Where Is the Illiquidity Premium in Private Real Estate?

Thomas Bohjalian, Head of U.S. Real Estate and Senior Portfolio Manager
Jon Cheigh, Chief Investment Officer and Head of Global Real Estate

Executive Summary

Investors allocate to private equity with the expectation of achieving superior returns relative to public-market investments. This approach has generally paid off in corporate private equity with return premiums that have compensated investors for the risk of illiquidity. However, the same cannot be said for real estate private equity.

In the modern REIT era since the early 1990s, the average private real estate manager has not delivered an illiquidity premium over full market cycles and, in fact, has often fallen short of listed real estate market returns. We believe the long-run outperformance of listed real estate over core and value-add/opportunistic real estate funds primarily reflects structural advantages of the REIT business model.

Key differentiators include:

	REITs	Private Real Estate Funds
Performance incentives	Management teams' interests aligned with shareholders due to equity ownership and performance-based incentive compensation tied to fundamental objectives	Business model typically creates a tug of war between payoff opportunity from performance incentives and the need to acquire assets to generate a management fee
Accessing capital	Can typically raise capital quickly and efficiently, with access to both public and private sources of equity and debt	Typically do not have access to public capital, but may deploy higher leverage with shorter maturities, which can drive down cost of capital
Diversification of sectors/leases	Alternative property types such as cell towers, data centers, self storage and manufactured housing communities now make up a substantial part of the REIT universe	Value-add and opportunistic funds have long invested in non-traditional sectors, though they display a higher degree of lessor risk as a result of the concentration of their portfolios
Distributions	U.S. REITs required to pay at least 90% of taxable net income (most pay 100%) to shareholders via quarterly dividends, potentially mitigating investment risk	Core funds generally pay regular distributions; value-add and opportunistic funds may not pay out any distributions, and returns tend to be more back-end loaded
Manager selection risk	Potential for meaningful alpha generation by top REIT managers, albeit with a narrower range of excess returns among top and bottom quartiles	Potential for meaningful outperformance versus private-market benchmarks by top private managers, but with greater manager dispersion within higher-risk real estate
Capital deployment	Mandates can typically be invested in a matter of days	Capital is deployed over time, with decreased deal flow and/or increased competition for assets potentially extending investment periods

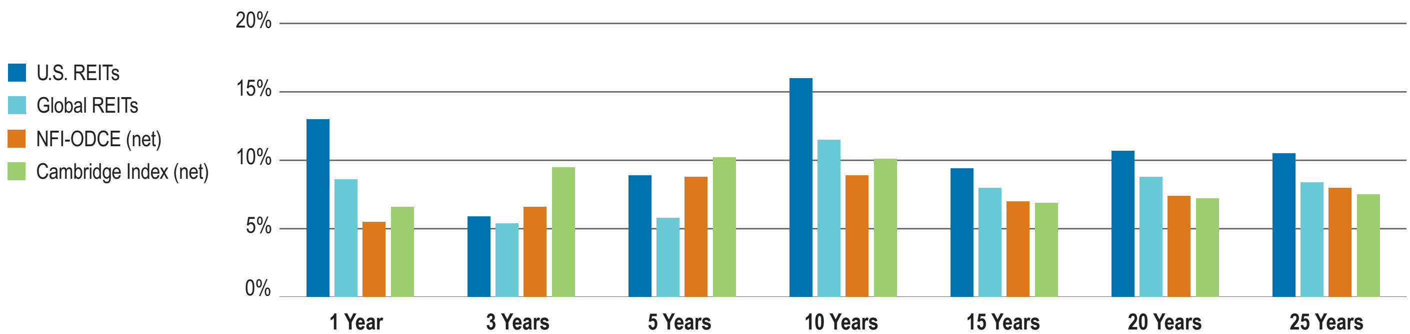
Performance Analysis

Listed Real Estate Has Outperformed Private Funds Over Full Market Cycles

Our comparison of listed and private real estate performance focuses on the U.S. equity REIT market (FTSE Nareit All Equity REITs Index) relative to core private real estate funds (NCREIF Fund Index—Open-end Diversified Core Equity, or "NFI-ODCE") and value-add/opportunistic private real estate funds (Cambridge Associates Real Estate Index), net of fees. We also include a comparison with global real estate securities (FTSE EPRA Nareit Developed Index, split roughly equally between U.S. and non-U.S. assets by market value), as the Cambridge Index has some non-U.S. exposure, whereas the NFI-ODCE consists primarily of U.S.-domiciled assets. The analysis covers the period from January 1, 1992, roughly marking the start of the modern REIT era, to June 30, 2019, the latest available data for the Cambridge Index as of publication.

Over full market cycles (10+ years), U.S. REITs have outperformed both core and opportunistic/value-add private real estate funds by 240–340 basis points per year (Exhibit 1), excluding the outsized 10-year comparison that coincides with the bottom of the financial crisis. REITs have achieved this performance advantage without requiring a lockup and while generally employing relatively low-risk core real estate investment strategies focused on high-quality stabilized properties. And compared to value-add/opportunistic managers, REITs typically employ lower leverage, take on less development and operational risk and deliver a significant portion of total returns through quarterly distributions, potentially serving as a more predictable source of returns than capital appreciation.

