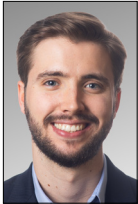


Navigating Real Estate in 2025: Diversifying Abroad And Embracing Income Strategies Amid Market Uncertainty



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Relative to expectations, the real estate market environment in 2025 has been largely disappointing; transaction volume remains muted, and the valuation recovery has been slow because of elevated interest rates and overall market uncertainty. Unpredictable US trade policies, ongoing geopolitical uncertainty, and concerns over substantial deficit spending have dampened both business and consumer confidence, impacting real estate activity, particularly in the US. In this article, we explore the opportunity set in European and Asia-Pacific (APAC) real estate markets for investors looking to diversify given ongoing uncertainty in the US. We also explore fundraising trends, comment upon historical performance, and discuss market dynamics supporting income-focused strategies, highlighting the role these strategies can play within portfolios. Although a strong real estate recovery in 2025 has not fully materialized, vintage-year diversification and consistent commitment pacing remain crucial for institutional portfolio success. Our goal

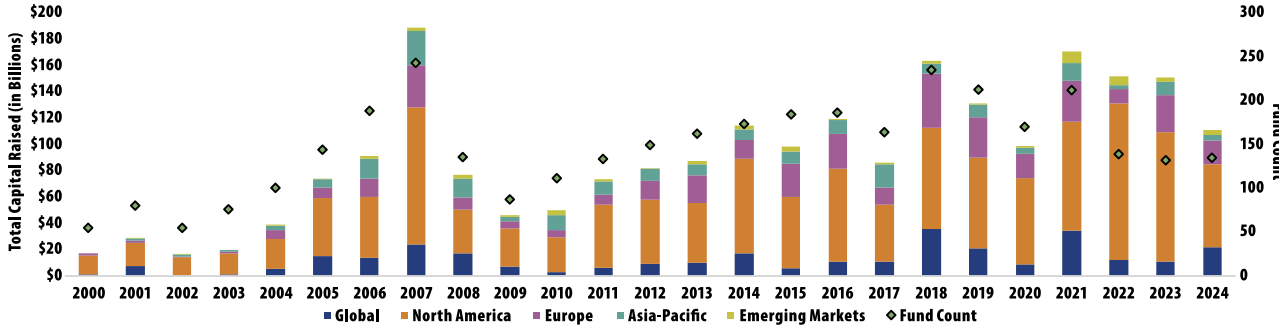
Cambridge Associates has been helping endowments, foundations, private clients, pensions, and other large institutional investors invest in real assets (defined as infrastructure, real estate, and natural resources such as energy and commodities, mining, agriculture, and timber) since the 1980s. The Cambridge Associates Real Estate, Natural Resources, and Infrastructure database includes nearly 2,000 investment managers representing more than 6,000 funds. Our investment coverage includes funds, co-investments, secondaries, and separate accounts investing in public and private debt and equity investment vehicles across the risk spectrum. In this article series, supported by our robust database, we reflect on a variety of trends in capital raising by investment managers in the marketplace for institutional real assets.

is to highlight where attractive value opportunities exist in today’s market environment.

What We’ve Observed

In 2024, real estate fundraising slowed not only in the US but also across Europe, APAC, and global emerging markets, as shown in Exhibit 1. Historically, approximately 25% of institutional fundraising activity has targeted European and APAC markets. Cambridge

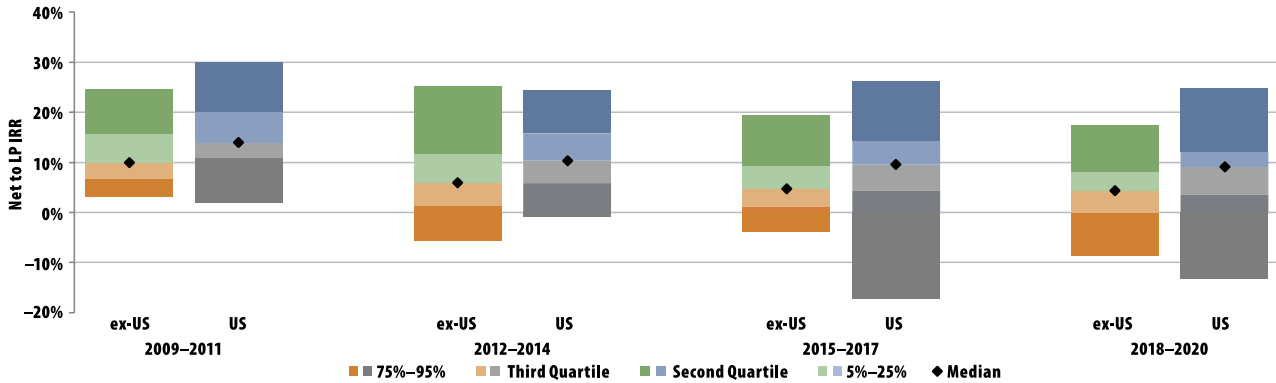
Exhibit 1: Closed-End Real Estate Historical Fundraising by Region



