

INVESTOR PERSPECTIVES / SEPTEMBER 2026

Real Estate vs. Equities

Comparing the full economics of ownership, income and risk.

AL T E R R A E Q U I T I E S

RESEARCH & INSIGHTS

03

THE INVESTMENT QUESTION

Does a private real estate allocation offer enough incremental value to justify the liquidity, complexity and concentration it adds?

For high-income professionals, high-net-worth investors and their advisers.

Executive perspective

The strongest case for real estate is a specific economic advantage. “Stocks are volatile” is not enough.

Public equities and private real estate are both claims on economic activity. Their risks differ, but neither label determines investment quality. A diversified stock fund can be an efficient route to global business ownership; a well-executed property investment can offer a distinct operating plan and distribution profile. The comparison must use the same investor perspective.

Dimension	Diversified public equity fund	Private property / real estate fund
Return drivers	Business earnings, dividends and valuation changes.	Operating cash flow, asset value, financing and sponsor execution.
Liquidity	Generally tradable in market hours, subject to fund and market conditions.	Usually restricted; fund terms, asset sale or approved transfer determine access.
Valuation	Market prices are frequently observable.	Appraisals or models may update less often; realizable price can differ.
Control	The investor normally delegates corporate decisions.	LP rights are contractual; day-to-day control generally rests with the sponsor.
Costs and taxes	Product costs, trading effects and investor tax treatment.	Property costs, financing, fund fees, promote and investor-specific tax treatment.

A public REIT is an important bridge in this comparison: it combines real estate exposure with a listed-security structure. Public and non-traded REITs have materially different liquidity and valuation characteristics. [1] An investor who wants property exposure does not necessarily need a private allocation.

Alterra perspective

Private real estate should complement a portfolio where its underlying opportunity, governance and expected net economics justify the additional constraints. It should not depend on presenting a diversified equity portfolio unfairly.

01 / Leverage changes returns

Debt changes the return to the owner. A property financed with substantial borrowing cannot be compared fairly with an unlevered asset-price series. Public companies may also carry debt inside the business; evaluate embedded leverage on both sides.



Exhibit 1. Original hypothetical sensitivity. Initial debt remains unchanged; ignores interest, income, expenses, taxes, transaction costs and recourse. This isolates valuation leverage only.

In the 60% debt example, a 20% fall in property value reduces residual equity value by 50%. The same arithmetic magnifies gains, but the asset must also pay interest and survive covenant and maturity requirements. A refinance can require additional equity even if the property has met current payments.

Return claim	Necessary adjustment
"The property generated a high return."	Show purchase basis, debt, all capital contributions and the net cash reaching LPs.
"Real estate prices are less volatile."	Separate infrequent appraisal marks from realized economic risk.
"Income makes the investment safer."	Confirm that distributions arise from operating cash rather than reserves, new capital or borrowing.

The sponsor's operating model should explain how the asset performs before leverage. If the investment only appears attractive at the highest possible debt level, the financing assumption may be doing more work than the business plan.

02 / Income is not the same as total return

Illustrative property: \$10 million purchase price, \$6 million interest-only debt at an assumed 6%, \$700,000 annual cash flow before reserve and debt, and \$100,000 replacement reserve. Cash remaining is \$240,000, or 6% of the \$4 million initial equity. That figure excludes acquisition costs, extraordinary capital, fund fees and investor taxes.

Cash-flow bridge	Illustrative annual amount
Cash flow before replacement reserve and debt	\$700,000
Replacement reserve	(\$100,000)
Interest: \$6M x 6%	(\$360,000)
Residual before fund costs and investor taxes	\$240,000

The 6% cash yield is not a 6% total return. A change in asset value, loan payoff, additional capital and selling costs changes the eventual result. If distributions include returned principal, the distribution rate is even less informative about earnings.

Use the appropriate performance measures

Cash yield relates a period's cash distributions to a defined capital base. **Equity multiple** compares total proceeds with invested capital but ignores timing. **IRR** incorporates dated cash flows and can be influenced by financing and distribution timing. None of these alone fully describes the experience.

For a public-market comparison, use a total-return benchmark including dividends and compare equivalent investment dates, currency and cash flows. A public-market-equivalent analysis can be useful for a private investment with capital calls and distributions. A private deal's gross IRR and a stock index's price-only return are not an adequate comparison.

All numeric inputs on this page are hypothetical. This paper presents no claim of historical or expected outperformance by either asset class.

03 / Decide what belongs in the portfolio

Investor situation	Allocation question
High salary plus employer shares	Does the proposed investment reduce exposure to the employer, industry and local economy?
Known spending within a few years	Can the investor fund the obligation if the private asset does not sell or distribute on schedule?
India- or UAE-based investor	What is the net result in the spending currency after cross-border tax, structure and reporting costs?
Existing property-heavy wealth	Would more private property increase concentration rather than diversify it?
Long-horizon surplus capital	Is the expected net benefit sufficient to accept restricted liquidity and sponsor dependence?

Index funds can offer relatively simple access to a chosen market, but have market risk and can differ in fees and tracking performance. [2] Private funds introduce their own fee, disclosure and conflict considerations. [3] A simpler alternative should be the starting hurdle against which a more complex investment is assessed.

Request a fair comparison pack

Ask for the complete distribution history and unrealized assumptions, gross-to-net reconciliation, leverage details, valuation policy, downside model, and investor rights. Compare a realistic alternative that the investor can actually buy, not an unusually weak stock selection or an unmatched time period.

A decision that survives scrutiny

Choose private real estate when the asset, basis, operating plan and investor terms provide a defensible reason to own it. Retain public-market exposure where liquidity, breadth and simplicity better serve the household. The allocation can be complementary without declaring one category universally superior.

Sources, methodology & important information

Scope: investor-level comparison of diversified public equities with private real estate. This is not an empirical return comparison or recommendation to replace an existing portfolio. The leverage chart isolates a single valuation change with a fixed loan balance; the cash-flow illustration uses explicitly assumed inputs. All comparison frameworks are original analysis.

Primary sources

[1] SEC Investor.gov: Real Estate Investment Trusts

Used for the listed versus non-traded REIT distinction; not as a source of current fee estimates.

[2] SEC Investor.gov: Index Funds

Background on index-tracking investments, fees and risks.

[3] SEC Investor.gov: Private Equity Funds

Background on private-fund liquidity, fees and conflicts.

Use of this paper

Prepared by Alterra Equities for investor education. This paper is not an offer, solicitation, personalized recommendation, or legal or tax advice. Any investment is governed by definitive documents and applicable eligibility rules. Private investments can be illiquid and can lose all invested capital. Distributions, tax benefits and exits are not guaranteed. Examples are hypothetical and are not Alterra transactions, targets or investment performance.

Sources accessed September 11, 2026. Data cutoffs and dated rules are identified where used. Verify later changes and the investor-specific position before a transaction. Analytical frameworks and uncited worked examples are Alterra's original educational analysis; source organizations do not endorse this paper.

Prepared by Alterra Equities LLC | 381 Park Avenue South, 15th Floor, New York, NY 10016 | ir@alterraeq.com