundamentally real estate, exhibiting high correlations and similar returns over long periods. They offer investors greater liquidity than direct real estate, although prices may diverge in the short term.
- REITs offer an expanded opportunity set, providing diversified sector exposure at smaller capital outlays. They allow for efficient and timely capital deployment, both complementing and temporarily substituting private real estate.
- Short-term divergences between REITs and private real estate can present tactical opportunities. When trading at a discount to NAV, REITs have historically demonstrated strong absolute and relative returns over subsequent three-year periods
- Combining REITs and private real estate may improve risk-adjusted returns. In our back-test, a 90/10 allocation of private to listed real estate produced the highest return per unit of risk.

Introduction and summary

Allocations to real estate have long been an important building block for constructing multi-asset portfolios, offering investors meaningful long-term return potential, inflation protection, and diversification benefits. Yet Real Estate Investment Trusts (REITs) are often overlooked by institutional investors. Equity investors frequently avoid them, even when present in their benchmark, claiming they are too expensive or lack the growth potential of other equity sectors, while direct real estate or alternatives investors often dismiss REITs as too volatile compared to direct property or private real estate funds.

We believe that REITs merit a place in real estate allocations, providing important levers to build more complete and efficient institutional portfolios. In this paper, we demonstrate that REITs exhibit both equities and real estate characteristics. REITs have real estate-like cash flows but are subject to listed equity-like discount rate fluctuations.

Over shorter time horizons, discount rates dominate, and REITs exhibit public equity-like volatility and drawdowns. Over the long term, discount rates tend to mean revert and cash flows drive returns, resulting in an eventual convergence with the underlying real estate. With these characteristics in mind, we explore two important roles REITs can play in an institutional investor's portfolio:

- **Strategic allocation:** REITs can complement private real estate by enabling geographic and sector diversification in a cost- and resource-efficient manner. They can also be used to temporarily complete real estate allocations while capital is being deployed into private properties.
- **Dynamic allocation:** REIT pricing can serve as a leading indicator for real estate markets, and relative value opportunities between REITs and private real estate may arise. REITs also offer the flexibility to quickly adjust the overall allocation, sector mix, or risk profile of a real estate portfolio.

Finally, we demonstrate that by combining REITs with direct real estate holdings or private real estate funds, it may be possible to improve the overall risk-adjusted return profile of a real estate portfolio.

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1. REITs are real estate

At the most fundamental level, REITs are real estate–they own, acquire, develop, sell, and lease properties, with cash flows derived primarily from rental income. REITs therefore benefit (or suffer) from changes in underlying property values in the same way as direct real estate investors or private real estate funds. As such, the value of REITs broadly track the value of their underlying real estate assets over longer-term periods.

However, in the short to medium term, the returns of REITs and direct real estate can diverge, sometimes materially. While both private and listed real estate have the same types of cash flows from their underlying properties, private real estate is often valued by backward-looking property appraisals while REITs are subject to changes in public market discount rates (or public market multiples) applied to their cash flows, which can change much more quickly due to market sentiment.

1.1 REITs perform like real estate in the long term

The main difference between REITs and direct real estate is that REITs trade on stock exchanges and are readily available to individual investors that would not otherwise be able to purchase commercial property. While this 'instant access' (afforded by daily liquidity) is a positive characteristic of REITs, the environment in which they trade can impact their pricing. Stock markets can react sharply in the short term, sometimes in anticipation of changing market conditions or shifts in investor sentiment. For example, when new economic data becomes available, geopolitical risks arise, or in times of uncertainty, stock prices can be immediately affected–REITs are no exception.

In the short term, REITs can be similarly volatile and can trade significantly above or below their net asset value (NAV), which is the equity value of their underlying assets after adjusting for outstanding debt and liabilities. By contrast, the value of direct real estate adjusts much more slowly to changing market conditions. Properties take time to sell–often months or even years–and appraisals are often retrospective. For these reasons, REITs often lead direct real estate valuations as active participants in the stock market reevaluate asset values in real-time.

Consistent with these observations, return correlations between direct real estate and REITs are low over short time frames but increase meaningfully over longer periods, particularly as REITs tend to lead underlying real estate values (with private valuations lagging REIT returns). This is illustrated using the US property market as an example, one of the largest and most mature direct real estate and listed REIT markets.

In the US, we found that correlations of quarterly returns were low but increased when observed over 10-year rolling periods and improved further when listed REIT returns were lagged by 12 months. Figure 1 shows the correlation of quarterly returns between the NCREIF Property Index (NPI), a proxy for US direct property returns, and the FTSE NAREIT Equity REITs Index, one of the longest-dated listed REIT indices in the US, highlighting how correlations increase over longer time frames.

> **Return correlations between direct real estate and REITs are low over short time frames but increase meaningfully over longer periods.**



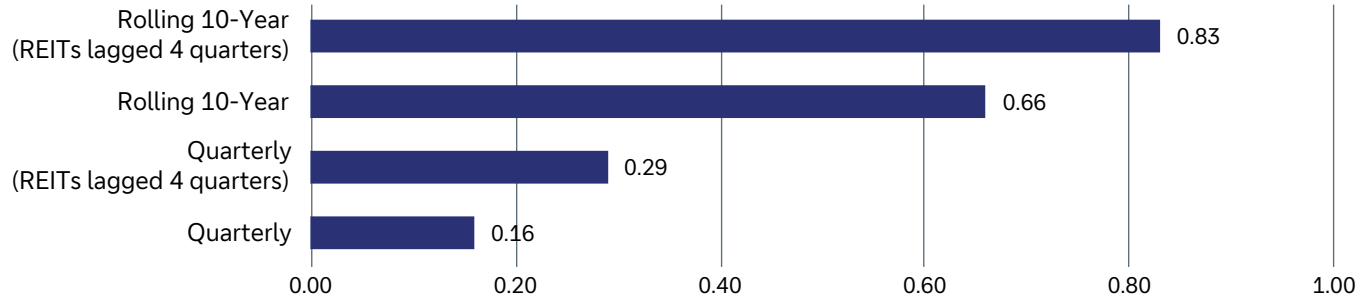
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1 The NCREIF Property Index (NPI) is a quarterly, appraisal-based, value-weighted index measuring the unlevered total returns (income and capital apprecia-tion) of institutionally owned US commercial real estate.

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Figure 1: REITs and private real estate show high correlations over longer time frames

US REITs vs. US private real estate
Correlations of quarterly and 10-year rolling returns



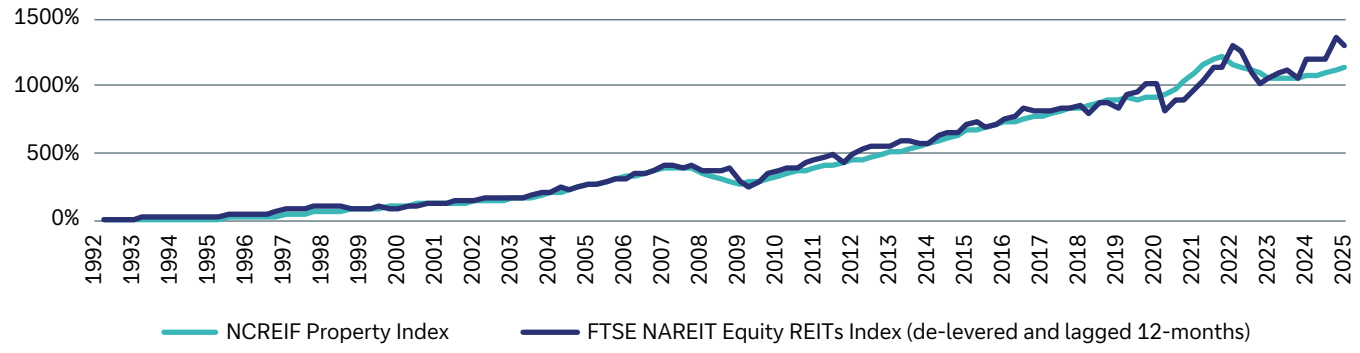
Source: Bloomberg as of 31 March 2026. US REITs = FTSE NAREIT Equity REITs Index. US private real estate = NCREIF Property Index (NPI).

Furthermore, the returns of listed REITs were synthetically delevered to match the unleveraged reporting basis of the NPI. Figure 1 also illustrates the improvement in correlation coefficient when extending to a 10-year rolling window and lagging the REIT returns by four quarters. In fact, when lagging the delevered REIT returns by four quarters and looking at 10-year rolling windows, the correlation between REITs and private real estate returns from December 1992 to March 2026 increases from 0.17 to 0.83.

We frame this through another lens in Figure 2, which compares the cumulative returns of the NPI and the FTSE NAREIT Equity REITs Index over a 30-year period. Notably, the returns of the FTSE NAREIT Equity REITs Index are 1) lagged by four quarters to account for the tendency of REIT returns to react sooner to new information and therefore lead direct real estate returns; and 2) delevered as to match the reporting methodology of the NPI, which itself is reported on an unleveraged basis. Charting the data over time shows that while both indices follow a similar trajectory, the additional volatility of REITs is apparent. Additionally, despite comparable cumulative returns over the 30-year period, there are instances where the returns have meaningfully deviated. Such divergence in returns and valuations between direct real estate and REITs is an important concept that we will revisit later.

Figure 2: REITs and private real estate have shown similar returns over the long term

US REITs vs. US private real estate
30-year total return



Source: Bloomberg as of 31 December 2025. REITs = FTSE NAREIT Equity REITs Index. Private real estate = NCREIF Property Index (NPI).

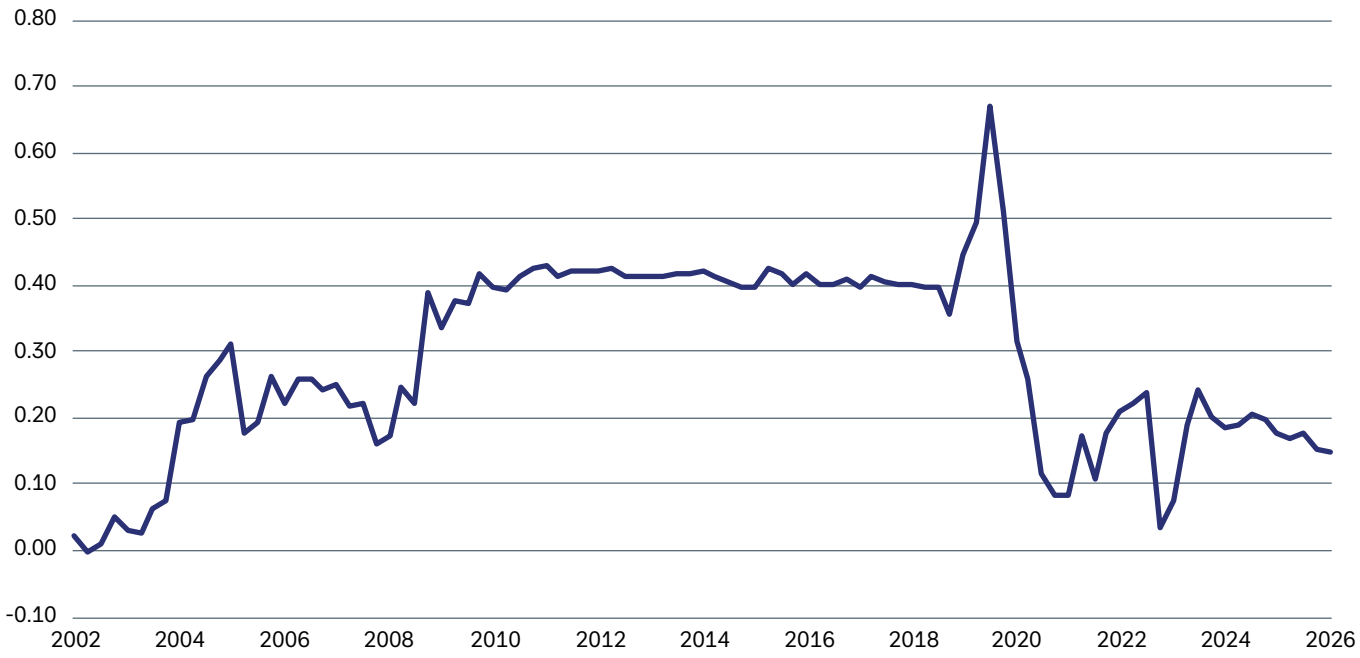
1.2 In what time periods have correlations broken down?

