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## Alternative strategy overview – Private real estate

### Key takeaways

- Private real estate involves investments in commercial real estate properties through non-publicly traded vehicles offered directly to qualified investors by asset managers.
- There are a wide range of strategies available, from core and core-plus which focuses on high-quality, income-generating assets to growth-oriented approaches, such as value-add and opportunistic strategies.
- Private real estate assets have grown to over \$2 trillion and represent over 10% of global private markets according to Preqin, with increasing diversification into sectors like logistics, data centers, and life sciences.
- Private real estate typically aims to offer a mix of income and appreciation, inflation mitigation, and portfolio diversification.
- Qualified investors should also consider the strategy's illiquidity, leverage risk, and valuation lags when developing long-term diversified portfolios.

### What is private real estate?

Private real estate refers to investments in commercial real estate properties — such as residential buildings, office towers, industrial warehouses, retail centers, hotels, and niche assets like data centers or senior housing. Qualified investors can gain private real estate exposure through professionally managed funds, which are not traded on public exchanges. Additionally, these funds may or may not be registered under public securities laws.

Private real estate investments are managed by investment professionals whom we would expect to source, acquire, own, and eventually sell the properties. We expect these strategies to vary widely in terms of risk, return, and liquidity. Therefore, we believe qualified investors should tailor their exposure to their specific investment objectives.

### Key investment strategies

Private real estate sub-strategies are typically categorized by risk and return profiles (see Chart 1):

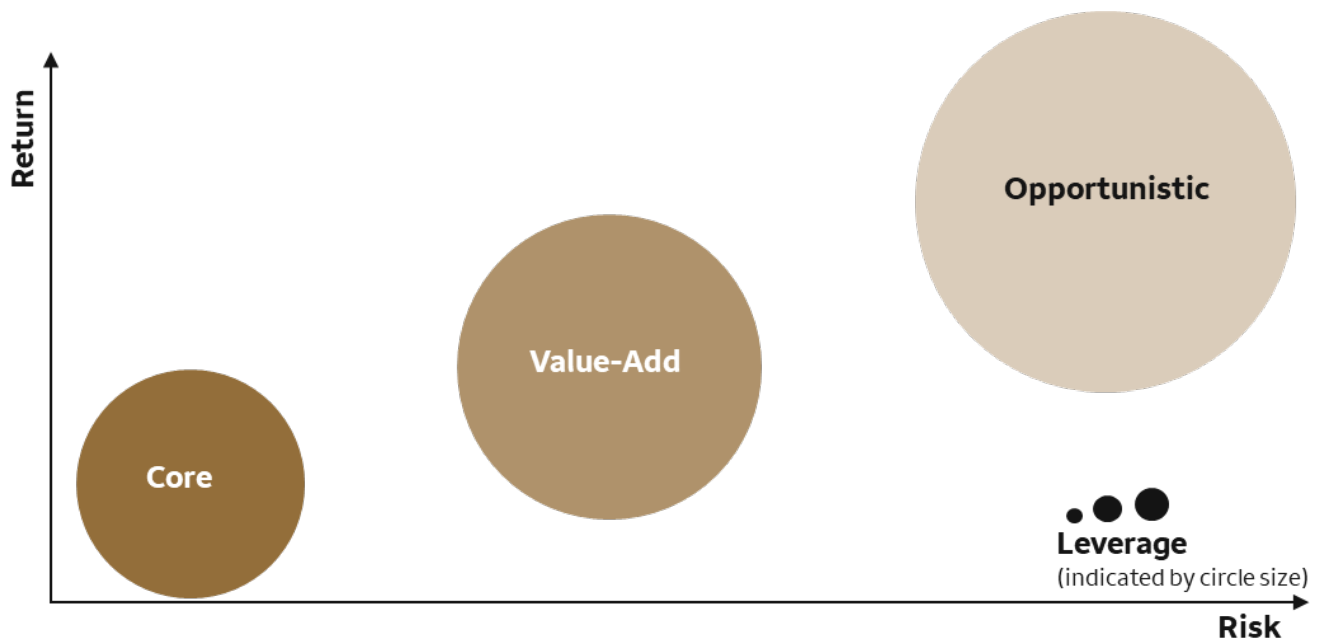
- **Core and core-plus strategies** typically invest in high-quality, stabilized properties in prime locations with long-term leases and low vacancies. Properties are held for long periods. Returns are generally dominated by income. Relative to other private real estate strategies, core strategies are expected to have generally

