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Where Institutional Capital Is Moving in Real Estate in 2026

The rise of alternatives






Tracking institutional capital flows to real estate in 2026 and beyond

Whether investors are dipping a toe in the water of real estate investing or looking to increase and diversify allocations, they have more choices than ever. So-called "niche" real estate sectors that once existed mainly on the periphery are becoming a central part of investment strategies.
That shift hasn't flipped on a dime—but it is accelerating. The flow of capital into alternative categories and sub-categories is now a dominant force that is reshaping real estate allocation strategies and creating new opportunities for investors.

Investment opportunities have slowly been expanding beyond what many view as the "traditional" property types—multifamily, office, retail and industrial—for the past 20-plus years. Real estate is evolving along with the economy, including new digital infrastructure, such as data centers, cell towers and e-commerce-related logistics and distribution centers.

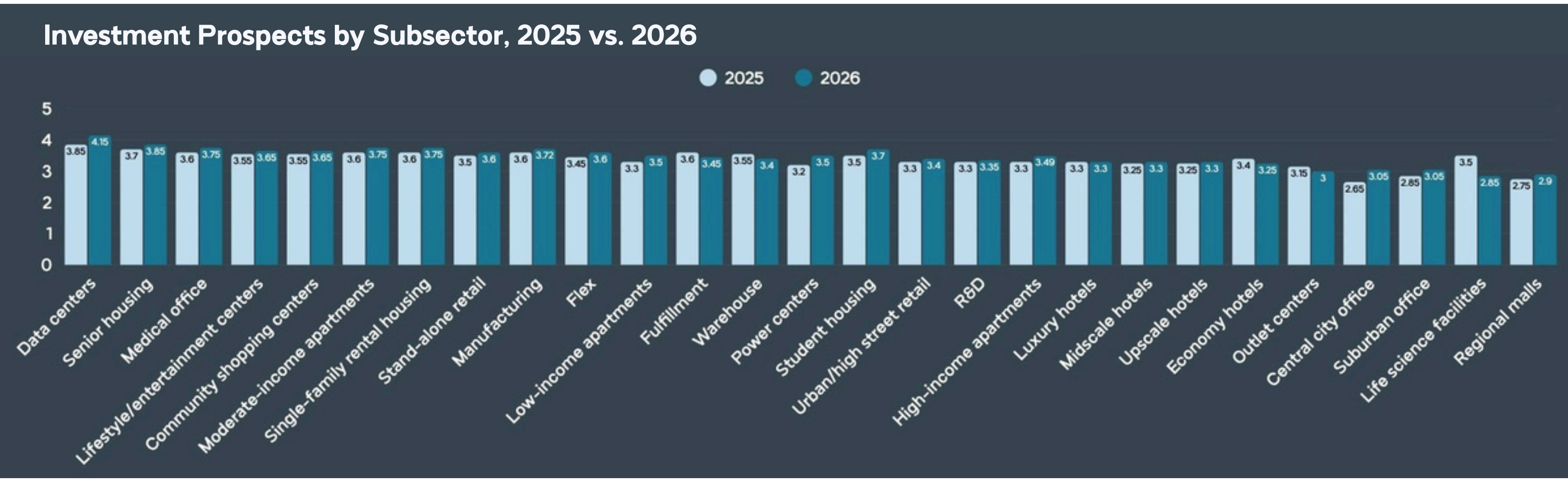
Clarion Partners estimates the total size of the investible institutional real estate universe in the U.S. at $11.4 trillion. Traditional property sectors (office, industrial, residential, retail and hotels) account for 69% of that investable market. Alternative sectors, such as seniors housing, self-storage, data centers and medical office, among others, represent the remaining 31%.

Source: Clarion Partners Global Research, RCF, As of H1 2025

Data centers and demographics

The ongoing expansion into alternative property sectors is a central trend recognized across the real estate industry. For example, the 2026 Emerging Trends in Real Estate published by PwC and the Urban Land Institute now tracks 27 different categories and subcategories of real estate assets. The latest report noted that: "Despite the wide variation in views on U.S. economic growth and market conditions ahead, the real estate industry agrees that, when it comes to sector allocation, what was once considered niche is now essential."

