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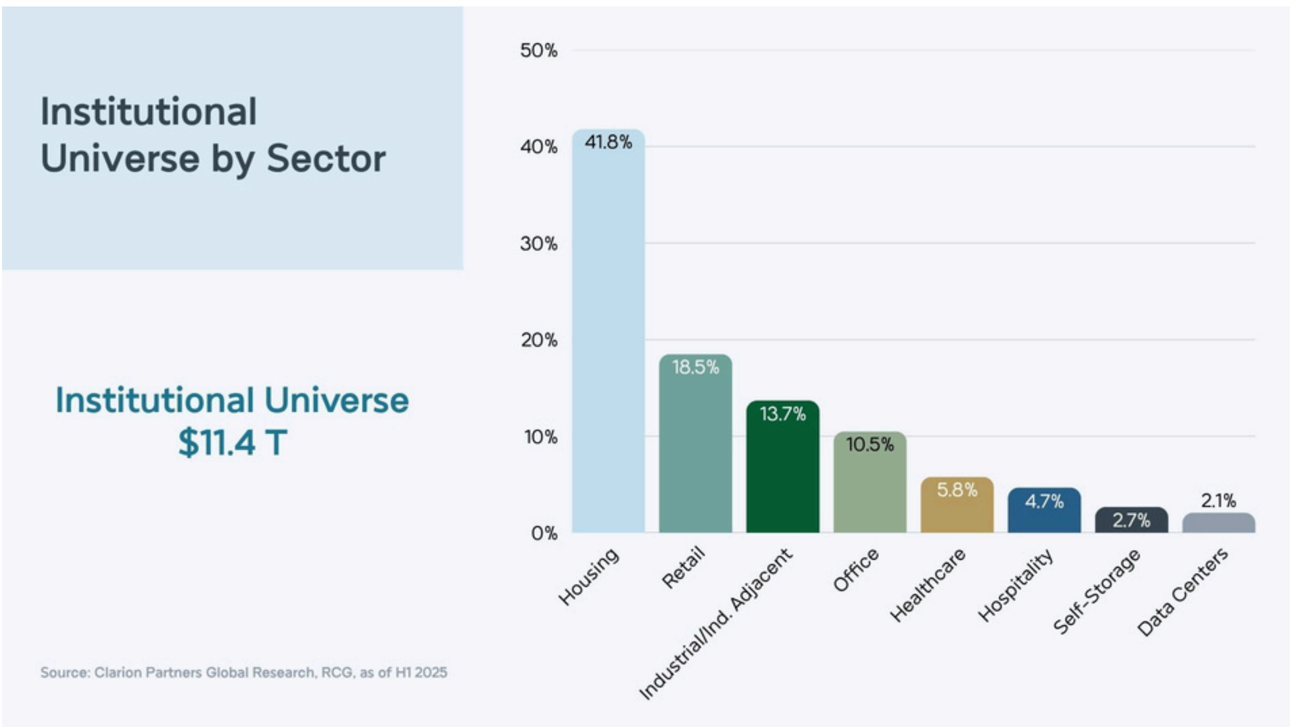
Private Real Estate in DC Plans:

Governance, Structure and Access Continue to Evolve

The U.S. is home to an abundance of iconic real estate from 30 Rock in New York City to the Bellagio in Las Vegas. For investors, these buildings represent a sliver of an immense commercial real estate asset class that is continuing to grow in depth and breadth.

Although private real estate typically falls in the alts category, it also ranks as one of the largest asset classes available to investors. According to Clarion Partners, the total size of the investible commercial real estate universe in the U.S. is currently estimated at $26.2 trillion. And it's a sector that is growing—not shrinking.

Private real estate has been part of institutional portfolios for decades and has evolved significantly in structure, governance, and accessibility. Investment opportunities are expanding beyond the traditional four groups—multifamily, office, retail and industrial—to include a variety of categories and sub-categories, such as data centers, seniors housing and self-storage, among others.



Defined contribution (DC) plans have been slower to increase allocations to private real estate compared to defined benefit (DB) plans. However, that trend appears to be changing. DC plans are democratizing access to institutional quality real estate assets for plan participants. DC plans also are expanding from strategies that focus purely on publicly traded real estate investment trusts (REITs) to include core private real estate exposure.

According to the 2025 Private Real Estate in DC Survey's analysis of DC capital held within institutional real estate open-end funds, there was more than $45 billion of net AUM of DC capital invested in private real estate as of the end of December 2024.

That overall volume included $37.5 billion of net AUM invested in dedicated real estate DC vehicles and $7.8 billion in institutional open-end funds. The move to include core private real estate assets in DC plans is a natural evolution as private real estate investment vehicles continue to innovate.

Benefits of private real estate

The investment case for adding core private real estate to professionally managed custom target date funds (TDFs) and white label funds is compelling. Benefits can include portfolio diversification, a stable return profile, historically strong long-term risk adjusted returns and potential for inflation risk mitigation without increasing volatility.

When integrated into a professionally managed, well-diversified DC investment solution, these attributes can help strengthen participant outcome potential through a broader array of market cycles. Private real estate has a low correlation to equity markets—a feature that is especially attractive in the current environment. Plan participants are looking for stability and diversification in a market where stock market performance has become highly volatile and unpredictable, with values that can drop sharply due to a tweet or news headline.

Sophisticated real estate solutions that offer private market benefits and daily liquidity are now increasingly accessible to DC plans of all sizes. Professionally managed investment strategies, such as TDFs and white label funds, offer a practical way to deliver the potential benefits of core private real estate strategies to participants as part of a larger investment portfolio.

Real Estate Income Has Consistently Outpaced Inflation Over the Long Term

Annual Performance Over CPI Inflation, December 31, 1992 – December 31, 2022

Source: DC Advancements in Real Estate Investing

Adapting to liquidity needs

One of the benefits of private real estate assets is its trademark stability. Properties such as apartments and shopping centers don't buy and sell at the click of a button. Although that creates a nice backstop against volatility, it also has put private real estate in a box as an inherently illiquid asset.

Over the past decade, professionally managed strategies have aimed to solve for liquidity by pairing private and public real estate. Adding a public real estate component or sleeve is typically achieved through investment in REITs. According to Nareit, virtually all TDF fund providers had some allocation to REITs as of the end of 2024.

Private and public real estate historically have exhibited distinct risk/return profiles, which allow them to play different roles in portfolio construction. The benefits are complementary, and it is this blended allocation of private real estate and REITs that appears well suited to address DC plan goals and needs.

Incorporating both private real estate and REITs into a portfolio strategy also can expand investment opportunities to the broader investable commercial real estate market. For example, a REIT sleeve can provide access to certain markets or sub-categories that may have more barriers to entry due to size or operating expertise, such as seniors housing, cold storage or data centers.

Private real estate investment strategies within DC plans are continuing to expand and evolve, giving plan participants access to the different property types and risk-adjusted return profiles with private real estate. The long history of private real estate investing, along with continued innovation in investment vehicles and strategies, offers opportunities and a practical roadmap on how to scale real estate allocations responsibly within DC plans.

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