2026 CEM Benchmarking Study Highlights REIT Performance in Pension Plans

CEM Benchmarking's 2026 study, sponsored by Nareit, provides a comprehensive look at realized investment performance across asset classes over a 26-year period (1998–2023) using a unique dataset covering 462 public and private sector pensions. In 2023, the dataset included 135 plans representing more than $3.8 trillion in combined assets under management. One of the unique benefits of the CEM dataset is that it provides the actual realized performance of the assets chosen by plan managers and trustees.

The study compares net average annual total returns as well as correlations and volatilities for 12 asset classes with appropriate adjustments for reporting lags associated with illiquid asset classes (private real estate and private equity). It also compares the performance of different styles of private real estate investing including internally managed direct, core, value added/opportunistic, and fund of funds.

Key Highlights

▪ REITs, on average, outperformed private real estate in defined benefit plans by nearly 2%.

▪ REITs, on average, outperformed most styles of private real estate.

▪ REITs and private real estate total returns were highly correlated after adjusting for reporting lags and both had similar correlations with other asset classes.

▪ REITs had the fourth highest average annual return of the 12 asset classes covered.

Returns

There are striking differences in performance across asset classes over the 26-year period covered by the study.

REITs Outperformed Most Asset Classes: 1998 to 2023

Annual Net Total Return and Expense by Asset Class
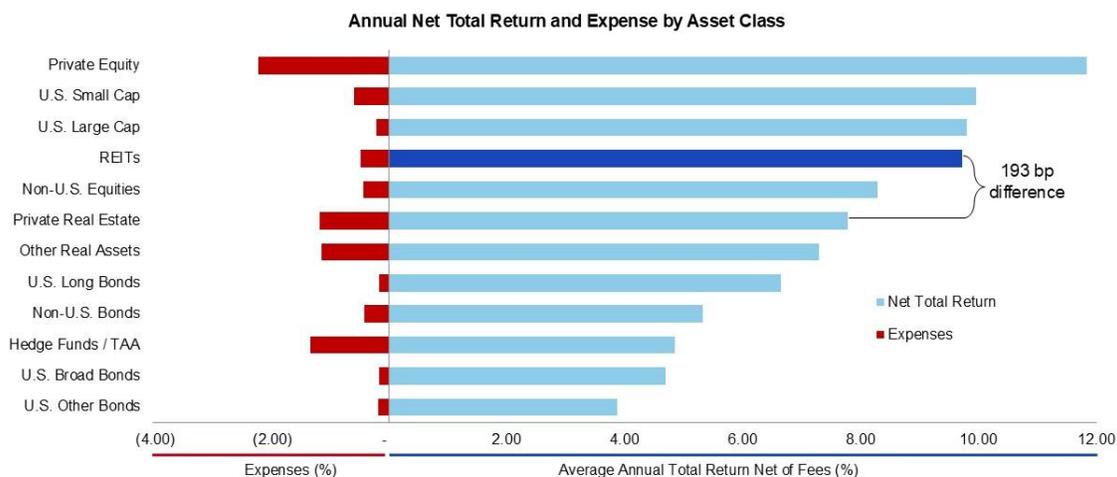
Source: CEM Benchmarking, 2026.

The chart above summarizes average annual net returns and expenses for the 12 examined asset classes.
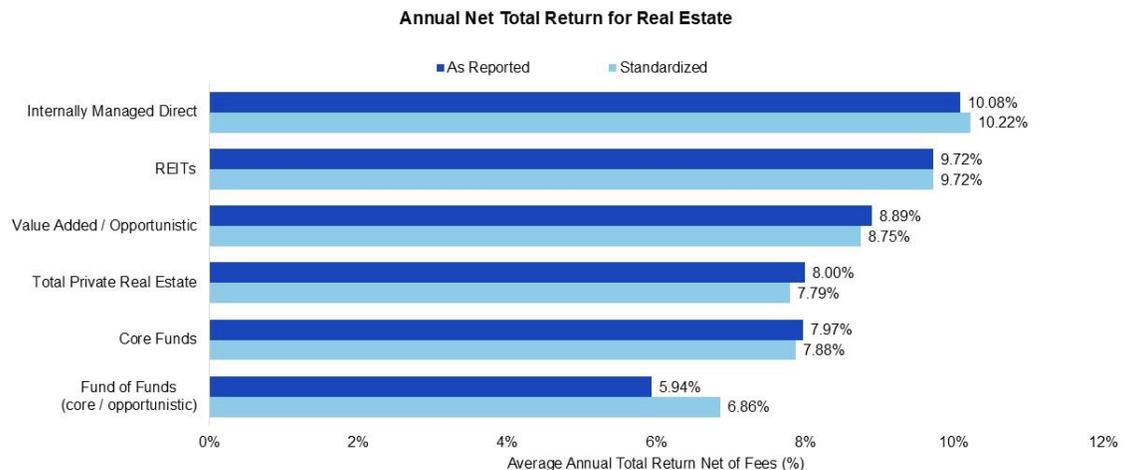
- Private real estate produced average net returns of 7.79% over the period, almost 200 basis points less than REITs.

- Listed equity REITs had the fourth highest average annual net return over the period, 9.72%.

- The three worst performing asset classes were hedge funds/tactical asset allocation (TAA) strategies, U.S. broad bonds, and U.S. other fixed income. The last two categories, however, included significant cash holdings.

