



ALTERNATIVE INVESTING

Demystifying Illiquid Assets: Expected Returns for Private Real Estate

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The growing interest in illiquid assets including real estate means that allocators must carefully consider their risk and return. The challenge is that modeling private real estate is not straightforward due to a lack of good quality data and artificially smooth returns. We try to demystify the subject considering theoretical arguments, historical average returns, and forward-looking yield-based analysis. In the process, we explain why naïve comparisons to public counterparts can be misleading. For institutional investors trying to calibrate their asset allocation decisions for private real estate, we lay out a framework for expected returns, albeit a noisy one, that is based on a discounted cashflow framework similar to what we use for public stocks and bonds.

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