



Hines

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Perspectives

Positioning for the Real Asset Cycle: *A Playbook for Asset Allocation*



Private markets have become a core component of institutional portfolios, not simply because they typically diversify return streams, but because they sit at the intersection of capital and real-world need.

Across the globe, demand for housing, infrastructure, and reliable energy continue to accelerate, and public budgets alone can't keep pace. In this environment, private capital has moved from being supplemental to being central to the

equation: the mechanism that gets essential assets financed, delivered, and operated at scale.

As allocations have grown, however, so has the need for discernment. Private markets are not monolithic, and their underlying drivers move differently through the cycle. Some strategies remain tightly linked to monetary policy; others are grounded in property-level cash flows and long-term structural forces. As conditions evolve, so too must capital positioning.

At this point in the cycle, real asset strategies—particularly private real estate—stand out. Their drivers are rooted in tangible demand and operational execution, and their valuation and income profiles look distinctly different from other parts of the private markets landscape.

This raises the key question for allocators: what is the playbook for unlocking value from here?



Rising to the Moment: *The Structural Case for Real Assets*

The world is demanding more from real assets than at any point in recent memory. The estimated \$1.3 trillion annual investment gap¹ across infrastructure modernization, energy systems, and housing highlights both the scale of need and the limits of public balance sheets. Governments have increasingly turned to long-duration private capital to help deliver and steward these essential assets.

This is where private real estate has structurally aligned with this moment. These assets reflect tangible societal needs and generate cash flows tied to real activity—such as rent, occupancy, and operations—instead of short term policy decisions. They tend to reward investors who take a long view and who understand that value is built through disciplined execution over time.

Against this backdrop, portfolio construction becomes critical.

From an allocation standpoint, real assets stand out for a different reason: they are typically less reactive to short-term market sentiment, correlated instead to long-term structural forces, such as supply imbalances and operating performance.

For investors, they offer a compelling proposition as the cycle shifts: income and value creation anchored in the real economy, while participating in the long-term upside potential of real assets.

Asset Allocation at a Pivot Point

As private markets have matured, the allocator's challenge is no longer whether to participate, but how to position within the private markets ecosystem in a way that balances income resilience today with value creation over the long term. Not all private markets strategies move through the cycle in the same way. Some are tightly linked to monetary policy and adjust quickly as base rates rise or fall. Others are driven by

on-the-ground fundamentals: the cash flows, demand patterns, and operational performance that power the real economy.

As those forces evolve, so does the contribution of each private markets sleeve. Strategies that once provided meaningful tailwinds can begin to normalize, while others start to emerge from periods of adjustment with stronger forward return potential. This is why allocators increasingly need to think not only about what they own, but how the pieces fit together at this stage of the cycle.

Today's environment brings that into sharp relief. Rate conditions have been shifting, valuation resets have been creating new entry points, and long-term demand for real assets continues to build.

Reallocation within private markets can help keep portfolios aligned with risk and return objectives as well as where value looks to be forming next, pairing durable sources of income with exposure to segments of the cycle that are beginning to inflect.

Private Corporate Debt: *An Example of Cycle Evolution*

One recent example that underscores the need to rethink asset allocation is private corporate debt, particularly direct lending to operating companies. This asset class has proven to be a reliable income engine in recent years, supported by elevated base rates and wide lending spreads. Since late 2019, strategies focused on U.S. direct lending produced positive results in 22 of the last 23 quarters through 3Q2025, with annualized total returns averaging over 9%,² a record that rightly earned the allocation a core role in many portfolios.