Exhibit 1: Listed and Private Real Estate Annualized Returns



	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
Annualized Return (%)							
U.S. REITs	13.0	5.9	8.9	16.0	9.4	10.7	10.5
Global REITs	8.6	5.4	5.8	11.5	8.0	8.8	8.4
NFI-ODCE (net)	5.5	6.6	8.8	8.9	7.0	7.4	8.0
Cambridge Index (net)	6.6	9.5	10.2	10.1	6.9	7.2	7.5
Difference							
U.S. REITs vs. NFI-ODCE	7.6	-0.7	0.1	7.2	2.4	3.3	2.4
Global REITs vs. NFI-ODCE	3.2	-1.2	-3.0	2.6	1.0	1.5	0.4
U.S. REITs vs. Cambridge	6.4	-3.6	-1.3	6.0	2.5	3.4	2.9
Global REITs vs. Cambridge	2.1	-4.1	-4.4	1.4	1.1	1.6	0.9

At June 30, 2019. NCREIF, Cambridge Associates, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend referenced above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. Please see Index Definitions on page 11. REIT benchmarks represent total returns net of withholding taxes. NFI-ODCE and Cambridge Real Estate Index represent pooled horizon returns of core and value-add/opportunistic funds, respectively, reported net of fees, expenses and carried interest.

These results are even more significant when factoring in an expected illiquidity premium. Our discussions with institutional investors and their advisors suggest that private-market investments should deliver a return premium depending on the fund's duration, liquidity and level of risk. So, for example, an opportunistic real estate fund with a 10-year lockup may be expected to achieve a return premium of 300–500 basis points, whereas a core real estate fund offering quarterly liquidity may be held to a lower bar of 100 basis points. These approximations imply that various private real estate universes have fallen short of expectations by 800–1,100 basis points annually over the past decade.

In practice, REITs' long-term outperformance shown in Exhibit 1 may be understated, as many institutional investors hire active managers for their REIT allocations. While the median active U.S. REIT strategy generated a 10-year return equal to its REIT benchmark after fees, top-quartile strategies delivered an average excess return of 104 basis points after fees.[1]

Furthermore, investors have increasingly benchmarked private-market returns against a public market equivalent (PME). This is because the pooled return of private equity funds represents a dollar-weighted aggregate internal rate of return (IRR) that accounts for the timing and magnitude of fund flows, whereas public-market indexes represent time-weighted returns of the underlying assets. The PME adjusts public index returns to reflect the effects of private fund flows. Based on PME adjustments to the U.S. REIT index published by Cambridge Associates (not shown in this report), the results magnify REITs' outperformance over longer time horizons, while narrowing REITs' 3- and 5-year underperformance versus the Cambridge Index.

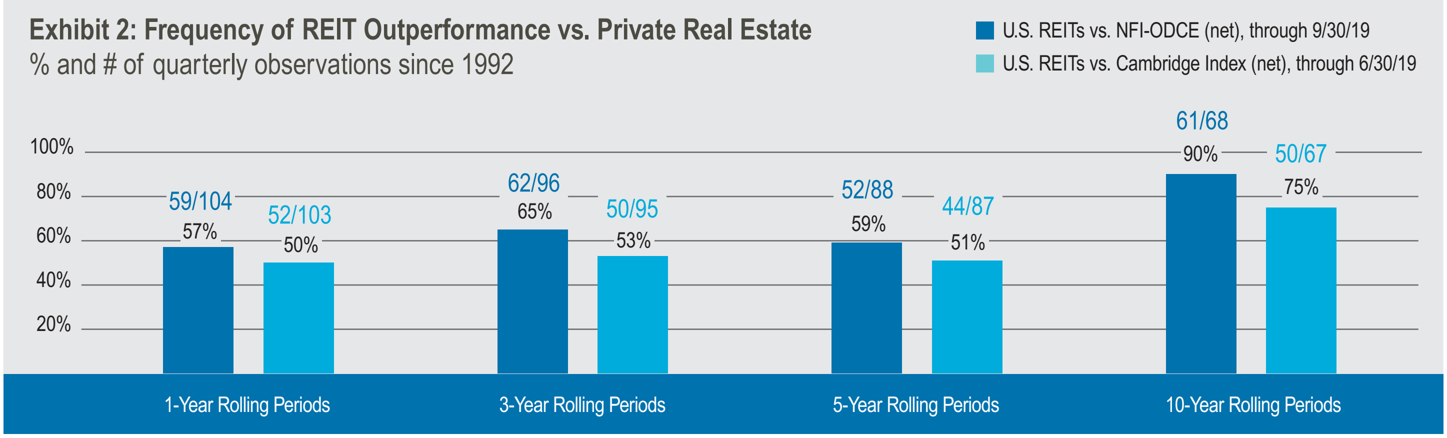
Rolling Return Analysis Shows Consistency of REIT Outperformance

By looking at outcomes over longer-term rolling periods, investors may gain insight into the consistency of total returns in a way that is more in line with their time horizons. We believe this is particularly relevant in evaluating listed and private real estate, as short-term comparisons may be heavily influenced by the smoothed appraisal values of private real estate relative to the daily pricing of REITs.