In the long term, the high degree of correlation between REITs and private real estate becomes readily apparent, particularly when applying a four-quarter lag to REITs, as shown in Figure 2. Over shorter periods, however, this relationship can break down between listed (lagged and unlevered) and private real estate. In particular, looking at the time series of US REITs versus US private real estate, the degree of correlation, while almost always positive on a 10-year rolling basis, varied under different macroeconomic and market conditions. Figure 3 illustrates the variation in correlation over time.

Figure 3: Rolling one-year correlations between US REITs (lagged & unlevered) and US private real estate

US REITs vs. US private real estate

One-year rolling correlation



Source: Bloomberg as of 31 March 2026. REITs = FTSE NAREIT Equity REITs Index. Private real estate = NCREIF Property Index (NPI).

In general terms, the correlation time series can be categorised into three or four distinct periods:

1. Pre-Global Financial Crisis (2001 to 2008)
2. Post-Global Financial Crisis (2008 to 2019)
3. COVID-19/Fiscal stimulus/rate cuts (2019 to 2022)
4. Post-COVID (2022 to present).

While care should be taken not to be overly prescriptive in interpreting correlations, these 'regimes' (as shown in Figure 4) are, for the most part, consistent with qualitative assessments of the respective macroeconomic environments.

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Figure 4: 'Regimes' of correlations between US REITs and US private real estate

US REITs vs. US private real estate
Description of correlation regimes

Regime	Time Period	Description
Pre-GFC	2001 to 2008	Technology crash had dragged on listed markets, but privatisation activity drove correlations sharply upward (public/private arbitrage opportunities)
Post-GFC	2008 to 2019	Correlations rose during the GFC, then stabilised due to low interest rate environment
COVID-19, rate cuts, and fiscal stimulus	2019 to 2022	COVID-driven volatility in correlation can be observed ahead of interest rate hike in 2022. It was a period of economic distortion in the data.
Post-COVID inflation and quantitative tightening	2022 to Present	Following rise in interest rates, post-COVID uncertainty remained pervasive; transaction markets came to a halt and struggled to recover

Source: Bloomberg as of 31 March 2026. REITs = FTSE NAREIT Equity REITs Index. Private real estate = NCREIF Property Index (NPI).

Importantly, correlations are relatively low across all periods, but major inflections (2008, 2020, 2022) occurred when REITs repriced quickly to changing market conditions, while appraisal-based private real estate valuations adjusted more slowly, temporarily weakening the observed correlation between the two markets.

1.3 Liquidity: the major culprit behind short-term performance divergence

As previously mentioned, the intraday liquidity offered by REITs is one of their key differentiators compared to direct real estate. When buying or selling direct real estate, it can take considerable time to close a deal. For example, a US$100 million (m) transaction might take months to close from the time a purchase or sale is contemplated until the deal is executed. Direct real estate transactions also carry the additional risk that transactions may not be consummated, even after binding agreements have been reached.

REITs, by contrast, can be bought and sold on an exchange at almost any time. The primary constraint is the daily trading volume of the specific security. For larger investments, positions may be bought or sold over multiday periods since investors generally seek to avoid influencing the price of a stock with the sheer volume of their transactions. Buying too much in a single day may drive prices up and affect marginal purchases, while selling too much might depress prices. What constitutes 'too much' depends on trading volume.

We studied trading activity across four major listed REIT indices (both globally and in the US) to gauge daily trading volumes for REITs. In 2025, average daily trading ranged between US$7 billion (bn) and $10bn across these indices (see Figure 5). In the US during this period, daily trading volumes ranged from US$7.7bn to $9.4bn across three representative US REIT indices. The FTSE EPRA NAREIT Developed Index, a common global REIT index which has broader coverage, traded about US$9.5bn on average each day. Trading volumes across global indices vary as index constituents trade on different stock exchanges around the world, each with different trading calendars.

These figures reflect total trading activity across all securities within a particular index. However, unless investors are seeking to replicate a specific index, they are typically more concerned with the liquidity of individual securities or a limited set of stocks in which they wish to transact. Liquidity can vary widely within an index, with larger-cap REITs generally exhibiting greater liquidity than smaller-cap names, and can also fluctuate from day to day. For example, liquidity may increase around earnings announcements, company-specific news, or macroeconomic events, and may decline during certain holiday periods.

Using the FTSE NAREIT Equity REITs Index as a sample population, the most liquid REIT averaged US$497m of daily trading in 2025, while the least liquid traded at a daily average of US$630,000. The daily volume of an individual stock an investor can trade without affecting stock prices depends on their trading expertise and broker relationships. Institutional investors may be able to transact up to 10-20% of daily volume without affecting prices. Investors can exceed these levels if they are willing to accept higher purchase prices or lower sales proceeds, but a well-executed trading strategy is essential to preserve market integrity while maximising returns.

In addition to open market purchases, REIT shares may be acquired through primary issuance, although these opportunities are less frequent and predictable. They include participating in an issuer's initial public offering (IPO), buying shares in a follow-on or overnight offering, or acquiring shares via an issuer's at-the-market (ATM) offering. Participation may be limited by the size of the offering, total demand, or issuer needs. This activity is not captured in exchange trading volumes, but it may support secondary market liquidity in the near term, depending on the type of issuance.

Figure 5: Liquidity of REITs

US and global REIT indices
2025 daily trading volume (US$bn)

	FTSE Nareit Equity REITs Index	FTSE Nareit All Equity REITs Index	MSCI US REIT Index	FTSE EPRA Nareit Developed Index[1]
Average	$8.1	$9.4	$7.7	$9.5
Maximum	$21.9	$24.1	$19.3	$25.9
Minimum	$3.1	$3.5	$3.3	$1.0

Source: Bloomberg, FactSet and Deutsche Asset Management as of 31 December 2025.
(1) Excludes Sundays and US stock exchange observed holidays.

1.4 Liquidity and capital markets access: a full menu of financing options in periods of tighter liquidity

Listed REITs are also able to leverage a wide range of funding sources throughout the market cycle, with broad and flexible access to capital markets. Since the Global Financial Crisis, REITs have proactively deleveraged and extended debt maturities, positioning themselves to take advantage of market opportunities during downturns.

US private real estate funds also have multiple funding levers. Debt financing is typically sourced through secured property-level loans from banks, insurance companies, and private lenders, supplemented in some cases by fund-level credit facilities, CMBS, mezzanine debt, and preferred equity. These sources can be effective, but are often less liquid, more structure-dependent and, in many cases, more costly than the financing available to large, investment-grade listed REITs. Figure 6 compares financing access between listed REITs and private real estate funds.

Figure 6: Comparison of financing between a listed REIT and a private real estate fund

	Public REIT	Private real estate fund
Equity Capital	Public equity markets (IPOs, secondary offerings, ATMs, forward equity)	Institutional investors, HNWIs, co-investments, joint ventures
Debt Capital	Unsecured bonds, revolving credit lines, term loans and bank facilities	Bank loans, insurance company financing, private debt funds, CMBS
Hybrid Instruments	Preferred shares, convertible bonds, OP units	Preferred equity, mezzanine debt, convertible debt
Cost of Capital	Often lower for large, liquid, investment-grade REITs due to transparency, scale, ratings and access to unsecured bond markets	Often higher and more asset/security-specific; however, large core funds can still access competitive secured debt, and private credit can be flexible though typically return-seeking
Flexibility	Generally high: multiple capital channels, unsecured debt, public equity and ability to recycle capital through dispositions	More constrained–dependent on fund documents, investor commitments, redemption terms, gates/queues, asset-level security and lender requirements
Liquidity	High–daily trading and access to public markets	Typically lower–capital can be locked in for specified periods with fewer redemption windows
Use of Unsecured Debt	Common; around 80% of listed REIT debt has recently been unsecured	Less common–most debt is secured by specific assets

Source: Deutsche Asset Management

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1.5 Observations about leverage across private and listed real estate markets

Deleveraging since 2022

Since 2022, listed and private real estate markets have navigated a higher-rate environment, weaker transaction activity, and a broad reset in property values. In private markets, average leverage–historically around 22% for NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE) funds–rose to approximately 27% in 2024 and has remained around that level, driven largely by the denominator effect as asset values declined. That valuation-driven uplift appears to have stabilised as private-market valuation declines moderated in 2024, helping to halt further upward pressure on leverage. While current leverage remains below the 35% ODCE cap, it is still above historical norms, reflecting the impact of the rate-hiking cycle on asset values.

Leverage also varies meaningfully by private-market strategy. As shown in Figure 7, core ODCE funds remain relatively conservative, with leverage since 2000 ranging from roughly 15% to 34%, although higher-risk strategies typically operate with materially more debt. Core-plus strategies typically employ moderate leverage, often around 40–60% LTV, while opportunistic funds may use materially higher leverage, commonly around 60–80% LTV, depending on the strategy, asset type, business plan, and debt market conditions.

In public markets, REITs also experienced a modest increase in leverage (debt/market assets), reaching around 33% in 2024 and remaining in the mid-30% range, but still well below levels seen during the Global Financial Crisis (Figure 8). Importantly, debt-servicing metrics have remained resilient, with interest expense to net operating income at approximately 22.5% in Q4 2025 (Figure 9). REITs' generally disciplined balance sheet management, including a preference for fixed-rate, longer-duration debt, has helped mitigate the impact of higher interest rates and maintained financial flexibility through a more volatile market environment.