Recent headlines have pointed to rising redemption requests at

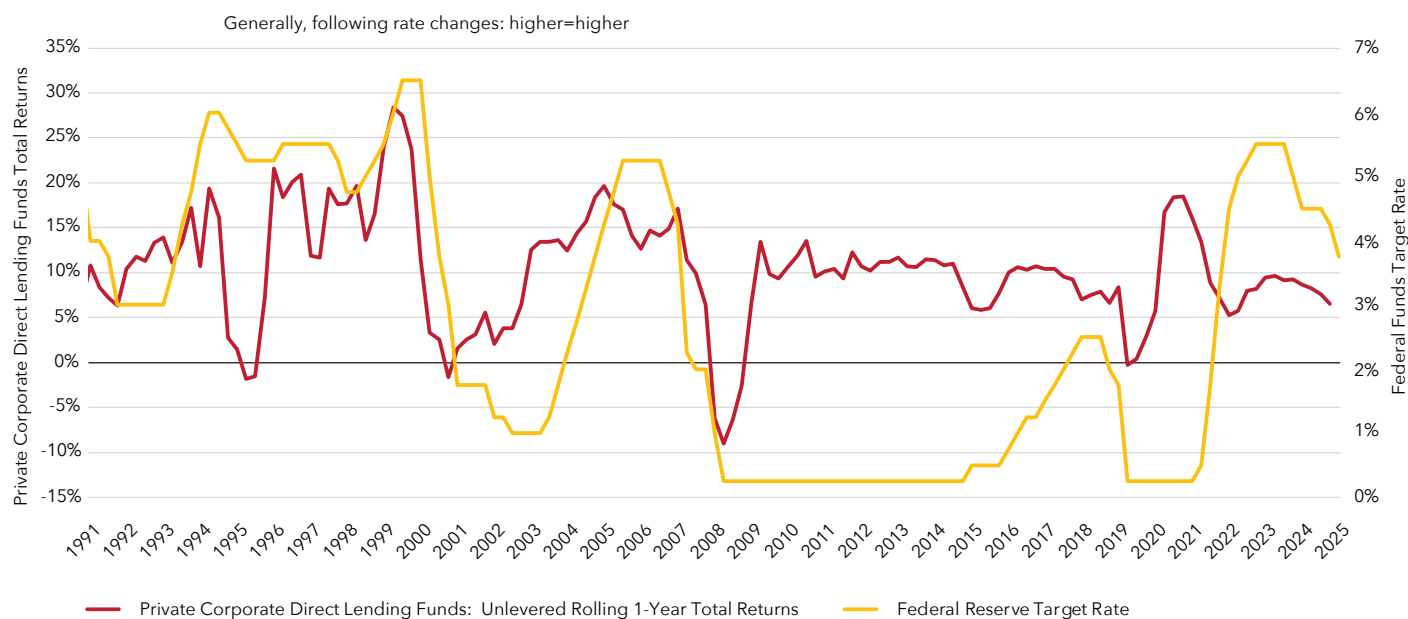
several private corporate debt funds. But taken in context, to us, these developments do not signal a broader strain in the U.S. economy or in the private corporate debt market (Figure 1). If anything, they illustrate the importance of looking through the noise and understanding the underlying drivers.

The fundamentals remain solid. The credit issues that have surfaced reflect company-specific challenges rather than a deterioration in overall credit quality. That distinction is important for allocators: it underscores that the asset class is behaving as expected at this point in the cycle.

Where we are seeing movement is on the income side. The current phase is changing, as expected over the course of a cycle. With three consecutive rate cuts by the Fed totaling 75 basis points late in 2025,³ floating-rate distributions have naturally been moderating.

Put simply, the tailwind that policy rates provided has been easing, and income is likely to settle from recent highs. This is precisely the kind of development that should prompt an allocation check: keep what is working, but rebalance within private markets to pair income durability with recovery-led upside potential.

Figure 1: U.S. Private Corporate Debt Total Return Performance Versus Federal Reserve Target Rate



Past performance cannot guarantee future results.

Sources: MSCI-Burgiss, Federal Reserve of St. Louis, Hines Research. As of 3Q2025. We use rolling trailing annual total returns based on quarterly time-weighted total returns calculated by MSCI-Burgiss using actual transactions and flows. U.S. Corporate Debt here is limited to Direct Lending, excluding Opportunistic, Distressed Lending and Venture Debt.



Why Private Real Estate Now

Private real estate is a high-conviction asset class that is poised to rise to the fore at this point in the cycle. It is underpinned by two key drivers:

Income generation: Over the past two decades, more than 80% of long-term returns for a group of core private real estate funds tracked by NCREIF came from income.⁴ Notably, these distributions were tied to property-level cash flows, including rents and lease structures, rather than policy rates. Those distributions can be highly tax-efficient and, in many cases, competitive with or potentially superior to after-tax yields from private corporate lending.

