

Worlds Collide: Public REITs and Private Capital s

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National Council of Real Estate Fiduciaries (NCREIF) Webinar

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Chicago, Illinois

Worlds Collide: Agenda

1

▶ Background

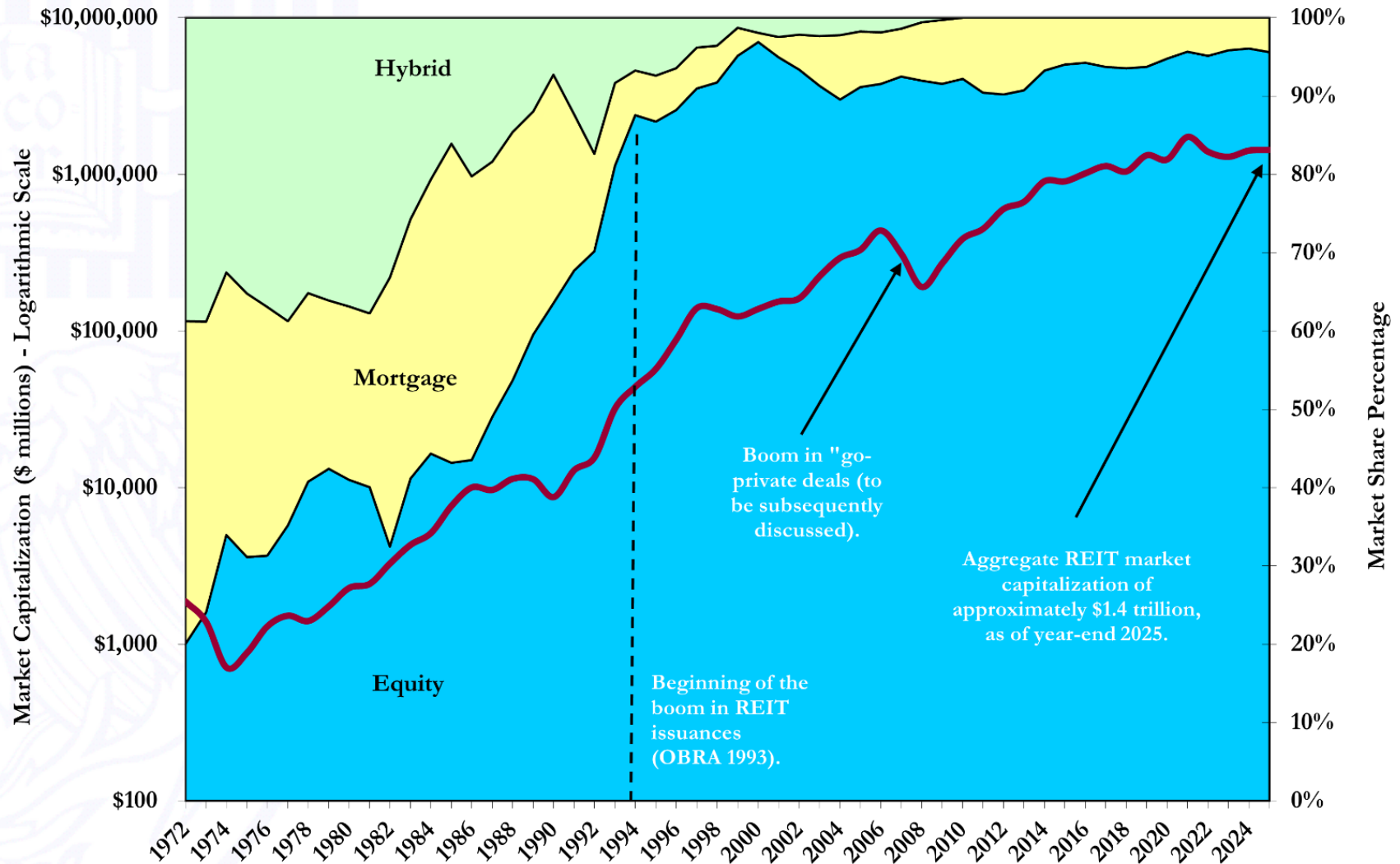
- ▶ A Few Financial Metrics
- ▶ Premium/Discount to NAV
- ▶ Public | Private Arbitrage
- ▶ Appraisal Smoothing/ Volatility Laundering
- ▶ Addendum #1: Opco | Propco Model
- ▶ Addendum #2: Current CRE Pricing

- In 1960, Congress enacted REIT legislation that enabled small investors to access large-scale commercial real estate – *ala* mutual funds:
 - Intended as passive vehicles, and
 - Active property types require the opco | propco model (Addendum).
- REITs are portfolios of interests in real properties, mortgage loans and other ancillary assets.
- Key legislative aspect: REITs avoid (double) taxation if meet certain tests (primarily: distribute 90% of taxable income as dividends).
- Types of publicly traded REITs (as defined by NAREIT):
 - Equity,
 - Mortgage, and
 - Hybrid.

An Overview of Market Share

3

Equity, Mortgage & Hybrid REITs for the Period 1972-2025



Source: NAREIT, January, 2026.

Benefits of the (Public) REIT Structure:

4

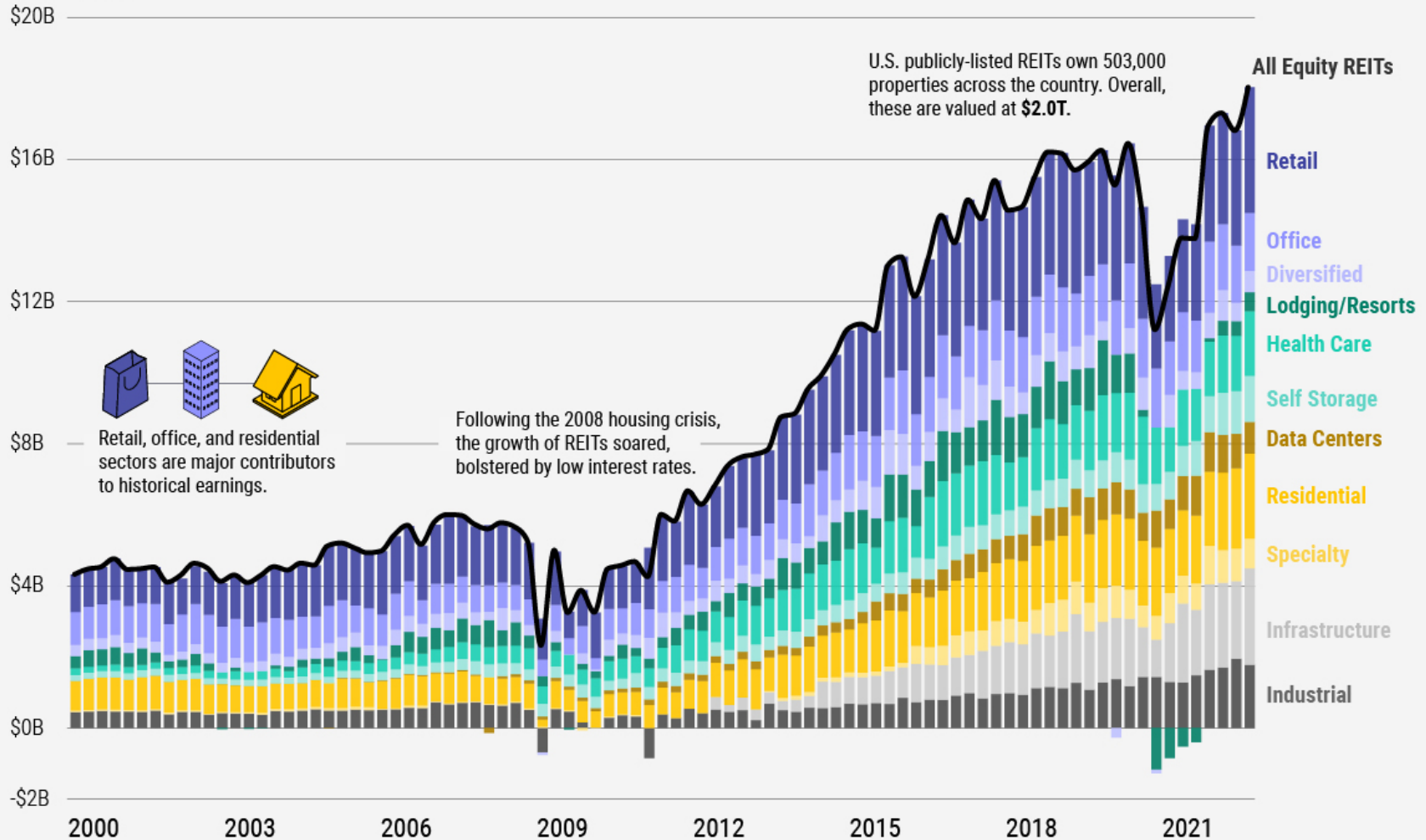
1. Disclosure – as public companies, the SEC reporting requirements are often greater than those found with private-market entities.
2. Investor Governance – the one share/one vote rule often provides for greater investor democracy/control than is often found with private-market entities.
3. Greater Alignment of Interest – management often owns a significant share of the company's outstanding stock (*i.e.*, insider ownership).
4. More-Focused Management – many REITs specialize in a particular property type and/or geography.
5. Market-Based Valuations – share the prices are set through auction-based, arms-length transactions (not by appraisals).
6. Liquidity – because the shares are traded on an exchange, there is usually a ready market to buy and sell shares at prices near the prevailing bid/ask spread.

Evolution of Property-Type Exposures

5

U.S. Listed Equity REIT Sectors

REIT Earnings*



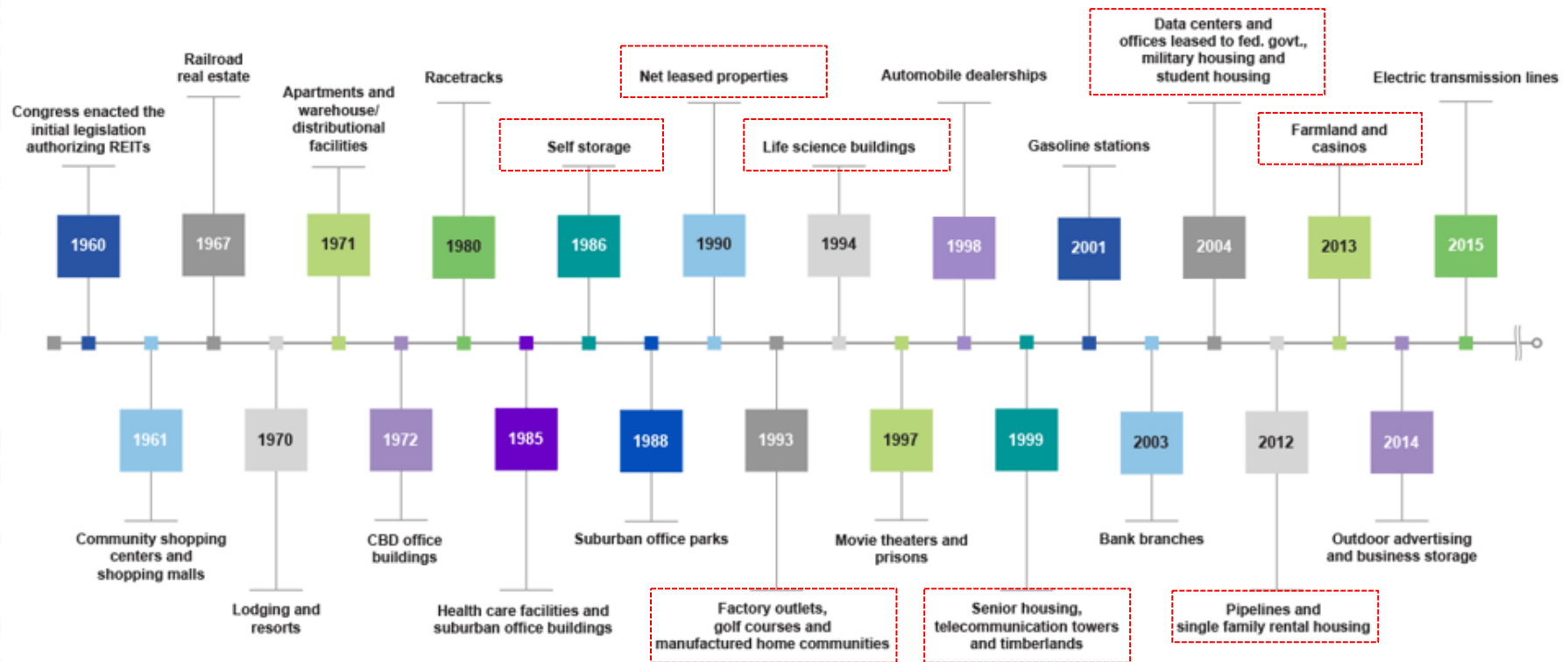
Source: “[Visualizing the Real Estate Investment Universe](#),” *Visual Capitalist*, August 24, 2022.

Evolution of Property-Type Exposures (continued)

6

- Aggressive *wrt* the Adoption of Non-Core Property Types:

Listings of REIT Real Estate



© 2017 Nareit

Source: NAREIT.