Over rolling 10-year periods since 1992, REITs had an outperformance rate of 90% versus the NFI-ODCE (61 of 68 observations) and 75% versus the Cambridge Index (50 of 67 observations) (Exhibit 2). Over shorter rolling periods, REITs outperformed both of the private real estate indexes in at least half of the observation periods.

In addition to the frequency of outperformance, we compared the range of outcomes as a way of measuring long-term investment risk. Not surprisingly, the outcomes for REITs over 1-year rolling periods have been relatively wide due to daily marked-to-market values (Exhibit 3). However, over 5- and 10-year rolling periods, REITs exhibited narrower ranges of returns than the Cambridge Index, with fewer negative outcomes at the low end. The Cambridge Index had a higher median return than REITs over 5-year rolling periods, but it underperformed over 10-year periods by 270 basis points.

Exhibit 2: Frequency of REIT Outperformance vs. Private Real Estate
% and # of quarterly observations since 1992



At September 30, 2019. Source: NCREIF, Cambridge Associates, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend referenced above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. Please see Index Definitions on page 11.

Data shows the percent and total observations of REIT outperformance relative to the respective private real estate indexes for rolling periods over the given time horizon.

(1) **At September 30, 2019.** Source: eVestment Alliance, representing 44 institutional strategies with 10-year track records.

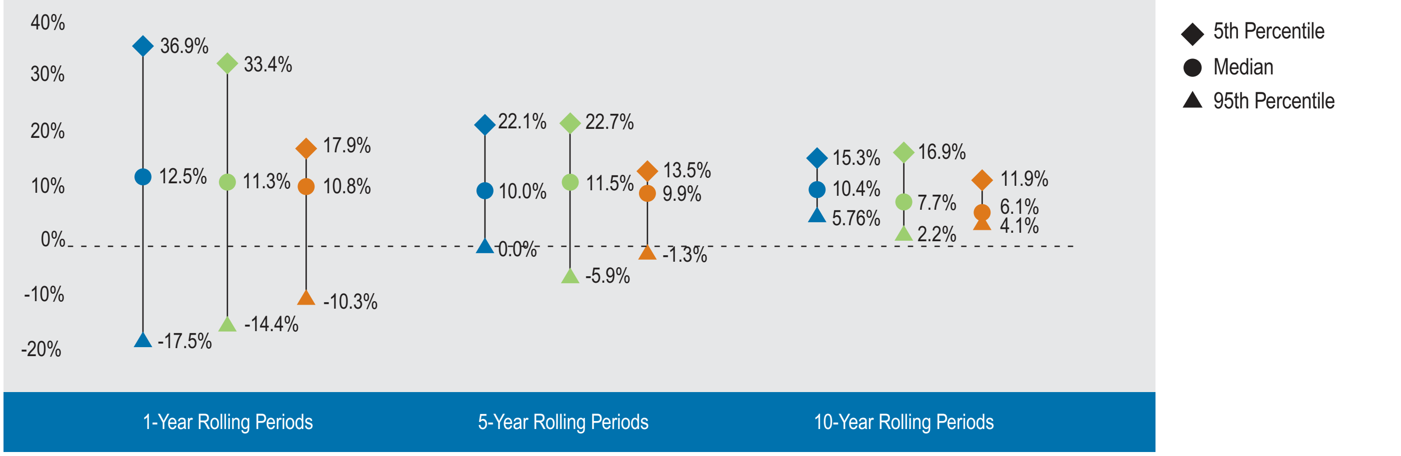
For core real estate, many investors allocate to private funds as a way to get long-term exposure to commercial real estate. We believe 10-year rolling periods generally provide an appropriate representation of the time horizon for these investors. Over that time frame, REITs had a similarly narrow range of returns as the NFI-ODCE (5–15% versus 4–12%, respectively, within the 5th–95th percentiles), but with a median return more than 400 basis points higher.

The narrowing of outcomes over longer rolling periods reinforces the view that REITs are an effective way to make an allocation to real estate. Similar to private equity real estate, REITs' long-term appreciation and dividends are driven primarily by the cash flows and growth profiles of the underlying property holdings. Because REITs trade daily on a stock exchange, their short-term performance may be more highly correlated to stock-market returns. By contrast, private real estate uses appraisal valuations, which dampen reported volatility and potentially understate the impact of changes in real estate fundamentals. This was evident during the financial crisis, when appraisal values were slow to adjust due to the lack of transaction data.