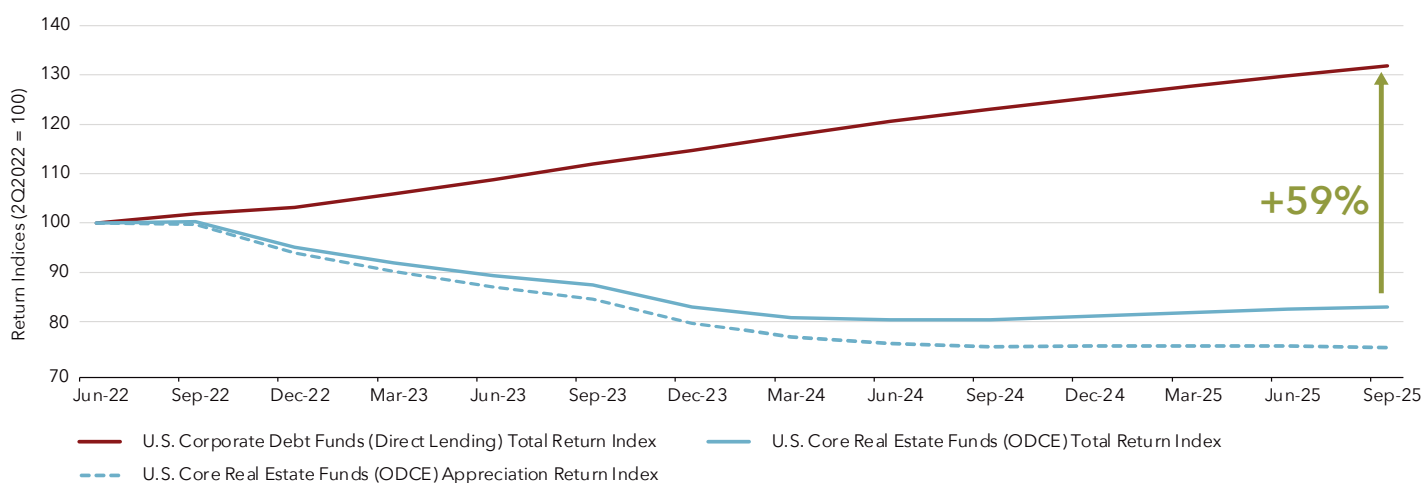
Cyclical upside potential: Real estate values remain below prior

peaks after a significant reset that began in mid-2022. Over this period, private real estate underperformed private corporate debt; if performance were to revert toward historical relationships, closing that gap implies potential upside approaching 60% (Figure 2).

Looking across three comparable downturns, similar resets were followed by nearly 20% outperformance over the subsequent five years (Figure 3). Early signals have been giving a strong read that the turn is underway: core private real estate indices have now posted six consecutive quarters of positive returns after seven quarters of declines, suggesting the trough may be behind us.⁵