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lower leverage and lower execution risks.<sup>1</sup> Comparatively, core-plus strategies may accept moderate risk for higher return potential by acquiring properties that require light renovations, re-tenanting, or improved management.

- **Value-add strategies** typically invest in underperforming or partially impaired properties with the potential for improvement through renovation, lease-up, or repositioning. These strategies aim to generate balanced return from income and appreciation. Execution risk is higher than core strategies. Properties are typically held for an intermediate period (e.g. 5-7 years) during period of active management.
- **Opportunistic strategies** invest in high-risk properties or projects, including ground-up development, major repositioning, distressed assets, or emerging markets. Financial leverage is higher. Returns are mostly driven by capital appreciation. There is high execution and market risk.<sup>2</sup>
- **Other strategies:** Some private real estate managers invest in specialized areas such as real estate debt and distressed properties.

**Chart 1. Comparing private real estate strategies**



Source: Wells Fargo Investment Institute. For illustrative purposes only, not based on any specific index or investment. The size of the circle shows the level of leverage strategies take. The larger the circle, the larger the amount of leverage or debt. Among private real estate strategies, core strategies are generally expected to have low returns, risk and leverage. Value-add strategies are expected to have higher risk, return and leverage than core strategies. Opportunistic strategies are anticipated to have the highest risk, return and leverage.

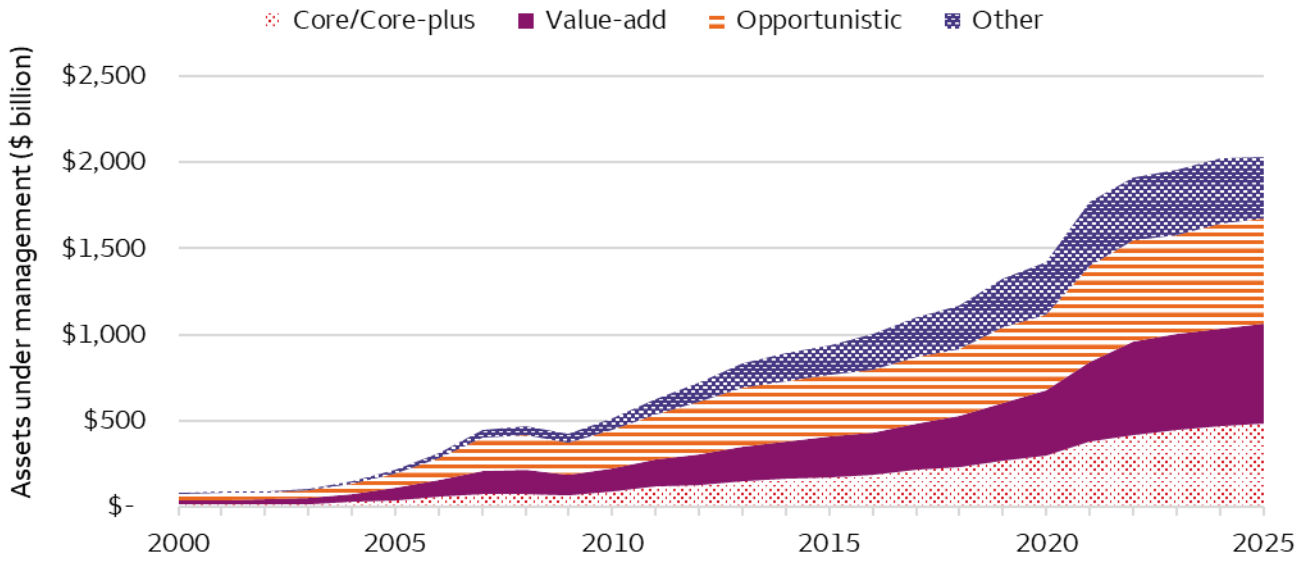
### Asset and market growth of private real estate