These differences in measurement methods often cause listed and private real estate to appear as if they were moving independently from quarter to quarter. However, in the long run, they tend to converge around an equilibrium level, correcting back to each other over time based on a common factor: the underlying real estate. This is supported by econometric analysis of U.S. REITs and the NFI-ODCE, indicating a 90% statistical confidence of cointegration.[1]

Exhibit 3: Dispersion of Annualized Returns Over Different Time Horizons

Quarterly rolling periods since 1992



At June 30, 2019. Source: NCREIF, Cambridge Associates, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend referenced above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. Please see Index Definitions on page 11.

(1) **At December 31, 2018,** based on cointegration analysis by the Cohen & Steers Quantitative Strategies team, comparing the FTSE Nareit Equity REITs Index with the NFI-ODCE from 1979 to 2018 (cointegration confidence interval: 90%). Cointegration is an econometric technique that measures whether two assets track each other over time based on a common underlying factor, factoring in differences in magnitude through a cointegration factor.

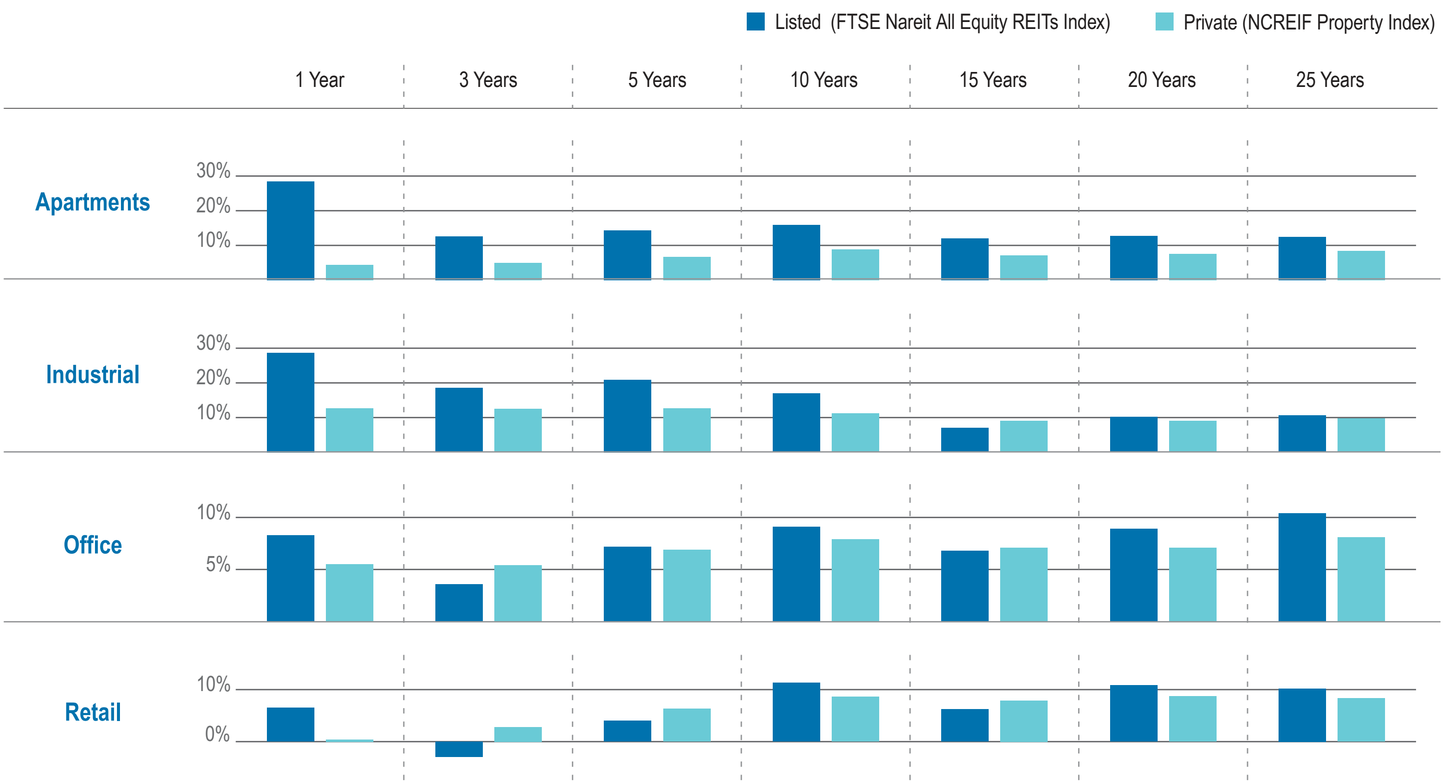
Return Gap Not Explained by Sector Mix

Some investors may rationalize the disparity in returns by pointing to differences in sector weights of listed and private real estate indexes. After all, REIT investors have benefited significantly over the past decade from the strong performance of specialty property types such as cell towers, data centers and manufactured housing, which have little to no representation in the NFI-ODCE.

However, as shown in Exhibit 4, a comparison of core sector returns for listed and private vehicles leads to a similar conclusion: listed real estate has maintained a lead over most historical periods. For example, industrial real estate has been among the best performers among core sectors in the private market. But listed industrial REITs have generally been far better at capitalizing on the growth opportunity in providing logistics capabilities for e-commerce.

