

# PRIVATE REAL ESTATE

## Market Commentary

Q3 2025



### PRIVATE REAL ESTATE IN A SHIFTING INVESTMENT REGIME

In March 2025, we outlined our view that a new investment regime had begun – defined by lower expected public market returns, interest rate and inflationary uncertainty, and increased volatility. As we now approach the end of 2025, our conviction around those views has only strengthened, supported by the data and market trends we have observed.

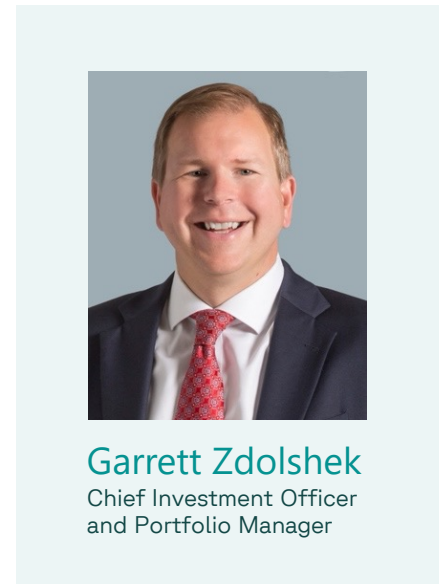
Further, we continue to believe the real estate market recovery is underway, although we foresee it unfolding unevenly across property types, geographies, and capital structures.

The private real estate market, as measured by the leading benchmark, the NFI-ODCE Index, has rebalanced its sectors and asset exposures over the past two years and we believe is now well-positioned to drive returns going forward. The office sector, in particular, has decreased as a component of the index by over 3% during that period, while the higher-growth industrial and apartment sectors are now more than 65% of the Index. Including alternative sectors brings that exposure to over 70%.

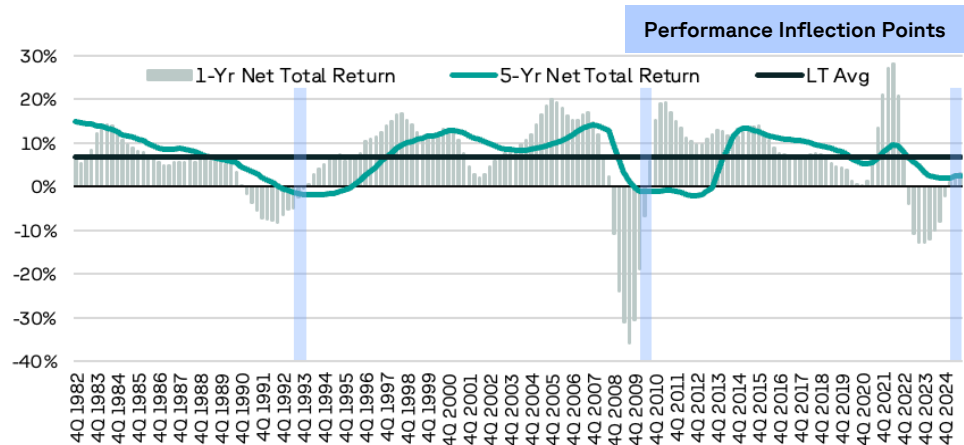
Just as importantly, given the broadly diversified Index, minimal life science exposure was added to the portfolio amid the headwinds in office and life science. While these challenges may persist for some time, the exposure within the Index remains small and the portfolio’s low-to-no structural constraints on introducing debt into the portfolio’s capital structure allows managers to hold assets through the cycle and maximize value rather than sell under pressure.

### An Uneven Private Real Estate Market Recovery

At the beginning of the year, private real estate markets were clearly in recovery mode. Valuations had adjusted to reflect current interest rates, and at the time, we had noted in our Quarterly Market Commentary that we believed the NFI-ODCE Index had bottomed. We projected that the rolling one-year return would turn positive in Q1 2025 for the first time in two years and continue that positive trend in Q2.



**EXHIBIT 1:**  
**NFI-ODCE Index Returns Reached an Inflection Point**  
Performance Inflection Points refer to periods when the quarterly net total returns of the NFI-ODCE Index shifted from negative to positive. The chart shows 1-year and 5-year preliminary trailing net total return data. The long-term average is based on the 5-year trailing net total return.



