From a strategic standpoint, open-end fund strategies continue to offer investors a compelling mix of dependable income, capital preservation, diversification, and attractive risk-adjusted returns.

While these funds traditionally focus on stabilized assets, incorporating a value-add approach has the potential to enhance performance. This has been demonstrated by ODCE funds, for example, where the **non-stabilized properties have consistently outperformed stabilized properties since 2013, by 430 bps annually.** Over this period, non-stabilized assets made up 6.2% of total market value in the ODCE Index, on average. As demonstrated in the exhibit, the historical experience suggests that increasing the non-stabilized allocation would have led to improved performance, both on an absolute and risk-adjusted basis. An increase of the non-core allocation from 5% to 25% improved total returns by 88 bps annually, while improving the Sharpe Ratio by 15%.

Tactically, the current market environment presents an intriguing setup for capital deployment in open-ended funds. These funds should benefit from a new liquidity cycle. The trough in NCREIF valuations across most sectors in 2024 should bring both fresh capital and increased rescission activity, as investor sentiment and real estate allocations improve. Well-positioned funds, including those with a pipeline of build-to-core opportunities, are poised to capture value through execution in an improving market environment.

While past is not always prologue, historically, core and core-plus real estate funds have experienced strong performance on the other side of a down cycle in valuations.

Despite prevailing concerns around office spaces and appraisal inconsistencies, lease term will continue to be a differentiator in a challenging office valuation environment. Long-term credit leases with mission-critical tenants, including U.S. Government Agencies, demonstrate resilience. A common theme among many tenants, including the GSA, is consolidation into newer, Class A buildings with modern amenities. Several large organizations, including JPMorgan Chase and Amazon, are focused on bringing employees back to the office five days a week, and we continue to monitor return-to-work for government employees; early indications are that the newly-formed Department of Government Efficiency (DOGE) is placing an emphasis on full return-to-office. The key takeaway here is that open-ended funds, when thoughtfully managed and strategically positioned, are not just weathering current market challenges — they are well-positioned to capitalize on the opportunities these challenges create. For investors, this represents a chance to align with forward-looking strategies in a market poised for recovery.

ODCE PROPERTY-LEVEL TOTAL RETURNS: STABILIZED VS. NON-STABILIZED

ALLOCATION (CORE / NON-CORE)		TOTAL RETURN	TOTAL VOLATILITY	SHARPE RATIO
100		6.53%	4.20%	1.23
95	5	6.81%	4.26%	1.28
90	10	6.98%	4.30%	1.31
85	15	7.20%	4.35%	1.34
80	20	7.42%	4.41%	1.38
75	25	7.64%	4.46%	1.41

Source: NCREIF, Affinius Capital Research. Analysis from Q1 2013 – Q3 2024

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Important Disclosures

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