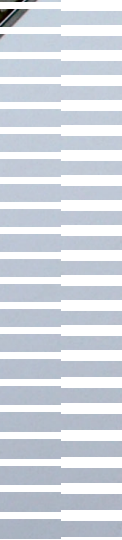
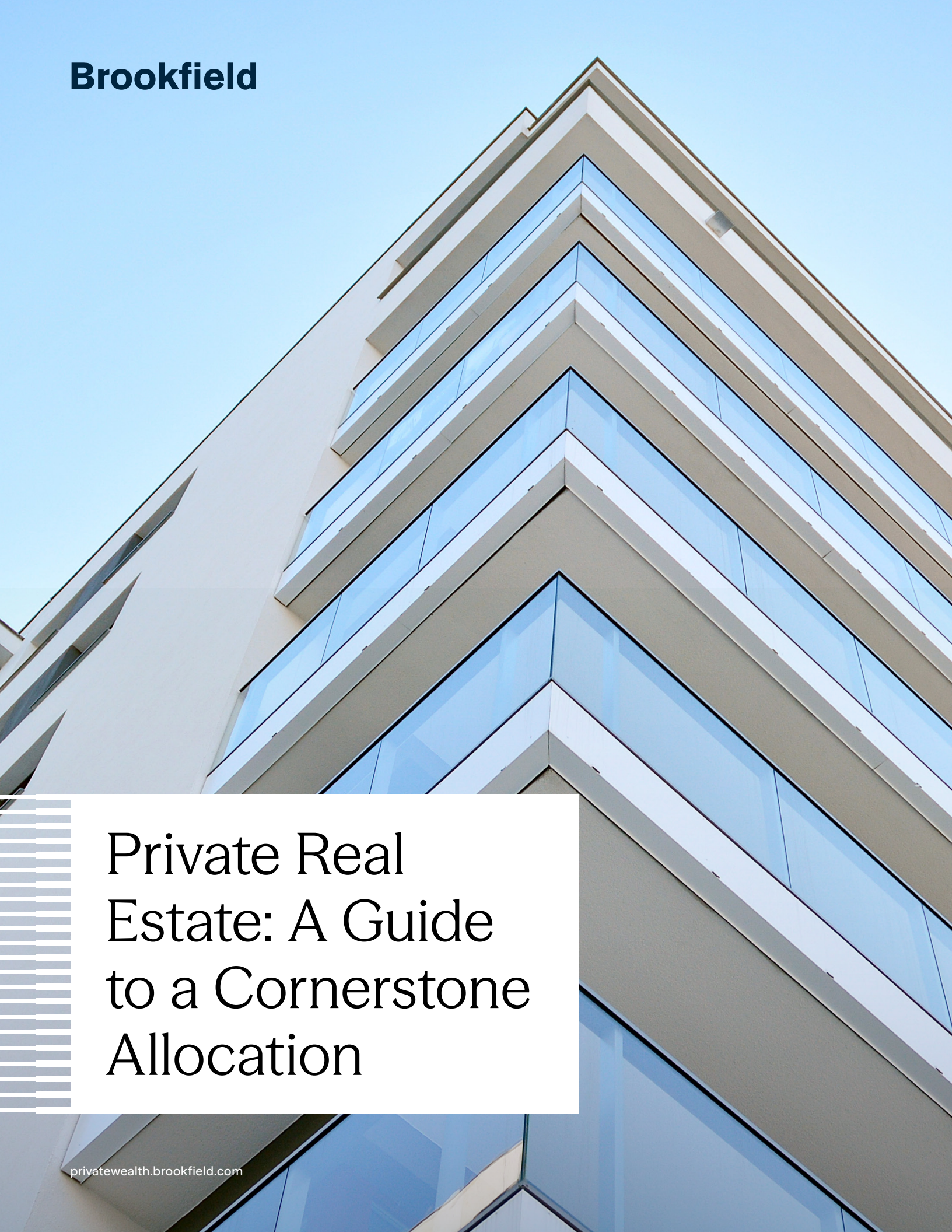


**Brookfield**



Private Real  
Estate: A Guide  
to a Cornerstone  
Allocation



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# Key Takeaways

- Investing in private real estate can provide consistent income, long-term capital appreciation and portfolio diversification.
- Private real estate potentially provides enhanced risk-adjusted returns due to its lower volatility compared with public markets, has historically served as a hedge against inflation and may offer favorable tax treatment for certain investors.
- Recent innovations in fund structures and investment platforms have made private real estate more accessible to individual investors.
- Skilled managers can navigate market cycles strategically to uncover value in overlooked or mispriced areas.