Source: Cambridge Associates LLC

Notes: Data are as of June 30, 2025. Cambridge Associates is often made aware of new managers and funds and provided with current material that impacts historical fundraising data. Latest data may deviate from prior reporting as a result.

Exhibit 2: US Versus Developed ex-US Real Estate Return Dispersion, Vintages 2009–2020



	2009–2011		2012–2014		2015–2017		2018–2020	
	ex-US	US	ex-US	US	ex-US	US	ex-US	US
N	34	99	38	145	47	142	30	136
5%	25%	30%	25%	24%	19%	26%	17%	25%
25%	16%	20%	12%	16%	9%	14%	8%	12%
Median	10%	14%	6%	10%	5%	10%	4%	9%
75%	7%	11%	1%	6%	1%	4%	-1%	4%
95%	3%	2%	-6%	-1%	-4%	-17%	-8%	-13%

Source: Cambridge Associates LLC

Notes: Returns are horizon internal rates of return (IRRs) calculated since inception to March 31, 2025. These returns are net of management fees, expenses, and performance fees that take the form of a carried interest. Vintage years include 2009–2020. Cambridge Associates is always working to grow its private investments performance database and ensure that its benchmarks are as representative as possible of investors’ institutional-quality opportunity set. As a result, Cambridge Associates continually adds funds to the database (both newly raised funds and backfill funds) and occasionally must remove funds that cease reporting. Cambridge Associates’ private investments performance database is dynamic and will reflect both classification adjustments and changes to the underlying pool of contributing funds. As a result, there may be changes in the results of some historical benchmark return analyses. The percentile calculations, including top 5%, upper quartile, median, lower quartile, and bottom 5% depict the distribution of the sample by describing what percentage of observations fall above and below a certain value. For example, the value of the upper quartile, also referred to as the 25th percentile, indicates that 25% of observations are above the given value, and 75% are equal to or below. All financial investments involve risk. Depending on the type of investment, losses can be unlimited. Past performance is not indicative of future returns.

Associates’ clients have historically allocated a similar proportion to these regions. However, evolving regulatory, monetary, and tariff dynamics in the US are prompting investors to reassess geographic allocations. This potential shift reflects both the search for diversification and the responsiveness of institutional capital to changing global market conditions.

Though past performance is not a reliable indicator of future results, particularly for regions such as Europe and APAC with smaller sample sizes compared with the North American region, Cambridge Associates’ database of real estate fund performance data offers meaningful insights. We analyzed the performance of more than 210 ex-US–focused (European and APAC) value-added and opportunistic funds from vintage years

2009 to 2020. Because of the limited number of funds in early vintages, we grouped the sample into three-year buckets to minimize variability and provide a clearer picture of performance over time (as shown in Exhibit 2). We excluded emerging-markets managers (where underperformance is prevalent) from our analysis because of the small number of funds focused on those regions, wider performance dispersion, and limited opportunities for institutional capital historically.

From 2009 to 2020, ex-US funds had a median net internal rate of return (IRR) of 6.3% compared with 10.3% for US-focused funds and generally lagged US funds. However, in some vintage year groups (e.g., 2012–2014), upper-quartile ex-US funds outperformed US funds and experienced less return dispersion

and downside outcomes. Reduced dispersion likely reflects the smaller sample size of ex-US funds but can also be attributed to experienced regional general partners (GPs) that manage downside risk more effectively, amid somewhat limited upside because of broader macroeconomic factors. Underperformance also reflects currency drag, as US investors faced, on average, a 150 basis point (bp) hit in Europe and 270 bps in APAC as a result of weaker local currencies. The currency impact was most pronounced during the global financial crisis and its aftermath (2009–2013), which involved significant currency headwinds and a slower recovery in European and APAC markets compared with the US.