Figure 7: Leverage ratio

NFI ODCE vs. US REITs since 2000

NFI ODCE				US REITs			
Average[2]	Bottom	Top	20243	Average[2]	Bottom	Top	2024
22%	15%	34%	27%	38%	26%	65%	33%

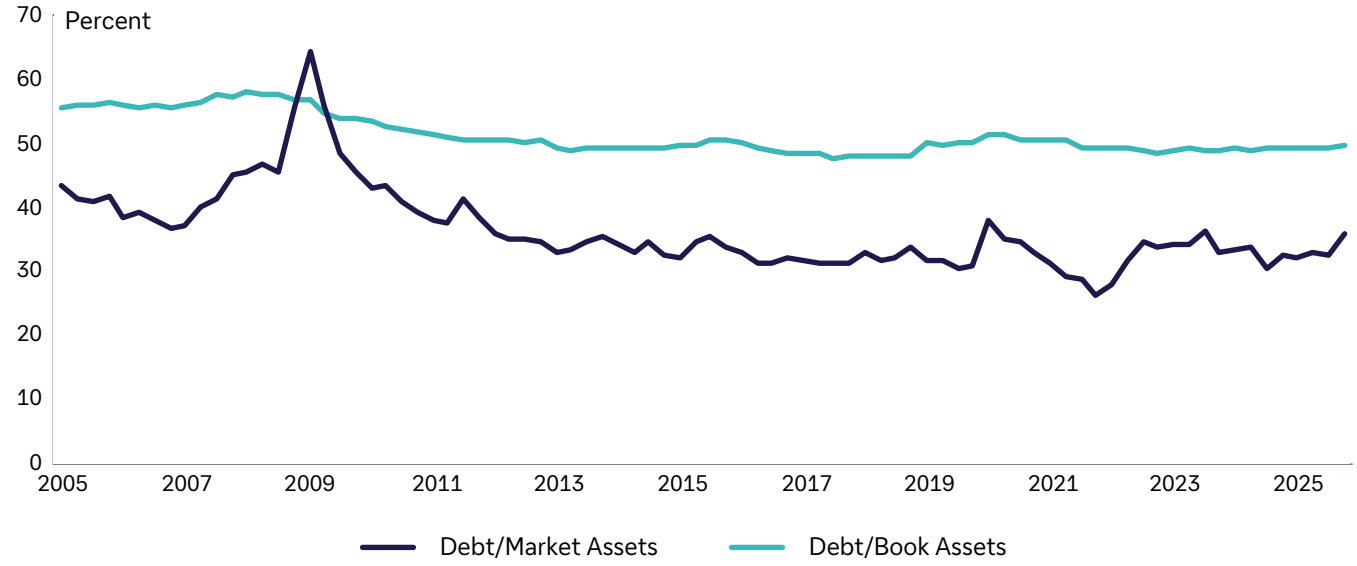
Source: NCREIF, NAREIT US REIT Industry Tracker. As of 31 March 2026 unless otherwise stated.
(2) Average, bottom, and top refers to quarterly since 2000, through Q1 2026.
(3) NFI ODCE based on average of Q1 and Q3 2024.

[2] NFI-ODCE refers to the NCREIF Fund Index–Open End Diversified Core Equity, a capitalisation-weighted, gross-of-fee, time-weighted return index represent-ing open-end diversified core real estate funds.

[3] NCREIF ODCE inclusion criteria–reflected in index methodology and industry documentation–limit leverage to approximately 35% of total assets.

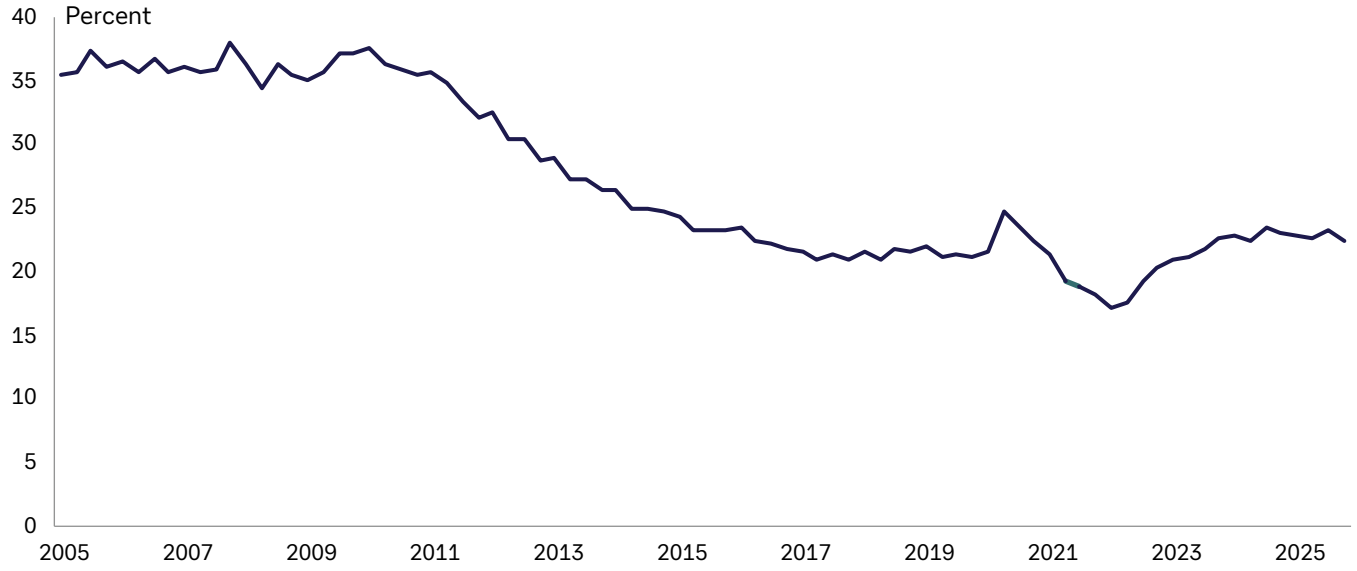
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Figure 8: US REIT debt to book and market assets



Source: S&P Capital IQ Pro, Nareit REIT Industry Tracker, as of 31 December 2025.

Figure 9: US REIT interest expense to net operating income



Source: S&P Capital IQ Pro, Nareit REIT Industry Tracker, as of 31 December 2025.

Unsecured debt and fixed interest rates

REITs have continued to benefit from conservative debt structures, particularly their use of fixed-rate, unsecured, and longer-duration capital. This has helped cushion the impact of higher interest rates, even as asset values, transaction activity, and refinancing markets have adjusted through the cycle.

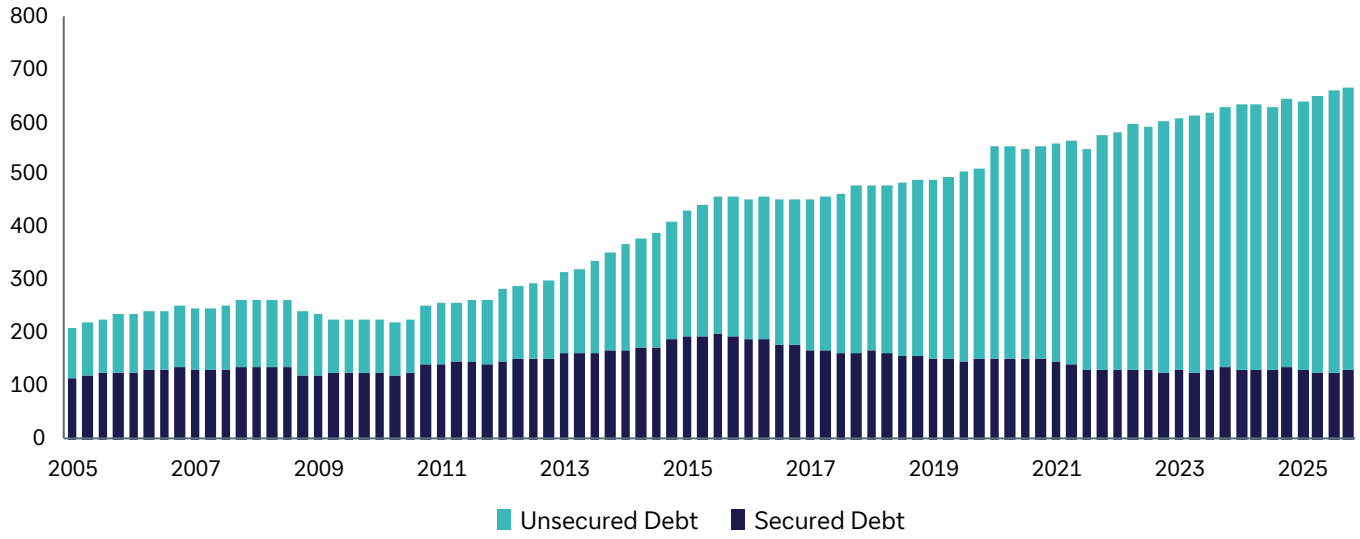
Tight bond market access provides flexibility

Public REITs continue to benefit from access to unsecured bond markets, providing greater funding flexibility than many private-market borrowers, where financing is often more asset-level, secured, and lender-dependent. As of Q4 2025, around 80% of REIT debt was unsecured (Figure 10).

This broader capital toolkit–unsecured debt, equity, preferreds, and convertibles–can support refinancing, acquisitions, and development when private-market credit is more constrained.

That said, unsecured debt is still enterprise-level debt. Weaker credits, challenged sectors, and issuers with near-term maturities can still face refinancing pressure if rates remain elevated or asset values weaken further.

Figure 10: US REIT unsecured and secured debt



Source: S&P Capital IQ Pro, Nareit REIT Industry Tracker.

Fixed vs. floating debt

In recent years, the interest rate exposure of real estate vehicles has been shaped by differences in capital structure and debt management practices. NCREIF does not provide a published breakdown of fixed versus floating rate debt for NFI ODCE funds. However, given the index's low leverage and the common use of fixed-rate financing and interest rate hedging among core open-end funds, effective interest rate exposure is generally oriented toward fixed or hedged structures.

Public REITs have also maintained a relatively conservative debt profile in recent years. As of Q4 2025, approximately 89% of listed REIT debt was fixed-rate, around 80% was unsecured, and the weighted-average maturity was approximately six years. Importantly, many REITs benefited from having termed out debt ahead of the 2022–23 rate-hiking cycle, which helped limit the near-term pass-through of higher short-term rates.

That said, this benefit is not uniform across the sector. Office landlords, lower-rated issuers, more capital-intensive sectors,

[4] Nareit REIT Industry Tracker, and Deutsche Asset Management analysis, as of 31 December 2025.

and companies with near-term maturities may still face elevated refinancing pressure, particularly where asset values, leasing conditions, or capital market access are more challenged. Overall, however, listed REITs' long-duration, predominantly fixed-rate debt profile has provided a meaningful buffer through the higher-rate environment.

Offence vs. defence

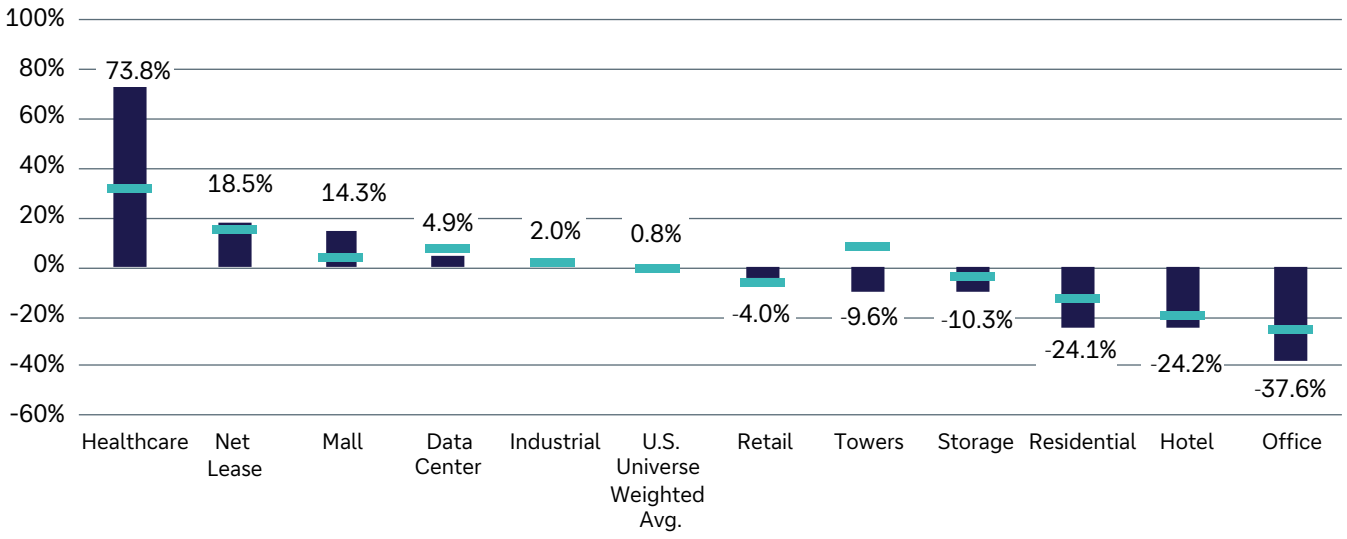
As relatively low-leverage market participants with access to multiple sources of capital, many public REITs appear well placed to pursue acquisitions and strategic growth opportunities as market conditions improve. Public REITs have typically benefited from access to unsecured corporate debt markets, which can offer attractive financing costs and greater flexibility than asset-level secured lending, with the tradeoff that lender claims can extend to other assets beyond the collateral if the loan goes into default.