Real Estate Returns by Investment Style

Unlisted or private real estate can be accessed through a number of different investment styles, each with different risk profiles and costs. CEM provides comparisons of returns, correlations, and volatilities for total private real estate, as well as each of the four key private real estate investing styles:

- Internally managed direct

- Core funds

- Value added / opportunistic funds

- Fund of funds

Real Estate Net Returns by Investment Style: 1998 to 2023

Annual Net Total Return for Real Estate

■ As Reported   ■ Standardized

Investment Style	As Reported	Standardized
Internally Managed Direct	10.08%	10.22%
REITs	9.72%	9.72%
Value Added / Opportunistic	8.89%	8.75%
Total Private Real Estate	8.00%	7.79%
Core Funds	7.97%	7.88%
Fund of Funds (core / opportunistic)	5.94%	6.86%

Average Annual Total Return Net of Fees (%)

Source: CEM Benchmarking, 2026.

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The figure above shows as reported and standardized average annual net total returns for real estate. On average, both performance measures were very similar for each cohort.

REITs outperformed private real estate in aggregate and outperformed all ownership styles excluding internally managed direct. REITs and internally managed direct real estate provided comparable long-term returns net of fees, however, only large pension plans can typically manage direct real estate internally in an efficient manner, while REITs are available to all plans.

Correlations

The study computed correlations of annual returns among the 12 asset classes.

REITs and Private Real Estate Have Similar Correlations With Bonds, Listed Equities

	REITs	Private Real Estate	U.S. Long Bonds	U.S. Large Cap	U.S. Small Cap	Non-U.S. Equities	Private Equity	Hedge Funds/TAA
REITs	1.00	0.90	0.19	0.58	0.65	0.58	0.58	0.49
Private Real Estate		1.00	0.18	0.55	0.59	0.55	0.60	0.42
U.S. Long Bonds			1.00	0.04	-0.02	-0.06	0.00	-0.13
U.S. Large Cap				1.00	0.93	0.89	0.87	0.84
U.S. Small Cap					1.00	0.89	0.90	0.76
Non-U.S. Equities						1.00	0.87	0.82
Private Equity							1.00	0.79
Hedge Funds								1.00

Source: CEM Benchmarking, 2026.

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The table above summarizes some key correlations between broad equities, REITs, and private real estate.

As highlighted in green, REIT and private real estate returns were highly correlated when illiquid returns were adjusted for reporting lags. The correlation was measured as 0.90. The high correlation between REITs and private real estate was not surprising given the similarities in their underlying assets.

As highlighted in dark blue, REIT and private real estate returns had similar correlations with bond and equity returns. These correlations reflect the well-known diversification benefits associated with the real estate asset class, whether REITs or private real estate.

Volatilities and Risk Adjusted Returns

The study also compared volatilities and risk adjusted returns using the Sharpe ratio across asset classes.

REITs Delivered Competitive Risk Adjusted Returns: 1998 to 2023

Volatility and Risk Adjusted Returns by Asset Class
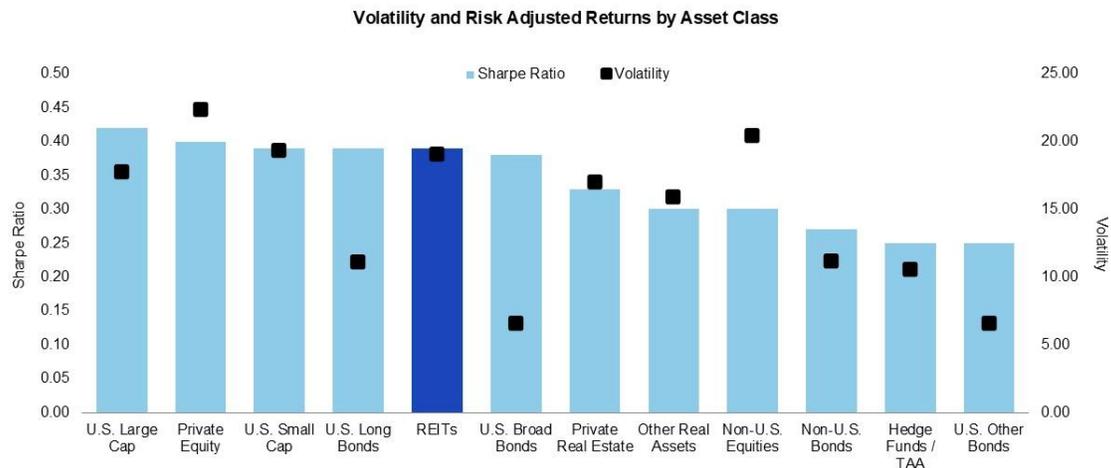
Source: CEM Benchmarking, 2026.

The chart above illustrates the volatility and risk-adjusted return findings, which are summarized below.

- REITs had a high Sharpe ratio measuring 0.39, a level similar to private equity, U.S. large and small caps, and U.S. long bonds. Private real estate had a lower Sharpe ratio measuring 0.33.

- After adjusting for valuation lags, REITs and private real estate had comparable volatilities. REITs and private real estate had measured volatilities of 19.08% and 16.98%, respectively. As with correlations, the similarity in risk was not surprising given that REITs and unlisted real estate invest in similar underlying assets.

- After adjusting for valuation lags, private equity was the most volatile asset class.

Conclusion

Using its unique proprietary dataset, the CEM Benchmarking analysis concluded that over the 26-year period of study covering 1998 through 2023:

- REITs, on average, outperformed private real estate by nearly 2% per annum.

- REITs, on average, outperformed all private real estate investment styles except internally managed direct.

- REITs and private real estate were highly correlated after adjusting for lags and both had similar correlations with other asset classes, reinforcing real estate's good diversification benefits.

- REITs had the fourth highest average annual net returns across the 12 asset classes.