European Real Estate Outlook

Unpacking the regional performance further, developed European funds have lagged the US in performance over the past decade, partly because of challenges such as Brexit, sovereign debt issues, and a weaker currency. Since their mid-2022 peak, European real estate valuations have fallen by more than 20%, slightly more than US real estate valuations. While the European Union has experienced only 8% GDP growth over the past ten years compared with 28% GDP growth for the US, interest rates have stabilized (2.0% European Central Bank rate versus 4.25%–4.5% in the US). Alongside an improving macroeconomic outlook, muted tariff impacts from diversified trade relationships, and the potential for currency appreciation (with the euro and pound sterling undervalued relative to the dollar), these factors have created attractive entry points in the European real estate market.

Supported by strong demographics and economic growth, certain regions, such as Southern Europe (particularly Spain) and the Nordics demonstrate compelling dynamics. Residential and alternative sectors, including student housing, are particularly attractive because of persistent housing shortages and rising demand from migration. Logistics assets also continue to benefit from the growth of e-commerce. Although the UK remains the largest and most liquid market, its persistently high inflation and corresponding monetary policy make it more challenging at present.

Investors can gain European exposure through diversified Pan-European funds or by selecting regional and sector specialists. However, if choosing the latter, maintaining broader diversification across the overall portfolio is important.

Asia-Pacific Real Estate Outlook

Developed APAC real estate funds have delivered a median net IRR on par with US-focused funds (9.3%) with greater dispersion. Elevated uncertainty and financial market volatility have made the Asia-Pacific real estate environment challenging in recent years, but Australia, Japan, Singapore, and New Zealand still offer growth and diversification benefits for investors seeking to capitalize on market repricing and strong fundamentals.

Fundraising for APAC real estate reached a record low in 2024, but transaction volumes have picked up, signaling renewed market activity. Investor interest is most pronounced in Japan, which is viewed as a relatively safe haven because of its low borrowing costs and the ongoing wave of large corporate real estate dispositions. As of 2022, Japanese corporations owned about \$3.2 trillion in domestic real estate. Government reforms and pressure from investors are encouraging companies to improve low price-to-book (P/B) ratios, prompting them to divest real estate holdings for greater balance sheet efficiency. By March 2024, 40% of large-cap listed companies were trading at a P/B ratio of 1.0 and held approximately ¥180 trillion (about \$1.2 trillion) in fixed assets, creating significant opportunities as these firms sell real estate to focus on core businesses. Japan's hospitality and multifamily sectors are particularly attractive, with value-added strategies focused on operational improvements such as leasing up vacant assets. There is also increased interest in alternative real estate sectors across APAC, including data centers, student accommodations, life sciences, and infill logistics, where limited new construction has made supply-demand dynamics favorable.

Opportunistic strategies—especially those acquiring distressed assets at deep discounts or developing undersupplied assets with proven demand—are attractive in the current interest rate environment. Similar to Europe, investors can gain APAC exposure through diversified Pan-Asian mandates that offer flexibility to

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pursue the best risk-adjusted opportunities across the region, and Japan stands out as a safe haven for more risk-averse investors. Although ex-US markets present intriguing opportunities to deploy capital in the current environment, if long-term rates remain elevated, investors focused on yield may consider income-oriented strategies, particularly if the distribution environment for traditional private real estate funds remains muted.

Slowdown in Distributions and the Spotlight on Income-Oriented Strategies

As discussed previously, slow fundraising activity can be attributed to muted transaction volume and lower distribution yields, which remain well below historical averages. By the first quarter of 2025, closed-end real estate funds launched in 2020 had distributed approximately 24% of total fund capital back to investors. This distribution level is about half of what earlier vintage funds (2010–2018) had distributed at the same stage in their life cycle. This pronounced slowdown in distributions reflects broader macroeconomic headwinds, prompting GPs to focus on capital preservation and liquidity management in response to persistent macroeconomic uncertainty and higher financing costs. As a result, limited partners (LPs) are recalibrating their allocation strategies and are increasingly seeking liquidity through current yield. Below, we discuss different strategies LPs may consider to generate current income.