This capital access may provide an advantage where private-market participants face tighter credit availability, higher funding costs, or greater reliance on secured asset-level financing. Opportunities can include asset acquisitions, joint ventures, and M&A. Recent examples include Extra Space Storage's merger with Life Storage, Welltower's acquisition of NorthStar Healthcare Income, and CareTrust REIT's acquisition of Care REIT plc. More recently, Public Storage's proposed acquisition of National Storage Affiliates highlights how scaled REITs can use balance sheet capacity, equity currency, and broader capital access to pursue strategic growth when opportunities emerge. More broadly, REITs' relatively conservative leverage profiles and access to unsecured debt, equity, third-party capital, and joint ventures can allow them to move early in real estate market recoveries. That advantage is not universal: weaker credits, challenged sectors, and companies with near-term refinancing needs may still face capital constraints.

Cues from REIT NAV

Acquisition activity is also influenced by where REITs trade relative to NAV. Sectors trading at premiums, such as healthcare, triple net lease, and towers, are more likely to be active buyers, while those at discounts tend to be more cautious. REITs are increasingly adopting 'capital-light' strategies, leveraging their operating platforms and external capital to fund growth efficiently.

Figure 11: NAV premium/discount by sector



Source: For illustrative purposes only. Deutsche Asset Management, FactSet, NAREIT. As of 31 March 2026.

5 Source: Company announcements and filings: Extra Space Storage / Life Storage merger completed 20 July 2023; Welltower affiliate / NorthStar Healthcare Income acquisition announced 29 January 2025 and completed 9 June 2025; CareTrust REIT / Care REIT plc acquisition announced 11 March 2025 and com-pleted 12 May 2025; Public Storage / National Storage Affiliates proposed acquisition announced 16 March 2026, expected to close in Q3 2026 subject to ap-provals and customary closing conditions.

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2. Strategic benefits of REITs

2.1 REITs expand the real estate opportunity set

REITs can offer diversification benefits within an overall real estate allocation. REITs typically own multiple properties, such that owning a single REIT may provide exposure to multiple assets. A REIT may offer a specific property type or geographic focus, but by combining REITs, an investor can access almost any property type across many geographic locations. This level of diversification may not be available to direct real estate owners without significant pools of capital.

For example, imagine a pension fund looking to add office exposure to its portfolio. Buying a single office building in the direct real estate market could be prohibitively expensive, take months or years to complete, and would provide exposure to a single asset in one location, resulting in concentrated risk exposure. Alternatively, the pension fund could deploy capital immediately by purchasing a single or a combination of office REITs, providing exposure to multiple office buildings. The associated risk would be spread across multiple properties, locations, and tenants. Further, since REITs are more accessible than direct real estate, the fund could invest a more modest amount that better targets their allocation needs. With fractional share ownership widely available, the minimum investable amount for a REIT is very small.

Investing in REITs may also provide access to a broad and evolving range of property types. While private real estate funds can offer diversified sector exposure and specialist asset management capabilities, listed REIT markets present a liquid and scalable way to access both traditional and specialist sectors, including office, industrial, residential, retail, healthcare, self-storage, data centres, senior housing, and other operationally intensive property types.

Individual REITs are often sector-focused, which can give investors targeted exposure to specific property types, operating models, and management platforms. At the portfolio level, however, a diversified REIT allocation can broaden sector access and allow investors to adjust exposures more dynamically than is typically possible in direct real estate markets. This can be particularly useful where specialist assets require dedicated operating platforms, where direct acquisition opportunities are limited, or where transaction sizes and asset availability make diversified direct ownership more difficult to achieve.

To illustrate this point, we first compared the composition of the NPI, introduced in the correlation section, with the FTSE NAREIT All Equity REITs Index, a diversified US listed REIT index.

Figure 12 shows the breakdown by property type across US private real estate and US listed REITs.

> **REITs can offer diversification benefits within an overall real estate allocation... and provide access to a broad and evolving range of property types.**

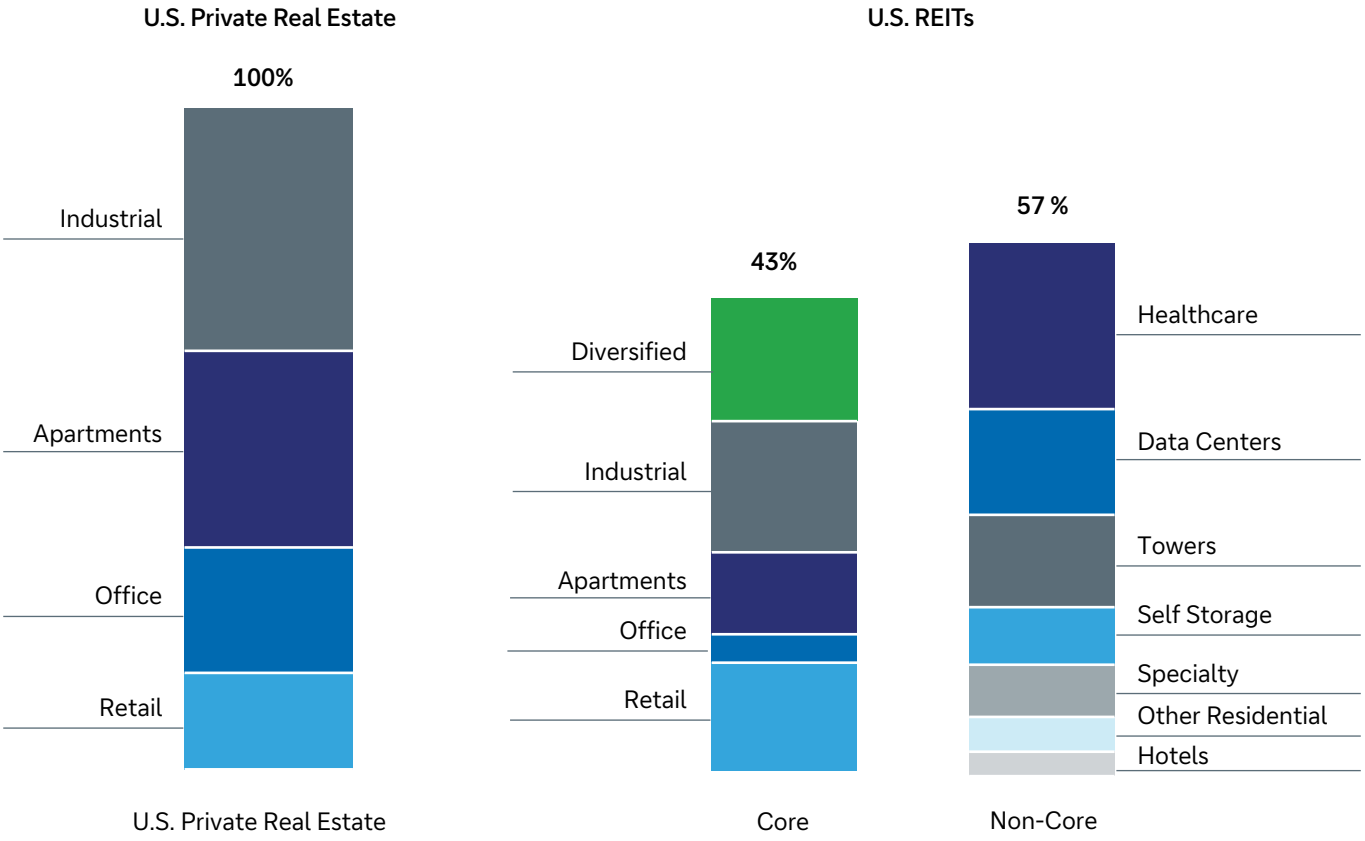


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Figure 12: REITs provide access to non-core property types

US private real estate vs. US REITs
Diversification by sector



Source: NAREIT, NCREIF as of 31 December 2025. US REITs = FTSE NAREIT All Equity REITs Index. US private real estate = NCREIF Property Index (NPI).

While there are some important methodological differences–for example, the NPI is weighted by property values, while the FTSE NAREIT All Equity REITs Index is weighted by market capitalisation–the comparison reveals meaningful differences in sector composition.

If we consider the core property types represented in the NPI–apartments, office, industrial, and retail–these sectors comprise only 43% of the FTSE NAREIT All Equity REITs Index. The addition of a fifth category, 'diversified', captures REITs that own assets across more than one core property type, such as a company with both office and industrial exposure. The key takeaway is that 57% of the FTSE NAREIT All Equity REITs Index is represented by property types not found in the NPI, highlighting the broader listed real estate opportunity set. We have categorised these as non-core or specialist property types, including self-storage, healthcare facilities, data centres, towers/infrastructure REITs, timber, and other residential and specialty REITs such as gaming.

