

accordant

Private Real Estate Market Outlook

Top 5 Private Real Estate Topics for 2025

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Introduction



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Chief Investment Officer
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On behalf of my colleagues at Accordant Investments, I am pleased to share our 2025 market outlook. We want to provide our candid thoughts on the topics we discuss internally and provide an outlook on how we believe the private real estate market will evolve over the coming year. As we have discussed before, we won't get it all correct, in fact the investment industry as a whole has been especially average at forecasting returns for asset classes. However, it is an important exercise to discuss the performance potential of an asset class that captures so much of the investment industry's attention.

By the time you read this outlook, we will be about a month into the new year and the new government administration that came with it. I must admit, a lot has changed between December and the end of January. I have used this time to read the market outlooks from many of the large asset management firms and their opinions on projected returns across asset classes. In past years, I have noticed a fairly consistent theme around some asset class opportunity or risk. So far, 2025 has bucked that trend; in reading 10 different managers' outlooks, I have found 10 very different views and conclusions. Some project bonds as the best place to allocate new capital; others expect equities to continue to produce strong returns; a third category was focused on various alternative sectors from infrastructure and private credit to private real estate. The only consistency was their divergent views on the future performance of various sectors. Some, but not all, mentioned the need for portfolio rebalancing and new thinking around asset allocation, a crucial exercise in our view. Concerted thought and effort devoted to achieving and maintaining the proper asset allocation is a must for any investor who hopes to weather the unpredictability of the market over the long term. This is more important than ever given the uncertainty and difficulty of predicting performance from one sector to the next. While it's sometimes hard to summon the discipline to rebalance to underperforming sectors, the act of doing so has often proven to be a winning strategy over the long term.



The market outlook for private real estate in 2025 is bifurcated, presenting exciting, once-in-a-cycle, opportunities for outsized returns. Real estate valuations are stabilizing, and returns should improve with the NFI-ODCE Index (the most widely recognized private real estate benchmark) expected to rebound into positive territory in 2025 after two down years that have resulted in a 25% value decline. A somewhat lower and less uncertain interest rate environment has bolstered transaction activity, which is a welcomed reprieve given the dearth of deal-making in recent years. At the property level, certain sectors like data centers, logistics, and multifamily are propelled by secular tailwinds that will offer compelling investment opportunities in the year ahead. As a result, there is optimism that a recovery in private real estate is on the horizon, and interest in the asset class should grow accordingly, driven by elevated demand from both opportunistic and long-term capital.

Still, the private real estate market is not without its challenges. At a macro level, the new presidential administration seems determined to shake up the status quo, raising concerns that its policies may prove to be inflationary. While interest rates have receded from recent highs, they still remain elevated relative to the prior cycle. When combined with the prospects of stubborn inflation, this dynamic could slow the real estate recovery. Again, at the asset level, most property types benefit from stable fundamentals. However, this fact is often overshadowed by the office sector challenges resulting from shifts in usage patterns and remote work policies.

This drives our belief that the private real estate sector is well-positioned for a positive year in 2025, but the road to recovery will likely be uneven and complex as some of the previously mentioned unknowns resolve themselves.

As market participants look to navigate such a nuanced investing environment, the following represents the Top 5 Topics that we believe private real estate investors should consider in 2025:

- 1. Markets Do Cycle: Have We Seen the Bottom?**
- 2. Focus on the Fundamentals: Looking Beyond the Office Sector**
- 3. Real Estate as an Inflation Hedge: How to Mitigate Pricing Risk**
- 4. Asset Allocation Impact: Understanding the Role of Real Estate**
- 5. Structure and Governance: Why It Matters Today**