## What Is Private Real Estate?

Real estate has long been a cornerstone of institutional portfolios, valued for its ability to provide stability during periods of public market volatility and elevated inflation. Historically reserved for institutions and high-net-worth individuals, this asset class is now increasingly accessible to individual investors. Many of the largest institutional investors currently allocate a portion of their portfolios, often exceeding 10%, to real estate, reflecting its perceived potential to support diversification and its history of providing attractive returns over time.<sup>1</sup>

Real estate is a foundational asset class, valued for its ability to generate steady income and support long-term capital growth. As the third-largest asset class globally—surpassing \$24 trillion in value (**Figure 1**)—it plays a vital role in diversified portfolios alongside equities and fixed income.

**Figure 1: Real Estate Is the Third-Largest Asset Class**



\*SIFMA, as of June 30, 2023. †Federal Reserve, as of June 30, 2023. ‡ SIFMA, as of December 31, 2023.

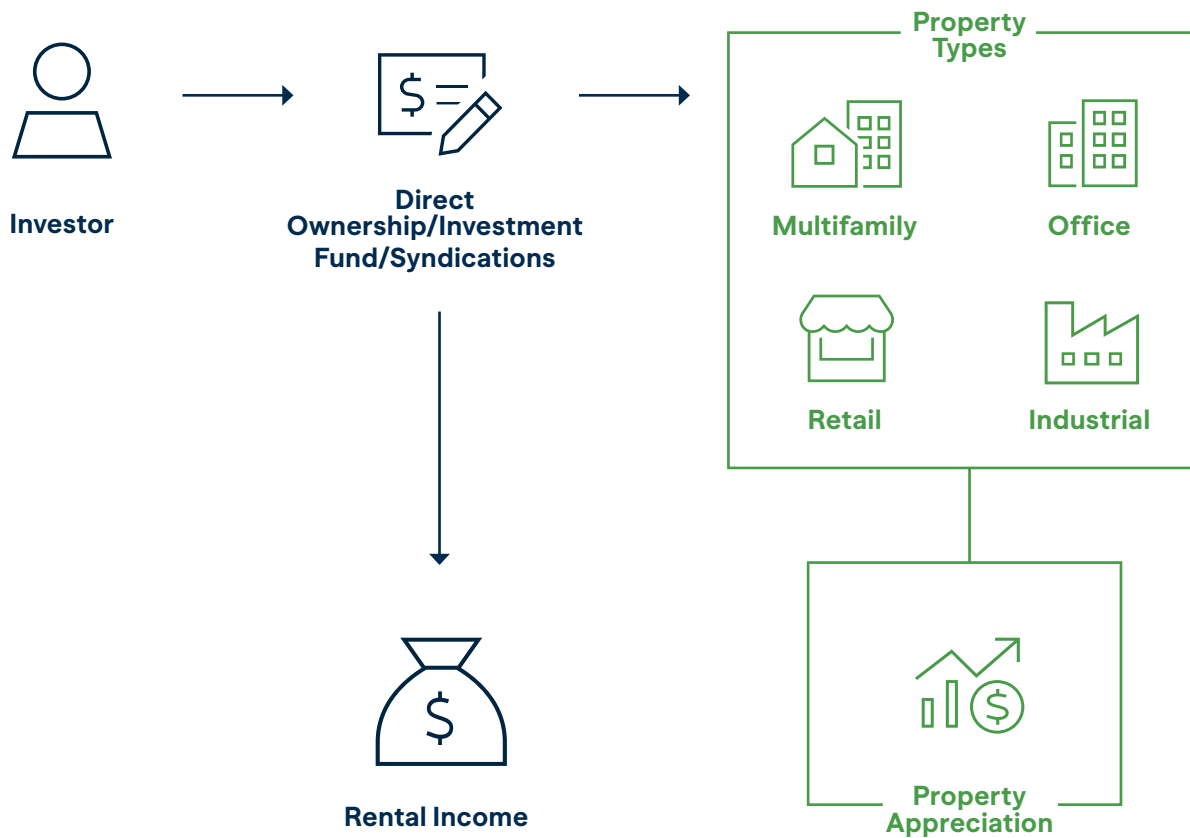
Source: Federal Reserve, Securities Industry and Financial Markets Association (SIFMA)

Investors can access real estate through both public and private markets, which each offer distinct characteristics. Public real estate is often accessed through real estate investment trusts (REITs), which are companies that own or finance income-producing properties. These REITs may be publicly traded—offering daily pricing, liquidity and ease of access—or publicly non-traded, registered with the SEC but not listed on exchanges. While public REITs offer transparency and convenience, they are more susceptible to market volatility due to their correlation with broader equity markets.

1. Jones Lang LaSalle, Global Real Estate Outlook, December 10, 2024, [www.jll.com/en-us/insights/global-real-estate-outlook](http://www.jll.com/en-us/insights/global-real-estate-outlook).

Private real estate, by contrast, involves investments made through non-public transactions. Investors participate either by directly owning and managing properties, such as rental homes or commercial buildings, or by investing indirectly through private real estate funds like private REITs or syndications. Unlike public REITs, these vehicles are not priced daily on exchanges, resulting in less short-term volatility but requiring longer holding periods. Returns are primarily driven by rental income and long-term appreciation, offering the potential for income stability and long-term growth (**Figure 2**).