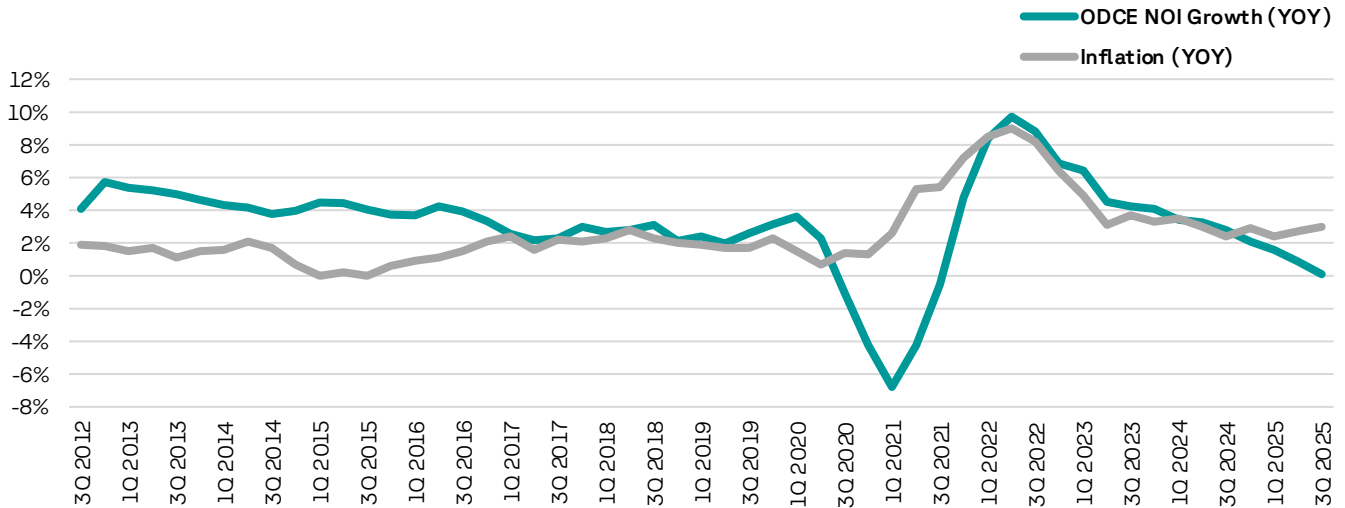
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While returns remained positive in Q3, they were again somewhat tempered due to lower NOI Growth (YOY) compared to inflation (YOY).

## EXHIBIT 2:

### Core Real Estate & Inflation

Core real estate net operating income (NOI) growth, represented by NOI growth of the NFI-ODCE Index, has historically kept pace with inflation, but has been somewhat muted over the past year.