The outlier has been retail, where listed REITs have meaningfully lagged their private counterparts over the past 3-, 5- and 15-year periods. Private-market values for retail property have only recently begun to adjust to the disruption in retailer distribution channels, whereas listed retail REITs started repricing in 2016 as the industry's secular headwinds became apparent.

Exhibit 4: Core Sector Annualized Returns for Listed and Private Real Estate



At September 30, 2019. Source: Nareit, NCREIF, Morningstar, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend referenced above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. The mention of specific sectors is not a recommendation or solicitation to buy, sell or hold any particular security and should not be relied upon as investment advice. Please see Index Definitions on page 11.

Comparison of Business Models and Market Factors

Performance Incentives

Both listed and private real estate vehicles generally seek to create alignment of interests between managers and investors through performance incentives. However, there are key differences in how incentives are structured that have the potential to impact long-term investment performance.

REIT management teams tend to have significant equity ownership stakes and receive performance-based incentive compensation tied to various objectives such as earnings growth, shareholder returns and management of the firm's risk profile. This aligns financial rewards with investor interests, providing incentive to create long-term shareholder value through effective capital allocation and strategic investments in the company's platform.

The public format also creates transparent accountability through oversight by a board of directors, federal securities and stock exchange regulators and, perhaps most importantly, by the invisible hand of the public market. Valuation multiples create a feedback loop, rewarding management decisions that will likely create value (and penalizing decisions that may destroy value). A persistently low valuation multiple due to poor management will eventually encourage changes in strategy or invite acquisitions that may realize value for shareholders.

For private real estate funds, business models are generally focused on buying assets, creating a tug of war between performance incentives on the one hand and management fees based on invested assets on the other. Managers will often earn a 20% performance fee on net returns they deliver above a hurdle rate, and the general partner (GP) may commit capital to the fund. Increasingly, however, private funds are structured such that fees do not accrue until capital is invested, which can create a sense of urgency to put capital to work, even if at a lower rate of return. Depending on the fund's strategy and the market environment, the payoff opportunity from the base management fee may exceed that of performance incentives.

Furthermore, private funds with finite time horizons are generally less incentivized to divert capital away from property acquisitions toward value-creating platform enhancements. This is because such investments may not realize a meaningful benefit during the life of the fund, yet they count against the fund's IRR, potentially diminishing investor returns and advisor fees.

Accessing Capital

REITs have a distinct advantage over private real estate funds when it comes to raising capital. They have access to both public and private sources of equity and debt capital, they can issue preferred equity and they can seek joint venture partners. This capital can generally be raised faster and often at a lower cost than in the private market.

An extreme example of this benefit came during the financial crisis. REITs were able to raise significant capital through common stock issuance, corporate debt and convertible offerings. Although the capital was expensive, it allowed them to strengthen their balance sheets, address debt maturities and reduce leverage. By contrast, many private real estate owners were unable to recapitalize at the time, prompting some fund managers to issue capital calls to investors, who were then forced to liquidate other assets in a broadly unfavorable market.

Private real estate managers do have some advantages, however. They tend to deploy higher levels of leverage with shorter maturities in an attempt to enhance returns, which may be seen as either an advantage or disadvantage depending on risk tolerance. This can drive down their cost of capital relative to listed companies. This has been the case in recent years amid sustained low interest rates and a willing bank lending environment, shifting the cost of capital advantage (albeit likely temporarily, in our view) in favor of some private managers.

With REITs, equity ownership and performance-based compensation provide incentives for management teams to raise and spend capital in ways that create long-term shareholder value, with public markets providing a continuous stream of feedback.

Leverage

For listed REITs, leverage is largely governed by what investors believe is an acceptable range for the company—usually 30–40% of total assets—depending on the type of real estate, the REIT's operating strategy and the market's position along the economic and real estate cycle. REITs that exceed the "acceptable" leverage range typically trade at lower earnings multiples.

Core private real estate funds generally utilize low leverage of around 30%, and no more than 40%. Value-add and opportunistic funds operate with a much wider band, ranging as high as 75% for opportunistic funds and somewhat less for value-add funds. Higher leverage has the potential to benefit investors in rising markets, but also increases downside risk by increasing the volatility of real estate values. This can potentially accelerate a decline in an investment's value in a downturn.

Sector Specialization

Most REITs focus their entire business on one property type, building platforms that are dedicated to creating a strong market position in that specialty. In our experience, this has generally led to superior revenue realization and cost efficiencies compared with some non-specialist private investors. Company specialization also allows REIT investors to make targeted allocations to specific property sectors and geographic regions.