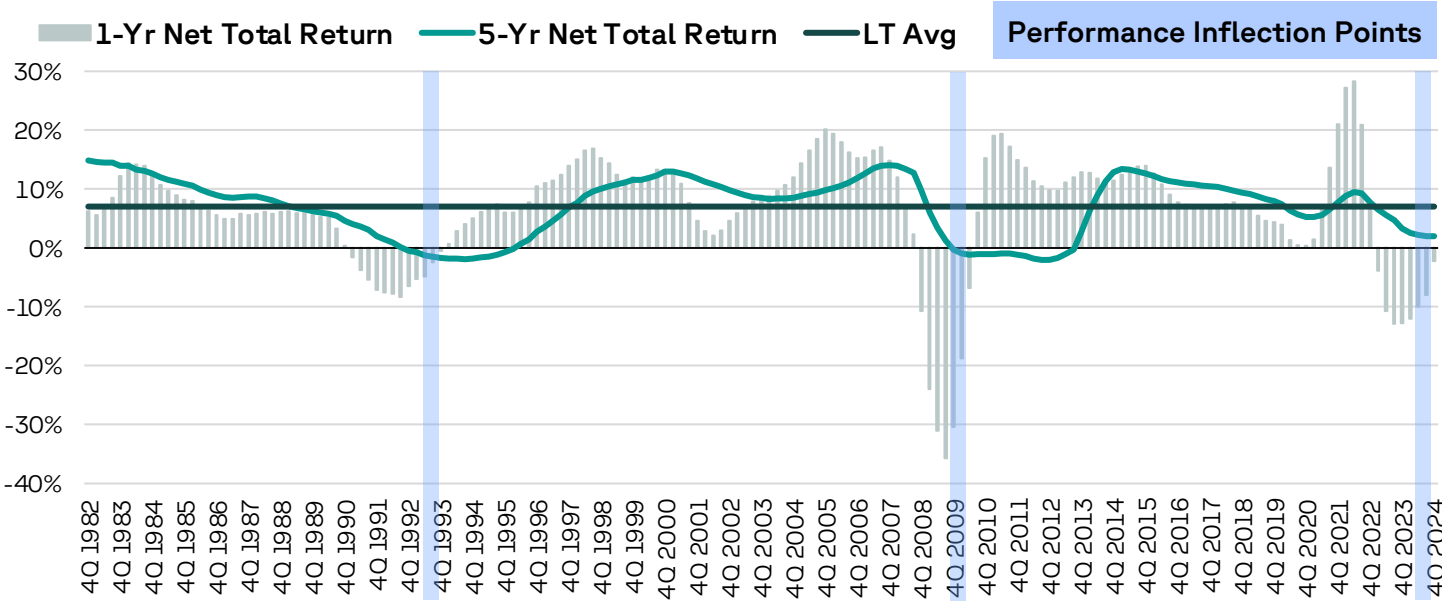
Section I.

Markets Do Cycle: Have We Seen the Bottom?

The last few years have been challenging for private real estate. However, as we enter 2025, property valuations seem to have stabilized, setting the stage for a recovery and potentially an upward move in the cycle. We are only one quarter removed from the NFI-ODCE Index experiencing its first positive quarter in nearly two years, so we are cautious about calling the bottom yet, especially given the uncertainty around some of the issues mentioned earlier. With that said, the tail-end of a drawdown has only been apparent a few times over the NFI-ODCE's history, which can be seen in the below chart.

EXHIBIT 1: NFI-ODCE Returns

1-yr and 5-yr trailing net total return data as of 4Q 2024. Long-term average based on the 5-yr trailing net total return. Performance Inflection Points refer to periods where quarterly net total returns of the NFI-ODCE Index shifted from negative to positive. Figures shown for 4Q 2024 are preliminary estimates and are subject to change.





Even in the midst of this uncertainty, we see several reasons to be optimistic about the year ahead. First, lower entry prices make real estate investments more compelling relative to other overvalued asset classes. 2025 should be a good time for investors to increase or start allocating to the asset class as values continue to tick upwards. Second, a healthy supply/demand dynamic should spur rental growth within most major property types, creating the potential for an attractive income return.

While the path and velocity of interest rate changes remain uncertain, some yield compression is certainly possible should capital flows increase, potentially sparking a risk-on environment. In such a case, some astute investors may even consider moving up the risk/return curve to generate alpha as the recovery strengthens.

Again, we understand that there are some unique risks in today's market that investors must look to mitigate, but at the same time, we also recognize that private real estate seems poised for an upswing in 2025. While this recovery will likely be uneven, presenting both attractive performance prospects and some pockets of instability, we believe investors should remain cautiously optimistic while seizing opportunities as they emerge.

EXHIBIT 1, Source: IDR, Component Funds, NFI-ODCE.

Section II.