**Figure 2:** Private Real Estate Investing in Action



Historically, private real estate was accessible only to institutions or individuals with substantial capital and operational expertise. That landscape has evolved: advancements in fund structures and digital platforms now enable individual investors to participate through professionally managed solutions, removing the burdens of direct ownership. This expanded access has made private real estate a practical component of diversified portfolios and opened new opportunities for long-term wealth building.

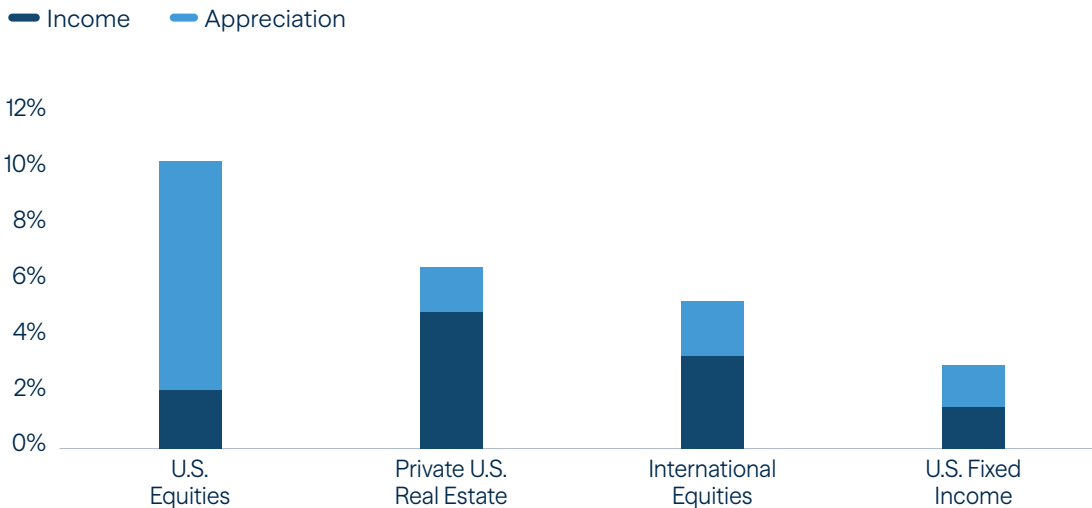
## Why Is Private Real Estate Fundamental to a Portfolio?

Private real estate has earned a lasting role in both institutional and individual portfolios due to its distinctive combination of income generation, capital appreciation, and diversification benefits. Unlike many traditional asset classes, it has shown resilience across market cycles while offering a unique balance of risk and return. The following six advantages illustrate how private real estate has enhanced and protected wealth over time.

### 1. Consistent income generation over time

Private real estate is often recognized for its potential to generate steady, recurring income, primarily through rental payments. As shown in **Figure 3** below, over the past two decades, a growing portion of total returns in this asset class has come from income rather than price appreciation. Unlike equities (which rely more on capital gains) or bonds (which can offer limited yields in certain environments), private real estate can provide equity-like total returns with the majority coming from income.

**Figure 3: Private U.S. Real Estate: Strong Returns Over the Past 20 Years**  
**Annualized Total Returns (2003–2024)**



**Past performance does not guarantee future results.** Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. An investor cannot invest in an index. Indexes do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns.

U.S. equities represented by S&P 500 Index; private U.S. real estate represented by NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE); international equities represented by MSCI EAFE Index; and U.S. fixed income represented by Bloomberg U.S. Aggregate Index.

Source: Bloomberg, MSCI, National Council of Real Estate Investment Fiduciaries (NCREIF), S&P. As of December 31, 2024.

Across property types such as multifamily housing, office buildings and industrial facilities, rental income provides stability, which supports both long-term growth and near-term financial flexibility. This income can serve multiple needs. Long-term investors may reinvest it to compound their returns over time. For those in or nearing retirement, it can provide a reliable income stream to help meet ongoing expenses. This income stability is one of the reasons private real estate is often viewed as a foundational component of income-focused investment strategies.

## 2. Historically more stable performance during periods of market turbulence

Private real estate is less influenced by daily market swings because it is not traded on public exchanges. Its value is driven by long-term fundamentals such as rental income and occupancy trends, providing a more stable performance profile over time.

Over the last 10 years, private real estate has been nearly three times less volatile than its public counterparts (**Figure 4**)—highlighting its potential to deliver more stable, predictable returns across market cycles.

For investors, this stability translates into smoother portfolio returns and reduced concern during periods of market turbulence. By buffering against short-term equity swings, private real estate acts as a resilient anchor, helping investors to protect wealth and maintain consistent progress toward their long-term financial goals.

**Figure 4:** Private Real Estate Has Exhibited Comparatively Lower Volatility Over the Last 10 Years



**Past performance does not guarantee future results.** There can be no assurance that current trends will continue. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. An investor cannot invest in an index. Indexes do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns.

