



Investment education

An introduction to real estate and private markets in wealth portfolios

HIGHLIGHTS

- **Alternative investments are no longer reserved for institutional investors—they're becoming essential tools in modern wealth management.**
- **In recent years, public equities and bonds alone have struggled to deliver the income, diversification, and resilience that many wealthy investors seek.**
- **By following key best practices, advisors can help clients incorporate real estate and private market strategies that enhance income, growth, and diversification.**

In today's evolving financial landscape, real estate and private market investments are reshaping the way wealth managers help clients achieve their long-term financial goals. Once the domain of institutional investors, these asset classes are now increasingly accessible to high-net-worth individuals through a wave of regulatory reforms and technological innovation.

This shift presents new opportunities—but also new responsibilities—for advisors. Recent market trends have indicated that exposure to private markets gives investors a meaningful edge in successfully meeting risk/reward targets. But selecting the right investments and an appropriate asset allocation range is essential for success.

The democratization of real estate and private markets

Historically, private market investments, including private equity, private credit, and direct real estate, were mostly reserved for institutions with deep pockets and access to specialists. High minimum investment thresholds, long lock-up periods, and regulatory restrictions kept these opportunities out of reach for nearly everyone else.

Regulations have changed in recent years, however, making private investments more accessible to individual investors. New rules contained in the JOBS Act of 2012, for example, spurred the creation of platforms and vehicles that package these opportunities in user-friendly formats, often at more accessible minimums. These new avenues include online marketplaces that connect investors to private deals, as well as feeder funds that package a range of private investments with specific risk/return profiles.

Common private market access points

Access Point	Description	Advantages	
Semi-liquid funds (e.g. Private REITs, interval funds)	Pools money from multiple investors to invest directly in private options; liquidity is restricted	Screened access to private investment options, typically at lower minimums, with at least some liquidity	MASS AFFLUENT ↑
Feeder funds	Pools money from multiple investors; then invests in a large institutional fund with high minimum investments	Ability to access top-tier private investment talent at a far lower minimum	
Fund of funds	Pools money from multiple investors; invests that money across several institutional strategies	Expands on the benefits of a feeder fund by investing in a diversified range of private managers	INSTITUTIONAL INVESTOR ↓
Private markets platforms	A web-based portal that provides access to a variety of investment opportunities with a range of minimums, fees, and liquidity characteristics	Offers a range of options, at a lower minimum. Platforms also offer client service, reporting and education tools in a user-friendly interface	

High-net-worth individuals have responded enthusiastically to these new opportunities. A 2025 survey by private market investment platform Yieldstreet indicated that nearly half of all accredited investors surveyed intend to raise their exposure to private markets in the next five years.⁽¹⁾

Private market investments are becoming a practical addition to a well-diversified wealth portfolio, offering potentially attractive advantages over traditional public market investments – especially in the current economic climate.

⁽¹⁾ Yieldstreet Next Wave 2025 Private Markets Report

Filling gaps in the 60-40 portfolio

The traditional 60% equity – 40% fixed income portfolio is a long-standing allocation benchmark for advisors who focus on public markets. But in recent years, public equities and bonds have struggled to deliver the income, diversification, and resilience that many wealthy investors seek.

Recent research indicates that public markets have become increasingly correlated, reducing their effectiveness as diversification tools. According to the Bank for International Settlements (BIS), the correlation between U.S. equity and government bond returns turned positive in mid-2021 as a result of monetary policy responses to inflation, and has remained so since. ⁽²⁾

Private market exposure offers diversification, *Correlation analysis*

	Global stocks	Global bonds	Listed real estate	Listed infrastructure	Private equity	Private credit	Private real estate	Private infrastructure
Global stocks	1.00							
Global bonds	0.33	1.00						
Listed real estate	0.86	0.39	1.00					
Listed infrastructure	0.85	0.40	0.89	1.00				
Private equity	0.69	0.11	0.62	0.60	1.00			
Private credit	0.69	-0.04	0.63	0.64	0.74	1.00		
Private real estate	0.25	-0.13	0.23	0.26	0.67	0.47	1.00	
Private infrastructure	0.27	-0.07	0.27	0.36	0.55	0.38	0.66	1.00

Source: Bloomberg S&P 500 Total Return Index, NFI-ODCE (Gross, Value Weighted) Index. Data from Q3 2006 to Q3 2024. Please see indices used in the important information section. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

This weakening of the diversification value of the 60-40 portfolio comes at a time when return opportunities in the public markets have become more limited. In a market where bond prices have been falling, the number of publicly traded U.S. companies is dwindling, and innovation is in high demand, private markets offer more opportunities to enhance income or gain early exposure to evolving market trends.

In all, real estate and private market offerings have provided investors with an attractive combination of income, growth, and diversification. For example, compare private real estate equity to the S&P 500. Over the past 25 years, the S&P 500 returned a total of 7.65% per year through December 31, 2024. Roughly 1.8% to 2% of that return came from income, and the results were delivered at 16.5% annual volatility.

Over that same horizon, the NCREIF NFI-ODCE index (a standard benchmark for Core institutional private equity real estate) delivered 7.08% per year with roughly 5.4% of that coming from income, all while maintaining only 6.72% in annual volatility. In addition, the correlation between these indices over that same horizon amounted to only 0.014%, arguably none.

⁽²⁾ BIS “The correlation of equity and bond returns”, December 2023



“Private markets offer opportunities to enhance income or gain early exposure to evolving market trends.”