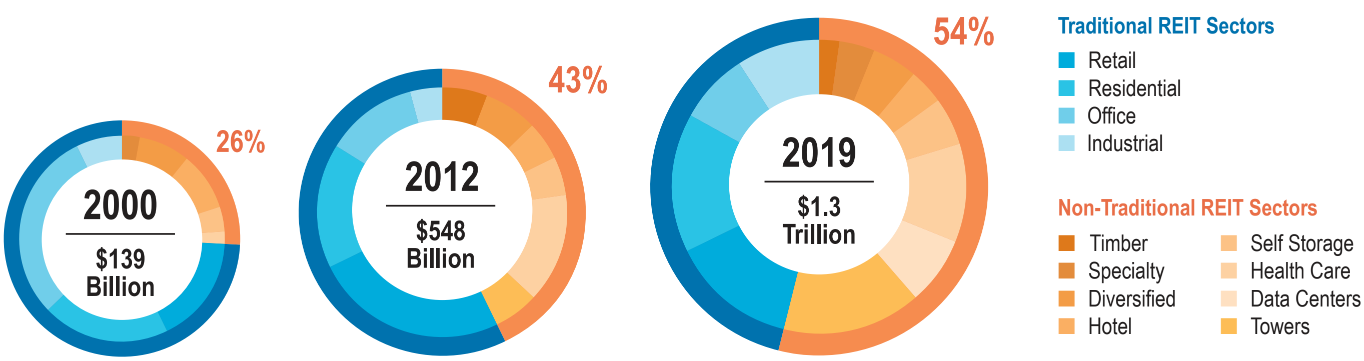
Private funds have varying degrees of specialization by sector or geography. However, in our experience, this typically does not approach a level equivalent to a public company that has built its platform around a single sector.

Diversification of Sectors and Leases

Some value-add and opportunistic allocators have favored private markets for exposure to non-core real estate sectors. As the REIT market has evolved, a diverse set of sectors has emerged, including cell towers, data centers, manufactured housing and self storage, often represented by companies with dominant market positions. About half of the FTSE Nareit All Equity REITs Index now consists of these non-traditional sectors, providing access to strong secular growth themes (Exhibit 5). We estimate that some of these sectors are positioned to deliver higher long-term growth than many core property types, while also featuring distinct demand drivers that may help to further diversify a real estate allocation.

Within a portfolio of 20–40 securities, investors have the ability to participate in the cash flows and equity values of thousands of underlying properties owned by the REITs and hundreds of thousands of underlying leases. We believe this broad opportunity set, together with the ability to allocate dynamically based on changes in the market environment, offers the potential for enhanced risk-adjusted returns.

Exhibit 5: Non-Traditional Sectors Represent an Increasing Portion of the U.S. REIT Market



At September 30, 2019. Source: Nareit. FTSE Nareit All Equity REITs Index.

The mention of specific sectors is not a recommendation or solicitation to buy, sell or hold any particular security and should not be relied upon as investment advice. The views and opinions are as of the date of publication and are subject to change without notice. The chart is for illustrative purposes only and does not reflect information about any fund or other account managed or serviced by Cohen & Steers.

Distributions

By law, U.S. REITs are required to pay out at least 90% of their taxable net income (most pay out 100%) in the form of dividends to shareholders—a large portion of which is typically considered return of capital due to depreciation. Historically, reinvested distributions have accounted for 56% of REITs' total-return profile over the long term.[1] The cash flows that drive these distributions tend to be more predictable than real estate appreciation, helping to mitigate risk associated with property cycles. This is similar to core real estate funds, which generate returns primarily from real estate cash flows.

By contrast, opportunistic and value-add real estate strategies may not pay out any distributions. Also, returns tend to be more back-end loaded when the assets are sold.

Transparency and Corporate Governance

Unlike most investments in private real estate, REITs and other real estate securities are subject to oversight by government regulatory agencies, which require strict standards of corporate governance, financial reporting and information disclosure. In the U.S., this includes quarterly statements with the Securities and Exchange Commission (SEC) as well as detailed supplementals. REITs are also managed by a board of directors, helping to align interests between management and shareholders. Moreover, REITs, like open-end core real estate funds, are fully invested—so investors know what they are getting from the outset, rather than investing in a blind pool, which is typical in value-add and opportunistic vehicles.

Manager Selection Risk

Although private real estate fund managers have not delivered an illiquidity premium consistently, the success of top-performing managers seems to have given many institutional investors sufficient confidence of achieving excess returns to justify allocations. However, this assumes investors have access to a steady stream of top managers and that they will be able to select top performers over a full cycle.

The challenge for investors, in our view, is that in certain vintage years, the spread between top- and bottom-performing value-add and opportunistic funds has been massive. While some vintages have produced relatively consistent results across private real estate funds, others have seen a return difference as wide as 1500 basis points between managers in the top and bottom quartiles.[2]

Manager selection is also a factor when allocating to REITs. However, the return differences between REIT managers over time has historically been narrower than for private real estate.

Management Fees

Institutional REIT managers typically charge an annual fee of 50–100 basis points, depending on the mandate size and investment focus. At the REIT level, general and administrative expenses are embedded within earnings results and detract from total returns, although the REIT market's historical performance indicates that other value-creating opportunities have more than offset these expenses.