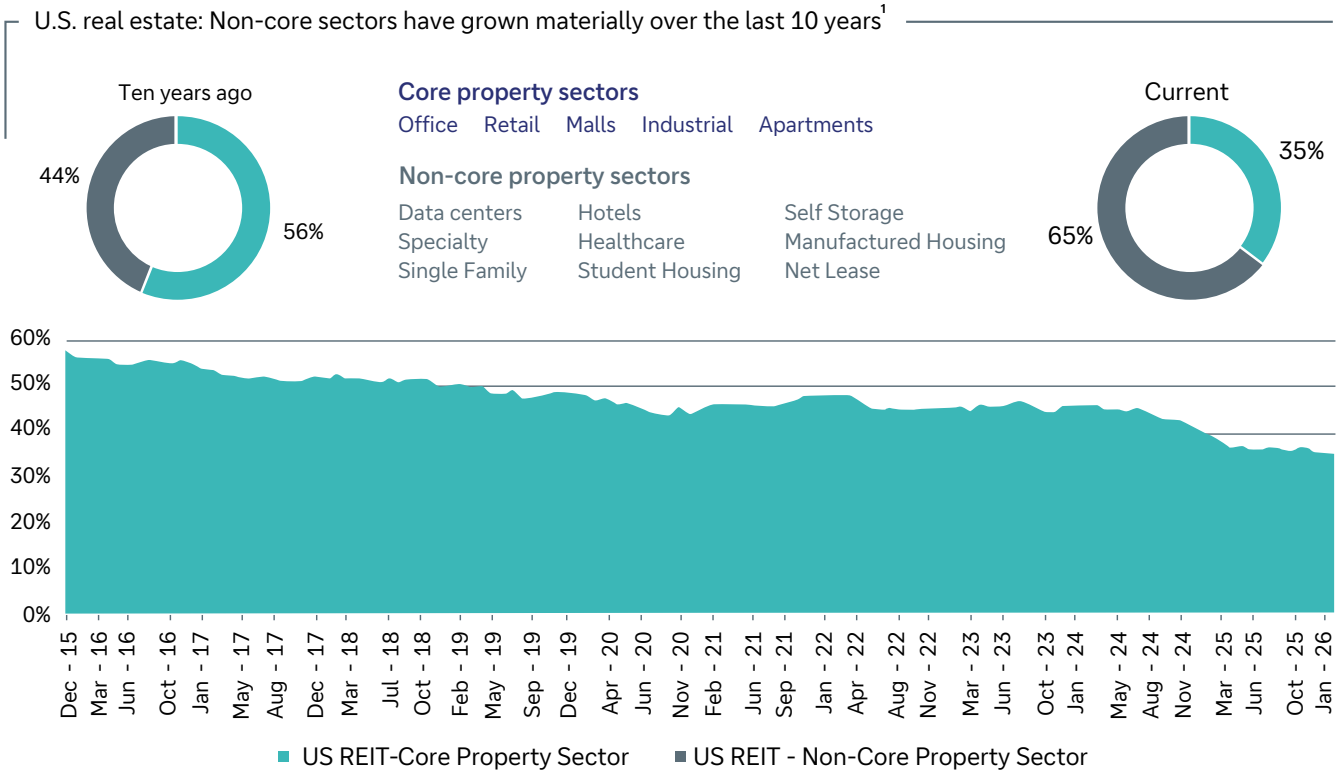
Furthermore, some of these property types can be further broken down into more specialised sub-categories. For example, 'other residential' includes student housing, manufactured housing, and the more nascent single-family rental sector. While private real estate investors can and do access specialist property types, these opportunities may be less consistently available across markets, may require dedicated operating platforms, or may be more difficult to diversify across at scale. In this context, listed REITs can serve as a complementary allocation, providing liquid exposure to a wider set of specialist sectors and business models than may be readily available through a traditional core private real estate portfolio.

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We also considered whether this broader opportunity set is evident outside the US. For this global comparison, we used the MSCI Global Quarterly Property Fund Index, a newer index launched in December 2007, to represent global direct property, and the FTSE EPRA/NAREIT Developed Index to represent listed real estate. This analysis comes with some caveats: 4.7% of the MSCI index is unclassified, representing a small amount of exposure to non-core direct property. The overlap in core property composition is more pronounced than in the US example, with 62% of the listed real estate index comprising core property sectors. However, the remaining 38% still provides exposure to non-core property types, reinforcing the broader point that listed real estate can expand the investable universe beyond the traditional private market opportunity set. It is also worth noting that timber and tower REITs are not represented in the FTSE EPRA/NAREIT Developed Index, meaning these categories may offer additional off-benchmark investment opportunities.

Returning to the US market, we also reviewed the evolution of sector composition using the MSCI US REIT Index, a commonly used benchmark for US listed equity REIT exposure. Although separate from the FTSE NAREIT All Equity REITs Index used in Figure 12, the MSCI US REIT Index provides a useful additional data point given its relevance in the US REIT market. Differences in index provider, eligibility rules, constituent count, and sector classification approach mean Figure 13 should be viewed as supporting evidence of the same structural trend, rather than a direct continuation of the Figure 12 comparison. Over the past decade, the weight of non-traditional property sectors within the MSCI US REIT Index has grown meaningfully, with these sectors now making up roughly two-thirds of the index. For investors seeking exposure to specialised and potentially difficult-to-replicate property types, REITs can provide a simple and liquid way to access areas such as data centres, specialty properties, and other emerging real estate business models.

Figure 13: US real estate: Non-core sectors have grown materially over the last 10 years

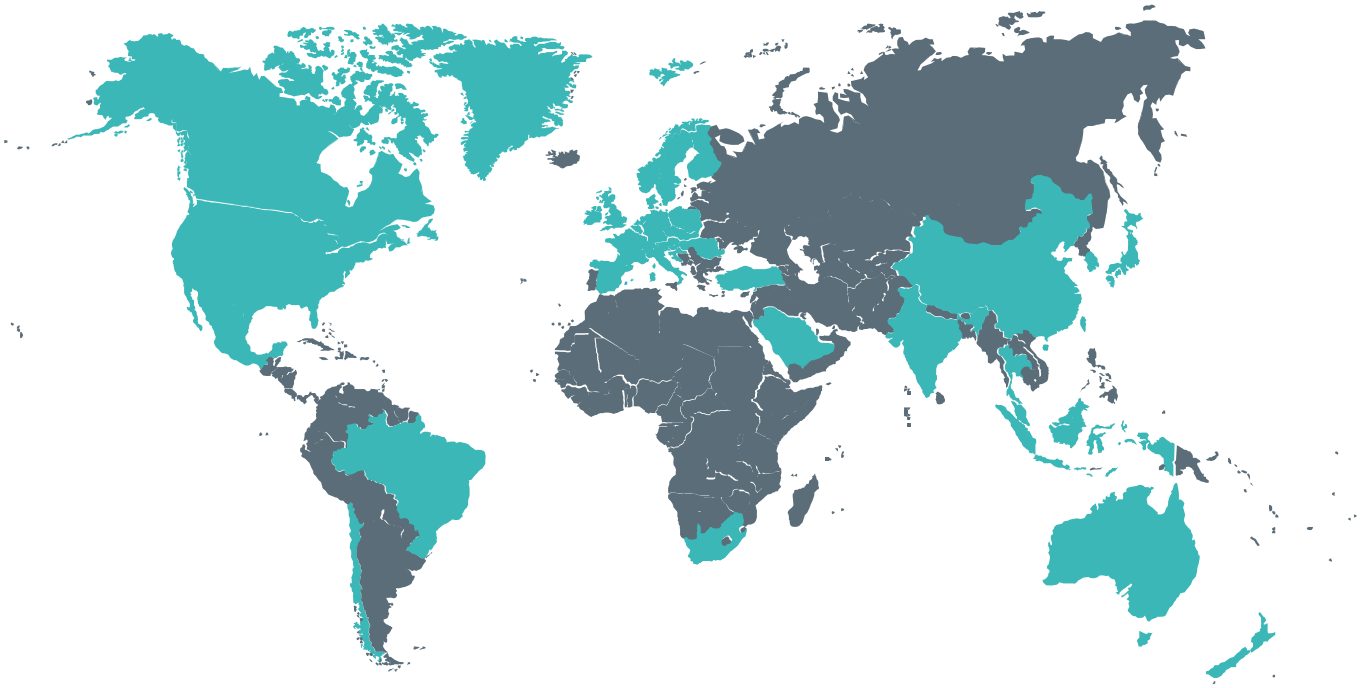


Source: For illustrative purposes only. Deutsche Asset Management, FactSet, NAREIT, MSCI. As of 31 March 2026.

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Finally, REITs can offer additional diversification benefits by geography. Some REITs may focus their ownership on a specific region, country, or city, while others have more expansive portfolios. When viewed collectively, REITs' reach is virtually global. There are REITs domiciled in the US that own assets in South America, Europe, Asia, Australia, and Africa. Figure 14 shows the countries of domicile of the REITs included in the FTSE EPRA/NAREIT Global Index, one of the broadest REIT indices available. While REITS do not necessarily own assets in their country of domicile (though this is true for many), the list represents countries where REIT or REIT-like legal structures are available and where their shares are traded.

Figure 14: Country breakdown of FTSE EPRA/NAREIT global index



Listed real estate is available in ~38 countries worldwide

Source: For illustrative purposes only. Deutsche Asset Management, FactSet, NAREIT. As of 31 March 2026.

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2.2 Exploit REIT diversification benefits to achieve target mix

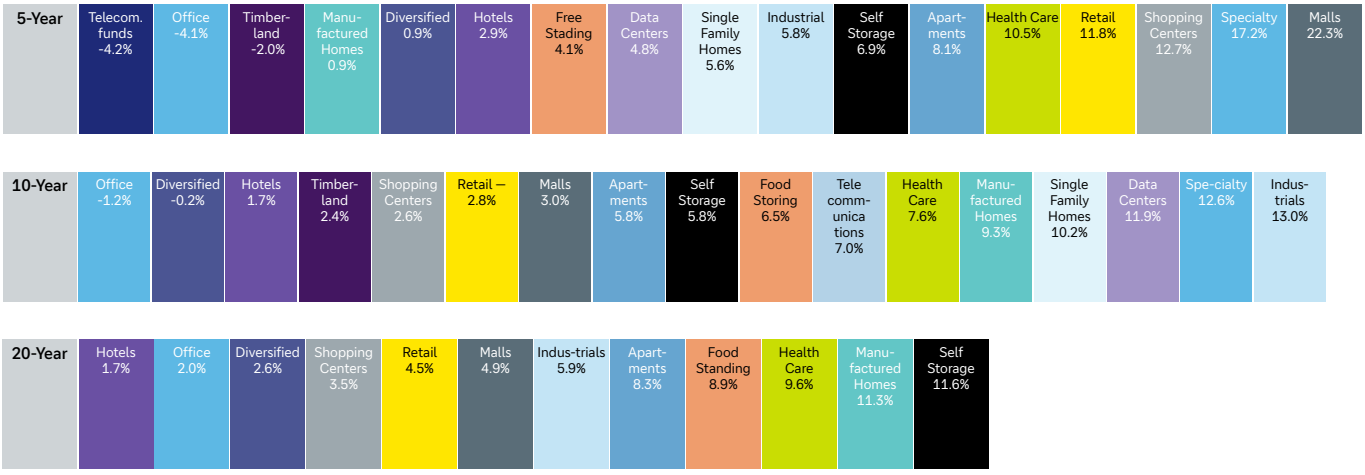
REITs can also be used in conjunction with direct real estate on a long-term basis to achieve a desired geographic and property type mix. An investor may own or contemplate owning direct real estate assets, which might be concentrated in a specific region or property type as real estate investors often specialise in certain geographies or sectors. If the investor is based in the Asia-Pacific region and predominantly owns direct assets in Hong Kong and Singapore, they may seek diversification via investments in other regions. If the investor prefers global real estate exposure but lacks expertise outside their home market or the ability to scale, REITs can offer exposure to their desired regions, such as Europe or the Americas in this case. Given the large number of countries from which REITs are available (see Figure 14 for reference), this strategy can apply both at the regional level and to gain country- or even city-level exposure in some instances. With a wide range of REIT indices and securities available, this level of customisation to meet a specific target mix can be highly granular.

REITs may be used in a similar way to meet a target mix of property types. If an investor's direct real estate assets primarily include office and apartment assets, but they seek wider diversification by property type, then REITs can offer exposure to industrial, retail, healthcare, or other property types. REITs can be combined with direct real estate, not only to diversify by property type, but to also concentrate exposure to a specific property type for long-term strategic purposes. Figure 15 shows the annualised return by property type of the FTSE NAREIT All Equity REITs Index for the five-, 10-, and 20-year periods.

Structural growth sectors such as industrial, data centres, specialty assets, and residential rental have led performance over the past decade, supported by e-commerce, digital infrastructure demand, and favourable housing affordability dynamics. Office remains the consistent laggard, pressured by hybrid work and weaker tenant demand. Retail has been more nuanced: malls and shopping centres have delivered a strong five-year rebound, but longer-term performance remains comparatively muted, reflecting the lasting impact of changing consumer behaviour and the uneven recovery across retail formats.

REITs can provide investors with long-term exposure to property types that may not be within their area of expertise and/or geographic focus.