Evolution of Property-Type Exposures (continued)

7

- More than 60% of NAREIT Index = Non-Core Property Types:

PUBLIC REAL ESTATE UNIVERSE OF US NICHE SECTORS

31-December-2025	Number of Companies	Market Capitalization (\$Bn) ¹	%
HEALTH CARE	17	236.32	16.90%
TELECOMMUNICATIONS	3	141.75	10.14%
DATA CENTERS	2	129.06	9.23%
SELF STORAGE	5	87.04	6.22%
FREE STANDING	10	79.82	5.71%
SPECIALTY	8	49.62	3.55%
GAMING	2	42.76	3.06%
LODGING/RESORTS	12	31.99	2.29%
SINGLE FAMILY HOMES	2	30.59	2.19%
MANUFACTURED HOMES	3	29.28	2.09%
TIMBERLAND	3	23.80	1.70%
NICHE SECTORS	67	882.04	63.08%
FTSE NAREIT ALL EQUITY REITS	139	1398.06	100.00%

1. Commonshares outstanding plus operating partnership units, multiplied by share price.

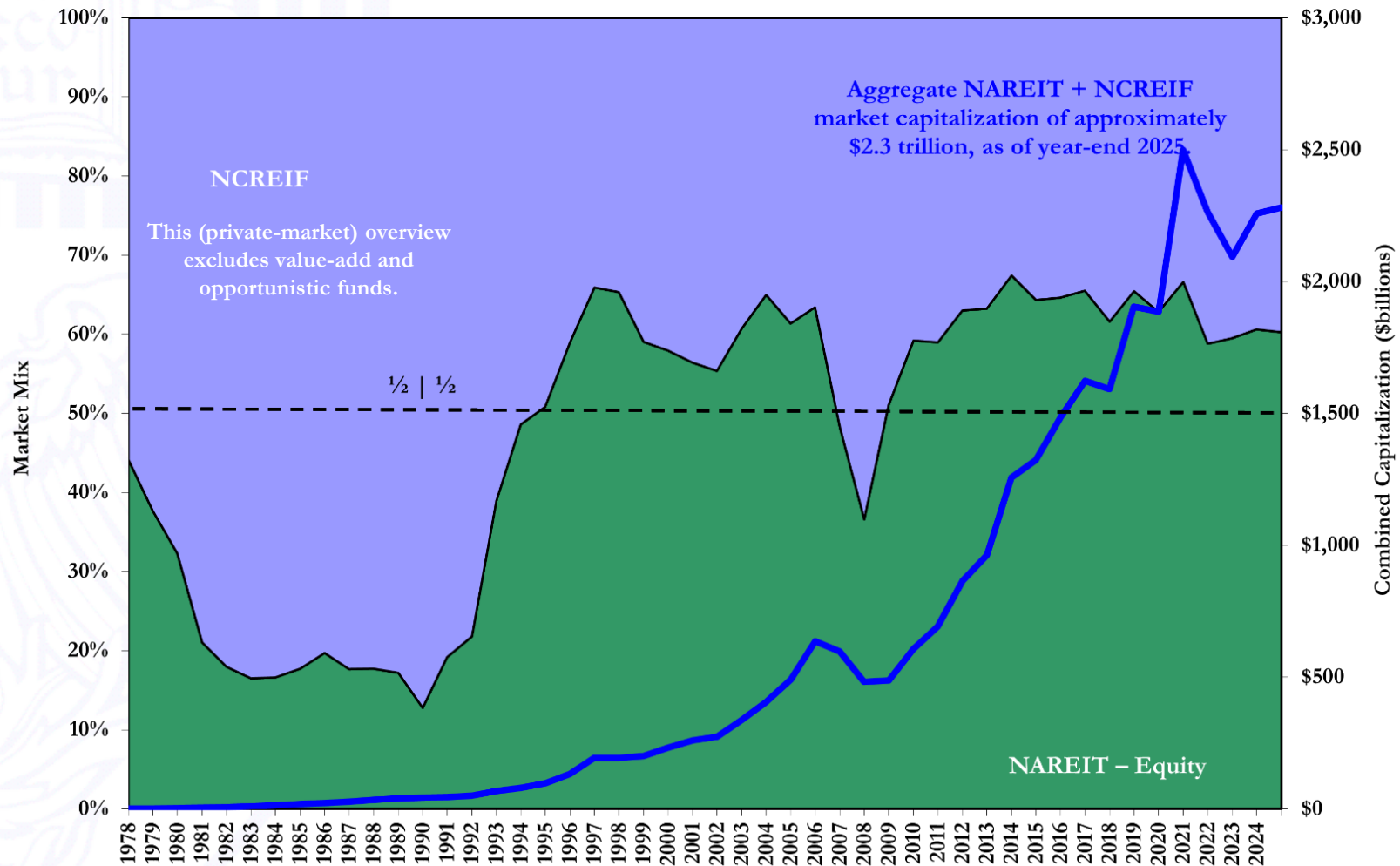
Source: "REITWatch," NAREIT, January 2026.

NAREIT v. NCREIF Evolution

8

- A (distorted) comparison of NAREIT & NCREIF Indices:

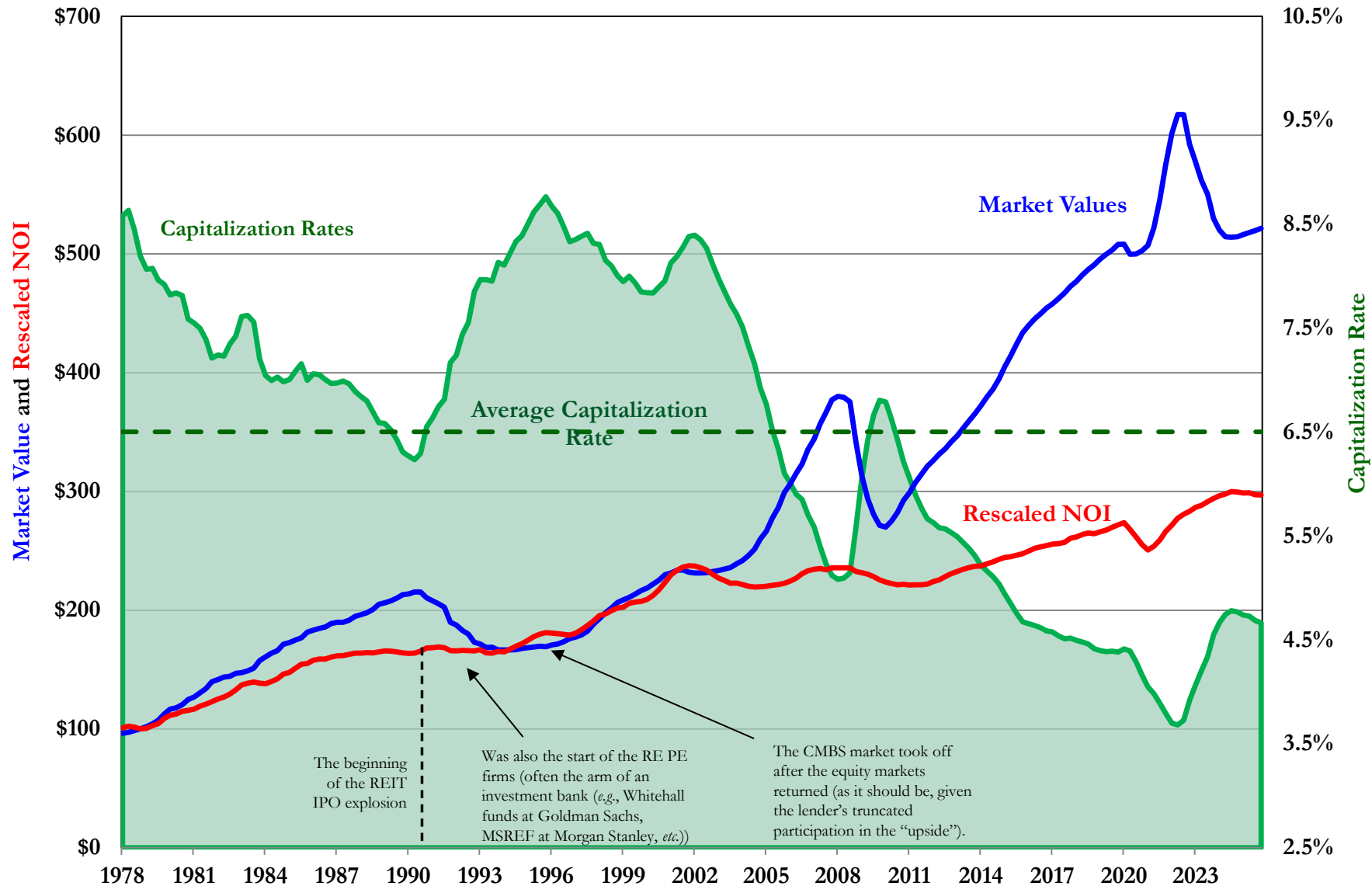
NAREIT Equities v. NCREIF Market Share and Combined Capitalization
for the Period 1978 through 2025



Path of NCREIF Prices, NOI & Cap Rates

9

NCREIF Index: Market Values, Rescaled NOI and Capitalization Rates Based on a \$100 Investment for the Period 1978 through 2025

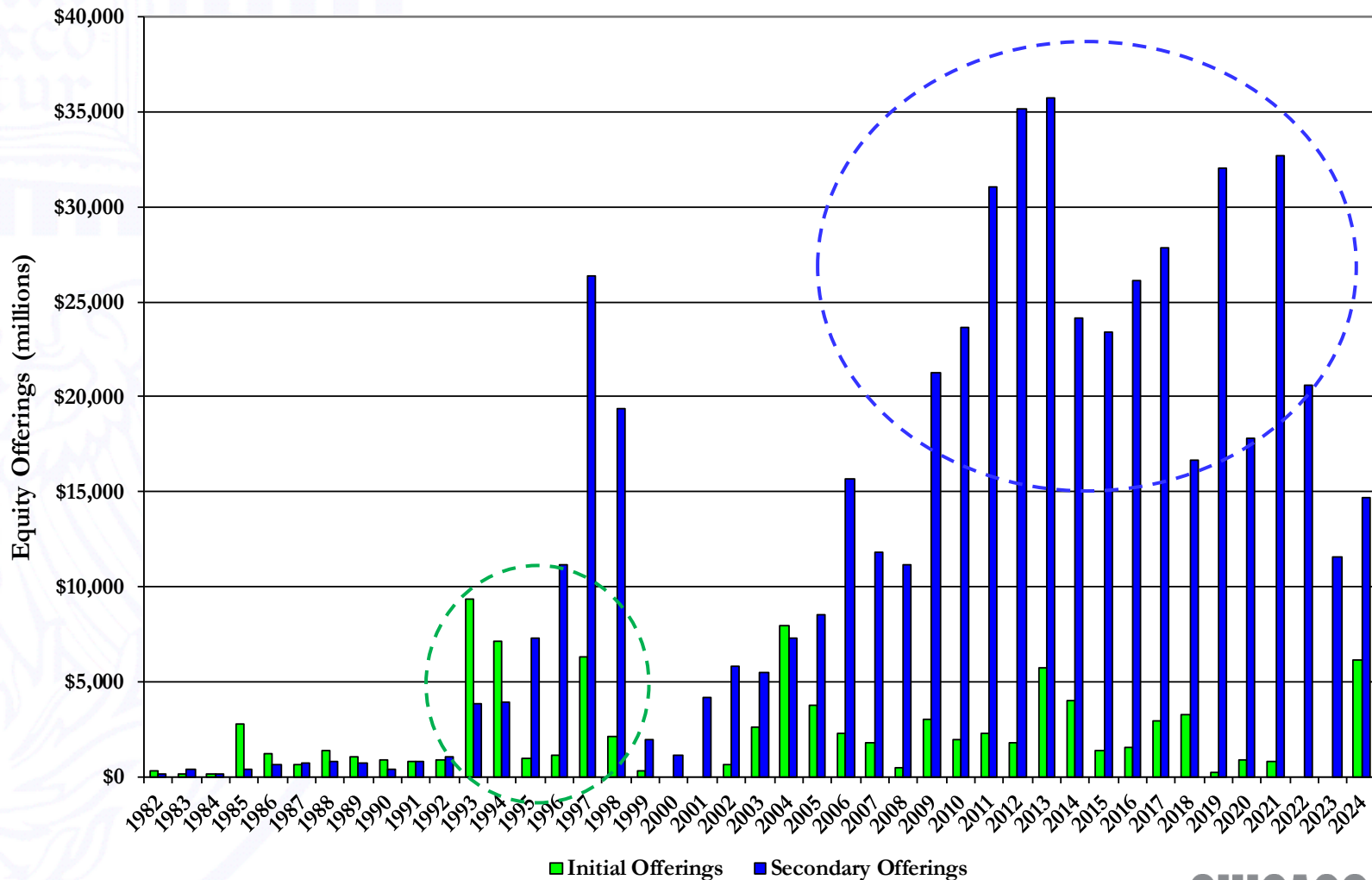


NAREIT Offerings

10

- Today's public REIT market began in earnest in mid-1990s:

Summary of (Common) Equity Offerings for the Period 1982 through 2024



Non-Traded REITs: 2025 Fund-Raising

11

- Not a focus here; but, the NTRs are increasingly significant.
- Fund-raising totals for the twelve months ended in 2025:

Top 10 Non-Listed REIT Sponsors - TTM Fundraising (a)		
Rank	Sponsor	Fundraising (\$mm)
1	Blackstone, Inc.	\$2,438
2	LaSalle Investment Management, Inc.	508
3	Franklin Templeton Private Markets	448
4	Apollo Global Management, Inc.	442
5	Kohlberg Kravis Roberts & Co.	430
6	Future Standard	427
7	Hines Interests Limited Partnership	424
8	Nuveen, LLC	392
9	J.P. Morgan Investment Management Inc.	36
10	StratCap Investment Management, LLC	31
All Others		149
Total		\$5,725

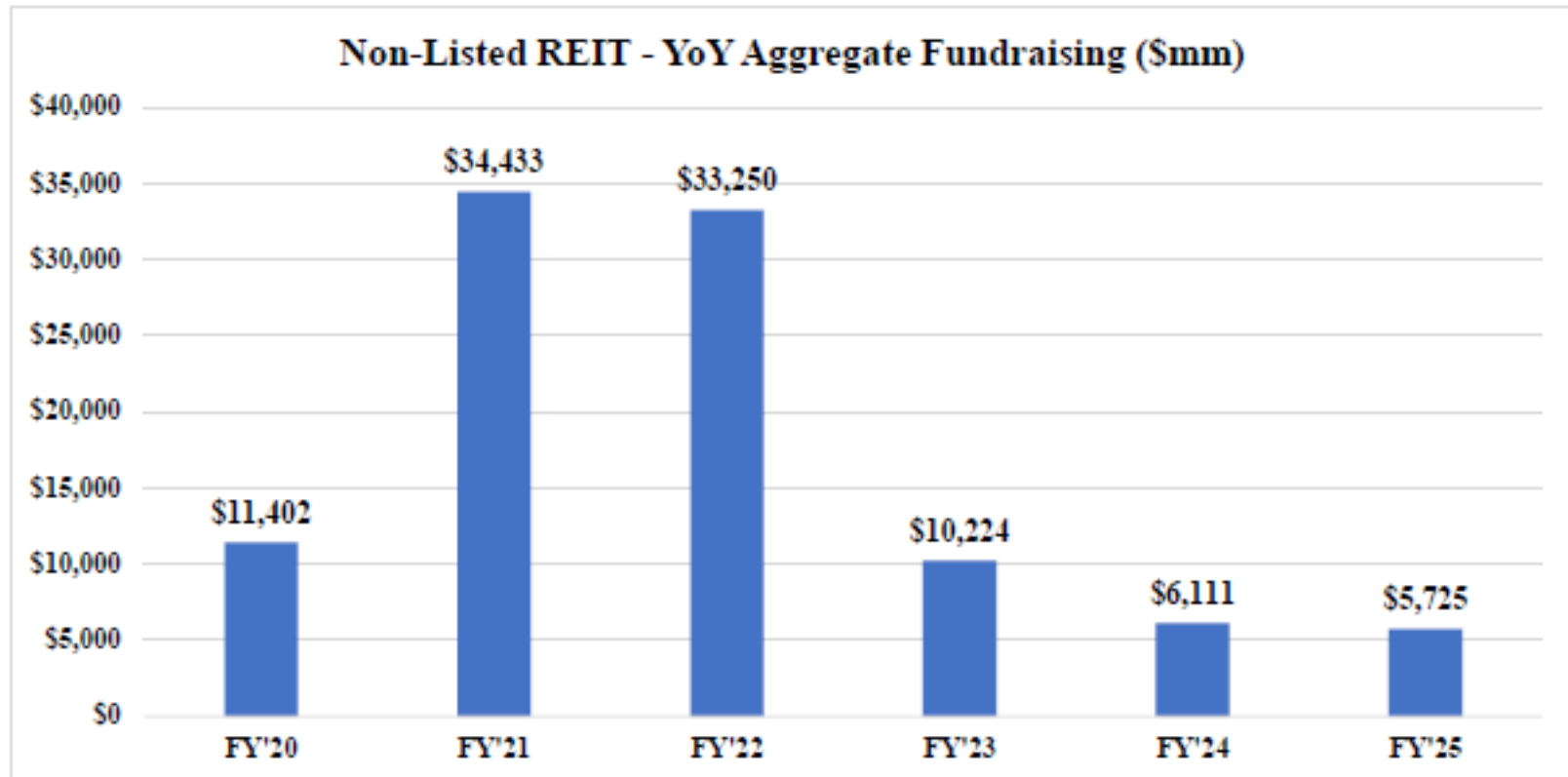
(a) Through December 2025. Excludes DRIP proceeds. Includes issuances of operating partnership units.

Source: "The Stanger Report," 4th Quarter, 2025.

Non-Traded REITs: Fund-Raising Overview

12

- Prior to 2020, Stranger tracked $\approx$ \$155 billion.
- Fund-raising totals for 2020-2025:



Prior to 2020, approximately \$155 billion was raised by funds tracked by Stanger.

Source: "The Stanger Report," 4th Quarter, 2025.

- ▶ **Background**

- ▶ **A Few Financial Metrics**

- ▶ **Premium/Discount to NAV**

- ▶ **Public | Private Arbitrage**

- ▶ **Appraisal Smoothing/ Volatility Laundering**

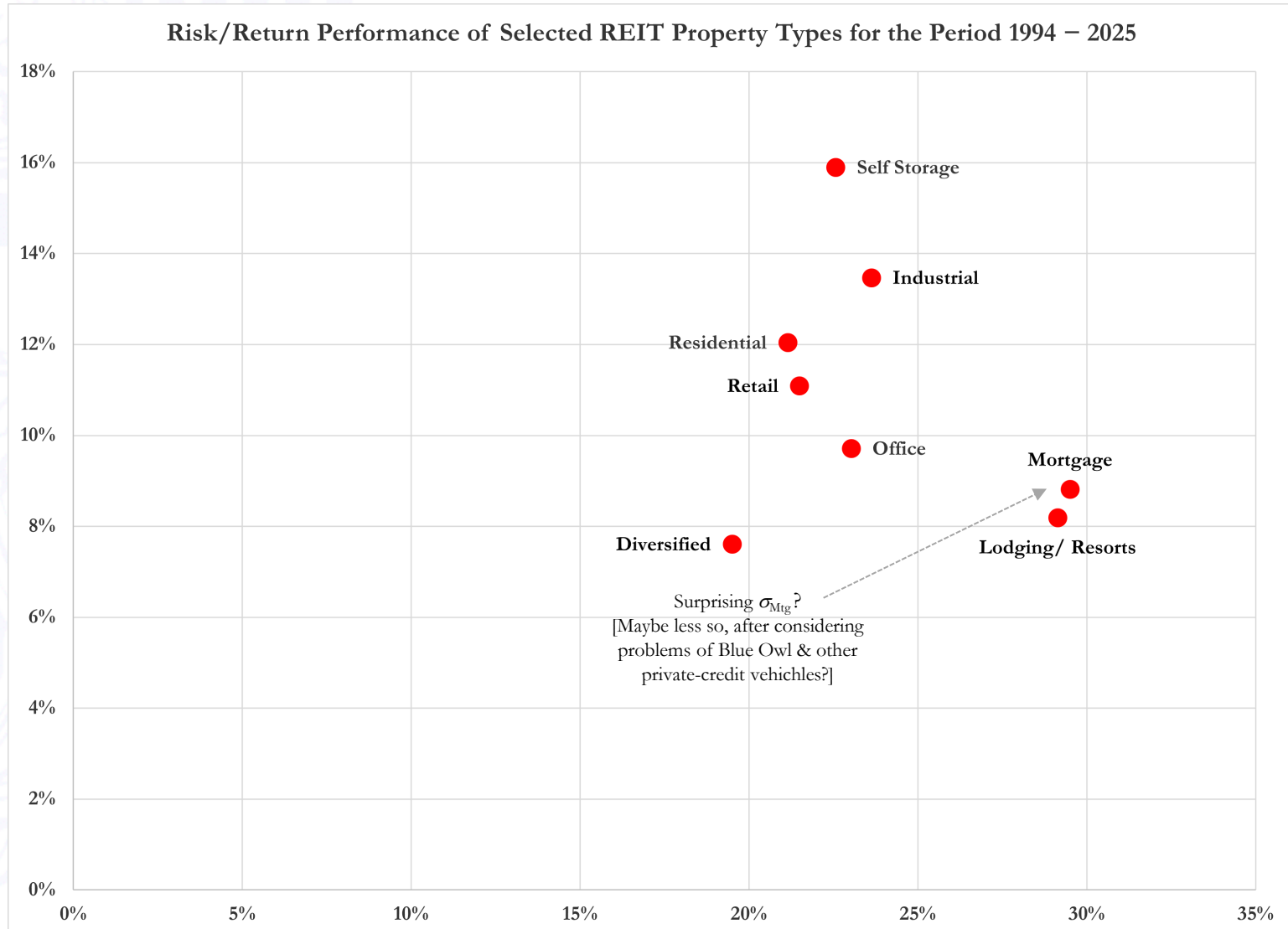
- ▶ **Addendum #1: Opco | Propco Model**

- ▶ **Addendum #2: Current CRE Pricing**

An Overview of Returns

14

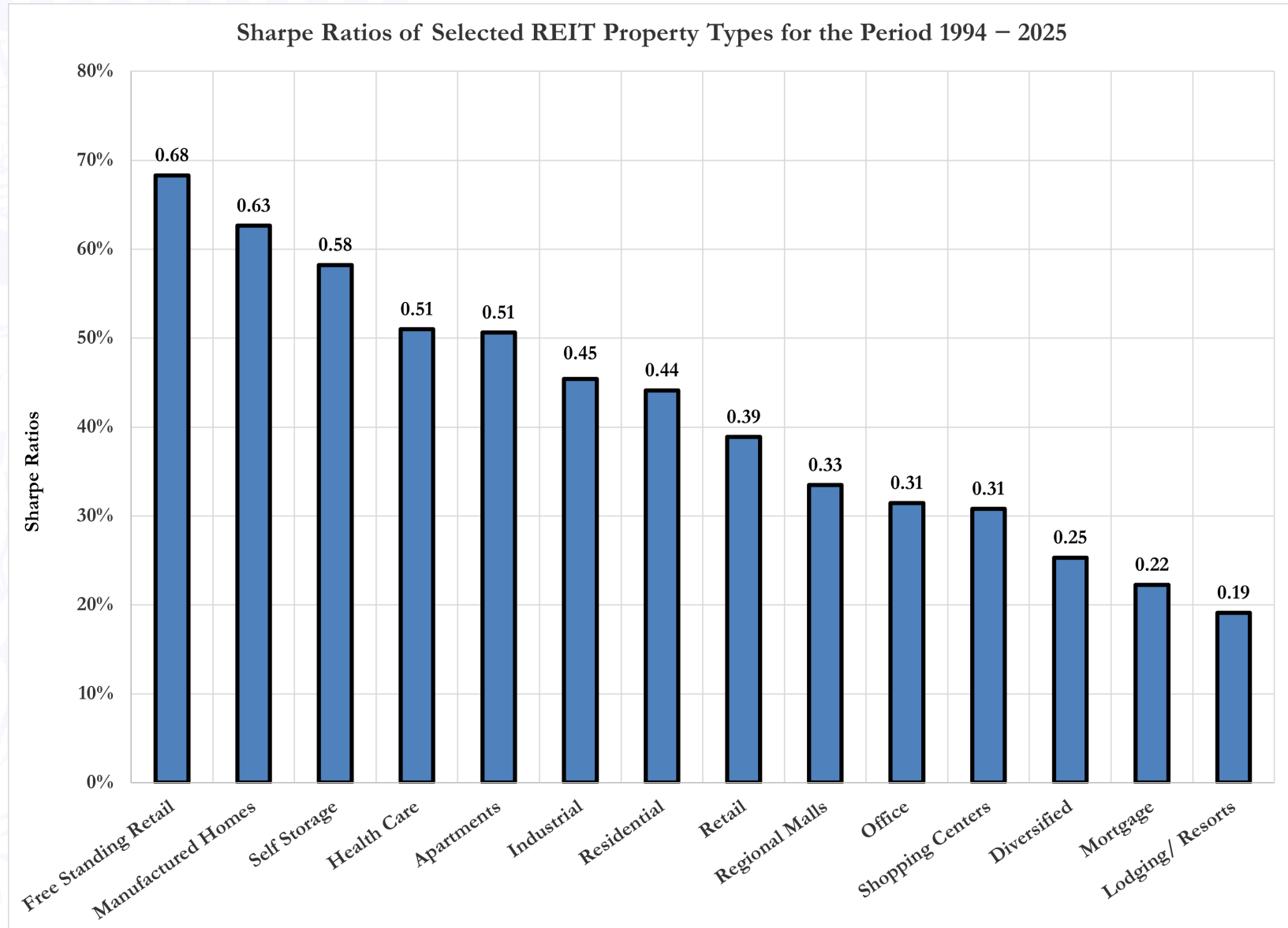
- The risk/return performance for selected REIT property types.
- For which the data series covers 1994-2025 (*e.g.*, SFR began in 2015):