Private real estate has experienced significant growth over the past two decades. As shown in Chart 2, private real estate strategies represent over \$2 trillion in assets under management (AUM) as of September 30, 2025, accounting for over 10% of global private markets.

1. Execution risk in private real estate is the possibility that managers fail to successfully implement their proposed business plan for a property, leading to lower-than-anticipated returns or capital losses.

2. Market risk in private real estate is the potential for financial loss due to broad economic fluctuations or broad market volatilities, rather than issues with a specific property.

**Chart 2. Growth of private real estate assets from 2000 to 2025**

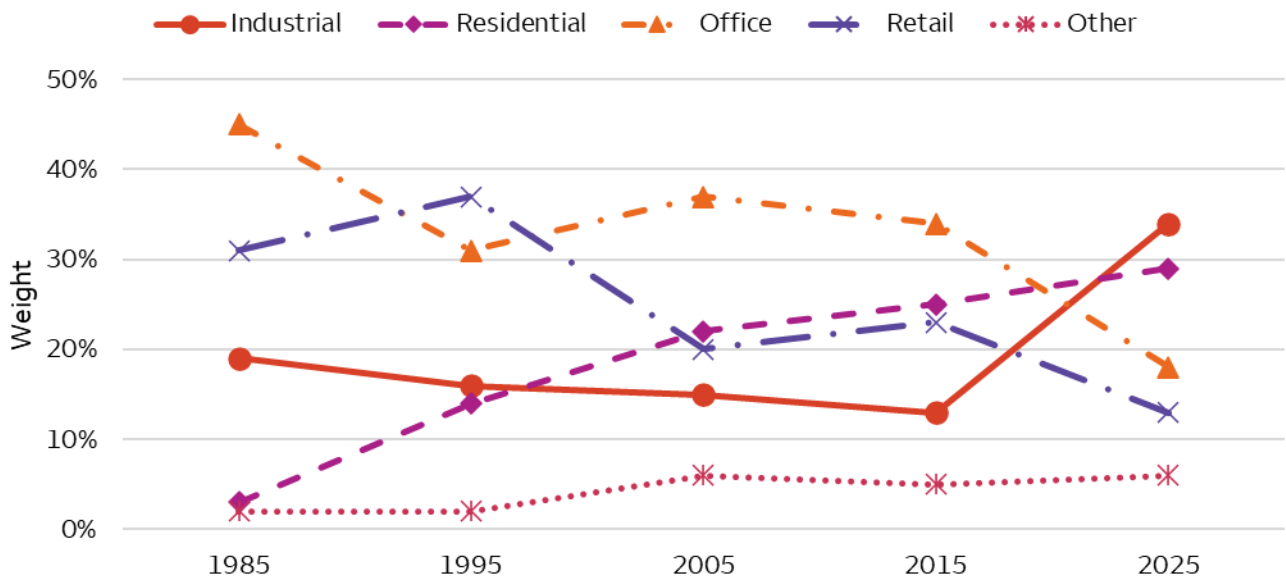


Sources: Prequin and Wells Fargo Investment Institute. Data as of September 30, 2025.

We believe this expansion was driven by investor demand seeking potential for income, diversification, and inflation protection.

The market has also evolved in terms of geography and property types (see Chart 3). While traditional sectors — like residential, retail, and office — remain dominant, niche segments such as data centers, logistics, life sciences, and student housing have gained in prominence.