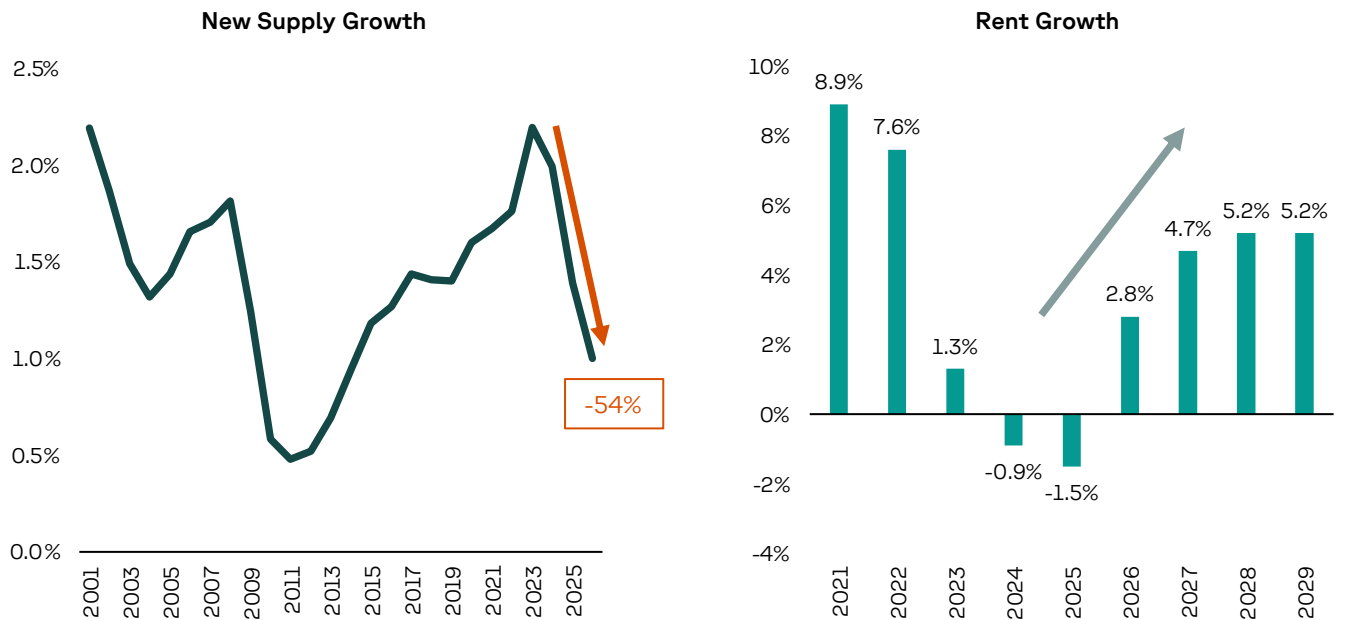
## Fundamentals Matter:

Simply put, private real estate is a demand-driven asset class. As long as tenant demand remains stable and supply stays constrained, fundamentals should support continued recovery. However, given low interest rates from the past cycle and COVID-driven demand for industrial and residential space, new supply has been robust. It will take some time for demand to catch up, but momentum is clearly accelerating. With increased demand coupled with limited new supply coming to market over the next few years, there is a compelling case for stronger NOI growth ahead.

## EXHIBIT 3:

### New Supply Growth

New supply growth is projected to decline by more than 50% by 2026, setting the stage for a rebound in rent growth as limited new development supports stronger fundamentals.



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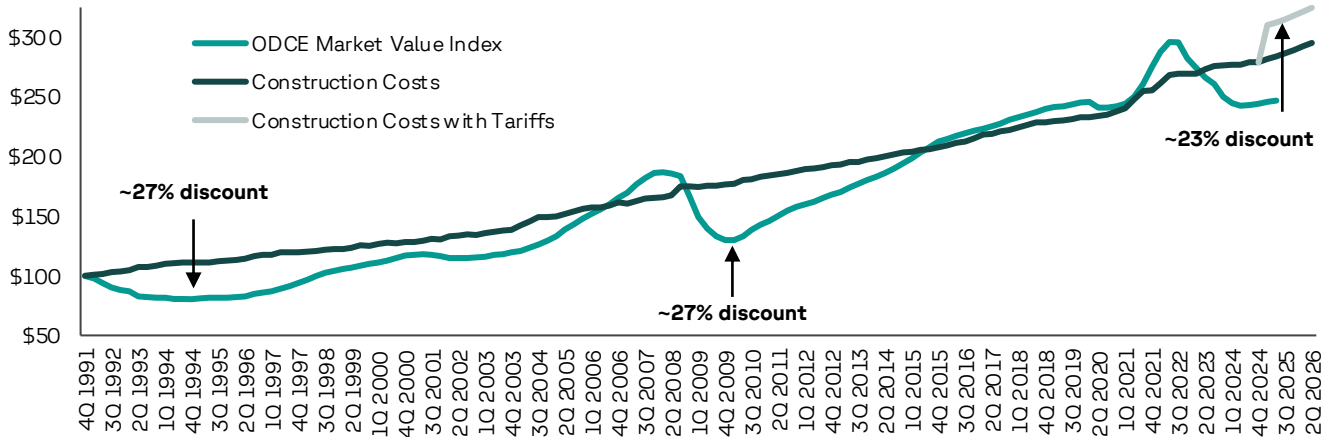
## Replacement Cost:

In today's market, fundamentals remain solid, and one could argue they are poised to improve as higher construction costs driven by tariffs and inflation are likely to constrain new supply going forward.