An Overview of Risk-Adjusted Returns

15

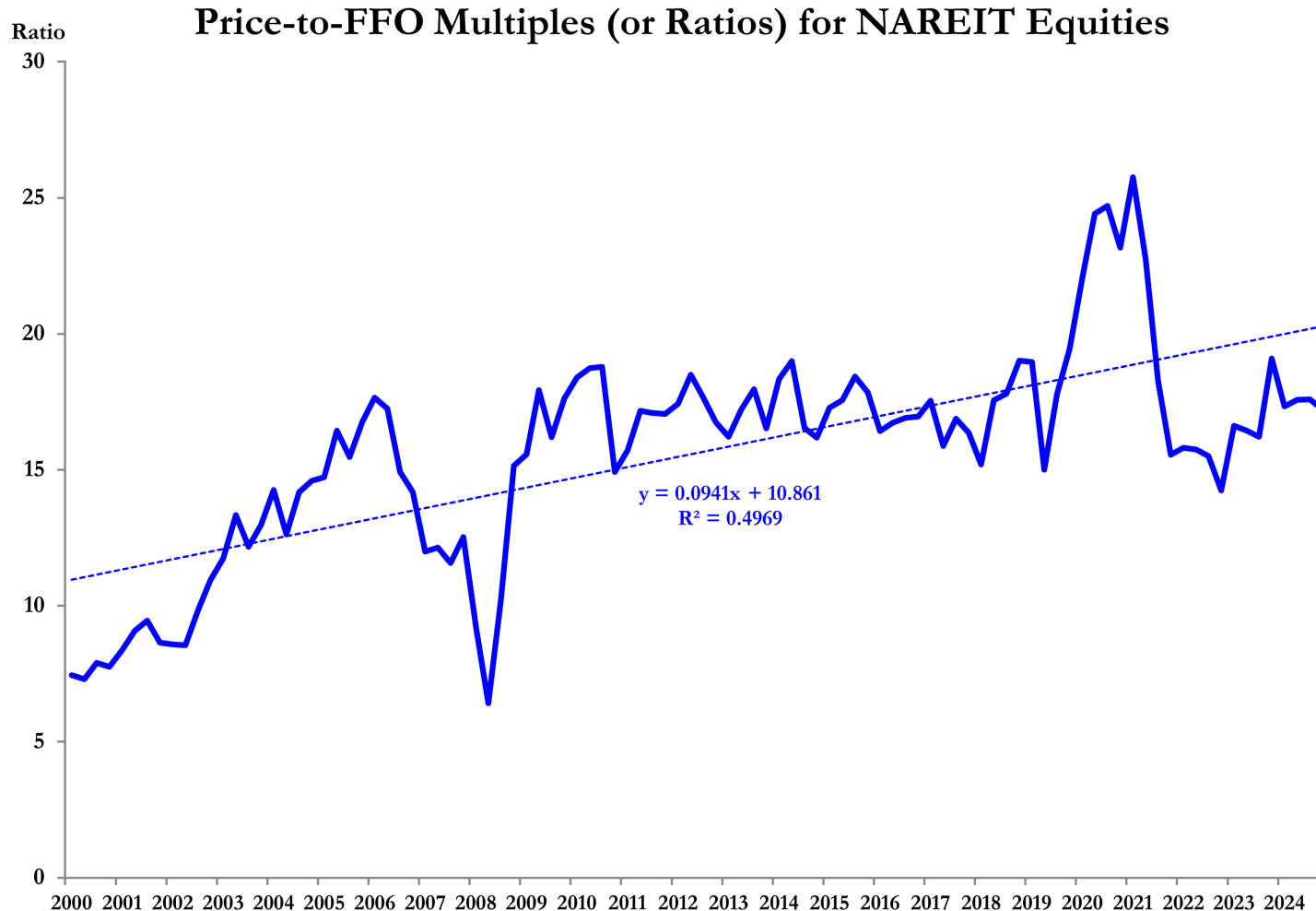
- The risk-adjusted return performance for selected REIT property types:



An Overview of FFO Multiples

16

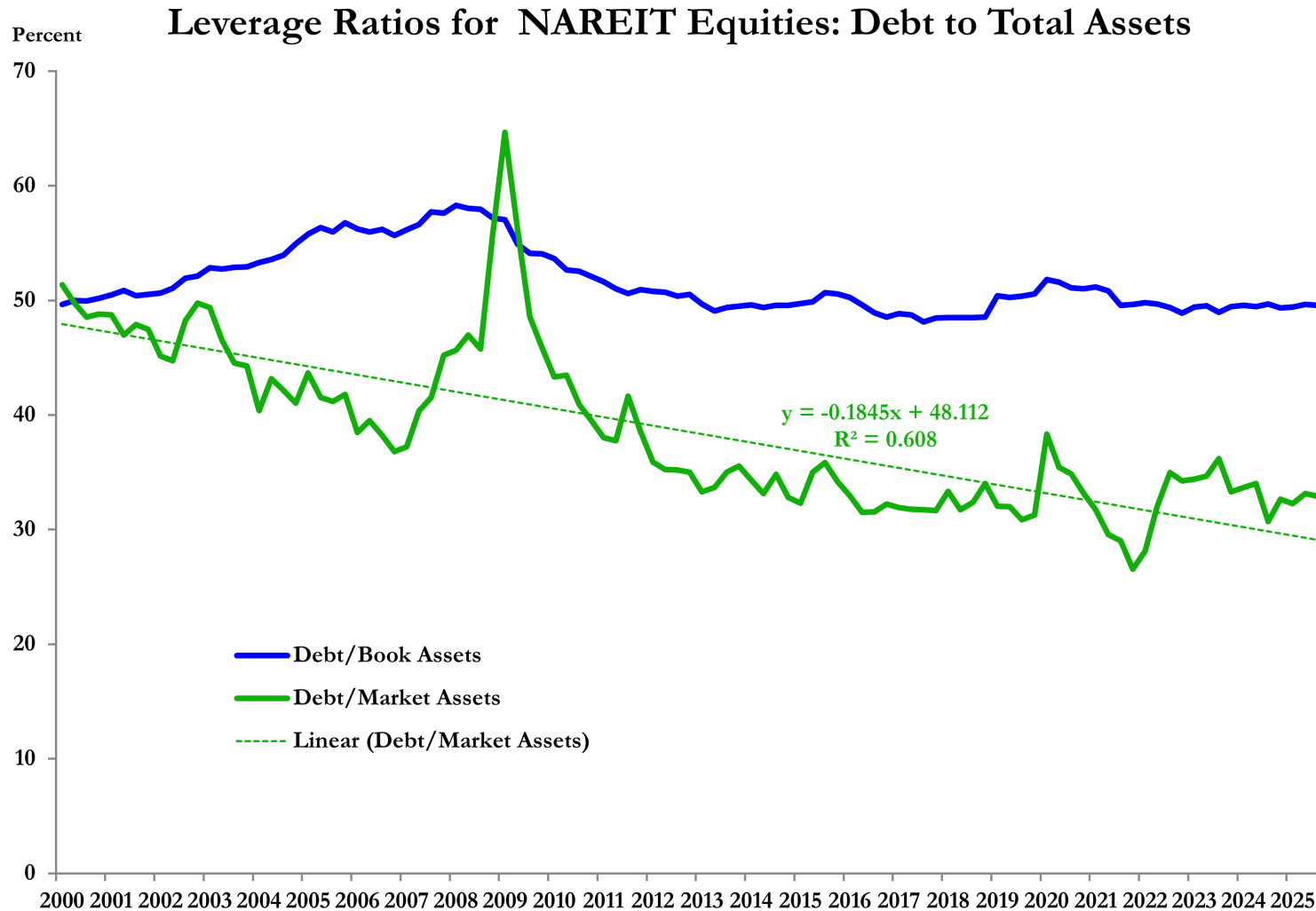
- FFO Multiples $\approx$ levered cap rates:



Source: NAREIT, [T-Tracker Data Series](#), 3rd Quarter, 2025 and Instructor's calculations.

An Overview of REIT Leverage

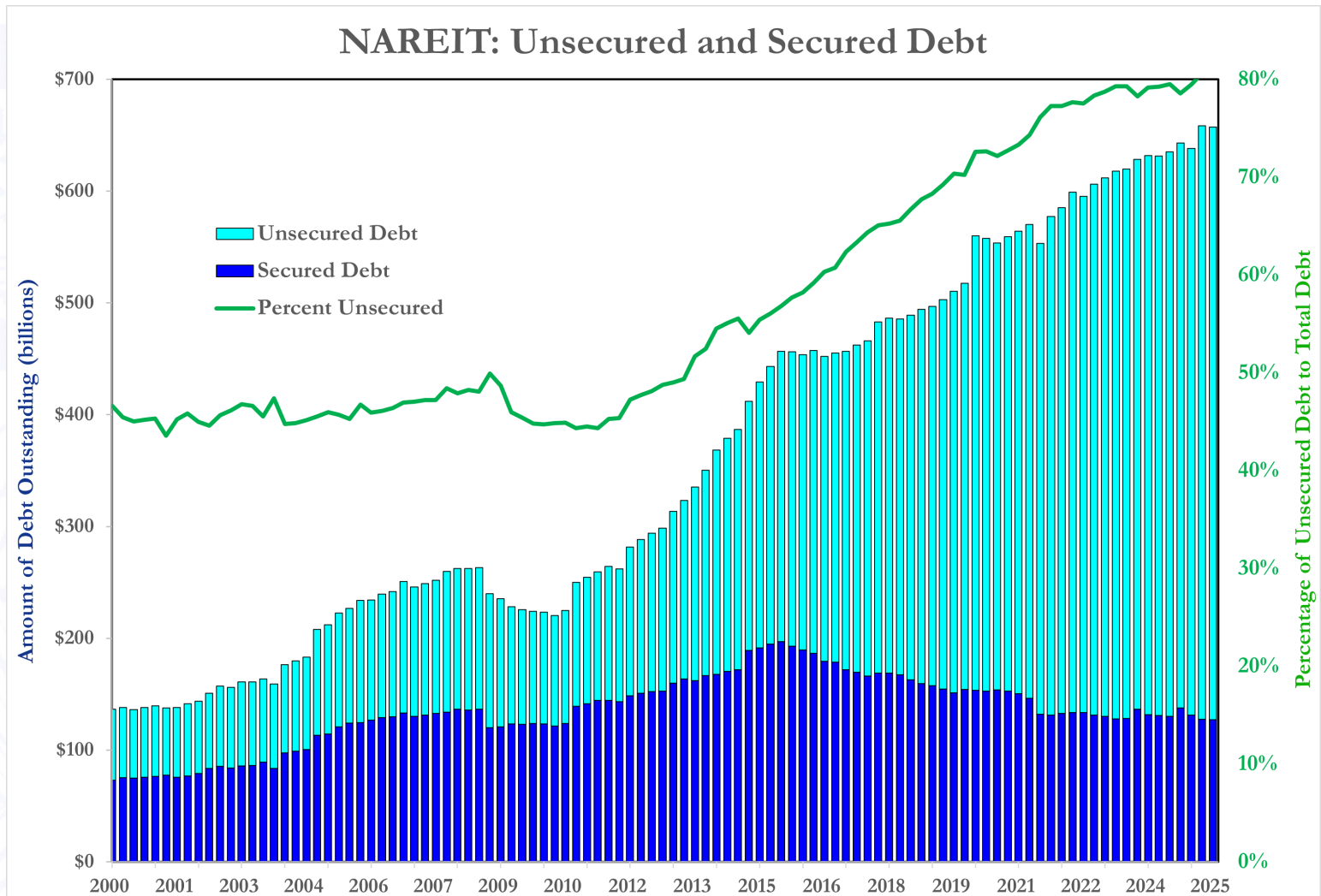
17



Source: NAREIT, [*T-Tracker Data Series*](#), 3rd Quarter, 2025 and Instructor's calculations.

Components of REIT Leverage

18



Source: NAREIT, [*T-Tracker Data Series*](#), 3rd Quarter, 2025 and Instructor's calculations.

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What Is NAV?

20

• A comparison of Main Street v. Wall Street pricing:

Appendix #1: Green Street's Interactive NAV Estimate for EQR*

Based on financial statements from:

12/31/2024

Pro-rata NOI over the next 12 mo's, by prop. sector:

Apartment

Total "nominal" NOI **1,997,361**

Cap-Ex Reserve (% of NOI) $\{= 1 - \text{DPR}\}$ 11.66%

Total "Economic" NOI $\{= \text{NOI} - \text{Cap Ex}\}$ 1,764,401

Economic Cap Rate $\{= \text{Cash-on-Cash or Dividend Yield}\}$ 4.95%

Equivalent Nominal Cap Rate $\{= \text{Cap Rate} = \text{DY} / \text{DPR}\}$ 4.37%

Percentage
of GAV

Value of Operating Real Estate **\$40,350,721** **95.9%**

Construction in Progress (CIP):

Book Value of CIP 801,422 1.9%

Apartment Value Creation 138,743 0.3%

Subtotal **940,165** **2.2%**

98.5%

Current Assets 160,166 0.4%

Other Tangible Assets:

Market Value of Land 63,485 0.2%

Right of Use Assets 455,445 1.1%

Partners' Share of Consolidated Properties (net) **(175,187)** -0.4%

Other Tangible Assets 273,706 0.7%

Service Businesses / Management 0 0.0%

Unconsolidated JVs (Pro-rata) 0 0.0%

Subtotal **617,449** **1.5%**

1.5%

Total Assets **42,068,501** **100.0%**

Main Street Valuation

What Is NAV (continued)?