**Chart 3. The evolution of property types in private real estate**



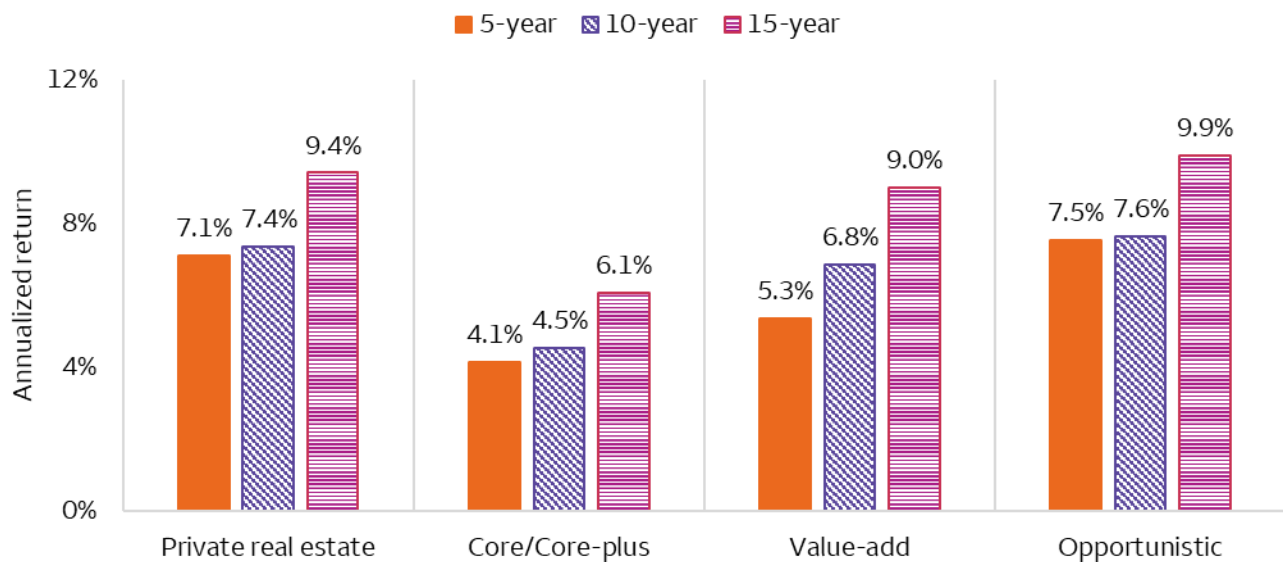
Sources: NCREIF and Wells Fargo Investment Institute. Data as of December 31, 2025. The weight shows the market value of a specific sector within the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index. Note that an index is not directly investable. Please see page 8 for index definitions.

## Potential benefits of allocating to private real estate

By investing in commercial real estate properties and gaining the potential for associated cash flows, we believe private real estate offers the following risk and return profile including:

- **Current income:** Private real estate seeks to generate income primarily through rent payments. Core and core-plus strategies focus on stabilized, income-producing properties with long-term leases and high occupancy rates. These assets seek to deliver steady cash flows, which income-focused qualified investors may consider.
- **Inflation mitigation:** We believe real estate may serve as a hedge against inflation. Rent increases may be linked to changes in the inflation index, such as Consumer Price Index (CPI). Additionally, we believe the physical nature of rental real estate holdings — built with commodities like lumber and concrete — may mean that replacement costs rise alongside the rise in the underlying input costs and can further support asset values.
- **Portfolio diversification:** Private real estate has historically exhibited low correlation with traditional asset classes like equities and fixed income.<sup>3</sup> As a result, we believe private real estate may help diversify a portfolio and has the potential to reduce portfolio volatility.
- **Asset appreciation:** We believe private real estate offers the potential for long-term growth in Value-add and Opportunistic sub-strategies, which typically utilize leverage (i.e. debt financing) to take on capital intensive projects involving repositioning, redevelopment, or ground-up development, to enhance return potential. As shown in Chart 4, Pitchbook indexes show that 15-year annualized returns for Core/Core-plus, Value-add, and Opportunistic sub-strategies were 6.1%, 9.0% and 9.9%, respectively.
- **Access to inefficient markets:** Unlike stocks and bonds, real estate assets are not fungible. Each property is unique, and transactions are often negotiated privately. It is estimated that 93% of the \$22 trillion U.S. commercial real estate properties are privately held, representing a vast opportunity set.<sup>4</sup> As a result, fund managers seek to navigate and unlock value in this inefficient and hard-to-access market.