Exhibit 6: Impact of Typical Management Fees for Hypothetical Return Scenarios

	Effective Fee			Net Return			Fee as % of Gross Return		
Hypothetical Gross Return[3]	REIT Manager[a]	Core Fund[b]	Value-Add/ Opportunistic[c]	REIT Manager	Core Fund	Value-Add/ Opportunistic	REIT Manager	Core Fund	Value-Add/ Opportunistic
5%	0.6%	1.0%	1.5%	4.4%	4.0%	3.5%	12%	20%	30%
10%	0.6%	1.0%	1.5%	9.4%	9.0%	8.5%	6%	10%	15%
15%	0.6%	1.0%	2.4%	14.4%	14.0%	12.6%	4%	7%	16%
20%	0.6%	1.0%	3.4%	19.4%	19.0%	16.6%	3%	5%	17%

At September 30, 2019. Source: eVestment Alliance, Preqin, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. Please see Index Definitions on page 11.

(a) REIT manager fee of 0.62% of assets under management, based on breakpoint median of a $100M mandate for 64 active U.S. REIT strategies compiled by eVestment Alliance. (b) Core fund fee of 1% of invested assets, based on Preqin benchmark average. (c) Value-Add/Opportunistic fund fee includes 1.5% annual base fee plus 20% performance fee/carried interest subject to a 9% preferred return hurdle rate, based on Preqin benchmark average.

(1) Price returns vs. total returns for the FTSE Nareit Equity REITs Index from 1991 to 2018. (2) Cohen & Steers analysis of data provided by Cambridge Associates as of June 30, 2019. (3) Hypothetical returns are for illustrative purposes only and do not reflect the performance of any Cohen & Steers' portfolio. Actual events are difficult to predict and are beyond the control of Cohen & Steers. Actual events may be different, perhaps materially, from those assumed. The information contained herein does not purport to contain all of the information that may be required to evaluate the investment strategy and you should conduct your own independent analysis of the data referred to herein. The actual performance of any fund or account managed by Cohen & Steers may be materially different from the hypothetical performance shown.

By contrast, the fee structure of value-add and opportunistic private funds—typically a base annual fee plus a performance fee tied to a hurdle rate—may consume a meaningful portion of the underlying real estate returns. Core real estate funds tend to have slightly higher fees than REIT managers and may include a performance fee.

Exhibit 6 shows the potential economic impact of fees under hypothetical return scenarios, using typical fee structures and levels. In each return scenario, REIT investors keep more of their gross return, with fees consuming significantly less of the economic performance of the investment.

Capital Deployment

Record fundraising activity by private real estate managers in recent years has raised concerns about their ability to put cash to work. Even as managers cast a wider net in search of opportunities, increasing competition and lower return expectations in the private market have resulted in prolonged investment phases and a bottleneck of capital. According to Preqin, fund managers were sitting on $336 billion of uninvested capital as of March 2019, translating into $425–850 billion in buying power after accounting for leverage. In some cases, private fund managers have not been able to invest capital by their deadlines and have had to ask clients for extensions or use other means to deploy the capital. The increase in REIT privatizations in recent years reflects an environment where more private investors are seeing relative value in the listed market.

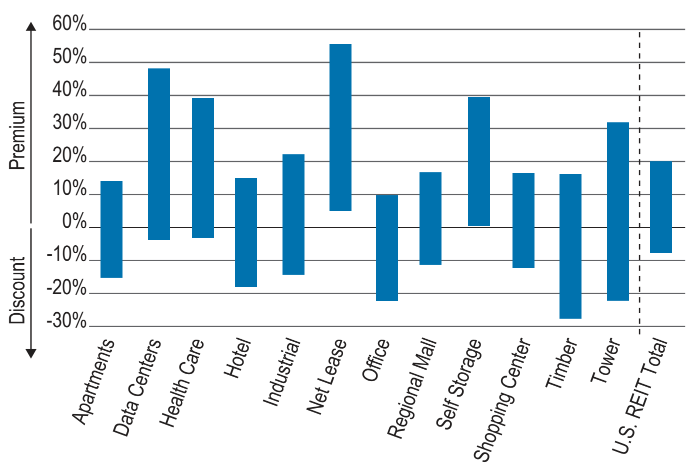
While different institutions may have varying sensitivities to the J-curve,[1] it may be a consideration for some, and potentially more relevant in an increasingly crowded private market. By comparison, even the largest listed real estate mandates can typically be invested in a matter of days, with no material impact on market prices.