21

Current Liabilities	\$249,134	0.6%
Other Liabilities:		
Mortgage Debt	1,401,099	3.3%
Credit Facility & Term Loans	543,679	1.3%
Unsecured Debt	6,018,683	
Other	310,559	0.7%
Share of Unconsolidated JV Debt	168,362	0.4%
Liabilities Related to Assets Held for Sale	0	0.0%
Lease Liabilities	304,897	0.7%
Tax-Exempt Debt	192,127	0.5%
Dividends Payable	263,494	14.3%
Subtotal	9,202,900	21.9%
Adjustments for Marking Debt to Market	(678,793)	-1.6%
Preferred Stock	17,155	0.0%
Total Liabilities	<u>8,790,396</u>	<u>20.9%</u>
Net Asset Value	\$33,278,105	<u>79.1%</u>
# of Shares (diluted)	392,334	
NAV / share	<u>\$84.82</u>	

Wall Street Valuation

Current Share Price (Last close)	\$69.78
Current Premium/Discount to NAV	-17.73%
Current Premium/Discount to GAV	-14.03%
Implied Nominal Cap Rate **	5.76%

* This is a highly condensed version of Green Street's NAV estimate for EQR.

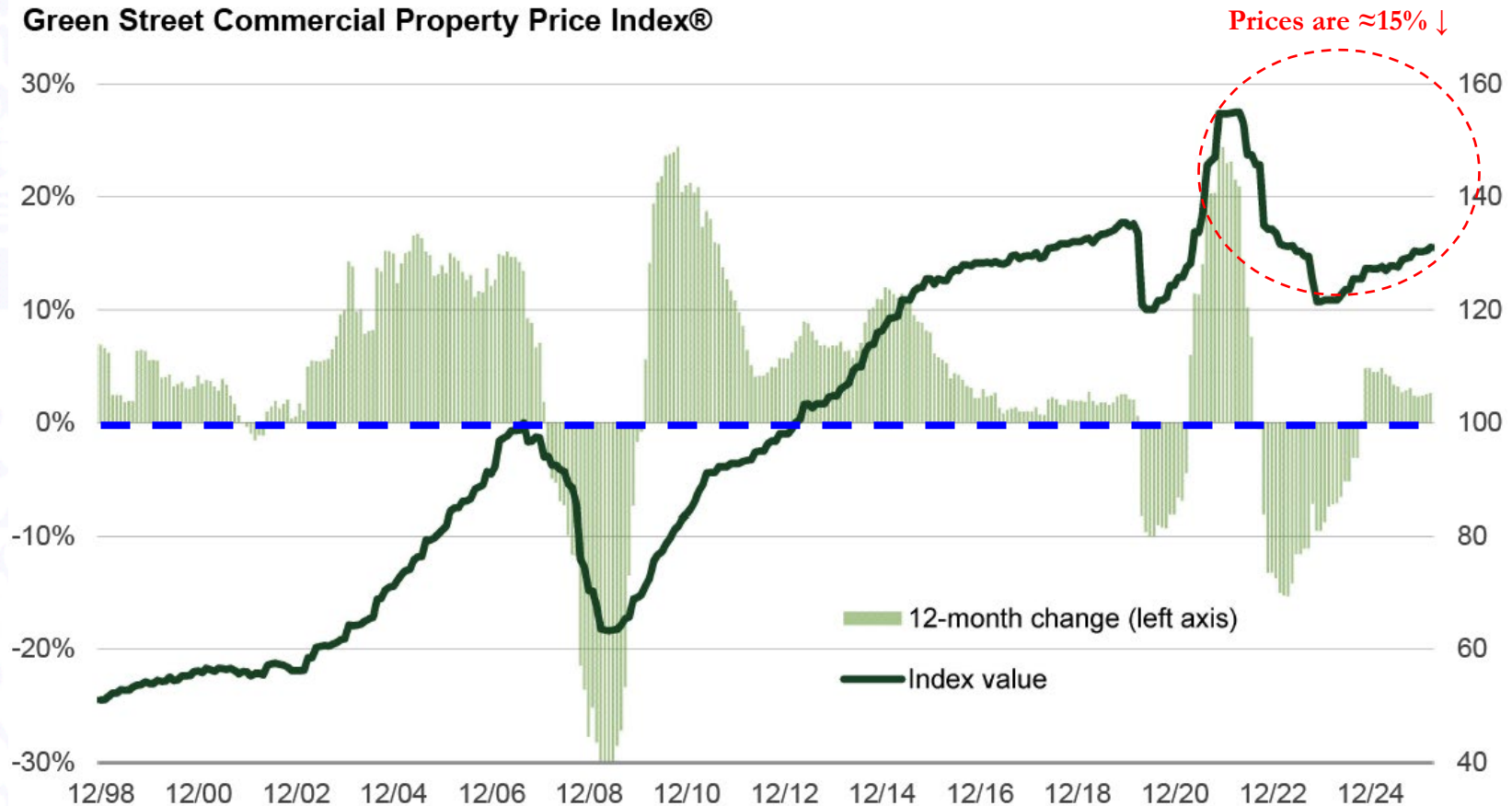
** The cap rate at which NAV equals the current share price. Other assets are assumed to experience the same percentage change in value as operating real estate.

All prices are in thousands except for share price and NAV/sh.

Another Estimate of Private-Market Pricing

22

- An estimate of asset prices over time:

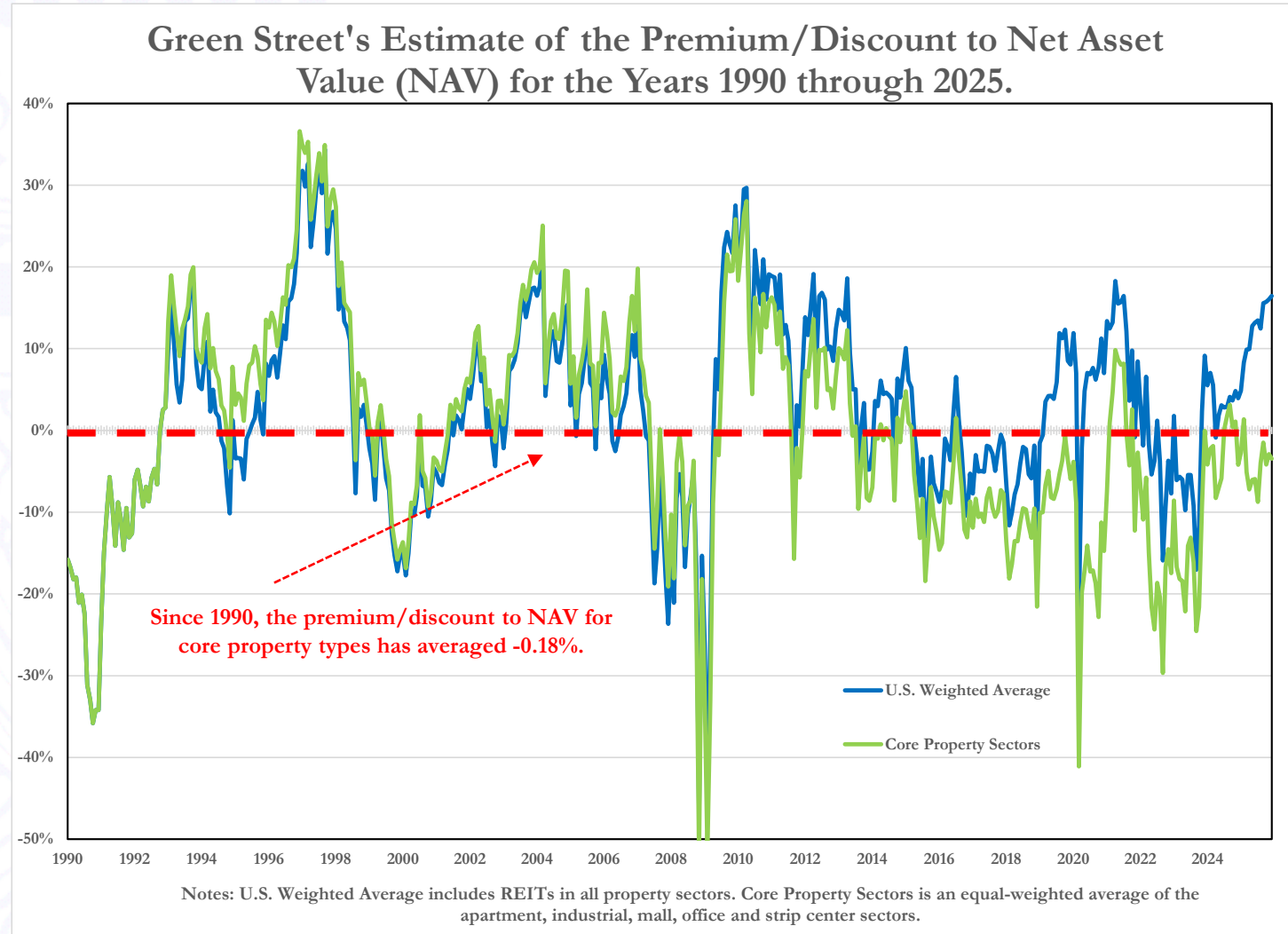


Source: Green Street Advisors, Commercial Property Price Index, April 7, 2026.

Public-Market v. Private-Market Pricing

23

- An estimate of the time-varying premium/discount to NAV:



Source: Green Street Advisors and Instructor's calculations.

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Go-Private Activity Preceded the GFC

25

- At the time, BX's acquisition of EOP was largest LBO (RE or otherwise) ever:

REIT Privatizations/Mergers

Major REIT Mergers/Privatizations, 2005 – Present

Date*	Target	Sub Sector	Acquirer	Merger / Privatization	Premium / Discount*	Forward Multiple*	Equity Value*	Total Value*
Feb-05	PGE	Office	Lightstone	P	10.2%	11.8	\$294m	\$889m
Jun-05	CDX	Indust.	PLD	M	16.1%	14.6	\$3,525m	\$4,845m
Jun-05	GBP	Apt.	ING Clarion	P	14.1%	13.1	\$1,435m	\$2,722m
Jun-05	CRO	Office	DRA Advisors	P	15.4%	13.7	\$937m	\$1,700m
Sep-05	CARS	Spec.	DRA Advisors / KIM	P	9.0%	13.2	\$2,098m	\$3,439m
Oct-05	PP	Office	BDN	M	5.9%	13.9	\$1,998m	\$3,493m
Oct-05	AML	Apt.	MS	P	20.7%	15.0	\$1,179m	\$2,142m
Dec-05	CNT	Indust.	CalPERS / Jones Lang	P	9.1%	19.5	\$2,404m	\$3,266m
Dec-05	ARI	Office	GE / TRZ	P / M	-3.7%	18.5	\$3,109m	\$4,710m
Total / Weighted Average (2005)					9.2%	15.2	\$16,684m	\$26,317m

Feb-06	BED	Indust.	LBA Realty LLC	P	10.9%	16.3	\$424m	\$920m
Feb-06	TCT	Apt.	MS/Sawyer/Onex	P	34.9%	21.0	\$808m	\$1,328m
Mar-06	CRE	Office	Blackstone	P	8.9%	17.6	\$2,855m	\$5,348m
Mar-06	SHU	Storage	PSA	M	2.4%	26.4	\$3,111m	\$5,047m
Jun-06	TRZ	Office	BPO/Blackstone	P / M	17.9%	17.9	\$6,416m ¹	\$8,879m
Jul-06	HTG	Retail	Centro Properties Group	P	3.3%	12.8	\$1,760m	\$3,338m
Jul-06	PNP	Retail	Kimco Realty	P / M	0.0%	16.5	\$2,887m	\$4,017m
Aug-06	RA	Office	SLG Green	P / M	4.5%	17.2	\$3,988m	\$6,188m
Aug-06	GLB	Office	Morgan Stanley	P	8.2%	15.2	\$1,019m	\$1,919m
Aug-06	BNP	Apt.	Babcock & Brown	P	39.2%	17.0	\$313m	\$766m
Oct-06	TSY	Restaurant	GE Capital Solutions	P / M	36.3%	15.2	\$1,152m	\$2,761m
Nov-06	COE	Office	JP Morgan Asset Mgmt	P	12.4%	16.1	\$289m	\$488m
Total / Weighted Average (2006)					10.8%	17.8	\$23,994m	\$38,825m

Feb-07	EOP	Office	Blackstone	P	24.1%	23.8	\$21,667m	\$38,303m
Feb-07	MLS	Retail	SPG/Farallon	P / M	14.0%	10.5	\$1,640m	\$7,900m
Feb-07	NXL	Retail	Centro Properties (ASX)	M	13.0%	16.7	\$3,550m	\$6,200m
Mar-07	SFC	Triple-Net	Macquarie/Kaupthing Bank hf.	P	11.1%	12.5	\$1,559m	\$3,358m
May-07	CEI	Office/Resi	Morgan Stanley	P	5.5%	18.2	\$2,853m	\$6,365m
May-07	ASN	Apt.	Tishman Speyer/Lehman	P	22.7%	26.5	\$15,201m	\$22,484m
Jun-07	APRO	Apt.	Sentinel Omaha LLC	P	24.9%	NA	\$279m	\$535m
Jul-07	RFB	Office	Liberty Property Trust	M	28.0%	34.2	\$435m	\$850m
Nov-07	AFR	Office	Gramercy Capital Corp.	M	30.7%	10.7	\$1,083m	\$3,363m
Total / Weighted Average (2007)					20.6%	19.1	\$48,267m	\$89,357m

Total Value 2005 - 2007

\$88,945m \$154,499m

*Calculated at date of announcement

1: Equity bid includes bid for Trizec Canada, Inc. at \$30.97/sh.