Real Estate Credit Outlook

The rise in interest rates (as seen in Exhibit 3), valuation resets, the “maturity wall,” and the temporary pullback of traditional lenders from real estate have reshaped the lending landscape. Alternative lenders and credit funds have filled the liquidity gap, offering higher yields and stronger protections, such as robust covenants and lower loan-to-value ratios. Today, real estate credit strategies—particularly senior and mezzanine debt—offer target IRRs that are competitive with equity, with a significant portion of returns coming from income. With limited distributions from traditional equity investments, investors have turned to credit strategies for diversification and consistent cash flow generation, though these come with limited upside potential, especially compared with other yield-oriented

strategies, such as core and triple net lease strategies, which we discuss later in the article.

Historically, real estate credit funds have accounted for less than 20% of total real estate fundraising activity, except in a few years marked by particularly strong fundraising markets. Over the past five years (2020–2024), the median real estate credit fund size increased at approximately a 10% compound annual growth rate, which is double the pace of growth over the preceding five-year period (2015–2019). The median size of real estate equity funds has increased as well but to a lesser degree, underscoring the broadening opportunity set within credit strategies in recent years. Notably, a growing number of sophisticated, diversified equity funds are recognizing and capitalizing on opportunities in the credit space, and though these vehicles are not always explicitly categorized as “credit,” they are increasingly allocating capital to such strategies.

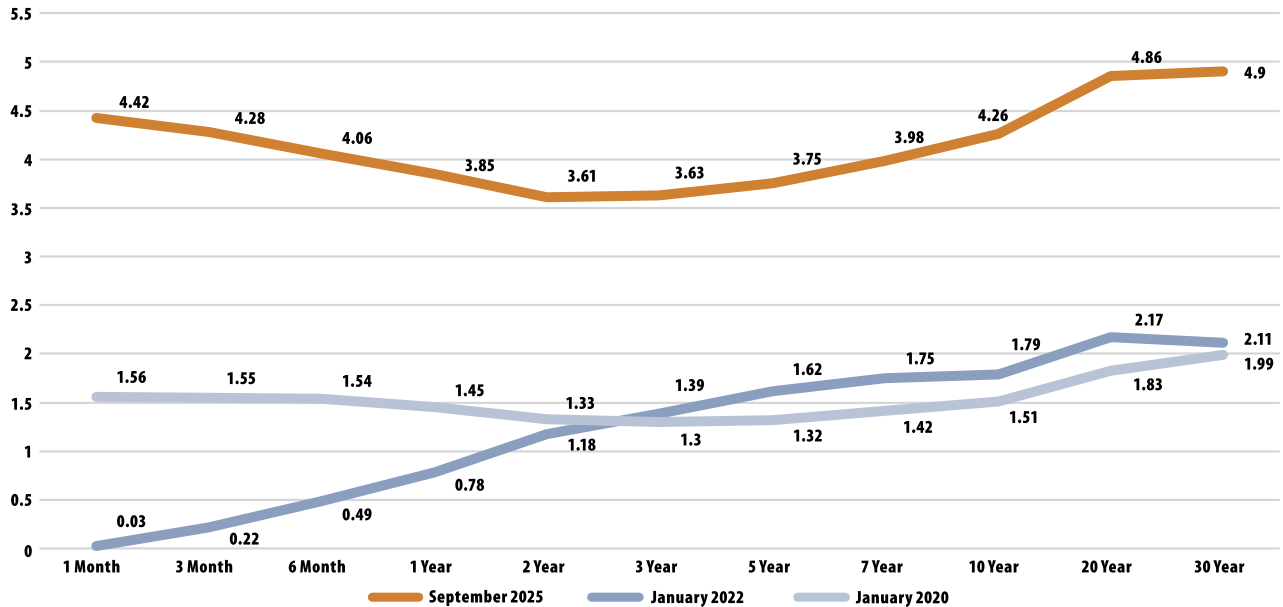
In conclusion, the substantial amount of real estate credit capital raised in recent years, combined with a likely decline in interest rates, could impact returns, making managers with strong risk management and cycle-tested experience—especially those that structure deals to protect against leverage-related downside—best equipped to navigate the environment.