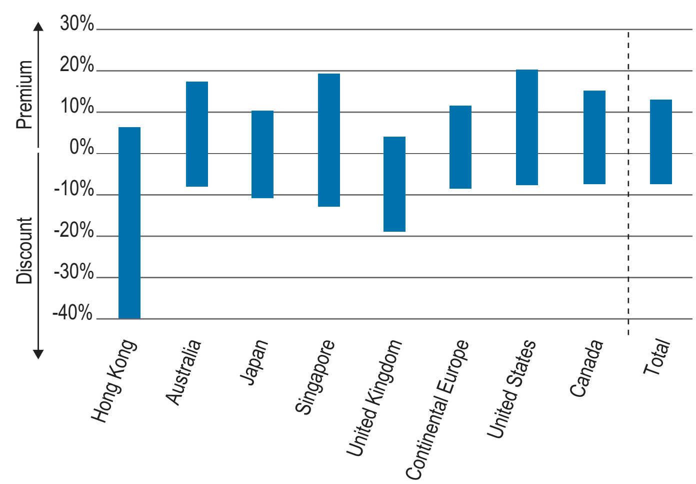
Buying Properties on Sale

When buying properties in the private market, investors must generally pay the current market rate for that type of asset in that location, even when investing in distressed assets. With REITs, fluctuations in valuations may cause individual companies or entire REIT sectors and countries to trade at premiums or discounts to their private-market counterparts (Exhibit 7 shows the 5-year valuation ranges of U.S. REIT sectors and global real estate markets). Due to the daily liquidity and low transaction costs of public markets, REIT fund managers can easily reallocate the portfolio to better-valued property types, accounting for both spot prices and expected future cash-flow growth

Private fund managers may also seek to take advantage of discounts in the listed market by taking entire REITs private, which often requires a large premium over the current share price. In many cases, this can be a way for private fund managers to acquire large portfolios at attractive prices, benefiting REIT shareholders in the process. Historically, U.S. REITs have traded at modest premiums to their net asset values on average, reflecting the expected value that REIT managements can add through strategic capital allocation and platform efficiencies.

Exhibit 7: Five-Year Range of Premiums/Discounts to NAV
By U.S. REIT Sector (left) and Country (right)





At September 30, 2019. Source: Cohen & Steers estimates based on proprietary qualitative and quantitative metrics.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin.

(1) The J-curve describes the shape of investment cash flows over a fund's life cycle, from capital calls to eventual distributions.

Conclusion

Contrary to the benefit that investors have historically achieved with corporate private equity investments, private real estate funds have generally not succeeded in delivering a return premium, let alone provided compensation for illiquidity. Yet there remains significant momentum in institutional capital targeting private equity real estate, especially value-add and opportunistic strategies.[1]

History shows that REITs have been an attractive way to make an allocation to real estate, with relatively lower-risk business models that have produced superior returns to the average private fund over full market cycles. Listed markets offer a broad opportunity set, including access to new-economy property types such as cell towers, data centers and modernized industrial facilities, as well as specialized property type markets such as self-storage and manufactured housing communities that may be difficult to assemble in size in the private market. REITs' specialized focus allows for tactical investments in specific sectors and geographies that investors can generally access at a substantially reduced cost.

Investors allocating to private real estate have had opportunities to generate an illiquidity premium through the selection of managers, strategies and vintages. As the business cycle matures and the stockpile of dry powder held by private real estate funds grows, these choices are likely to become even more consequential. Accordingly, we believe investors should consider the ways in which REITs can complement their real estate portfolios.

(1) 2019 Preqin Global Real Estate Report.

Cohen & Steers

REAL ESTATE • The Original Real Asset

About Cohen & Steers

Cohen & Steers is a global investment manager specializing in liquid real assets, including real estate securities, listed infrastructure, and natural resource equities, as well as preferred securities and other income solutions. Founded in 1986, the firm is headquartered in New York City, with offices in London, Hong Kong and Tokyo.

Index Definitions

U.S. REITs: The FTSE Nareit All Equity REITs Index is a capitalization-weighted, time-weighted index of publicly traded U.S. REITs that invest predominantly in the equity ownership of real estate. The FTSE Nareit Equity REITs Index excludes infrastructure and timber REITs.

Global REITs: The FTSE EPRA Nareit Developed Index is a capitalization-weighted, time-weighted index of companies domiciled in developed markets that derive more than half their revenue from property-related activities.

Core private real estate funds: The NCREIF Fund Index–Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, time-weighted index of 36 private real estate funds pursuing a core investment strategy focused predominantly on U.S. assets. The NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

Value-add/opportunistic private real estate funds: The Cambridge Associates Real Estate Index is a pooled horizon IRR, representing 1,035 funds, including fully liquidated partnerships, formed between 1986 and 2018.

COHEN & STEERS

We believe accessing investment opportunities around the world requires local knowledge and insight into specialized and regional markets. Cohen & Steers maintains a global presence through the following offices:

Americas

NEW YORK

Corporate Headquarters
280 Park Avenue, 10th Floor
New York, New York 10017

Phone 212 832 3232
Fax 212 832 3622

Europe

LONDON

Cohen & Steers UK Limited
50 Pall Mall, 7th Floor
London SW1Y 5JH
United Kingdom

Phone +44 207 460 6350

Asia Pacific

HONG KONG

Cohen & Steers Asia Limited
Suites 1201–02, Champion Tower
3 Garden Road
Central, Hong Kong

Phone +852 3667 0080

TOKYO

Cohen & Steers Japan Limited
Pacific Century Place, 16F
1-11-1 Marunouchi Chiyoda-ku
Tokyo 100–6216 Japan

Phone +81 3 4530 4710