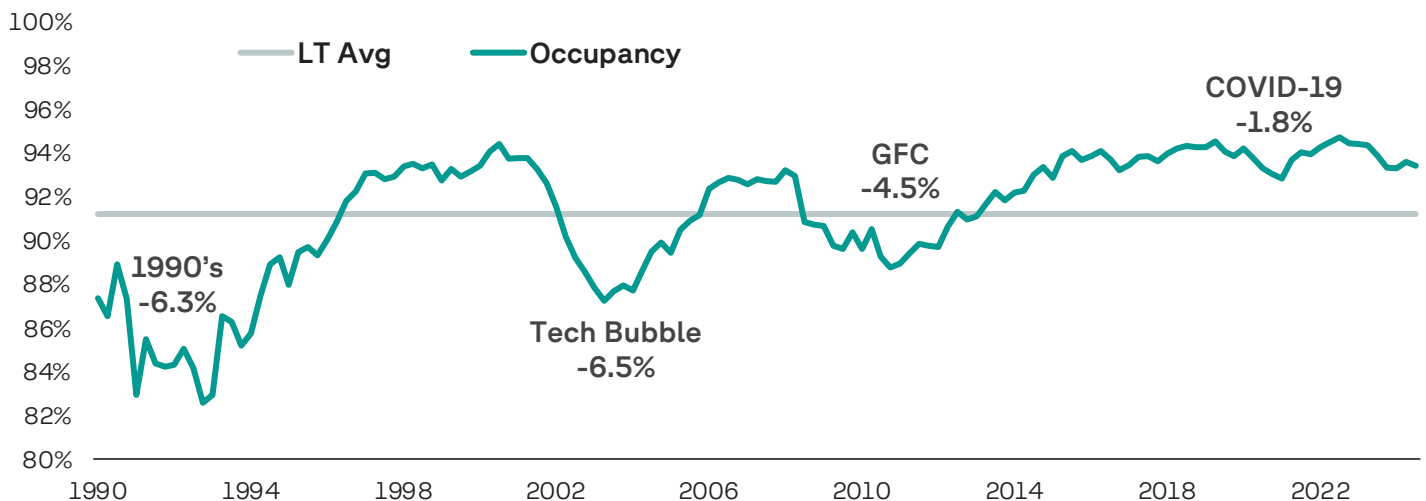
Focus on the Fundamentals: Looking Beyond the Office Sector

The structural challenges within the office sector tend to garner the most headlines, but when looking beyond office fundamentals, there is reason for optimism. From a macro perspective, the economy is on stable footing, with both the Congressional Budget Office and Federal Open Market Committee forecasting a 2.1% rate of Real GDP growth in 2025.¹ Real estate fundamentals should trend positively in line with a healthy economic outlook, leading to strong demand across almost all sectors. Significant construction in the multifamily and industrial sectors has led to some temporary pockets of overbuilding, but the secular tailwinds associated with these sectors continue to create sufficient demand, sustaining the “beds & sheds” investment thesis.

EXHIBIT 2:

Occupancy: Long term leases provide protection

Peak-to-trough declines from 1990 – Present. Data as of 3Q 2024.





Even the retail sector, which underwent a decade-long revaluation, is showing positive signs, as there seems to be a growing consensus that the property type has stabilized and is likely to outperform in the near-term.

Alternative sectors such as data centers are attracting outsized investment, as many investors consider the growth in artificial intelligence, digitization, and data storage to be powering a generational real estate investment opportunity. At the same time, real estate fundamentals have remained stable mainly due to a tight labor market and a relatively healthy economy, apart from the office sector, which will continue to struggle in the near term.



In terms of performance, there will likely be a wide dispersion among property sectors in the year ahead, a dynamic that has persisted since the pandemic. **We believe the most successful investors will align their strategies with long-term structural tailwinds associated with demographic trends, e-commerce, onshoring, supply chain changes, technology, and housing. It is in these areas where significant tenant demand and capital availability align.** The NFI-ODCE benchmark, which consists primarily of these types of high-quality assets, will likely see all 25 of its component funds produce a positive annual return in 2025.²



EXHIBIT 2, Source: IDR, NFI-ODCE. Peak-to-trough declines from 1990 – Present. Data as of 3Q 2024.

¹[Budget and Economic Data | Congressional Budget Office](#), December 18, 2024.