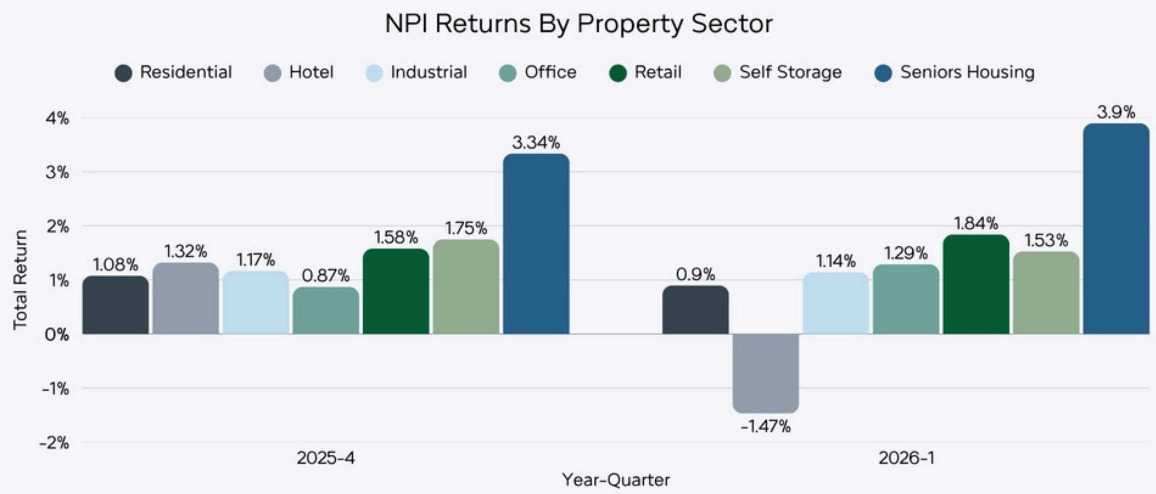
Data centers and seniors housing are at the leading edge of the broader push into alternatives. The common themes are the “essential” nature of these real estate assets along with overwhelming demand drivers.



The boom in data center development is undeniably the topic du jour. Developers can’t build data centers fast enough to meet the needs of explosive growth of AI. Global data center investment in 2025 alone topped a staggering $580 billion, according to industry research from Colliers. Although global estimates vary, Morgan Stanley Research estimates that nearly $3 trillion of AI-related infrastructure investment will flow through the global economy by 2028.

Yet it is seniors housing that has emerged as the top-performing sector thanks to huge demographic tailwinds from the “silver tsunami.” The leading edge of the baby boomers (1946-1964) begins turning 80 this year. Growing demand, coupled with limited construction, is already starting to show up in strong fundamentals.

According to the NCREIF Property Index (NPI), seniors housing posted a 3.90% total return in Q1 2026, up from 3.34% in Q4 2025. This was followed by retail at 1.84%, self-storage at 1.53%, office 1.29%, industrial at 1.14% and residential at 0.90%.



Continued evolution and expansion ahead

Another factor driving interest in alternatives is that many of the sectors previously viewed as niche are more investible. In the past, it was more difficult to place capital in some of the specialty sectors due to limited opportunities or necessary operating expertise.

However, some of these sectors have grown in size, as well as developed more institutional-quality assets and efficient operating platforms. Additionally, REIT sleeves built into private real estate portfolios are used strategically to provide liquidity and gain exposure to sectors that have bigger barriers to entry, such as cell towers or gaming.

Major property sectors, notably industrial and multifamily, remain key anchors to real estate fund strategies. Based on market value breakdown, industrial represents the largest concentration within the NCREIF NPI at 33%, followed by residential at 30%. In contrast, office has been on a downward trajectory, currently representing 17%. Many funds that started to reduce investment to office before COVID are continuing to pull back on investments due to structural shifts and a less favorable outlook for returns.

Investors also are finding more segmentation and specialization within the traditional core real estate categories. Industrial, for example, now includes sub-categories such as warehouse, distribution, logistics, light assembly, flex, cold storage and outdoor storage. And while interest outside of best-in-class “A” office buildings is flagging, investors are shifting their attention to opportunities in medical office buildings. MOBs are experiencing strong performance due to underlying demand along with a shift in the delivery of care to more outpatient facilities.

More options for portfolio strategies

Investors like real estate for characteristics such as portfolio stability, diversification and income generation. The continued expansion of the sector is giving investors more opportunities to build diverse risk-adjusted strategies across property types, geographies and risk profiles that include core, core-plus, value-add and opportunistic strategies.

As former niche categories grow in size, operating sophistication and investability, they are becoming foundational building blocks in diversified portfolios, alongside enduring anchors like industrial and multifamily. Evolving strategies also underscore a market where greater segmentation and specialized real estate continue to reflect changes occurring within the broader economy.

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