Figure 15: Five-, 10-, and 20-year annualised returns by property type[4]



Source: NAREIT, Bloomberg as of 31 December 2025.
(4) Not all property types have been in the FTSE NAREIT All Equity REITs Index for all the time periods shown.

2.3 allocation Efficiently deploy capital with REITs to complete a real estate

REITs may help to temporarily complete real estate allocations while capital is being deployed into private properties. As mentioned earlier, direct real estate transactions can take considerable time to complete, even when acquisition targets are identified and under contract. Estimating the time required to build out a direct real estate portfolio when specific assets have not yet been sourced is even more challenging, and if target markets and property types have not yet been determined, the task is further complicated.

In addition, a range of issues may arise while acquiring direct assets that are outside the investor's control. For example, there could be insufficient supply in a given market, or the assets might not meet the investor's quality requirements. Negotiating a price requires agreement from both the buyer and seller, while due diligence may uncover material issues or prompt either party to reconsider the deal. Debt financing challenges or adverse market conditions could also derail a transaction. By contrast, REITs can be purchased daily and serve as a temporary allocation tool, providing real estate exposure until direct real assets are acquired. This way, investors are able to reach target allocations more quickly than through direct real estate acquisition alone.

One note of caution regarding this strategy is that returns from direct real estate and REITs can diverge over the short to medium term. We previously showed that REITs exhibit real estate-like behaviour over the long term but tend to display greater volatility in the short term. Markets can change quickly, and listed securities are often among the first to be affected. As such, while REITs may serve as a proxy for direct real estate, investors still need to manage near-term liquidity to ensure sufficient cash is available to meet funding needs. For example, if US$10m is required to close a direct real estate deal one month from now, it may be too risky to invest that amount in marketable equity securities over such a short timeframe. However, if cash needs are months or years away, REIT exposure may be appropriate to achieve the desired asset allocation.

In addition, REITs can issue debt and preferred securities alongside common equity. These fixed income-like instruments may be registered and traded on major exchanges, offering different income, volatility, and risk profiles. While still subject to daily market pricing, these securities may offer a higher level of income with less volatility than common REIT equity, though generally at the expense of lower potential for capital appreciation. Thus, an investor could combine private real estate with REIT debt and preferred securities (with or without common equity REITs) in order to de-risk their overall real estate portfolio. More broadly, customised solutions to target a desired risk profile across a real estate allocation may include private equity, private debt, public equity, and public debt. The use of debt (private or public) can also help match anticipated future cash flow liabilities, though any debt instrument is only as good as the ability of the borrower to fulfil their payment obligations.

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3. Dynamic REIT allocations

While it is clear that REITs support long-term real estate investment objectives, they can also provide investors with access to tactical opportunities that are absent from the direct real estate market or inaccessible through direct real estate products. In the following section, we explore how the dynamic nature of REITs can create additional value.

3.1 Capitalise on tactical opportunities with REITs

REITs also enable tactical adjustments to an overall real estate allocation. If an asset allocator needs to temporarily increase or decrease their overall real estate allocation, REITs can help settle this quickly and efficiently due to their daily liquidity. For example, if an investor decides to increase (or decrease) their overall real estate allocation by 2% for the next two years, it may not make sense for them to acquire (or dispose of) direct real estate given the long lead time required to finalise a deal and the associated, often substantial, transaction costs.

By contrast, REITs offer daily liquidity (as shown earlier) with minimal transaction costs. The desired allocation shift could be achieved in a matter of days or weeks by purchasing (or selling) REITs while the direct real estate portion of the overall portfolio remains intact to meet longer-term strategic needs. This ability to adjust real estate exposure in a relatively quick and cost-effective way provides investors with a mechanism for dynamic reallocation.

REITs can also serve as a liquidity buffer within an otherwise less liquid portfolio. For instance, if liquidity concerns arise due to unforeseen circumstances, REITs could be sold almost immediately to raise cash, giving investors more time to assess how to optimally allocate their less-liquid assets.

In addition, REITs may be used tactically to adjust exposure to a particular property type or geographic region. If an investor has high conviction that office properties will outperform the broader real estate market over the next 18-24 months, they can use listed office REITs to quickly increase exposure to office buildings. Given the limited and dynamic timeframe of this view, it would be risky and costly to pursue direct office properties, considering the time required to close deals and the transaction costs involved (as noted above). Property types can come into (or fall out of) favour over short periods, often faster than it takes to build, acquire, or dispose of direct real estate assets. Figure 16 illustrates the return dispersion across property types of the FTSE NAREIT All Equity REITs Index for 2025, while Figure 17 highlights the range of sector returns over the 2008 to 2025 period. Taken together, these highlight the wide dispersion of returns within and across property types and sectors in any given calendar year.

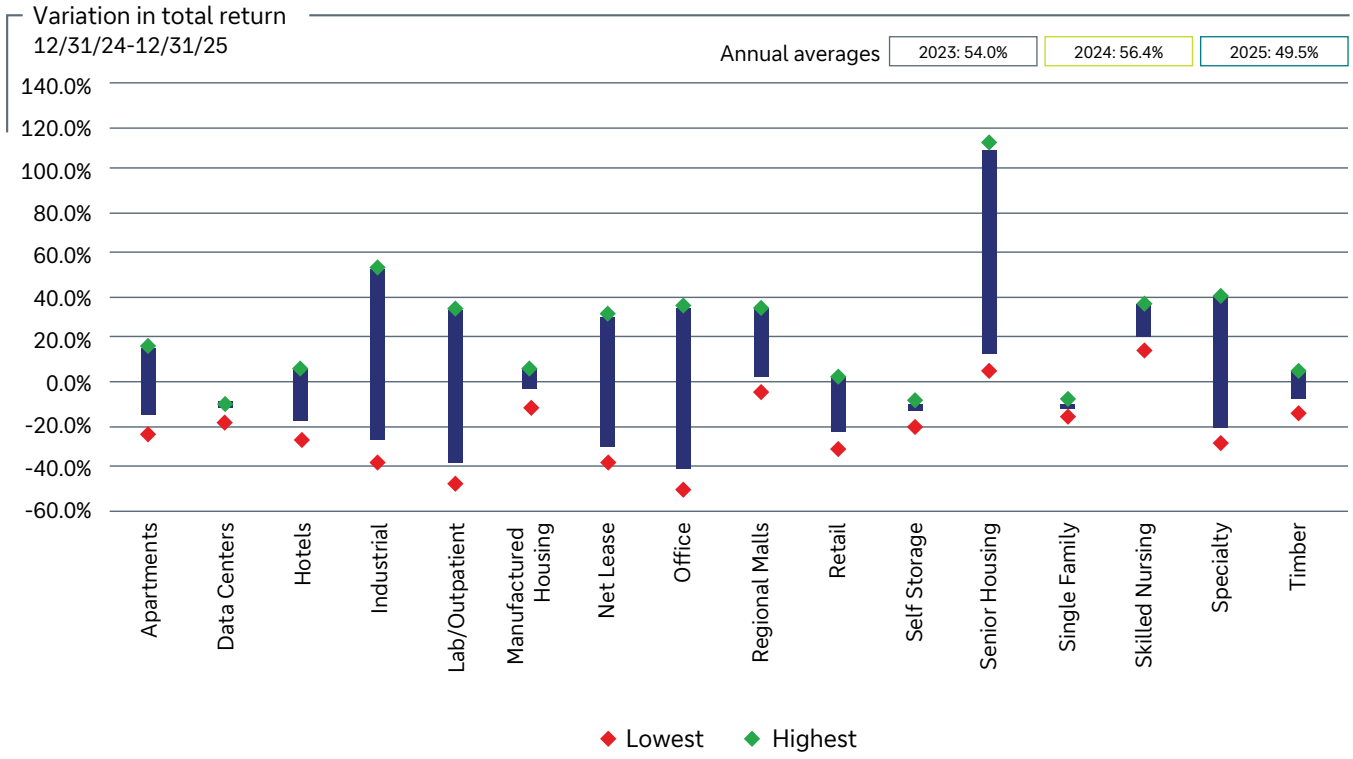
> **The dynamic nature of REITs can create additional value provid-ing investors with access to tactical opportunities.**



JUSTIN MILLER
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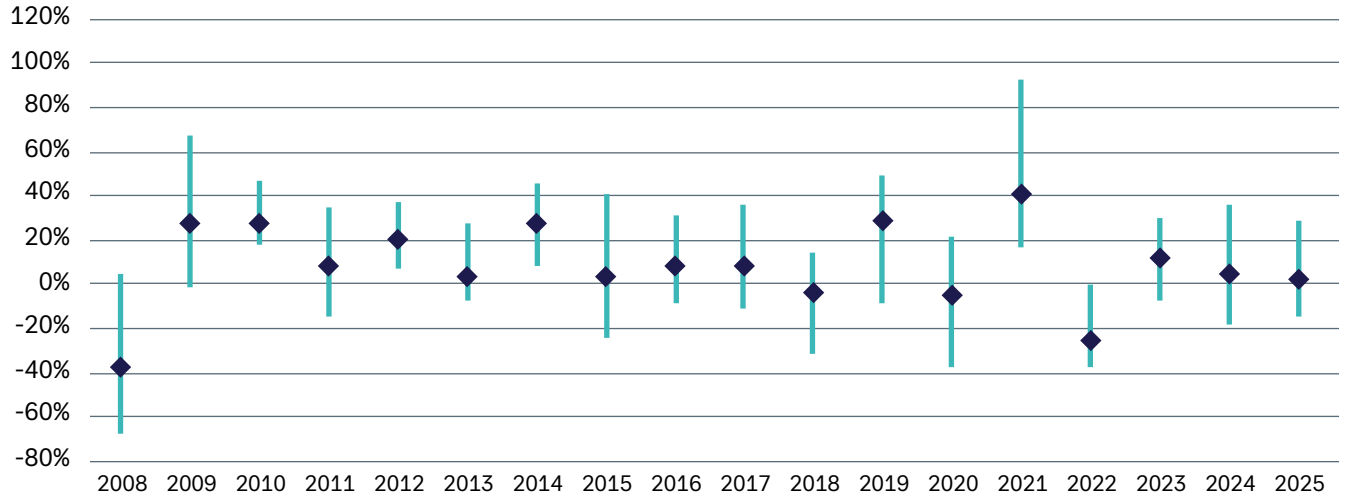
Figure 16: Return dispersion across property sectors for US REITs in 2025



Source: Bloomberg, Deutsche Asset Management as of 31 December 2025.

Past performance is not a guarantee of future results. The US real estate securities investible universe is defined here as the constituents of the FTSE NAREIT All Equity REITS Index. It should be noted that the strategy itself may invest in off-benchmark securities. This information is for illustrative purposes only and shows the opportunity for performance improvement within each sector. No inference is made that an investment in Deutsche Asset Management will achieve performance results similar to those shown.

Figure 17: Annual return dispersion across property sectors for US REITs



Source: NAREIT, Bloomberg as of 31 December 2025. Not all property types have been in the FTSE NAREIT All Equity REITs Index for the time period shown.

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By measuring the difference between the best- and worst-performing property types, we can quantify this range. Over the period shown in Figure 17, this annual property type performance differential has ranged from a low of 29% in 2010 to a high of 76% in 2021. It is also worth noting that each property type return is the market-cap-weighted average return of all REITs within the representative sub-index. Therefore, each property type sub-index may also see a significant dispersion among its individual securities. For instance, within the listed apartment property type in 2021, which returned 64% as a group, the top-performing stock delivered a 159% return while the worst performer had a 46% return–a difference of 113%. This dispersion, both across property types and among individual stocks within the same property type, creates opportunities for active managers to generate returns in excess of a broader property index.