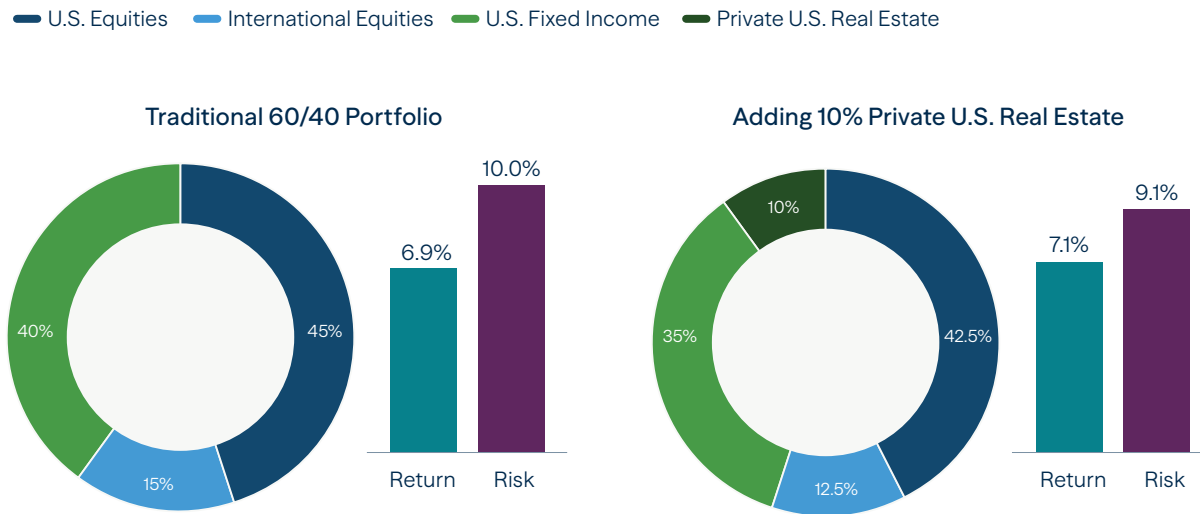
Represents quarterly returns for each index, and 10-year annualized standard deviations. Private real estate represented by NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE). Public real estate represented by S&P United States REIT Index. U.S. equities represented by S&P 500 Index.

Source: Bloomberg, NCREIF, S&P. As of December 31, 2024.

### 3. Stronger risk-adjusted returns for long-term growth

Adding private real estate to a portfolio can improve both returns and risk management. Its low correlation with traditional assets and steady income stream help smooth portfolio fluctuations while contributing to total return.

**Figure 5: Returns and Risk**  
**Trailing Returns and Risk, 2003-2024**



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A traditional 60/40 portfolio is defined as a portfolio with 60% allocated to equities and 40% allocated to fixed income. Total return and risk as measured by standard deviation of quarterly returns for 20 years of a hypothetical portfolio, as displayed. U.S. equities represented by S&P 500 Index, international equities represented by MSCI EAFE Index, U.S. fixed income represented by Bloomberg U.S. Aggregate Index and private U.S. real estate represented by NFI-ODCE.

Source: Bloomberg, MSCI, NCREIF and S&P, as of December 31, 2024.

Consider **Figure 5** above, which highlights the annualized return and standard deviation (a measure of portfolio risk) of a traditional portfolio mix of 60% public equities (split 45%/15% between U.S. and international equities) and 40% bonds. Historical data show that this standard portfolio of equities and bonds could have generated an annualized return of 6.9%, with a standard deviation of 10.0%. Adding a 10% allocation to private U.S. real estate increased annualized returns to 7.1%, while lowering the standard deviation to 9.1%. This demonstrates how private real estate can act as a diversifying anchor, helping to support portfolio resilience over the long term.

#### 4. Diversification, as exhibited by a low correlation to other asset classes

Private real estate often behaves differently from traditional investments, making it a valuable tool for diversification. This diversification benefit can be measured using correlation—how two investments move in relation to each other. A correlation coefficient of 1 indicates a perfect positive correlation, meaning that they move in the same direction by the same amount. A coefficient of -1 indicates a perfect negative correlation, meaning that they have historically moved in opposite directions. A key benefit of a portfolio with low correlation among its various assets is that the volatility of overall returns is reduced.

Private real estate can help reduce overall portfolio volatility. Over time, private real estate has shown low or negative correlations with major asset classes, including U.S. and international equities, U.S. fixed income and public real estate (**Figure 6**). Because it does not move in tandem with stocks or bonds during periods of market stress, private real estate can enhance portfolio resilience. Including assets with low correlation to each other can help smooth overall returns and contribute to more stable long-term performance.