Source: Company data, S&P Financial, and Lehman Brothers

- Following the GFC, go-private acquisitions continue to ebb & flow.
 - Blackstone and Brookfield have been the industry leaders.
- Following the GFC, it has also been the case that certain RE PE firms have incubated a non-core strategy and have used the public markets (IPO) as their “exit strategy.”
 - Blackstone’s [Invitation Homes](#) may be the best-known example.
- An Aside: I’d assert that Blackstone displays the most dexterity *wrt* arbitraging the public | private markets.
 - Another example, they are keen borrowers via the CMBS market.

- I suspect REITs will continue to expand into the area of acting as the General Partner in private-market vehicles:

⇒ “fund-management” business:

- [ProLogis](#) has been the leader in this space for quite some time.
- [Boston Properties](#) has entered into several strategic joint ventures (following the GFC).
- [Digital Realty](#) and [Realty Income](#) Trust have recently announced similar initiatives.

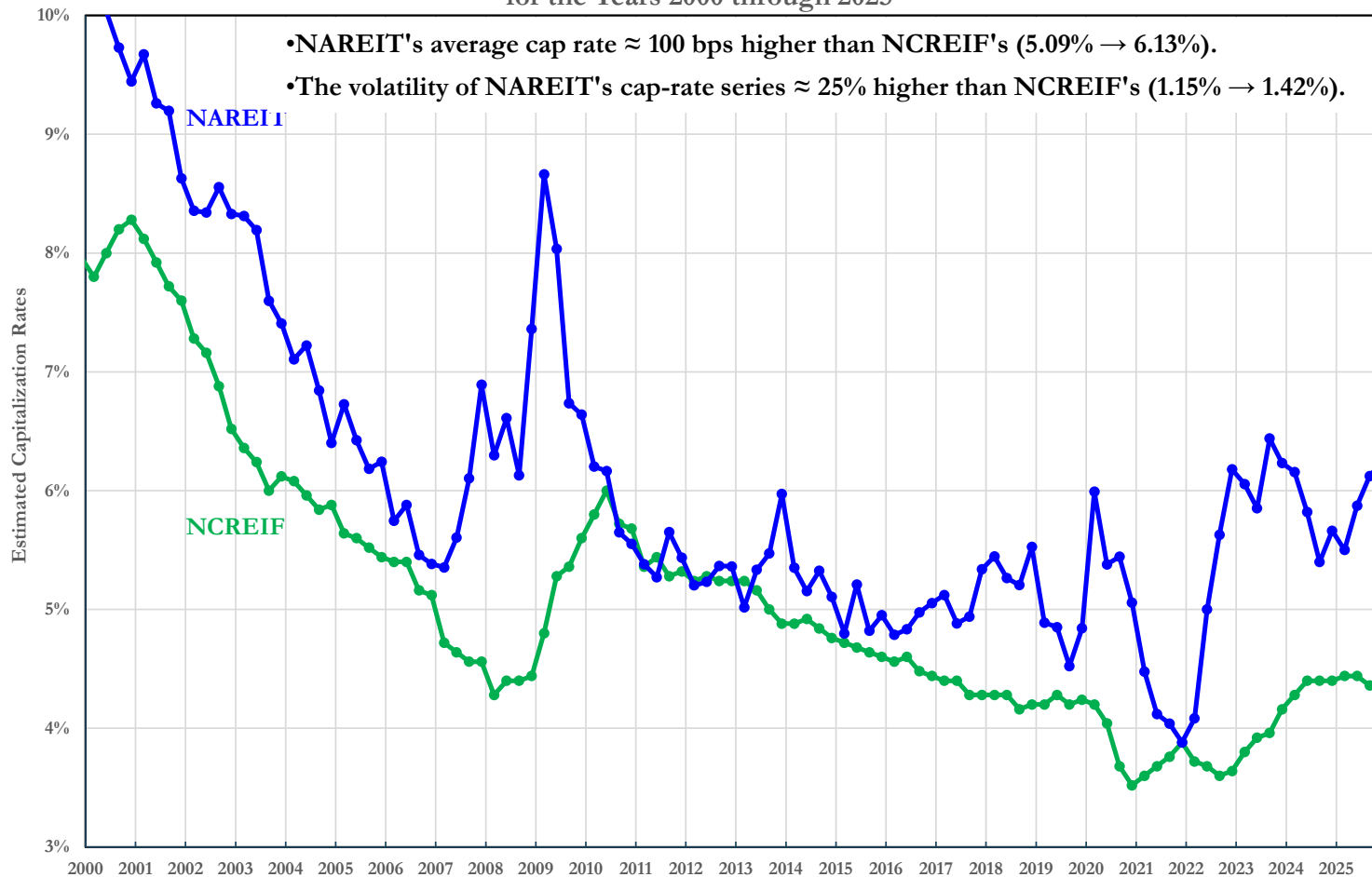
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Public- v. Private-Market CRE Pricing: Apartments

29

- NCREIF values often accused of slow-moving “marks.”
- Consider the apartment sector (where transparency is likely the highest):

A Comparison of Estimated Capitalization Rates for the Apartment Sector:
NCREIF's Income Return v. NAREIT's Implied Capitalization Rate
for the Years 2000 through 2025

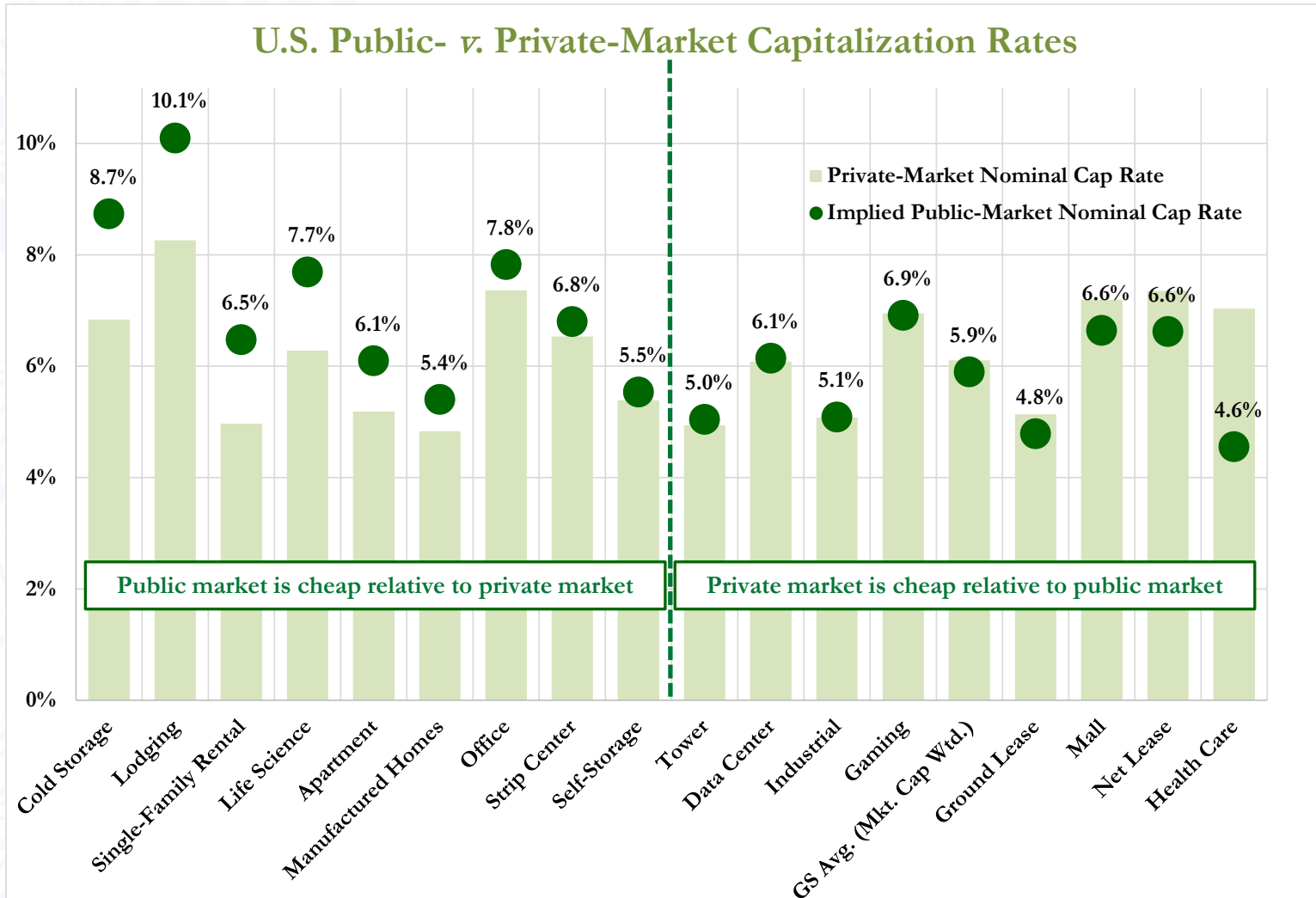


Source: Mitch Bollinger, Magnolia Investment Advisors and Instructor's calculations.

Public- v. Private-Market CRE Pricing

30

- Green Street supplies another estimate of private-market pricing (differs from NCREIF).
- Disparity in public- v. private-market pricing by property type:



Source: Green Street and Instructor's calculations {Date Download: August 05, 2026}.

- As but two examples, consider:
 - Jeffrey Fisher, Dean H. Gatzlaff, David Geltner, and Donald R. Haurin, “[Controlling for the Impact of Variable Liquidity in Commercial Real Estate Price Indices](#),” *Real Estate Economics*, February 2003, pp. 269-303.
 - Cliff Asness, “[Volatility Laundering](#),” AQR Perspectives, January 6, 2023.

- The antidote to slow-moving markets is not entirely found in the public markets. Consider:

1. The public market is thought to be “excessively volatile”:

- Robert Shiller, “[Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?](#),” *American Economic Review*, June 1981.
- De Bondt and Thaler, “[Does the Stock Market Overreact?](#),” *Journal of Finance*, July 1985.

⇒ Essentially, the volatility of price is too high in light of the present value of future dividends

2. About 1% of the stock is traded in a given day:

- This implies that $\approx 99\%$ of the existing shareholders are unwilling to sell at that price.
- The remaining $\approx 99\%$ have a higher (“reservation”) price.
- This can be seen when a firm is about to be acquired/merged:
 - An acquisition/merger price is announced.
 - That price is generally 10-20% higher than the previous price.
 - Shareholders generally have 2-3 weeks to approve.
 - The takeover price is fixed over this period
 - Part of the takeover price reflects a “control premium” (consider the difference between owning 51% v. 49%).

“True Volatility” Is Somewhere in the Middle

- Therefore, I don’t believe that “true” volatility is found in either the reported values of the public or the private markets.
- “True” volatility seems to lie somewhere in between.
- However, fair comparisons and prudent investment decisions requires putting the reported volatilities on the same footing:
 - Joseph L. Pagliari, Jr., “[Another Take on Real Estate's Role in Mixed-Asset Portfolio Allocations](#),” *Real Estate Economics*, Spring 2017, pp. 75-132.

Some Thoughts on REITs: Agenda

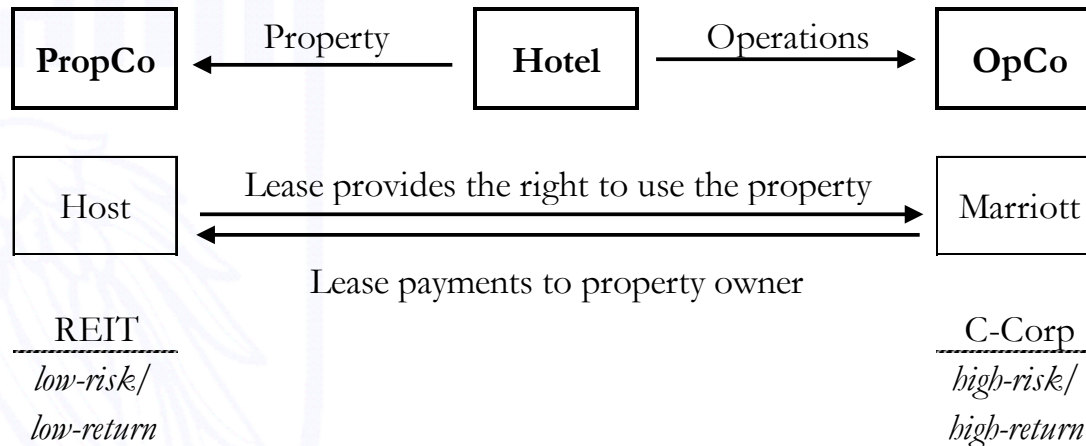
35

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Opco | Propco Model

36

- This model is illustrated with two hotel companies.
- It could be repeated for health-care and gaming companies.
- Example: REIT MGM Growth Properties (MGP), [acquired in 2021 by Vici Properties \(another REIT\) for \\$17.2 billion](#), has MGM Resorts (MGM) among its tenants))