Triple Net Lease Real Estate Outlook

Triple net lease (NNN) strategies stand out for their ability to deliver predictable, long-term income streams with minimal operational responsibilities and some potential upside. In a typical lease structure, the landlord owns the asset and holds a long-term lease with a tenant that assumes responsibility for most, if not all, operating expenses, thereby minimizing asset management burdens for the landlord. This arrangement is most common in single-tenant industrial and retail properties, where the quality of cash flow is closely tied to tenant creditworthiness and lease terms.

Target returns for NNN strategies are generally in line with credit strategies, with the majority of returns derived from income. Investors benefit from contractual rent escalations that help offset inflation risk, while the long-term nature of leases (often 10–15 years) ensures income stability. However, these advantages come with considerations: tenant defaults can significantly impact

Exhibit 3: US Treasury Yield Curve, September 2025 Versus January 2022 Versus January 2020



Sources: Cambridge Associates LLC, Thomson Reuters Datastream, and US Treasury

Note: All financial investments involve risk. Depending on the type of investment, losses can be unlimited. Past performance is not indicative of future returns.

cash flow and property value, and fixed or modest rent increases may limit upside potential.

Only a few managers focus exclusively on NNN strategies, but recent market data indicate that net lease investment volumes remain robust, with industrial assets dominating the sector despite a slight overall decline in transaction activity. Overall, NNN strategies offer a compelling solution for investors seeking income-oriented real estate exposure, complementing other approaches such as core and core-plus real estate and credit within a diversified portfolio.

Core Real Estate Outlook

Core real estate, typically held in open-end vehicle structures, has distributed approximately 4% of capital back to investors per annum over the past ten years, even amid the recent decline in property valuations. This steady income profile stands in contrast to the volatility experienced in other segments of the real estate market; however, as valuations for core properties declined through 2023 and 2024, these funds' total returns have been negatively impacted by decreasing property valuations.

Throughout 2023 and 2024, private credit and real estate credit strategies became increasingly attractive relative to core real estate, delivering a higher income return without the negative drag from property valuation decreases. The resulting environment placed significant pressure on the core real estate industry, as redemption queues lengthened and investors turned to alternative sources of current income return. Some parts of the core real estate industry remain challenged, and these dynamics coupled with the proliferation of new core and core-plus managers in recent years have raised the prospect for industry consolidation in the years to come.

Despite headwinds, there are emerging signs of stabilization in core real estate markets. Notably, the spread between appraisal and transaction cap rates for core properties has narrowed, suggesting that valuations have stabilized. As income returns from core real estate remain stable, the potential for total returns to benefit from a recovery in property values is rising. Increasing transaction activity will help alleviate pressure on core managers seeking to fulfill existing redemption requests, and improving market conditions will likely coincide with a return of capital to the sector.



Conclusion

While the real estate market environment in 2025 has been largely disappointing relative to expectations entering the year, there are opportunities to capture value in the current market environment. European and APAC markets are increasingly attractive for investors seeking diversification and long-term growth, particularly as the US market contends with heightened policy and economic uncertainty. Within these regions, sector-specific and tactical strategies—especially in residential, logistics, and alternative assets—offer compelling opportunities, and Japan stands out as a relatively safe haven in Asia.

The muted capital distribution environment has elevated the appeal of income-oriented strategies, including real estate credit and triple net lease, which provide investors with resilient cash flows and downside protection amid ongoing market dislocation. Core real estate, though challenged by valuation declines and redemption pressures, is showing early signs of stabilization as cap rate spreads narrow and transaction volumes begin to recover. The proliferation

of credit strategies and the potential for industry consolidation further underscore the dynamic nature of today's market.

Looking ahead to 2026, there is potential for improving macroeconomic conditions, and a gradual normalization of interest rates will support a continued recovery in transaction activity across global real estate markets. As bid-ask spreads tighten and investor confidence continues to return, the potential for property value appreciation should increase, particularly in markets and sectors that have repriced most significantly. Against this backdrop, investors that remain disciplined in underwriting, emphasize operational value creation, and maintain a diversified, global approach will be best positioned to unlock value and generate durable income in the evolving real estate landscape. For prospective investors, maintaining vintage-year diversification and commitment pacing for long-term portfolio success is important. ■

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