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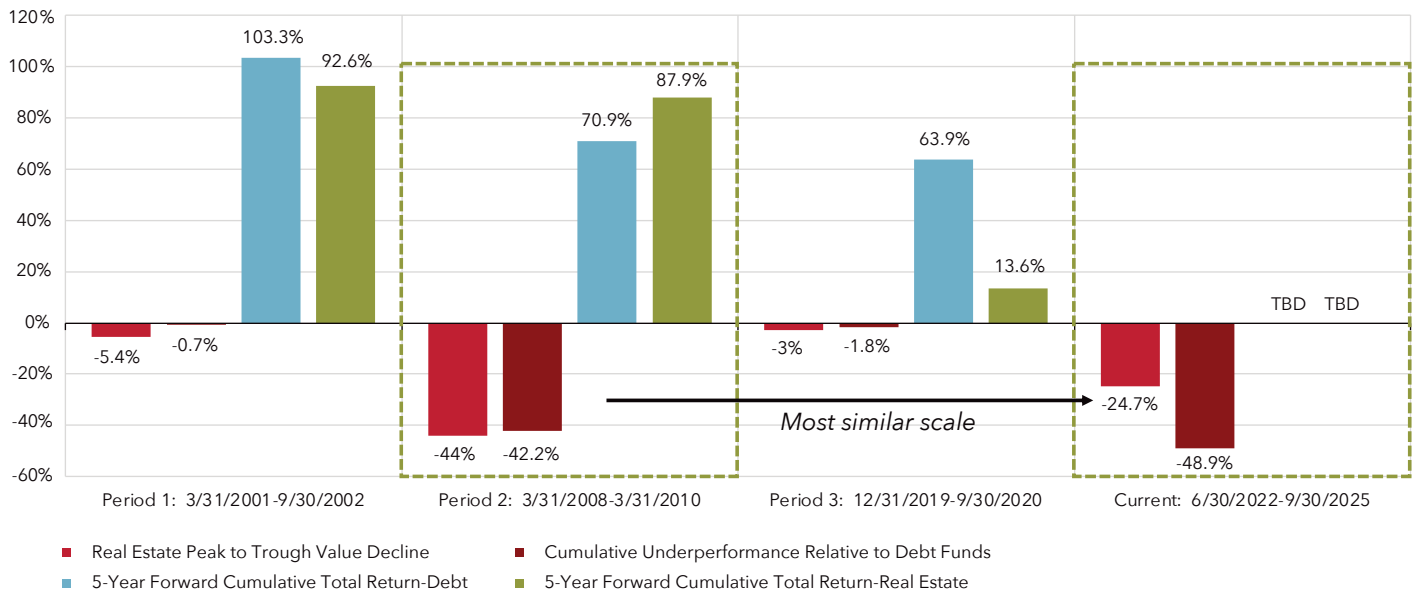
Figure 2: Total Return Performance for Private Corporate Direct Lending Funds and Private Equity Real Estate Funds



Past performance cannot guarantee future results.

Sources: MSCI-Burgiss, NCREIF, Hines Research. As of 3Q2025 due to availability for the private corporate direct lending series. We show the index of total returns, the only return metric available for private corporate series, since value declines began for the private equity real estate fund series (shown here as well). For private corporate debt, we use a time series of total returns for debt funds focused on direct lending to corporations in the U.S. For private equity real estate we use the NFI-ODCE index, which provides returns for Core equity funds. As both series are funds, they represent the performance of investments at effective ownership share, cash, and leverage.

Figure 3: Forward Total Return Performance for Debt and Real Estate Following Real Estate Downturns and Underperformance