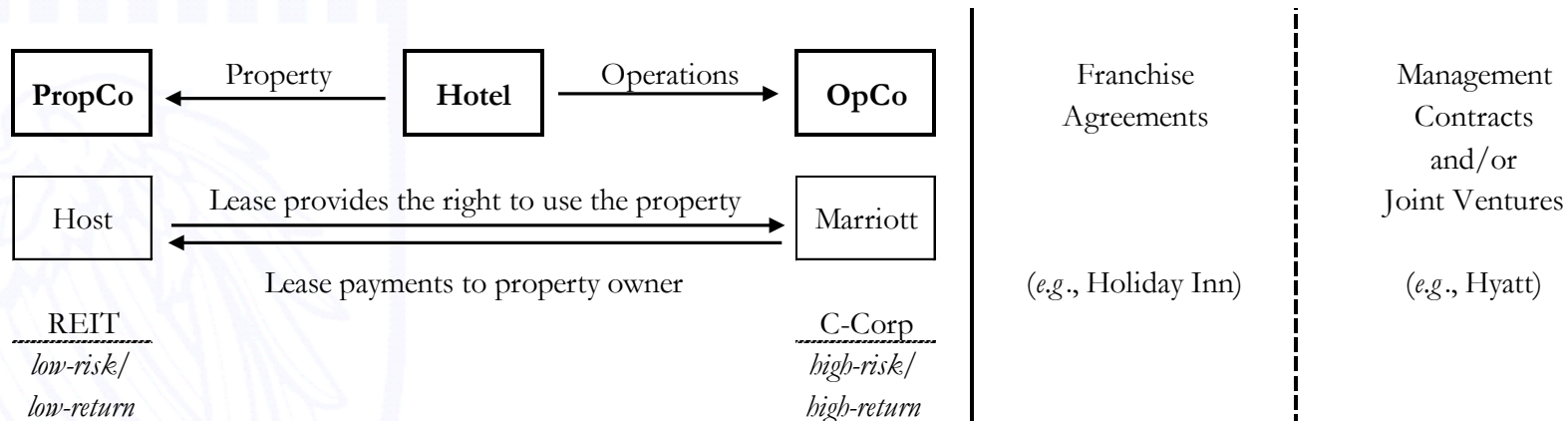
Hotel's Cash Flows:

Revenue (Rates $\times$ Occupancy)	}	Paid from operations
- Operating Expenses		
- Capital Expenses (<i>aka</i> FF&E)		
- <u>Lease Payments</u>	→	Paid to Host
= <u>Cash Flow to Operator</u>	→	Paid to Marriott

- Hotels are cash-intensive investments. So:

Illustration of PropCo/OpCo Model (bifurcation of ownership, cash flows & risk)

Hotel companies generally prefer to be "balance sheet lite"
(i.e., indirect ownership through one or more of these approaches):



Some Thoughts on REITs: Agenda

38

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Let's Consider Today's "Spot" Market Prices

39

- With the Fed's decision to keep interest rates unchanged, there's renewed emphasis on pricing considerations. Green Street's estimate of today's prices:

PUBLIC MARKET PERFORMANCE

	Total Returns*			Pricing Metrics			
	1 mo.	YTD	Last 12M	Nominal Cap	Implied Cap	Prem to NAV	Prem to Assets
RMZ	0%	18%	21%				
S&P	2%	11%	22%				
US 10-Yr.	-1%	-1%	3%				
Apartment	2%	8%	2%	5.2%	5.8%	-14%	-10%
Data Center	-1%	33%	31%	6.0%	5.9%	3%	2%
Healthcare	7%	22%	39%	7.0%	4.1%	110%	85%
Industrial	-3%	12%	28%	5.2%	4.9%	6%	5%
Lodging	0%	39%	44%	8.5%	8.6%	-2%	-1%
Mall	0%	22%	43%	6.9%	6.0%	23%	14%
Manu. Housing	-3%	1%	1%	4.8%	5.5%	-17%	-14%
Net Lease	2%	15%	16%	7.3%	6.4%	23%	14%
Office	2%	13%	1%	7.2%	7.7%	-15%	-7%
Storage	-2%	21%	9%	5.4%	5.5%	-2%	-1%
Strip Center	-2%	21%	25%	6.4%	6.4%	0%	0%
Wtd. Avg.	0%	18%	21%	6.1%	5.8%	8%	5%

*Pricing as of 07/13/2026

Sources: Bloomberg, Green Street

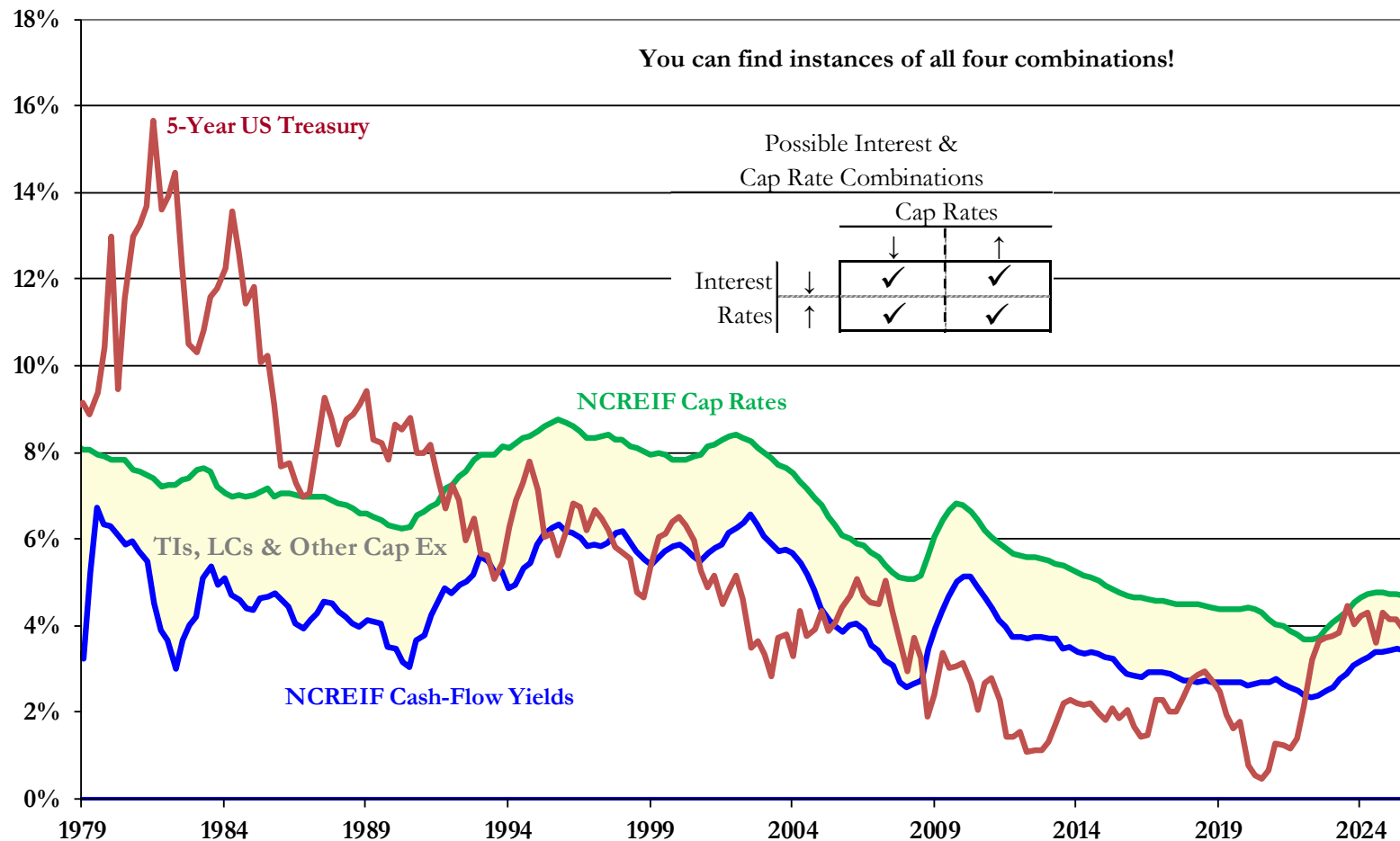


What About Interest Rates?

40

- For many, the increase in cap rates is explained by the increase in interest rates.

Comparison of 5-year US Treasury Rates to NCREIF Cap Rates & Cash Flow Yields for the Quarterly Periods 1978-(the Third Quarter of) 2025

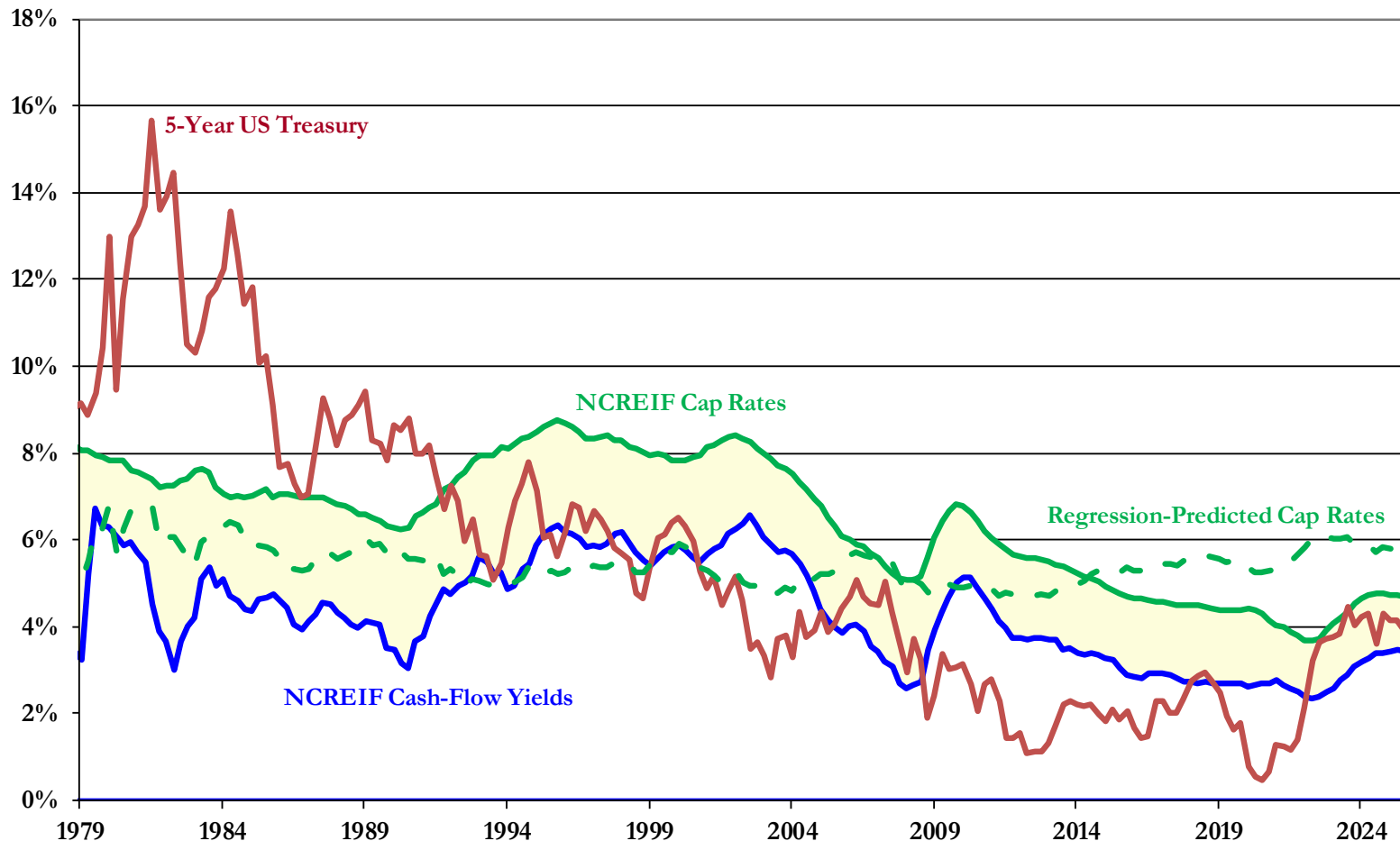


What About Interest Rates?

41

- For many, the increase in cap rates is explained by the increase in interest rates.
- But, there's – at best – a weak empirical link ($R^2 \approx 24\%$):

Comparison of 5-year US Treasury Rates to NCREIF Cap Rates & Cash Flow Yields for the Quarterly Periods 1978-(the Third Quarter of) 2025



Conceptual: Interest Rates v. Current Return

42

- Conceptually, I dissent from most of my colleagues who predicate their cap rate assumptions on the (nominal) Treasury rate.
- Instead, I predicate my cap rate assumptions on the (real) Treasury rate: TIPS market.
- See: Joseph L. Pagliari, Jr., “[Some Thoughts on Real Estate Pricing](#),” *Journal of Portfolio Management*, 2017, pp. 44-61.