**Figure 6:** Public U.S. Real Estate Has Historically Exhibited a Low Correlation to Other Asset Classes  
20-Year Annualized Returns

	U.S. Equities	International Equities	Public U.S. Real Estate	U.S. Fixed Income	Private U.S. Real Estate
U.S. Equities	1.00	0.88	0.76	0.07	0.04
International Equities		1.00	0.69	0.14	-0.03
Public U.S. Real Estate			1.00	0.24	0.13
U.S. Fixed Income				1.00	-0.24
Private U.S. Real Estate					1.00

**Past performance does not guarantee future results. Diversification does not ensure a profit or protect against loss in a declining market.** Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. An investor cannot invest in an index. Indexes do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns. U.S. equities represented by S&P 500 Index, international equities represented by MSCI EAFE Index, public U.S. real estate represented by S&P United States REIT Index, U.S. fixed income represented by Bloomberg U.S. Aggregate Index and Private U.S. real estate represented by NFI-ODCE.

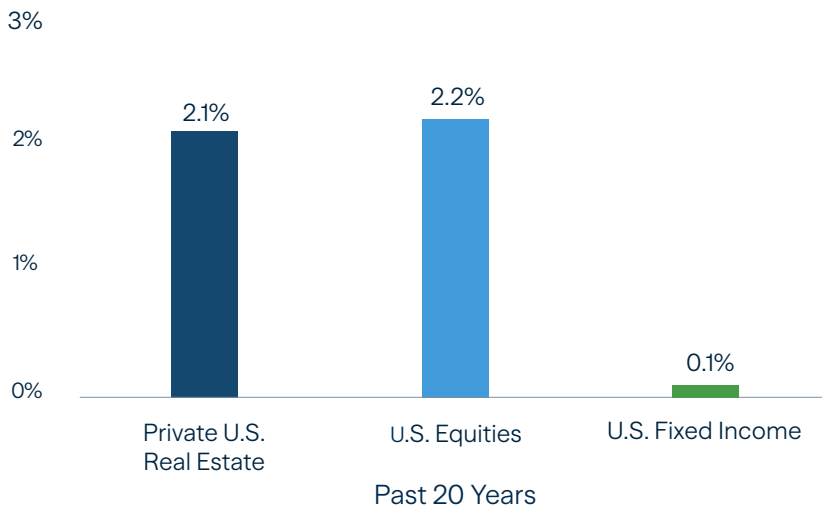
Source: Bloomberg, MSCI, NCREIF, S&P, as of December 31, 2024.

## 5. Potential hedge against inflation

Private real estate has historically performed well during periods of rising inflation (**Figure 7**). Rental income often increases in tandem with inflation, particularly in high-demand markets or through leases with scheduled rent escalations. Rising costs for land, labor and construction can also support long-term property value growth. These features make private real estate a valuable tool for investors seeking to protect their wealth and maintain their purchasing power.

### Figure 7: Private Real Estate Has Generated Strong Returns Amid High Inflation

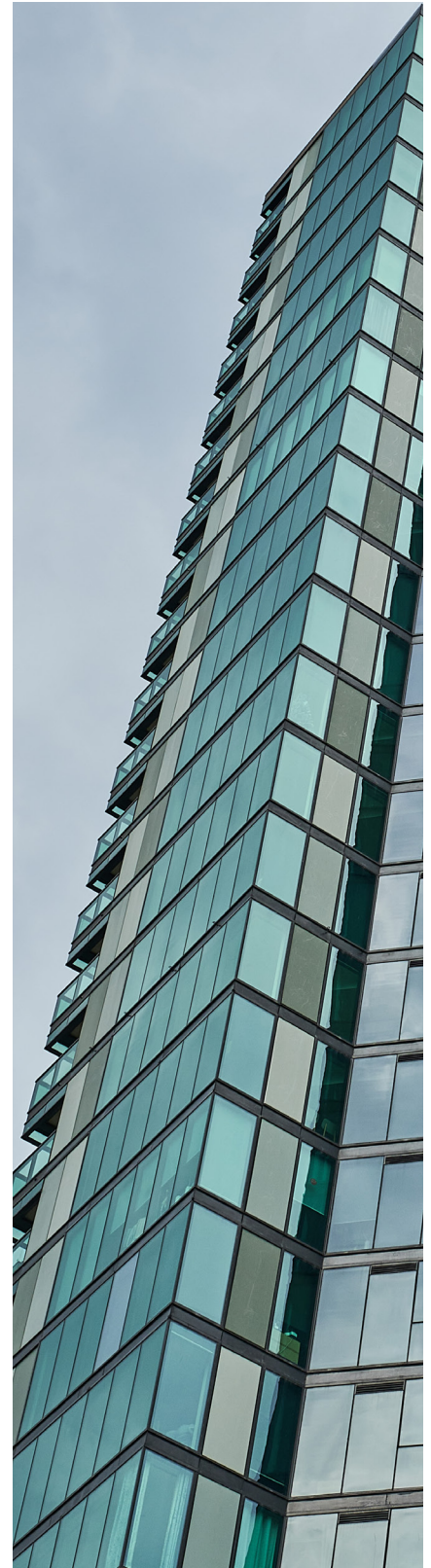
#### Average Quarterly Returns When U.S. Consumer Inflation Was Above Average



**Past performance does not guarantee future results.** Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Higher-than-average inflation is measured as when the year-over-year U.S. Consumer Price Index exceeded 2.5%. During those periods, we examined the average returns of private U.S. real estate (as measured by the NFI-ODCE); U.S. equities (as measured by the S&P 500 Index); and U.S. fixed income (as measured by the Bloomberg U.S. Aggregate Bond Index).