²IDR

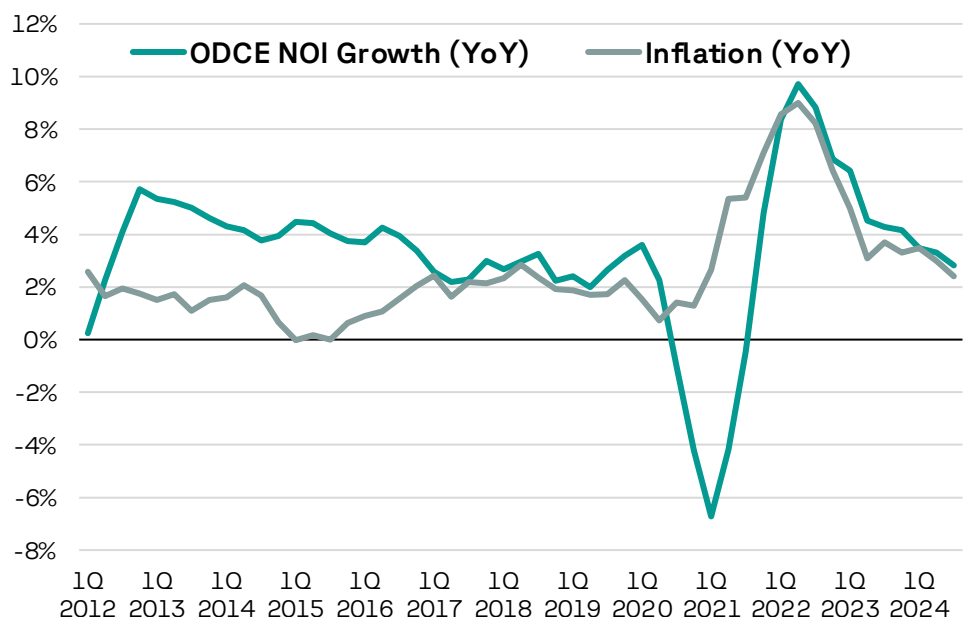
Section III.

Real Estate as an Inflation Hedge: How to Mitigate Pricing Risk

Despite consumer price increases moderating over the last few years, market participants have expressed concerns that, with the conditions that tend to produce higher inflation not having completely abated, the Fed may elect to keep interest rates higher for longer. These concerns have been bolstered by recent data from the Michigan Consumer Survey, which estimated 5-year inflation expectations at 3.30%, marking the highest such figure since 2008.³ Some point to the incoming Trump Administration's potential use of tariffs, which Goldman Sachs estimates could add 1.2% to price increases if tariffs exceed 10% on average.⁴ Others view the continued structural loosening of fiscal policy and the government's record level of deficit spending as a key driver of inflation.⁵ At the same time, the economy continues to produce jobs at a brisk pace, as the unemployment rate (4.1% as of December 2024) remains at a historically low level.⁶ In either case, the economy shows signs of continued elevated inflation in the near-term, and it is therefore noteworthy that ODCE has historically acted as an inflation mitigant through NOI growth, as can be seen below.

EXHIBIT 3: Core Real Estate & Inflation: ODCE Net Operating Income growth is keeping pace with inflation

Year-over-year same-store NOI growth for the NFI-ODCE Index as of 3Q 2024. Year-over-year inflation represented by the Consumer Price Index for All Urban Consumers: All Items in U.S. City Average as of 3Q 2024.





Investors who are looking for a hedge against inflation may find real estate to be an invaluable and effective strategy. It is widely recognized that income generation is a key component of private real estate investing. As inflation rises, rental income can increase right with it, helping to offset the impact of inflation. In the NFI-ODCE benchmark, net operating income (or the profits generated from real estate investments) has historically outpaced inflation, including in periods when inflation has been well above current levels. That is not to say, however, that all real estate provides the same level of inflation protection. For example, opportunistic/value-add strategies may offer a higher total return opportunity, but during periods of elevated inflation, core assets (like those in the NFI-ODCE benchmark) tend to have the highest occupancy rates and most consistent cash flow, resulting in more resilient inflation protection by comparison.

While we're not expecting inflation to return to its peak levels of the recent past, if it proves to be stickier than expected, private real estate (and core assets in particular) can be a valuable component of an investment portfolio due to its ability to hedge against price increases.

EXHIBIT 3, Source: IDR, NFI-ODCE, U.S. Bureau of Labor Statistics.