**Chart 4. Historical returns of Pitchbook private real estate indexes**



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of December 31, 2025. For illustrative purposes only. Pitchbook indexes are based on returns net of manager fees. Note that an index is not directly investable. Please see page 8 for index definitions.

3. 10-year correlations between NCREIF Property Index to the S&P 500 index and Bloomberg U.S. Aggregate Bond Index are -0.22 and -0.31, respectively, for the period between 2016 and 2025, as of December 31, 2025.

4. Federal Reserve and NAREIT, as of June 30, 2024.

## Risks associated with private real estate investing

- **Illiquidity:** Private real estate investments are long-term and illiquid. Open-ended private core real estate funds may offer quarterly liquidity at manager's discretion, which can be limited or halted during stressful market environments. Many value add and opportunistic closed-ended funds typically lock up capital for 7–10 years. Exiting early can be difficult and costly.
- **Execution risk:** Value-add and opportunistic sub-strategies often involve significant operational complexity — renovations, lease-ups<sup>5</sup>, development, or repositioning. Poor execution can lead to delays, cost overruns, or underperformance.
- **Leverage:** Many private real estate strategies use debt in an effort to enhance returns. Leverage can amplify gains and losses. The latter may happen especially in real estate market downturns or if interest rates rise.
- **Market risk:** Real estate value is cyclical and sensitive to macroeconomic factors such as economic growth, employment, interest rates, and consumer spending.
- **Manager dispersion:** Performance varies significantly among managers. According to Pitchbook, private real estate returns can show wide dispersion, making manager selection critical.<sup>6</sup> A poorly managed fund can underperform even in favorable market conditions.
- **Valuation lag:** Private real estate valuations are typically updated quarterly and based on appraisals. This lag can mask real-time market movements, both positive and negative.

## What role can private real estate play in a portfolio?

Private real estate may serve a few roles depending on the qualified investor's objectives, risk tolerance, and liquidity needs:

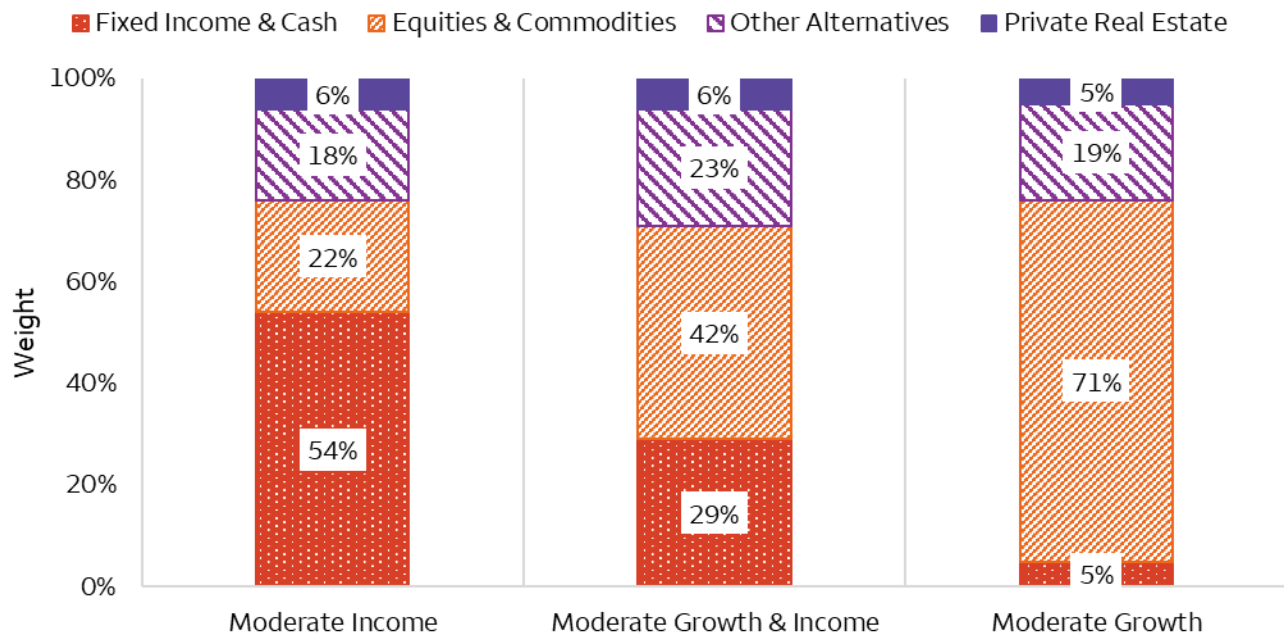
- **Income generation:** We believe Core and Core-plus sub-strategies have the potential to provide relatively stable income streams. Qualified investors with an income focus may consider these sub-strategies when developing a diversified income source.
- **Growth and capital appreciation:** Value-add and Opportunistic sub-strategies generally target higher returns through active management and development. Qualified investors seeking long-term growth and willing to accept higher risk and illiquidity may consider these sub-strategies.
- **Diversification:** We believe private real estate's low correlation with equities and bonds makes it a valuable diversifier. By combining assets that do not generally move in the same direction, an investor may be able to reduce portfolio volatility and improve risk-adjusted returns.
- **Inflation protection:** We believe the ability to adjust rents and replacement costs makes it a hedge against inflation.
- **Strategic allocation:** Private real estate can complement public market allocations and other alternatives, such as private equity, infrastructure, and hedge funds. It offers exposure to real assets with differentiated risk-return characteristics. The 2025 Wells Fargo Investment Institute (WFII) strategic asset allocation allocates 5% to 6% to private real estate in moderate income, moderate growth & income, and moderate growth objectives (see Chart 5).

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5. A lease-up in private real estate refers to the phase where a newly constructed or substantially renovated property fills its units with tenants to reach occupancy stabilization.

6. "Private Capital Indexes," Pitchbook, April 16, 2026.

**Chart 5. WFII strategic asset allocation with alternatives**



Source: Wells Fargo Investment Institute. Data as of July 16, 2025. These allocations are designed for qualified investors who can tolerate the illiquidity with alternative investments. All investing and asset classes shown are subject to risk of loss. The moderate investment objectives shown are three out of the nine allocations offered and are used in the chart for information purposes only. Speak with a Financial Professional for additional allocations that may be more appropriate for your individual financial circumstances and objectives.

### Market environment and opportunity

After a downturn in recent years driven in part by rising interest rates and economic concerns, we believe global private real estate markets have begun to stabilize. Property values appeared to find a floor, and transaction activity gradually recovered through the first quarter of 2026, according to NCREIF Property Index data.<sup>7</sup> Additionally, sector specific dynamics and dispersions continued to influence the asset class.<sup>8</sup>