Source: Bloomberg, NCREIF, S&P. From December 31, 2004 to December 31, 2024.

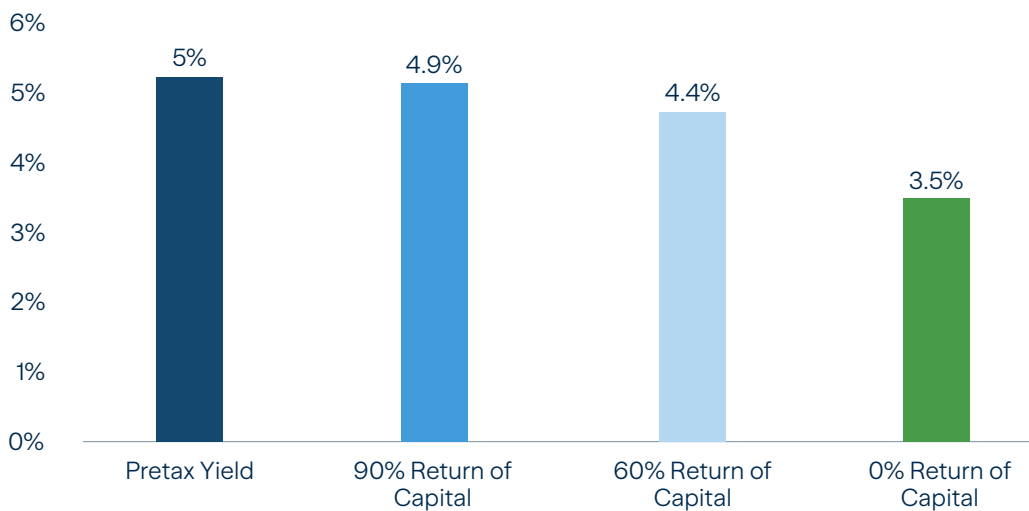
Inflation can present challenges. Raising interest rates to combat inflation can raise the cost of financing real estate properties. Yet private real estate’s combination of income, lease structures and asset appreciation has historically allowed it to outperform many other investments during inflationary periods, demonstrating its resilience and strategic value in a portfolio.



## 6. Ability to offer attractive after-tax yield

Private real estate investments may offer tax advantages that can enhance after-tax returns, particularly when a portion of distributions is classified as a return of capital (**Figure 8**). Return-of-capital distributions are generally tax deferred and reduce an investor’s cost basis in the investment (note that distributions are discretionary and not guaranteed). These benefits are often realized through direct ownership or non-traded REITs, which are designed to pass through income and depreciation in a tax-efficient manner.

**Figure 8: After-Tax Yields According to Return of Capital**



**Historical analysis does not guarantee future results.** For illustrative purposes only. Example assumes a \$100,000 investment with 5% (\$5,000) annualized distribution taxed according to the highest federal tax bracket. Does not include state taxes. An investor could be subject to state income tax in their state of residence, which would lower the after-tax yield received. The tax information provided herein is for informational purposes only and does not constitute tax advice. Because each investor’s tax position is different, you should consult with your tax advisor. Other investments may offer tax advantages. Taxes on these distributions are not avoided; they are postponed and will be due upon sale or redemption. Return of capital (“ROC”) distributions are distributions in excess of current or accumulated earnings and profits. Such distributions are not taxable to an investor to the extent they do not exceed the investor’s tax basis in its shares. Rather, the ROC reduces an investor’s tax basis in the year the distribution is received, and generally defers taxes on that portion of the distribution. To the extent that a ROC exceeds an investor’s tax basis, it generally will be taxable as capital gain. Such gain will be a long-term capital gain if the investor has held the shares for more than one year.

Source: Brookfield, as of December 31, 2024.

Distributions from non-traded REITs are typically paid from available cash flow, which can include non-cash deductions such as depreciation. Tax treatment varies depending on classification—as ordinary income, capital gains or return of capital. When the asset is eventually sold, gains realized after more than one year are generally taxed at long-term capital gains rates, which are typically lower than ordinary income rates. Together, these features may help reduce an investor’s effective tax rate and increase after-tax yield.

**Figure 9:** Six Enduring Advantages of Private Real Estate



**Historical performance does not guarantee future results.** Private real estate investments involve risks, including illiquidity, potential loss of principal, uncertain income, and sensitivity to economic and market conditions. Historical performance and diversification benefits do not guarantee future results.