³[US Consumer Inflation Expectations Jump to Highest Since 2008 – Bloomberg](#)

⁴[Global Economics Analyst Macro Outlook 2025 Tailwinds \(Probably\) Trump Tariffs – Goldman Sachs](#)

⁵[What is the National Deficit? - Fiscal Data, Treasury.gov](#)

⁶[Unemployment Rate – FRED Economic Data, St. Louis Fed](#)



Section IV.

Asset Allocation Impact: Understanding the Role of Real Estate

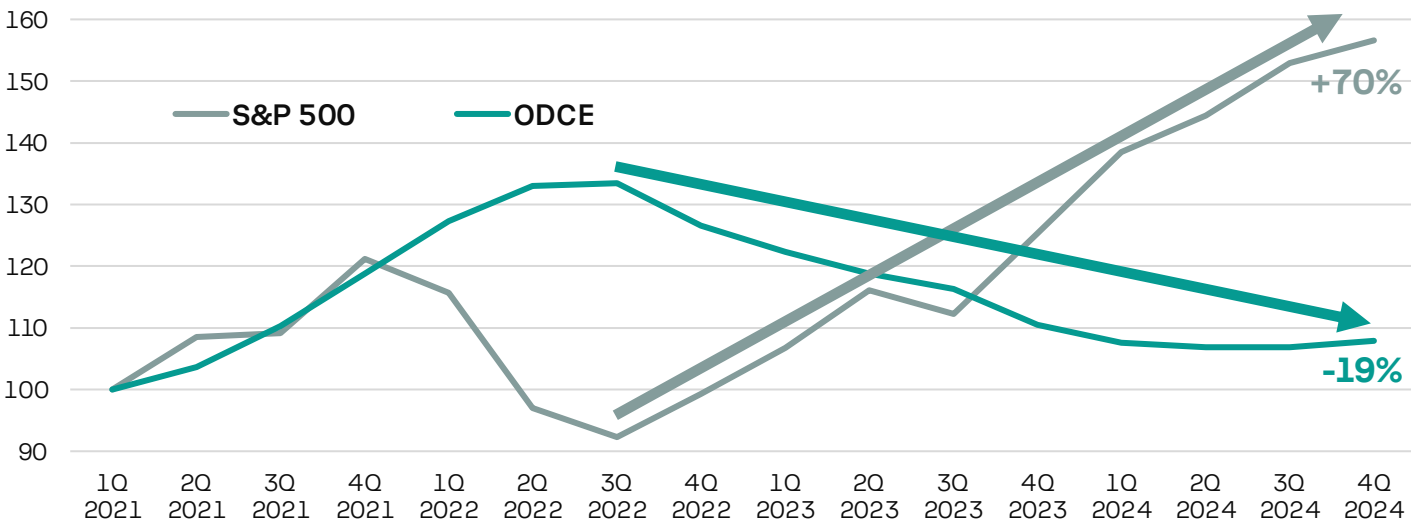
The traditional 60/40 portfolio, which allocates 60% to stocks and 40% to bonds, has been a popular investment strategy for decades, but it is not without its drawbacks. For starters, stocks and bonds don't always move in opposite directions. This dynamic played out as recently as 2022 when interest rates rose sharply (devaluing bonds) while also causing a steep decline in the stock market. Even in the early days of 2025, a similar a similar scenario unfolded, with both stocks and bonds declining simultaneously, challenging the assumption that a 60/40 portfolio provides reliable diversification.⁷ Furthermore, should interest rates continue to recede, as many expect to occur in the coming year, these lower bond yields can drag down overall portfolio returns.

With that in mind, the role played by private real estate in a portfolio is especially valuable today. Real estate has several attractive attributes, but its ability to provide portfolio diversification is one of its most appealing qualities. Private real estate has historically exhibited a low correlation to traditional asset classes like public equities and fixed income. When stocks and bonds zig, private real estate tends to zag—providing diversification benefits that reduce overall portfolio risk.

As shown in the following chart, the stock market ran to record highs from 2022 to 2024. During that same period, private real estate (ODCE) faced challenges but recently posted its first positive quarter, signaling a potential strong recovery ahead.⁸ If history repeats, or even rhymes, we would expect private real estate to continue to act as a complementary investment to equities throughout the next market cycle.

**EXHIBIT 4:
Asset Allocation: Total Return (Indexed to 100)**

NFI-ODCE Index net total returns and S&P 500 gross total returns indexed to 100 (1Q 2021 = 100) as of 4Q 2024. ODCE net total return figure for 4Q 2024 is a preliminary estimate and is subject to change.