3.2 REITs offer real estate arbitrage opportunities

Another distinctive characteristic of REITs is that their stock price at any given point is set by the market. This price can be above (premium) or below (discount) the NAV, which is based on the value of the underlying real estate. If an investor can accurately determine the current NAV of a given property stock, this can create an arbitrage-like opportunity or provide insight into the future value of direct real estate.

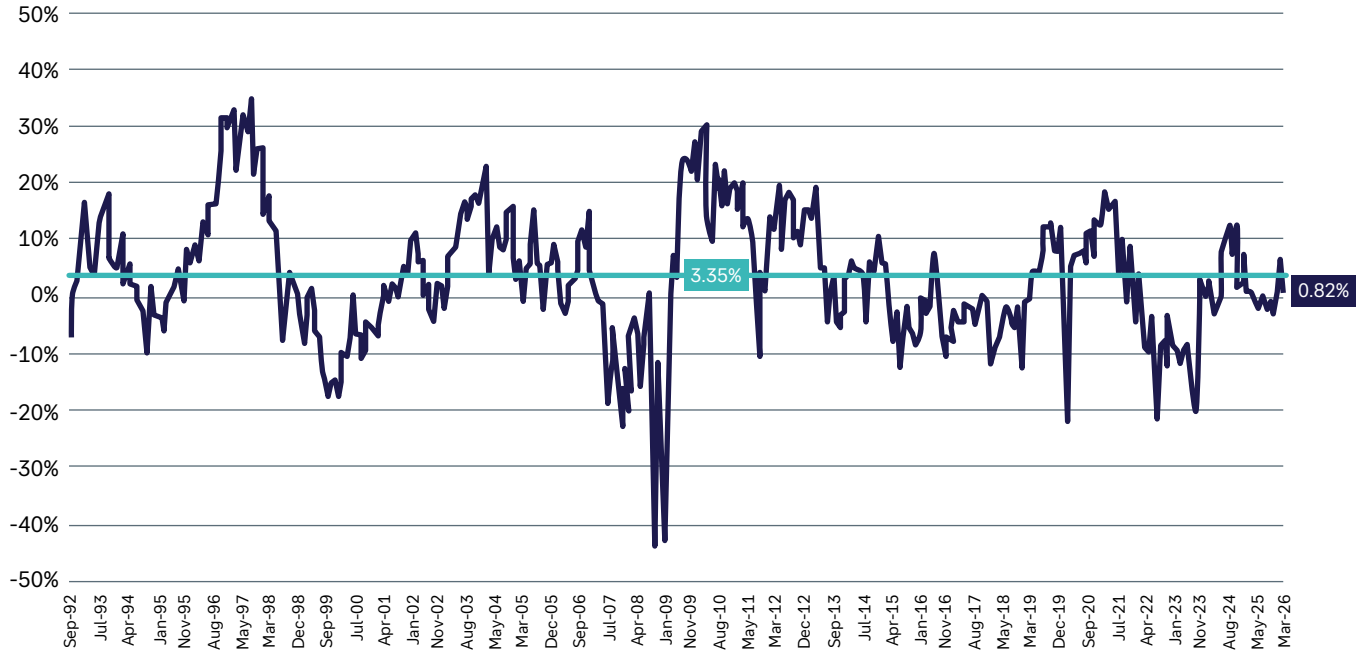
As discussed earlier, the returns and values of REITs and direct real estate are expected to converge over the long run, with REIT returns typically leading the direct property market by about a year. This means that when REITs trade at a premium to NAV, direct real estate values might be on the verge of increasing. Conversely, if REITs trade at a discount to NAV, direct real estate values may decline in the future.

We also noted that stock markets do not always price things correctly–they are prone to overreact (in both directions) when new information becomes available. When REITs trade at a notable premium to NAV, there are two paths back to parity: the valuation of the underlying real estate could increase, or their share price may drop (or both). In either event, the premium to NAV is expected to eventually narrow. The reverse is true when REITs trade at a substantial discount to NAV.

Figure 18 examines the premium or discount to NAV for US REITs since 1992, as calculated by Green Street Advisors. Over this period, REITs have traded at an average premium to NAV of 3.4%. Since direct real estate prices have trended upwards over the past 30+ years and REITs have historically led direct real estate pricing, this long-term premium seems warranted. One could also argue that REIT management teams add value beyond the underlying real estate, through development, value-add properties, and capital markets activity, which is priced into their stocks. For the purposes of this illustration, we assume that a 3.4% premium is a reasonable long-term expectation. Figure 18 also shows that the premium to NAV has reached as high as 34.4% while the discount to NAV has been as low as -43.6%.

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Figure 18: US REITs premium/discount to NAV over past 30 years



Source: Green Street Advisors. As of 28 February 2026.

When the premium or discount deviates materially from the long-term average, this can signal a potential arbitrage opportunity. All else equal, when REITs trade at a wide premium to NAV, an investor may favour selling REITs and increasing direct real estate exposure. When REITs trade at a substantial discount, an investor may prefer purchasing REIT stocks and reducing direct real estate exposure.

However, while the buying and selling of listed securities is relatively straightforward to execute, this is often not the case for direct real estate, as a premium or discount may diminish before transactions can be completed. REITs may themselves pursue similar strategies to take advantage of a pricing mismatch. When a listed REIT trades at a significant premium, it can issue equity (above NAV) and acquire additional real estate at the prevailing market price, which, in theory, should create value for the REIT and raise both its NAV and share price. If the same REIT is trading at a significant discount, it may sell assets at the prevailing market price and buy back its own shares (below NAV), which should also create value. In both cases, however, execution risks remain if the sale and purchase timing do not match up.

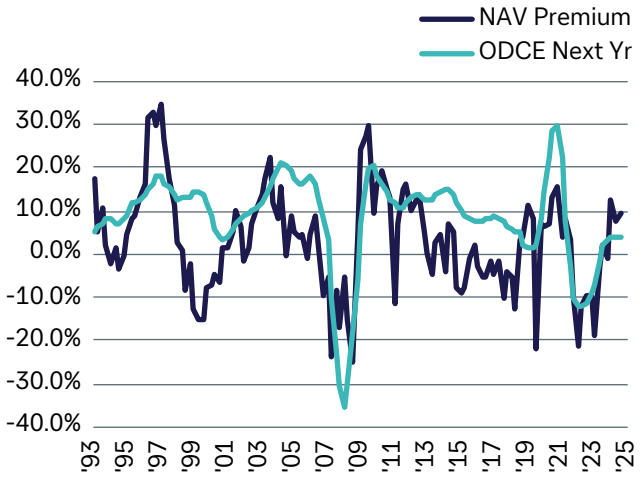
Analysing REIT pricing relative to NAV can also provide insight into potential future returns for the private real estate markets. Figure 19 shows the listed REIT premium or discount to NAV over time and how the NCREIF ODCE performed in the following year. It also presents the forward three-year return of the FTSE NAREIT Equity REITs Index relative to the ODCE.

The data show that REITs have tended to outperform the ODCE over the three-year period following a substantial discount to NAV, and underperformed the ODCE when starting from a significant premium to NAV. The listed REIT premium or discount to NAV has thus been indicative of future relative returns between listed and private real estate. An investor who increased their direct real estate exposure (at the expense of REITs) when the REIT premium to NAV was elevated (e.g., 20% or greater), and reduced their direct real estate exposure (by buying REITs) when the REIT discount to NAV was substantial (e.g., -10% or greater), would have benefitted from these relative return dynamics.

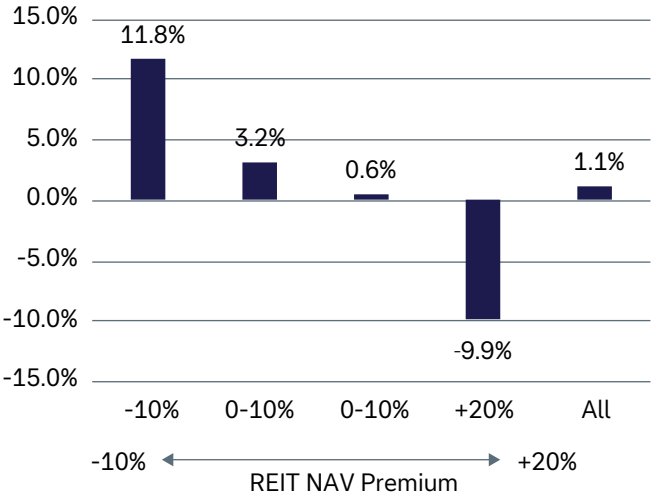
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Figure 19: Signals from the listed market

REIT NAV premiums & ODCE returns



REIT returns minus ODCE next three years
December 1992-March 2025 (annualised)



Public real estate = FTSE NAREIT Equity REITs Index, private real estate = NCREIF Open End Diversified Core Equity Index (ODCE)

Source: Green Street Advisors, NCREIF, Bloomberg, Deutsche Asset Management as of 31 March 2025. Past performance is not indicative of future results. For illustrative purposes only. Index returns do not reflect fees or expenses, and it is not possible to invest directly in an index. There is no guarantee the investment objective can be achieved.

Additionally, there is an important dynamic between private and listed real estate that can occur any time, but is more likely to surface during periods when REITs trade at extreme discounts or premiums. If a listed REIT trades at a discount to the value of its real estate, and a buyer or buyers recognise this and have sufficient capital, they may attempt to take the REIT private to capture the price arbitrage. Conversely, private real estate may be acquired by a listed REIT (which happens frequently), or a sponsor of a private real estate portfolio may place their assets in the public market via an IPO. This is more likely during periods when REITs trade at a substantial premium to NAV, representing another form of price arbitrage.

NAV premiums or discounts can also serve as contrarian market indicators. Figure 20 shows how US REITs have performed, using the FTSE NAREIT All Equity REITs Index, after trading at a significant premium or discount to NAV along with the average rolling one-year, three-year, and five-year returns over a 30-year period.

We first calculated the forward one-year, three-year, and five-year total returns of the REIT index for all periods when REITs traded at a 10% or greater discount at month end and when they traded at a 20% or greater premium. We then compared these to all possible rolling returns of the same duration across this 30-year time span. On average, REITs purchased at a 10% or greater discount to NAV marginally outperformed over the first year relative to the average rolling one-year returns, with more pronounced outperformance over the three- and five-year periods. The opposite pattern occurred for REITs purchased at a 20% or greater premium: they outperformed all average rolling one-year returns but underperformed relative to the average rolling three- and five-year returns.

Over the long term, REITs are expected to converge towards direct real estate prices, or at least towards an average premium of around 3-4%, which would explain the three- and five-year outperformance. But why was the one-year performance out of line? One explanation is that premiums and discounts can persist for extended periods of time and even widen after crossing our initial thresholds.

For instance, if an investor had sold REITs at the end of November 1996, when they first crossed a 20% premium threshold, ending the month at a 21.7% premium to NAV, they may have been better off holding on for a few more months, as the premium widened to 31.4% at the end of December 1996 and to 31.8% at the end of January 1997. In fact, REITs remained at a premium to NAV greater than 20% for 15 consecutive months, from November 1996 through January

1998, with a peak month-end premium to NAV of 34.4% in September 1997.