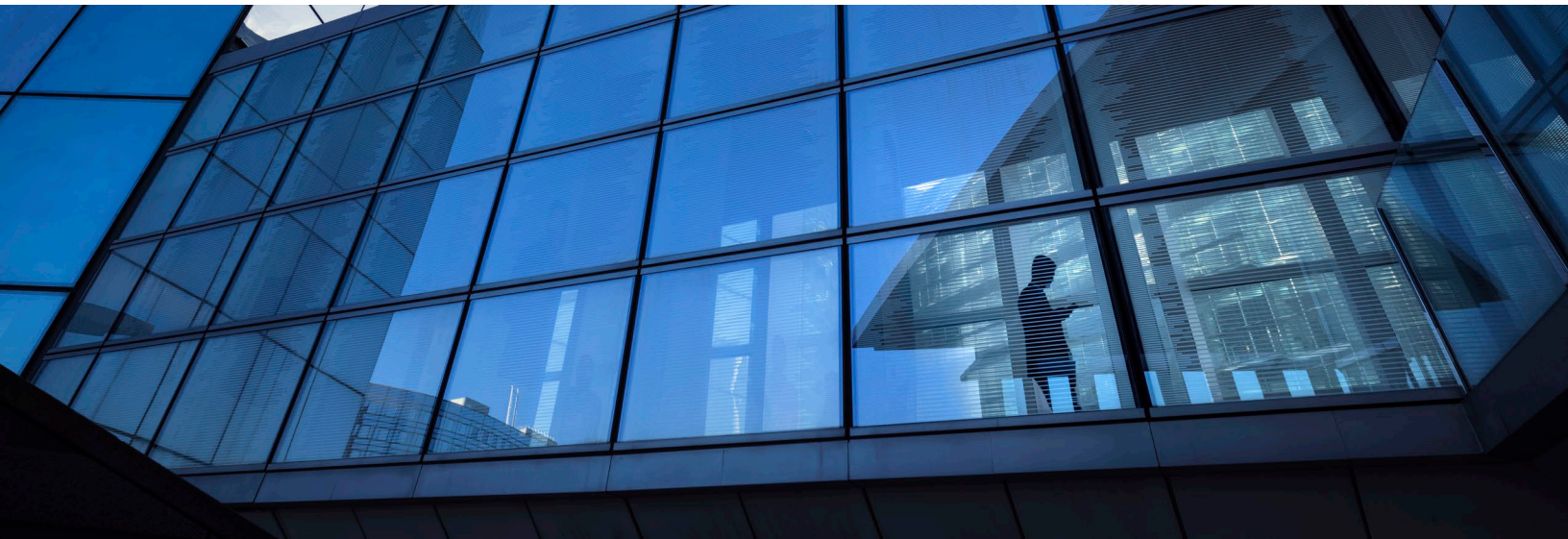


Past performance cannot guarantee future results.

Sources: MSCI-Burgiss, NCREIF, Hines Research. As of 3Q2025 due to availability for the private corporate direct lending series. For private corporate debt, we use a time series of total returns for debt funds focused on direct lending to corporations in the U.S. For private equity real estate we use the NFI-ODCE index, which provides returns for Core equity funds. As both series are funds, they represent the performance of investments at effective ownership share, cash, and leverage. We looked at periods since 2000 where real estate values declined. Then calculated the underperformance of the real estate fund index relative to the corporate debt fund series over those same periods of real estate value downturns. Finally, we then calculated the cumulative 5-year forward total return for each series starting from the end of each real estate value downturn.

Taken together, these dynamics show why private real estate may be a natural complement to private corporate debt within a balanced private markets allocation.

Early signals have been giving a strong read that the turn is underway: core private real estate indices have now posted six consecutive quarters of positive returns.





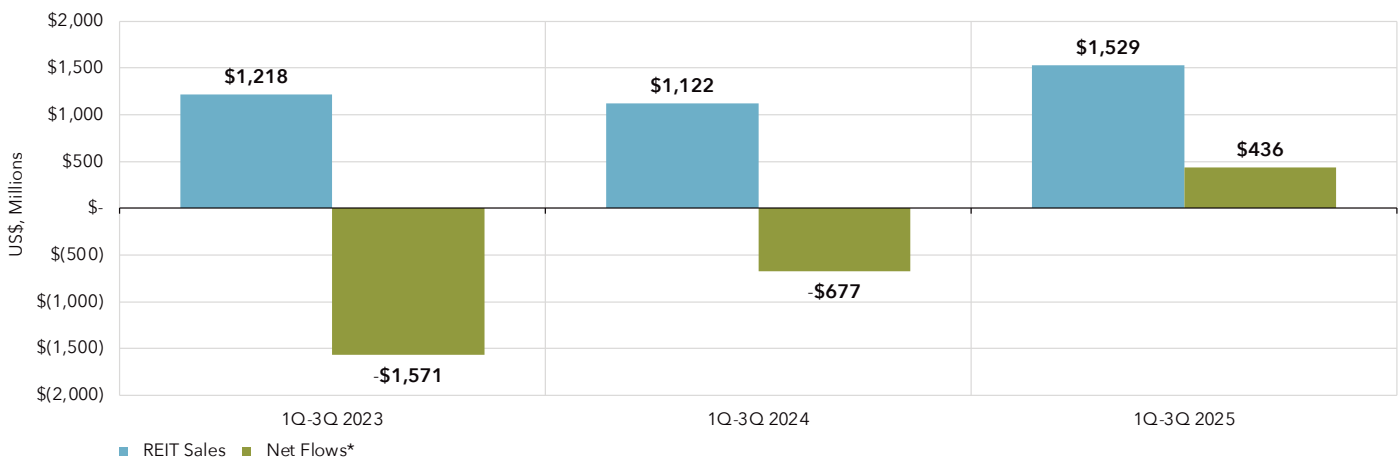
A Turning Tide: *Investors Are Already Repositioning*

Capital flows show allocators are beginning to move. Among the largest non-traded equity REITs, new investment activity has strengthened: capital raised over

the first three quarters of 2025 is up 36% versus 2024, and net flows have shifted from negative to decisively positive (Figure 4). These are the kinds of signals we would

expect as investors acknowledge the valuation reset and the compelling forward return profile of private real estate.