The 60/40 portfolio remains widely used due in part to its historical performance, but investors should consider that market dynamics have evolved, and the 60/40 portfolio composition may no longer be optimal moving forward. Therefore, maintaining balanced asset allocation targets that include private real estate may prove to be the best risk management approach, particularly during periods of uncertainty.

EXHIBIT 4, Source: IDR, NFI-ODCE.

⁷Treasury Yields Rise a Little as Tariffs are Delayed – WSJ

⁸IDR



Section V.

Structure and Governance: Why It Matters Today

We certainly believe in the benefits of including private real estate in a multi-asset portfolio, yet we also recognize the challenge advisors face not only with identifying the right strategy but also with ensuring that all the other structural attributes are a good fit. Some of these fundamental concerns with private investments range from the lack of transparency to financial engineering and, more recently, discrepancies around asset value calculations.⁹ For example, some investment managers who are responsible for calculating their fund's Net Asset Value (NAV) have failed to be transparent in communicating their calculation methodology to investors and regulators. This type of issue could raise conflict of interest concerns for the simple reason that the NAV calculation is used to determine management and performance fees, which can in turn represent an essential part of a firm's revenue.

The issue regarding how best to value private real estate has been debated heavily in recent years, but it is particularly relevant today because the shift in interest rate policy suggests the market may be approaching an inflection point, and investors, many of whom have been sitting on the sidelines, want to ensure they are buying in at an appropriate entry price. It is noteworthy that many institutional investment funds (such as those in the NFI-ODCE Index) are required to utilize a third-party valuation firm to mitigate the potential for valuation conflicts.

Another point of concern has to do with the source of cash used to fund future dividends. There is an inherent risk when a significant portion of dividend payments is not generated by the performance of the underlying properties but rather from borrowing cash using subscription lines and asset loans.¹⁰ Further, leverage is a key determinant of performance in private real estate. While it can enhance returns during an upswing, history is replete with examples of how it can also magnify losses during market downturns. This dynamic can become potentially problematic today when one takes into account the fact that many non-traded REITs often use more than double the leverage of the ODCE Index. With interest rates potentially remaining elevated, this practice calls into question whether the highly leveraged non-traded REIT model is sustainable over the long term.

Not every private real estate manager faces these issues and conflicts; firms like Accordant mitigate these risks by implementing appropriate structure and governance practices. Still, the onus remains on the advisor and investor to ask the tough questions during due diligence, as seemingly rudimentary items may have significant ramifications on future performance.

⁹[Pension Funds Want Private Equity to Open Up About Fees and Returns](#)

¹⁰[Private-Equity Funds Are Taking Out Loans They Don't Really Need - WSJ](#)



Conclusion

Looking ahead, there is a healthy appetite for real estate investments as the sector seems to have reached an inflection point, and a potential recovery appears to be on the horizon, even if there are still risks that investors must navigate. At Accordant, our focus is on providing a non-correlated allocation to private real estate that offers reliable income, portfolio diversification, attractive risk-adjusted returns, and an inflation hedge. These attributes are exceedingly valuable to a multi-asset portfolio in today's dynamic investment environment.

Though we are not in the business of forecasting the stock market, history would suggest that when equities become overvalued, as one could argue they were at the start of 2025, investors could benefit from investing in an asset class uncorrelated to equities. **In fact, price-to-earnings (PE) ratios for the stock market are at elevated levels only seen twice over the last 150 years—during the post-pandemic recovery in 2021 and the tech bubble in 1999-2000. In each of those previous occurrences, a meaningful correction followed, so it's impossible to rule out a similar outcome in the near future. However, it is during such periods of distress that investors can fully appreciate the diversification benefits that come with private real estate.**

For those who are at their target real estate allocation, we believe you will reap the benefits previously described, particularly during this period where there is an elevated level of macroeconomic uncertainty. Still, for those who are under-allocated, we suggest that now is the time to invest because not only will you find that you can do so at an attractive entry price, but in taking a prudent asset allocation approach, you may take advantage of the best portfolio safeguard in today's market.

On behalf of the team at Accordant, we look forward to engaging with you in 2025 as the economy and the private real estate market continue to evolve.

¹¹[Shiller PE Ratio - Multpl](#)

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