### EXHIBIT 4:

#### ODCE Market Value Index Relative to Construction Costs

The ODCE Market Value Index continues to trade at a discount to construction costs, as rising tariffs and inflation drive replacement costs higher.



## Mitigate Asset Allocation Risk and Diversify:

High-quality private real estate plays a valuable role in portfolio strategy today. It offers several attractive attributes, including the potential to hedge inflation and enhance portfolio diversification. Historically, private real estate has exhibited a low correlation to traditional asset classes such as public equities and fixed income. In short, when stocks and bonds zig, private real estate tends to zag – providing diversification benefits that help reduce overall portfolio risk.

Maintaining a consistent target allocation to the asset class is important for many investors today, as it can serve as a safeguard during challenging economic conditions. However, as noted, the private real estate recovery is expected to remain uneven – not all sectors or assets will have the same outcome – making diversification within private real estate important.

### EXHIBIT 5:

#### Real Estate with REAL Diversification

Private real estate's diversification potential as an asset class is evident through its low correlation to stocks and bonds, making it an attractive option for investors seeking income and reduced portfolio volatility.

	Private Real Estate	REITs	US Stocks	Bonds	
Private Real Estate	1.00	-0.05	-0.23	-0.32	LOW CORRELATION between Private Real Estate and US Stocks
REITs	-0.05	1.00	0.73	0.41	
US Stocks	-0.23	0.73	1.00	0.15	HIGH CORRELATION between REITs and US Stocks
Bonds	-0.32	0.41	0.15	1.00	

## Selectively Seize Opportunity:

Some investors will opt to sit tight amid ongoing market uncertainty, particularly those who are unsure of how to navigate those conditions. Yet, history suggests that periods of uncertainty and volatility tend to create attractive opportunities. Our approach is to be selective as these opportunities emerge, leveraging our private real estate expertise and experience through prior cycles to identify and capitalize on them effectively. In this environment, we remain confident that high-quality, conservatively leveraged real estate, especially core assets that have already been repriced, is at an attractive basis relative to other asset classes today.

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### Conclusion

Looking ahead, there will always be risks that investors must navigate as the world around them changes. At Accordant Investments, our focus remains fixed on the same long-term themes that drive our strategy.

Private real estate remains one of the most stable asset classes during periods of market turbulence. While the public equity markets tend to be relatively more prone to volatility, private real estate offers valuable diversification for investors who recognize the value in tangible, income-generating assets that provide low-correlated returns to stocks and bonds.

For those who are fully allocated to private real estate, we believe there is reason for continued confidence in the sector's resilience and growth potential. For those who have yet to optimize their allocations, this may be an opportune time to reconsider your position. Whether focusing on high-quality core assets or newly emerging opportunities, such as ones that capitalize on investing in assets below replacement cost or in the demand for tech-related real estate, we believe there are compelling reasons to act now.

On behalf of our team at Accordant Investments, we want to thank you for your continued trust during these challenging yet promising times. We remain committed to delivering transparent, high-quality solutions that align with your investment goals.



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### Sources

EXHIBIT 1: 1-Yr & 5-Yr preliminary trailing net total return data as of Q3 2025. 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. Source: IDR, Component Funds, NFI-ODCE Index ("ODCE").

EXHIBIT 2: Year-over-year same-store NOI growth for the NFI-ODCE Index as of Q3 2025. Year-over-year inflation represented by the Consumer Price Index for All Urban Consumers: All Items in U.S. City Average as of Q4 2024. Source: IDR, NFI-ODCE, U.S. Bureau of Labor Statistics.

EXHIBIT 3: Data as of Q2 2025. Source: IDR, Green Street, DWS, NCREIF.

EXHIBIT 4: Data as of Q2 2025. Source: IDR, NCREIF, ENR.

EXHIBIT 5: Fifteen-year correlation of total gross returns for all asset classes as of Q3 2025. Past performance is not indicative of future results. All indices are unmanaged and not directly investable. Source: NFI-ODCE Index ("Private Real Estate"), FTSE Nareit Equity ("REITs"), S&P 500 ("U.S. Stocks"), Bloomberg Barclays U.S. Aggregate Bond Index ("Bonds").

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