Blending public and private real estate in DC plans

As defined contribution (DC) plans mature, plan sponsors and fiduciaries are increasingly focused on outcomes rather than convenience. The central challenge remains unchanged: How to construct portfolios that generate durable income, manage downside risk and support participants through multiple market cycles.

Real estate has long played a role in solving that challenge. The question facing DC plans today is not whether real estate belongs in retirement portfolios, but which form of real estate ownership best serves participants.

The case for a blended approach

Private real estate offers compelling diversification benefits, lower historical volatility, and a return profile driven primarily by income rather than market sentiment. Public REITs, on the other hand, provide daily liquidity, transparency, and ease of implementation — but with higher correlation to equities.

Rather than choosing one over the other, many DC plans are now exploring blended strategies that combine private and public real estate within a single allocation. These portfolios typically hold a majority allocation to private real estate, complemented by a smaller allocation to listed REITs to support liquidity needs.

The result is a hybrid structure designed to capture the structural benefits of private ownership while meeting the operational demands of DC plans.

Liquidity without sacrificing structure

Liquidity is often cited as the primary reason DC plans rely on listed REITs. Participants contribute regularly, rebalance portfolios and may change investments daily. Modern blended real estate strategies address these needs by pairing private real estate with liquid public securities, allowing daily pricing and transactions without forcing the private assets themselves to be sold.

Importantly, most DC plans do not offer private real estate as a stand alone investment option. Instead, exposure is embedded within target-date funds, white label real asset funds or managed accounts, where professional fiduciaries oversee allocation, rebalancing and cash flows. This structure reduces behavioral risk while preserving the long-term benefits of private ownership.

Risk, volatility and participant experience

From a portfolio construction standpoint, blended real estate strategies have demonstrated lower volatility than public REIT–only allocations, particularly over shorter time horizons. For participants nearing retirement, reduced drawdowns can be as important as return maximization.

Private fund valuations are not established daily in the same way as listed securities, which contributes to smoother return profiles. While this does not eliminate risk, it does reduce the likelihood that participants experience sharp, sentiment-driven losses at inopportune moments. For fiduciaries, the focus is not on eliminating volatility entirely, but on managing it in a way that supports consistent participant outcomes.

Fees, governance and fiduciary comfort

Concerns about fees have also moderated. Many core private real estate strategies charge asset based management fees without performance incentives, often comparable to active public equity or fixed income mandates. When implemented within pooled vehicles at scale, costs can be competitive with other institutional asset classes.

Equally important, governance frameworks around private real estate in DC plans have matured. Daily valuation methodologies, enhanced reporting, and third-party oversight have increased comfort among consultants and plan sponsors.

From novelty to norm

DC plans have historically been cautious adopters, particularly when participant litigation risk is perceived to be high. But the landscape is shifting. As more plans implement private and blended real estate strategies — and as data on outcomes accumulates — the “we don’t want to be first” objection is fading.

The evolution mirrors earlier transitions in DC investing, from passive equities to target-date funds, and from simplistic asset mixes to professionally managed portfolios. Each step reflected a growing emphasis on outcomes over optics. Blended real estate strategies represent the next phase of that evolution — one that aligns DC plans more closely with the investment principles long used by DB pensions.

For fiduciaries focused on long term retirement security, the question is no longer whether DC plans can accommodate private real estate. It is whether they can afford not to. ❖

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