Six historical advantages—consistent income, lower volatility, improved risk-adjusted returns, diversification, inflation protection and potential tax benefits (**Figure 9**)—underscore the enduring appeal of private real estate as a strategic component of a well-diversified portfolio. Large institutional investors have relied on these benefits for decades to strengthen portfolio performance and build resilience.

Today, individual investors have greater access to this historically exclusive asset class. As they navigate evolving market conditions and seek to construct more durable long-term strategies, private real estate offers investors a combination of stability, income and structural advantages that are difficult to replicate through traditional investments alone.



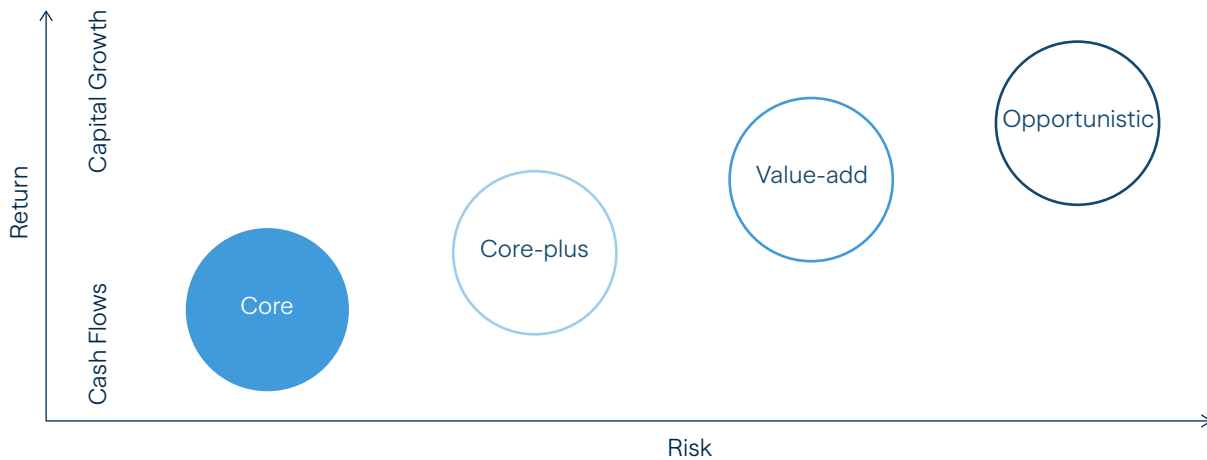
## When Is the Right Time to Invest in Private Real Estate?

Despite economic uncertainty, persistent inflationary pressures, and evolving capital markets, private real estate offers investors a range of strategies that can align with various risk profiles and investment objectives. Depending on an investor’s specific portfolio objectives, private real estate offers a variety of benefits throughout the economic cycle. Whether the goal is to generate stable income, pursue long-term growth, or achieve a balanced mix of both, the asset class provides a flexible and diversified set of options for investors.

Private real estate strategies are commonly classified by their risk/return characteristics (**Figure 10**). Core strategies focus on high-quality, income-generating properties with long-term tenants and minimal operational complexity, offering the greatest stability and lowest volatility. Core-plus strategies involve similar income-producing assets but with moderate upside potential through light renovations or improved management. Value-add strategies target underperforming or transitional properties, where active management and capital improvements can unlock higher returns. At the highest end of the risk spectrum, opportunistic strategies include ground-up developments or distressed assets, which require significant expertise but offer the potential for outsize long-term gains.

These strategies allow investors to tailor their exposure based on their individual goals and risk tolerance.

**Figure 10:** Private Real Estate Investing Strategies



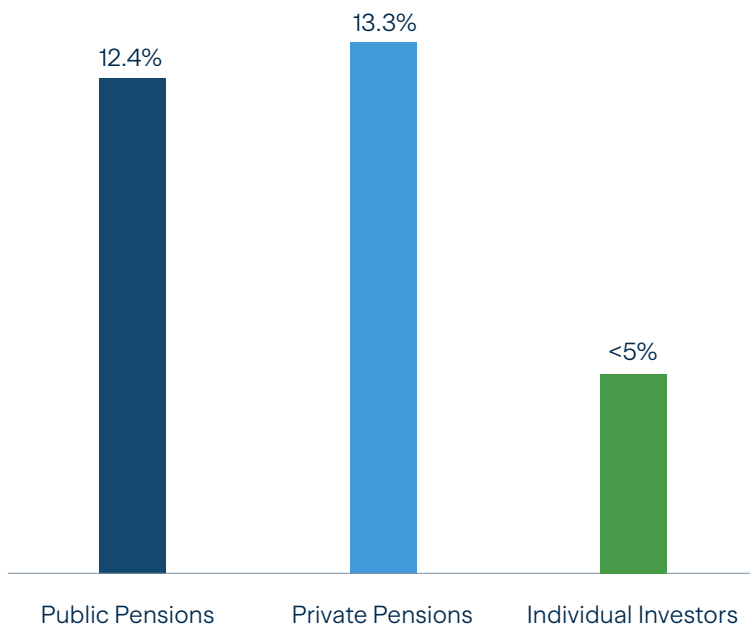
## What to Look for in a Private Real Estate Investment Manager

For decades, private real estate was dominated by institutional investors due to high barriers to entry. Elevated investment minimums, limited liquidity and restricted access to professionally managed strategies made it difficult for individuals to gain meaningful exposure. These constraints persisted even as institutions steadily increased their allocations, drawn by the asset class’s income generation, diversification benefits and inflation-hedging characteristics. Although individual investors have historically been underallocated to this asset class, the barriers that once limited participation are beginning to recede.