Strategic integration: Best practices for wealth managers

Despite the growing availability and potential benefits of real estate and private market investments, their effective use requires strategic planning and due diligence. Wealth managers must consider each client's liquidity needs, risk tolerance, and long-term goals when incorporating alternatives into a portfolio.

ASSET ALLOCATION. As a general guideline, most experts suggest that private market investments should make up no more than 15%–30% of a high-net-worth client's overall portfolio, depending on their financial profile and time horizon. But liquidity needs are a core consideration whenever using real estate and private markets. Investors with more liquidity constraints should consider focusing on more liquid types of private products. The more private holdings in the portfolio, the greater the need to assess liquidity impacts and create a detailed liquidity plan.

Investor type	Suggested allocation	Best practices
Affluent	5–10%	Focus on diverse products that are liquid or semi-liquid
High-net-worth	10–25%	Introduce more illiquid products that fit the client's risk/return profile and potentially longer timeframe
Ultra-high-net-worth/institutional	20–50%	Greater use of illiquid investments; develop detailed liquidity plan

PRODUCT TYPES. Real estate and private markets offer categories of investments designed to meet a wide range of investor goals. All of these categories offer diversification potential when added to a traditional 60-40 portfolio but are geared toward achieving different types of outcomes for investors.

Sector	Diversification strength	Income	Growth	Liquidity
Residential Real Estate (e.g., multifamily, Single-family rental)	Moderate ⊖	High ✓	Moderate ⊖	Low ✗
Commercial Real Estate (e.g., office, retail, industrial)	Varies ⋯	Moderate ⊖	Moderate ⊖	Low ✗
Private Credit (e.g., direct lending, mezzanine)	High ✓	Very high ✓ ✓	Low-moderate ⊖	Low ✗
Infrastructure (e.g., energy, data, transport)	High ✓	High ✓	Moderate ⊖	Low ✗
Real Estate Turnarounds (e.g., value-add or distressed)	Moderate ⊖	Low-moderate ⊖	High ✓	Low ✗
Private Equity (e.g., buyouts, growth, Venture capital)	Varies ⋯	Low ✗	Very high ✓ ✓	Very low ✗ ✗

CLIENT COMMUNICATION. It's important to discuss real estate and private markets options with your clients at length before allocating assets to these sectors. Unfamiliar clients will need a thorough understanding of the unique nature of these products and the way they can affect return, risk, and liquidity.

In many cases, real estate and private markets exposure offers income or return opportunities that are hard to match in the public markets. But the nature of the risks involved, and the tools to manage that risk, are different as well. It will be important to familiarize yourself with the risks and risk-mitigation strategies of each offering you direct clients toward.

For example, data centers are infrastructure projects that provide large technology businesses with the equipment needed to store and process data. They typically offer investors income and the potential for meaningful growth. However, data centers are dependent on factors like electricity costs or the failure of a key tenant. Many infrastructure financing deals try to manage these risks by imposing multi-year pricing agreements, performing due diligence on tenant credit worthiness, or by securing long-term leases with a diversified mix of tenant types.

Liquidity is also a particularly important topic. Private market strategies may have lock-up periods, redemption policies, or other terms that limit a client's access to their liquid funds. These restrictions need to be aligned carefully with a client's liquidity needs.

Finally, advisors will need to expand their skill at identifying real estate and private markets managers whose strategies align with client goals.



THREE WAYS to build a solid foundation when using real estate and private markets:

- 1. Create an investment policy statement (IPS).** Define what assets will be used, why they will be used, and how they will be incorporated into the client's asset allocation plan.
- 2. Emphasize diversification.** Select diversified investments, but also, select investment types that enhance diversification for the client's entire portfolio.
- 3. Draft a liquidity plan** that spells out the client's liquidity needs and how real estate/private market investments will be managed to help maintain those goals.

Taking action

Real estate and private markets are no longer niche asset classes reserved for pension funds and endowments—they're becoming essential tools in modern wealth management. As these opportunities continue to democratize, prepare to educate clients and build portfolios that responsibly incorporate these investments.

If you want to discuss these products in more detail and see how they can fit into your clients' investment approach, contact your Principal Asset Management representative today.



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Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. Real estate investment options are subject to risks associated with credit, liquidity, interest rate fluctuation, adverse general and local economic conditions, and decreases in real estate values and occupancy rates. There are risks associated with private equity that are not applicable to typical investments in the public equity market, are generally illiquid and carry the potential for significant losses. Typically, private credit investments are in restricted securities that are not traded in public markets, can range in credit quality and are subject to substantial holding periods. Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks. Hedge funds may not be suitable for all investors and often engage in speculative investment practices which increase investment risk; are highly illiquid; are not required to provide periodic prices or valuation and often employ complex tax structures. Investment risk may be magnified with alternative investment strategies due to their use of arbitrage, leverage, and derivatives. Asset allocation and diversification do not ensure a profit or protect against a loss. The risk management techniques discussed seek to mitigate or reduce risk but cannot remove it. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. Data Center properties are only attractive to a unique type of tenant. A limited tenant base increases the risk of vacancy. Additionally, a property designed to be a data center may be difficult to re-let to another type of tenant or convert to another use. Thus, if operating a data center were to become unprofitable, the liquidation value of properties may be substantially less than would be the case if the properties were readily adaptable to other uses.

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