Figure 4: Flows into Non-Traded Equity REIT Funds



Past performance cannot guarantee future results.

Sources: Stanger, 10-K filings, Hines Due Diligence, Hines Research. As of 3Q2025 due to availability of data. We show the data for the first three months of the last three years to make comparable as we only have 3 quarters of data for 2025. The sample set was initially set by filtering for all Non-traded equity NAV (Net-Asset-Value) REITs with greater than \$1 billion in NAV. The list includes ARES Real Estate Income Trust, BREIT, Brookfield Real Estate Income Trust, Hines Global Income Trust, JLL Income Property Trust, Nuveen Global Cities Trust, and Starwood Real Estate Income Trust. For this chart, we exclude BREIT as the scale of that vehicle skews all results to such a degree that the trajectory generally follows the BREIT's performance on these measures rather than representing the aggregate performance from the others in the sample. If including BREIT, the REIT Sales would be \$7.2B, \$2.7B and \$3.3B for the three periods shown, and -\$4.4B, -\$6.1B and -\$1.8B for the Net Flows. * Net Flows here are defined as REIT Sales + DRP (Dividend Reinvestment Programs) proceeds less Redemptions.

The Allocation Playbook for the Next Cycle

In today's shifting environment, many investors risk finding themselves in overweight strategies whose strongest tailwinds are beginning to fade. After several years where elevated base rates created exceptionally strong income conditions, certain allocations now sit at cycle highs in portfolio weighting without the same income profile that supported them. Private corporate debt is one example of this dynamic at work: its role as a dependable income engine remains intact, but the forces that propelled its multi-year run have naturally been moderating.

At the same time, private real estate has been entering a very different part of the cycle, offering:

- potentially durable, property-level income;
- historically attractive entry valuation;
- visible recovery potential; and
- direct alignment with long-term real asset demand.

In our view, the next pivot within private markets is toward a more intentional balance across private exposures. Reallocating a portion of capital toward private real estate may help maintain income resilience today while participating in both the early stages of a recovery cycle and the long-term value creation taking shape across real assets.

However, investors still need to be discerning: capital scarcity has been creating a window in which pricing power favors prepared buyers, and value should accrue to operators who can drive NOI through active, skillful execution rather than leverage. Increasingly, this is a hyperlocal exercise. At Hines, we maintain the on-the-ground presence, operational depth, and local market intelligence required to navigate nuanced global terrain.

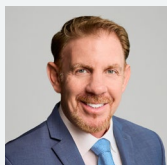
The allocation playbook for this cycle involves preparation, intention, and proactivity. And if history is any guide, rebalancing toward real assets at moments like this has been one of the most enduring ways to stay ahead of the cycle.

About the Author and the Hines Proprietary Research Team

Joshua Scoville and his team, including Michael Hudgins, the lead author of this paper, and James Purvis, a lead contributor, are responsible for constructing the Hines macroeconomic view and the outlook for commercial real estate market fundamentals and pricing. Hines Research is also responsible for assisting with the development of investment strategies for the firm's investment programs; working closely with the local and fund management teams, clients, and partners;

and supporting geographic leaders in identifying market/submarket opportunities and risks.

The views of the local and fund management teams on the latest market developments are exchanged regularly via biweekly conference calls and quarterly market updates, and are essential for reviewing investment strategies and fund portfolio allocations. Additional members of Hines' Proprietary Research team include Tim Jowett, Ryan McCullough, Michael Spellane, and Erik Thomas.



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Endnotes

1. Source: United Nations. As of 4Q2025.
2. Sources: MSCI-Burgiss, Federal Reserve of St. Louis. Hines Research. As of 3Q2025.
3. Source: Federal Reserve of St. Louis. As of 4Q2025.
4. Sources: NCREIF, Hines Research. As of 4Q2025.
5. Sources: NCREIF, Hines Research. As of 4Q2025.