Conceptual: Interest Rates v. Current Return

43

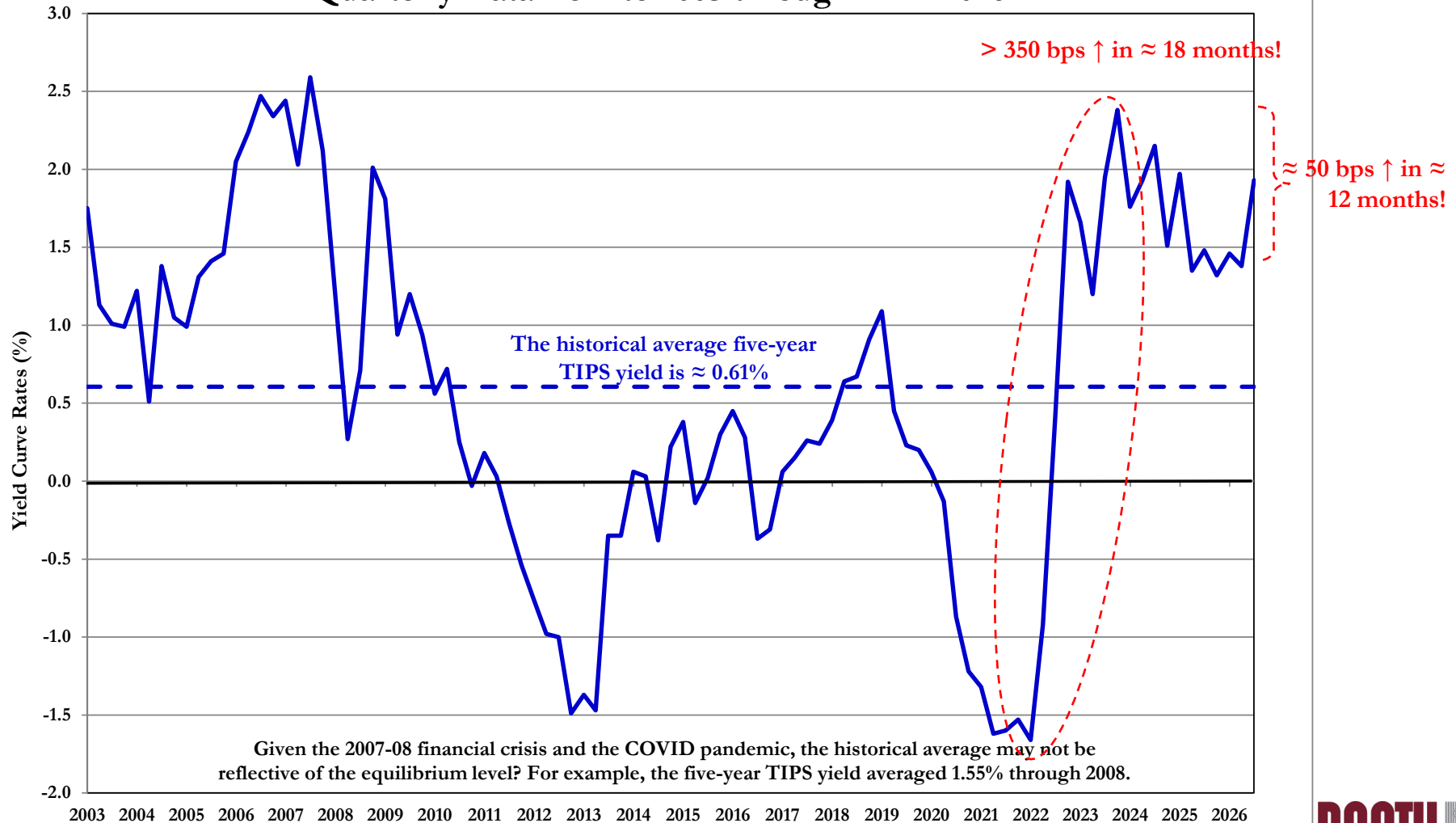
- Fundamentally, all such comparisons conflate a fixed-rate, nominal-yield security with a variable-rate, real-yield security.
 - ∴ It is not surprising that all such empirical efforts are disappointing.
- Moreover, if we were to find a reliable statistical relationship, we would then have to forecast future interest rates.
- Additionally, it is CRE's cash-flow (CF) yield that matters most.
 - $CF \approx 2/3 (NOI)$
- As a precursor, let's look at the TIPS rates
 - Nominal interest rates = $f(\diamond)$:
 - ♦ Expected inflation,
 - ♦ Required real rate of return ($\approx$ TIPS), and
 - ♦ Uncertainty about future inflation.

The Path of 5-Year TIPS Rates

44

- The recent spike in the TIPS rate is unprecedented and largely ignored in CRE world:

TIPS Yields of Five-Year Maturities
Quarterly Data from to 2003 through YTD 2026



Source: U.S. Department of the Treasury and Instructor's Calculations.

Consider a Simple Example

- Assume today's cap rate for “core” properties is $\approx 6.0\%$ (ignoring significant differences by property type).
- Historically, cap ex has averaged $\approx \frac{2}{3}$ of NOI.
- So, the unlevered before-fee cash-flow yield is around 4.0% ($\frac{2}{3}$ of 6%).
- Assume that RE's cash flows are perfectly indexed to inflation. (This is not true historically, but simplifies my analysis.)
- The question for investors is:

How does RE's 4.0% CF yield compare to the TIPS rate (which is (almost) perfectly indexed to inflation)?

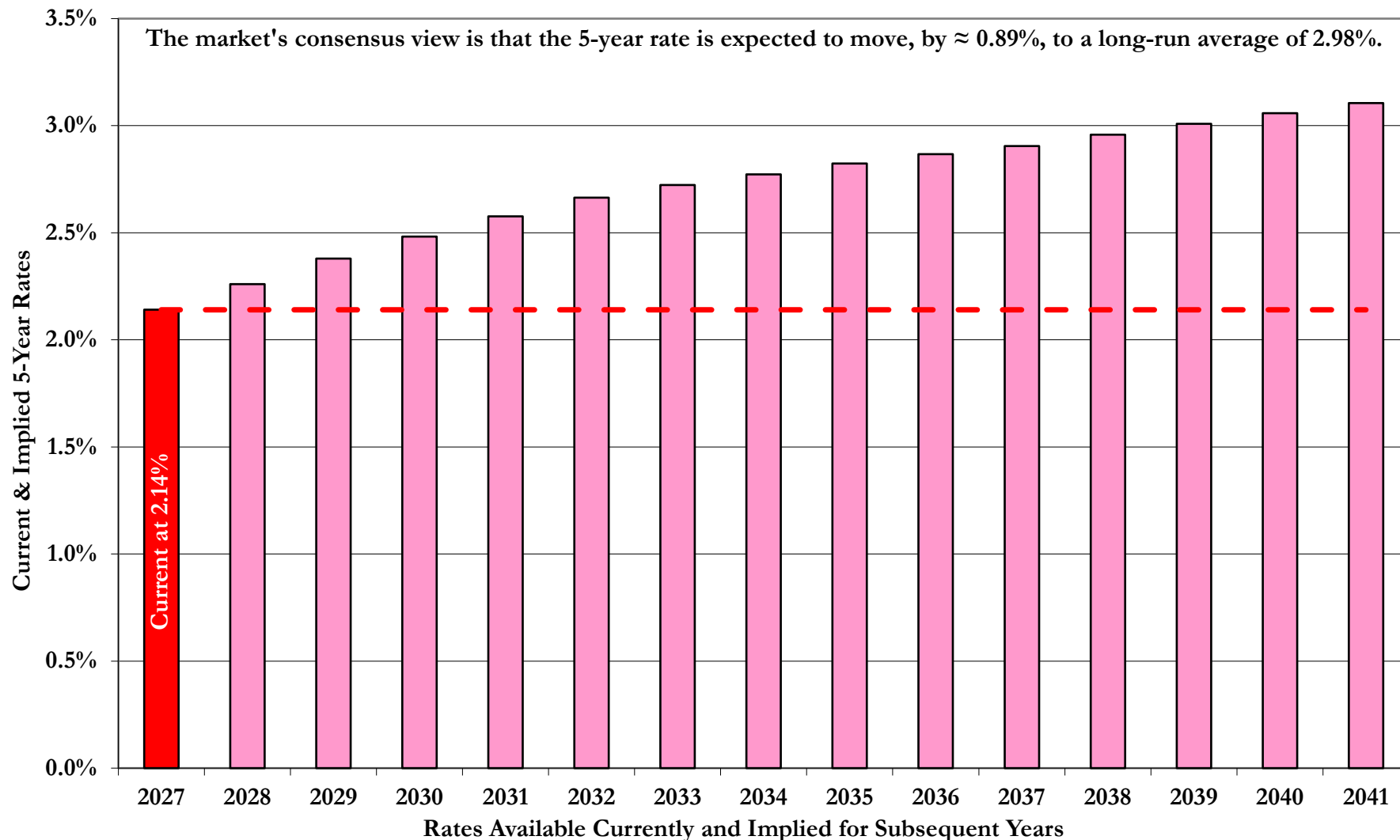
Consider a Simple Example (continued)

- Consequently, there's ≈ 185 bps of spread between RE's and TIPS' cash-flow yields. (Current TIPS $\approx 2.15\%$.)
- Is that enough of a premium to compensate for:
 - investment management fees (≈ 100 bps/year),
 - risk (RE $\leftarrow$ risky v. TIPS $\leftarrow$ riskless), and
 - illiquidity (RE $\leftarrow$ slow to market, high transaction costs v. TIPS $\leftarrow$ near instant liquidity, low transaction costs)?
- I think the spread is looks a little “thin” and, therefore, I am concerned that future cap rates may rise.
- The other possibility is that future TIPS rates fall. (If so, this would help RE's pricing.) However, consider the forward rates:

The Forward Curve: 5-year TIPS

47

Current and Implied Forward 5-Year TIPS Rates as of August 05, 2026



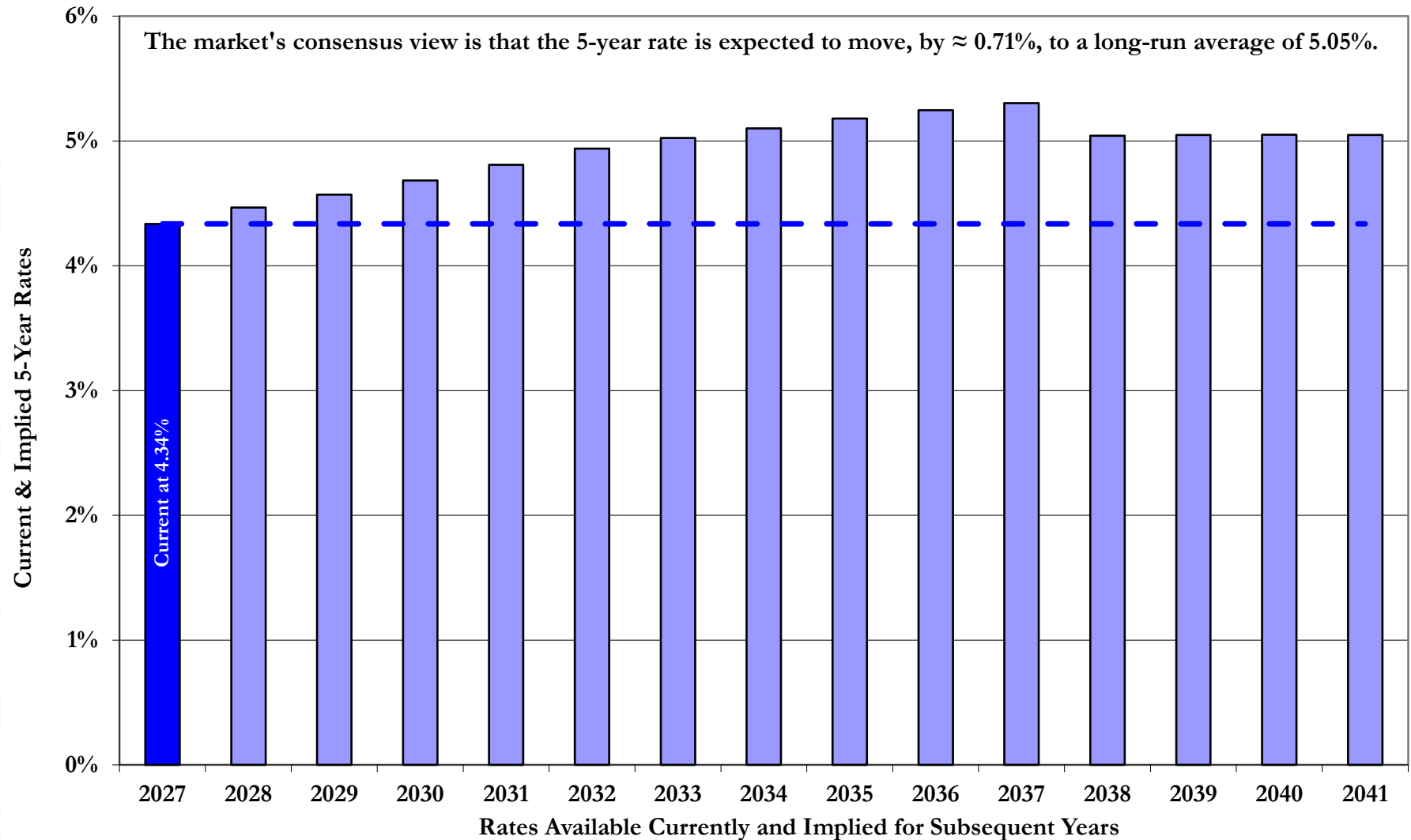
Sources: U.S. Department of the Treasury {Rates as of August 05, 2026} and Instructor's calculations.



The Forward Curve: 5-year Treasuries

48

Current and Implied Forward 5-Year Treasury Rates as of August 05, 2026



Sources: U.S. Department of the Treasury {Rates as of August 05, 2026} and Instructor's calculations.