- **Industrial:** We believe long-term demand for industrial and warehouse space will remain compelling, supported by continued e-commerce penetration, supply chain reconfiguration, reshoring initiatives, and inventory management needs.
- **Residential:** Residential real estate may benefit from structural tailwinds tied to housing undersupply, affordability challenges favoring rentership over ownership, and demographic trends, including delayed household formation and migration patterns toward Southern “Sun Belt” region.
- **Retail:** High-quality regional malls and well-located community retail centers have demonstrated resilient performance, characterized by low vacancy rates and stable cash flows, aided by limited new supply and improving tenant quality.
- **Office:** Traditional, aging office assets continue to face structural headwinds, including elevated vacancy rates and evolving workplace dynamics. However, modern properties in select prime markets are showing relative resilience.
- **Emerging sectors:** We believe sectors —such as data centers, life sciences facilities, senior and student housing, and self-storage — may experience long-term demand. Growth in these sectors is likely driven by secular trends including artificial intelligence (AI) and cloud computing, digitalization adoption, an aging global population, and increased emphasis on healthcare and specialized needs.

<sup>7</sup> “NPI Snapshot Report,” NCREIF, April 25, 2026.

<sup>8</sup> “Annual Sector Outlook,” GreenStreet, January 2026.

We believe that declining or stabilizing interest rates, combined with steady economic growth, has the potential to support further recovery in valuations and an acceleration in private real estate deal flow. Over the long term, we believe qualified investors should consider diversified allocations to private real estate as part of a broader portfolio strategy, given its potential to provide income generation, inflation sensitivity, and diversification benefits while selectively capturing sector-specific growth opportunities.

## Conclusion

Private real estate is a diverse and growing asset class that aims to offer investors a mix of income, inflation protection, diversification, and long-term growth. With a wide range of strategies available, investors may tailor their exposure to match their goals and resources. Whether through core income-generating assets or opportunistic development projects, we believe private real estate can play a vital role in building resilient portfolios.

Qualified investors should understand the benefits, risks, and market dynamics of private real estate when developing their long-term investment portfolios.

## Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **The commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

## Definitions

Private real estate is represented by Pitchbook Private Real Estate All Global NR USD Index, which covers \$395.4 billion active net asset value across 589 active funds. The index is A capital-weighted, unfrozen index that tracks the net-of-fees quarterly performance of closed-end, finite-life private real estate funds globally in the PitchBook fund universe with available cash flow and net asset value data.

Core/Core-plus is represented by Pitchbook Private Real Estate Core/Core-plus All Global NR USD Index, which covers \$67.7 billion active net asset value across 101 active funds. The index is A capital-weighted, unfrozen index that tracks the net-of-fees quarterly performance of closed-end, finite-life private core/core-plus real estate funds globally in the PitchBook fund universe with available cash flow and net asset value data.

Value-add is represented by Pitchbook Private Real Estate Value-Add All Global NR USD Index, which covers \$125.1 billion active net asset value across 278 active funds. The index is A capital-weighted, unfrozen index that tracks the net-of-fees quarterly performance of closed-end, finite-life private value-add real estate funds globally in the PitchBook fund universe with available cash flow and net asset value data.

Opportunistic is represented by Pitchbook Private Real Estate Opportunistic All Global NR USD Index, which covers \$202.6 billion active net asset value across 210 active funds. The index is A capital-weighted, unfrozen index that tracks the net-of-fees quarterly performance of closed-end, finite-life private opportunistic real estate funds globally in the PitchBook fund universe with available cash flow and net asset value data.

Pitchbook Data – Pitchbook uses a variety of publicly available sources found in targeted online searches including more than 1,000,000 web crawlers using national language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news (largest source of information) and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews in an effort to ensure accuracy of data. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

NCREIF Property Index (as of first quarter 2026) consists of 12,996 investment-grade, income-producing properties with a market value of \$906 billion and includes property data covering over 100 markets (core-based statistical areas or CBSAs). The market value breakdown by property type is about 17% office, 30% residential, 13% retail, 33% industrial with the remaining 7% consisting of hotel, self-storage, and seniors housing and “other” sectors. In addition, within each property type, data are further stratified by sub-type and location.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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