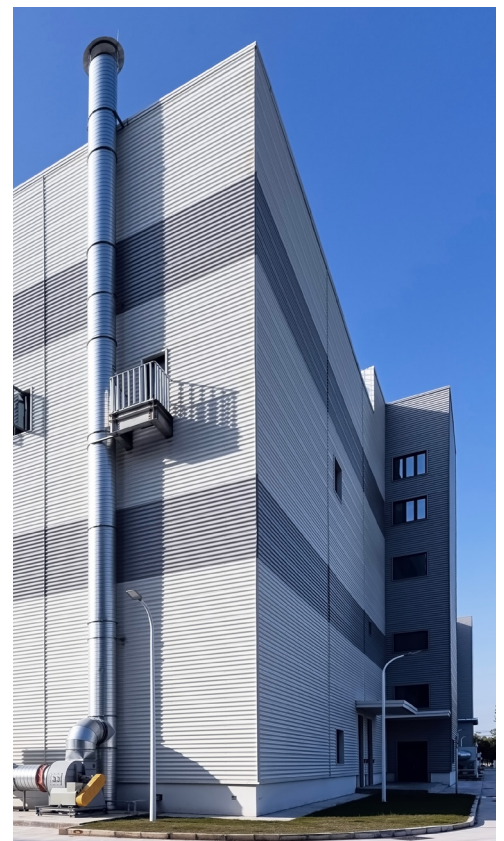
As outlined throughout this paper, private real estate’s six enduring advantages have long positioned it as a core component of institutional portfolios. Today, those same benefits are becoming increasingly accessible to individual investors through professionally managed solutions. Innovations in fund structures, regulatory frameworks and digital investment platforms are making private real estate more accessible than ever before. Vehicles such as non-traded real estate investment trusts, private real estate funds and interval funds now offer lower minimums, streamlined onboarding processes and periodic liquidity. These solutions are designed to meet the needs of individual investors while preserving the core benefits of the asset class, including income stability, long-term appreciation and portfolio diversification.

Nevertheless, individual investors still allocate less than 5% of their portfolios to private real estate and other alternatives, a stark contrast to institutional norms (**Figure 11**).

**Figure 11:** Individual Investors Are Underallocated to Real Estate



Source: Cornell University, Baker Program in Real Estate; Hodes Weill & Associates, *2024 Real Estate Allocations Monitor*.



## INVESTING ESSENTIALS

Whether navigating repricing, capturing rent growth or repositioning assets in response to shifting supply chains, skilled operators can transform today's challenges into long-term opportunities. Such professionals are well positioned to identify undervalued assets, structure flexible capital solutions and execute value-creation strategies. Experienced managers have navigated different parts of the market cycle seeking to uncover value in areas that may have previously been overlooked. These managers are well positioned to identify inefficiencies, structure flexible capital solutions and unlock value.

At the same time, innovations in fund structures and investment platforms are lowering barriers to entry, enabling broader participation in this historically exclusive asset class. The ability to access these strategies through modern, professionally managed vehicles for individual investors offers a timely and effective way to participate in an asset class that has long served as a cornerstone of institutional portfolios. For investors seeking to diversify their portfolios with real assets, private real estate may offer both opportunity and adaptability in a market that increasingly rewards selectivity and expertise.

Private real estate is frequently regarded as a means of enhancing income stability, long-term appreciation and portfolio diversification as a key part of a well-balanced portfolio designed to weather a dynamic and uncertain economic landscape with greater resilience. As part of a thoughtfully constructed investment strategy, it may represent a timely and strategic addition to a well-diversified portfolio.



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## INVESTING ESSENTIALS

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Bloomberg U.S. Aggregate Bond Index is a broad-base, market-capitalization-weighted bond market index representing intermediate-term investment-grade bonds traded in the United States.

Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services.

MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia and Far East) outside of the U.S. and Canada.

NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, gross-of-fees, time-weighted return index that measures performance of the largest open-end commingled funds pursuing a core real estate investment strategy.

S&P 500 Index is an equity index of 500 widely held, large-capitalization U.S. companies.

S&P United States REIT Index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

### Private Real Estate Risks

Private real estate investments involve risks, including illiquidity, potential loss of principal, uncertain income, and sensitivity to economic and market conditions. Historical performance and diversification benefits do not guarantee future results.

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