Similar patterns can be seen for discounts to NAV. In either case, these large premiums or discounts (based on the thresholds used) may persist for a single isolated month or extend over multiple years. Accordingly, buying REITs at a substantial discount to NAV and holding them for a three- or five-year period may improve the likelihood of achieving stronger returns compared to doing the same under more neutral valuation conditions.

Figure 20: REIT returns, one-year, three-year, and five-year rolling windows when trading at discount/premium to NAV

From End of Month When...	Average One-year Total Return	Average Three-year Total Return (Annualised)	Average Five-year Total Return (Annualised)
Trade at a 10% or greater discount	12.6%	13.3%	13.9%
Trade at a 20% or greater premium	14.4%	8.4%	9.7%
All rolling periods	11.2%	10.0%	9.7%

Source: Bloomberg, NAREIT, Deutsche Asset Management. As of 30 April 2026, starting 30 June 1993.

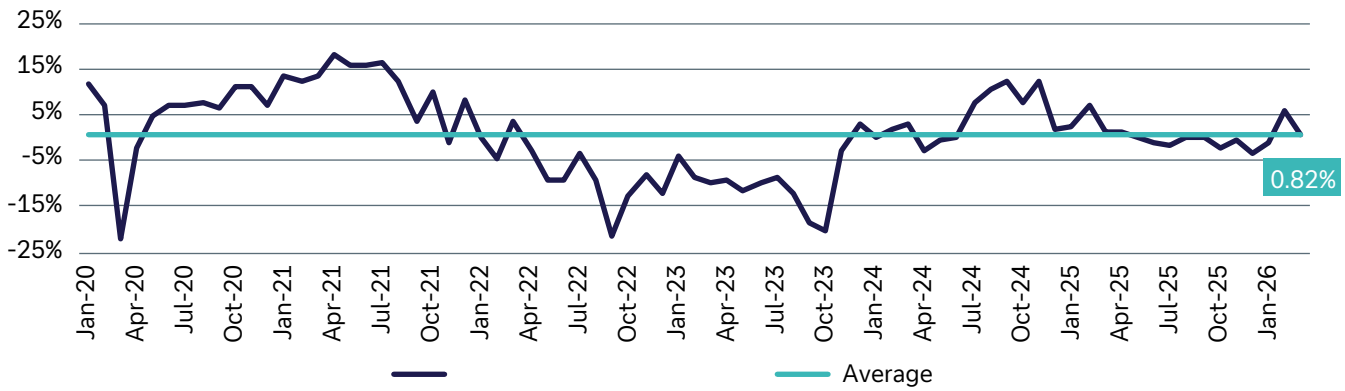
Case study: Tactical allocation context: REIT pricing dislocation relative to NAV (2022–2023)

Observation

Between late 2022 and late 2023, US listed REITs traded at material discounts to reported net asset values (NAVs), with discounts reaching approximately 20% to 21% at peak dislocation.

While public markets repriced rapidly to higher interest rates, private real estate valuations adjusted more gradually, reflecting lagged appraisal processes and limited transaction evidence. This resulted in a temporary divergence between public and private market pricing, as illustrated in Figure 21.

Figure 21: US REITs recent premium/discount to NAV



Source: For illustrative purposes only. Green Street Advisors, Deutsche Asset Management as of 31 March 2026. Historical average shown for period 31 December 2019–31 March 2026. Past performance is not a guarantee of future results.

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4. Combining REITs and direct real estate

Thus far, we have explored the merits of combining private and listed real estate in an overall real estate allocation, but what does the addition of listed real estate do to its overall risk/return profile? In this section, we assess the characteristics of a combined allocation and consider how investors might strike the right balance.

4.1 Examining the risk and return profiles of REITs vs. direct real estate

To find out, we first examined the relative risk-adjusted performance of listed and direct real estate over the past 30 years. We looked at the annualised total return and standard deviation for listed real estate (using the FTSE NAREIT All Equity REITs Index) and direct real estate (using NCREIF ODCE). Listed real estate (at 9.1%) outperformed direct real estate (at 7.0%) by about 2% on an annualised basis but exhibited far higher volatility (19.3% versus 6.4%, using standard deviation as our volatility proxy). However, we suspect that direct real estate volatility may be understated, as private markets often do not fully reflect drawdowns, particularly during periods of market stress. Direct real estate valuations can, especially in adverse market conditions, be slower to reflect downward revisions than liquid or market-based prices. A multitude of factors could be driving these differences in returns, including (but not limited to) property type mix, asset quality, leverage use, and overall cost of capital. The correlation of returns between listed and direct real estate remains low (at just 0.17), when measured on a short-term quarterly basis.

4.2 REITs as a tool to improve risk-adjusted real estate returns

We also combined listed and direct real estate in varying allocations in a buy-and-hold strategy to back-test how these hypothetical portfolios would have performed historically. Figure 22 shows the efficient frontier for a two-asset portfolio of listed and direct real estate along with the return per unit of risk for the combined portfolios in 10% weighting increments. A portfolio of 100% listed real estate yielded higher returns but also higher volatility compared to a portfolio of 100% private real estate. However, combining private and listed real estate at a 90% private /10% listed real estate allocation respectively resulted in the highest return per unit of risk. Increasing the allocation to listed real estate could have further improved returns, but at the cost of added volatility.

Measuring private real estate volatility through an unsmoothed lens, which is prudent in the portfolio construction process for private assets, would bias the optimal risk/return ratio toward a higher allocation to listed real estate. This suggests that replacing a modest portion of a direct real estate portfolio (for example, 10%) with listed real estate may have a limited effect on long-term risk while enhancing the liquidity and diversification profile of the overall real estate allocation.

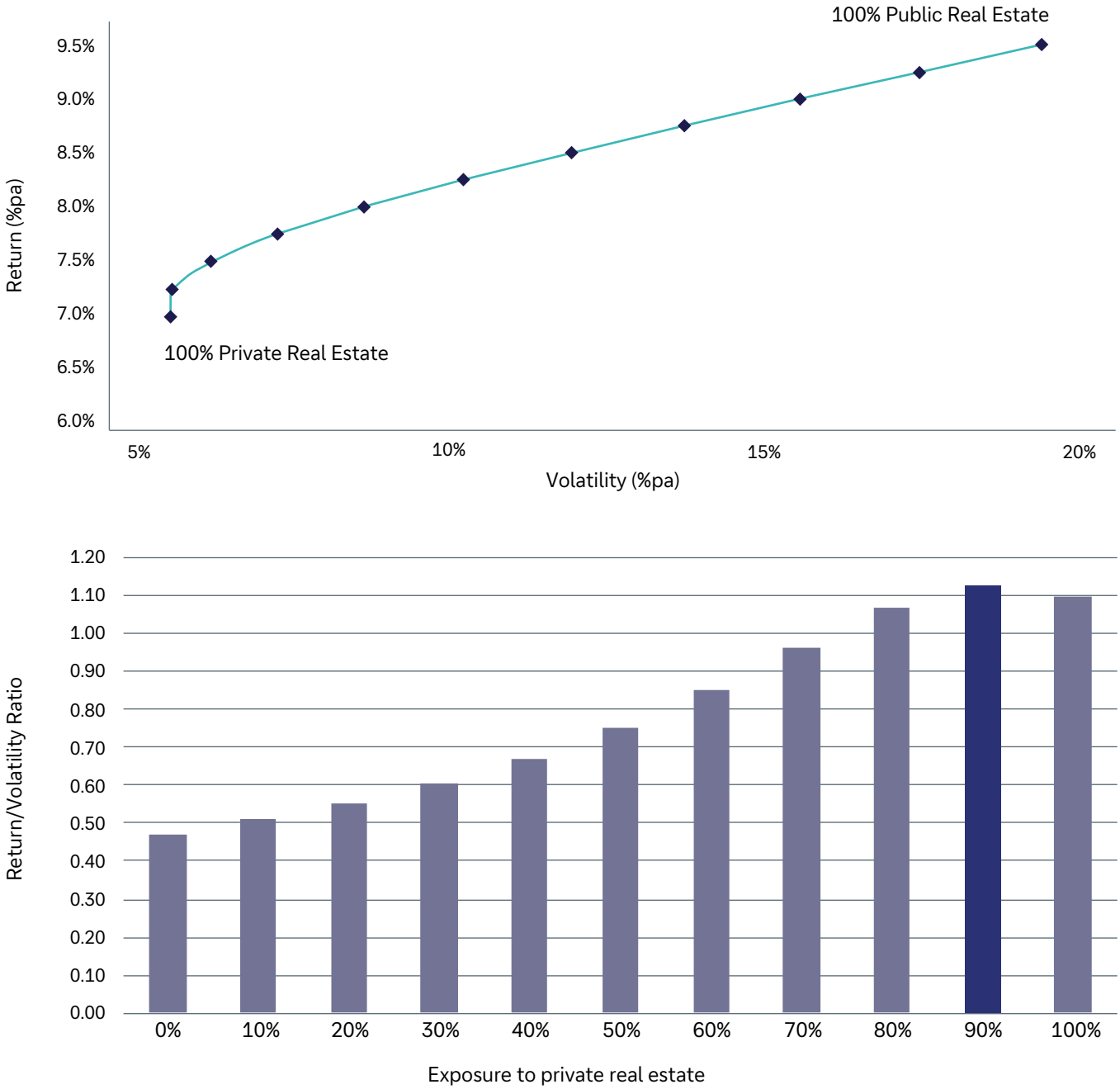
> “Replacing a modest portion of a direct real estate portfolio with listed real estate.... may en-hance the liquidity and diversifi-cation profile of the overall real estate allocation.



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Figure 22: Combining listed and direct real estate to create an optimal risk/return profile



Source: Bloomberg, Deutsche Asset Management. Data range: 30 June 1996–31 March 2026.

Public real estate: FTSE NAREIT All Equity REITs Total Return Index (FNERTR Index); Private real estate: NCREIF ODCE Total Returns Index (NPPIODCE). For illustrative purposes only. There is no guarantee that investment objectives will be achieved. Past performance is not indicative of future results. Volatility is measured as the standard deviation of the returns.

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5. Conclusion

Real estate is a distinct asset class and an important component of many long-term portfolios. While private real estate is well understood by many investors, listed real estate is often overlooked–by equity investors who may view REITs as simply another listed sector, and by real estate investors who may focus primarily on private real estate allocations. This paper shows that listed real estate merits consideration as part of a broader real estate allocation, not as a substitute for private holdings, but as a complementary implementation tool.

Listed and private real estate are ultimately anchored by the same underlying property cash flows, but they are priced differently. Private real estate valuations typically adjust gradually through appraisal-based processes, while listed REITs reprice continuously in public markets. This can create short-term divergence, but over longer horizons the two markets remain fundamentally connected, particularly after adjusting for leverage and the tendency for listed markets to lead private market returns.

That difference is precisely what makes REITs useful. Listed real estate can add liquidity, transparency, broader sector and geographic access, and faster implementation–features that may be difficult to replicate through private vehicles alone. In addition, short-term divergences in valuations, often reflected in NAV premiums or discounts, can provide signals for tactical relative value opportunities between public and private markets.

The optimal mix will depend on investor objectives and constraints, but the evidence suggests that a modest listed allocation can strengthen the overall real estate toolkit. In our back-test, a 90/10 allocation of private to listed real estate produced the highest return per unit of risk, improving flexibility while maintaining exposure to the long-term fundamentals of the asset class.

> **Listed real estate can add li-quidity, transparency, broader sector and geographic access, and faster implementation—features that may be difficult to replicate through private vehi-cles alone.**



IVAN CHONG WEI YANG
Vice President, Total Portfolio Strategy Group
GIC

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