Core-Plus: An Additive to Portfolio Performance

Edmund Donaldson
Affinius Capital

Mark Fitzgerald
Affinius Capital

Peter Hoberman
Affinius Capital

Suzanne Martinez
Affinius Capital

As investors position for the next leg of the cycle, several dynamics reinforce the strategic role of core-plus investment, pointing to its ability to enhance returns, diversify portfolios, and capture relative value opportunities:

- Cyclical Turning Point: After nine quarters of declines, valuations stabilized in late 2024, with both private and public markets flat year to date (YTD) through mid-2025. Transaction activity and financing conditions show early signs of improvement.
- The "Plus" Premium: Since 2013, non-stabilized properties in ODCE funds have delivered 10.4% annualized returns, versus 6.7% for stabilized assets, outperforming in 11 of 12 years.
- Portfolio Impact: Modest allocations to non-core properties have historically improved risk-adjusted returns, with Sharpe ratios rising even as volatility increased slightly. Though allocations to non-stabilized assets reduce current yield, they enhance long-run portfolio efficiency and provide diversification across return drivers.
- Investor Implication: Core-plus offers an additive tool to capture incremental yield and relative value opportunities as the cycle turns upward.

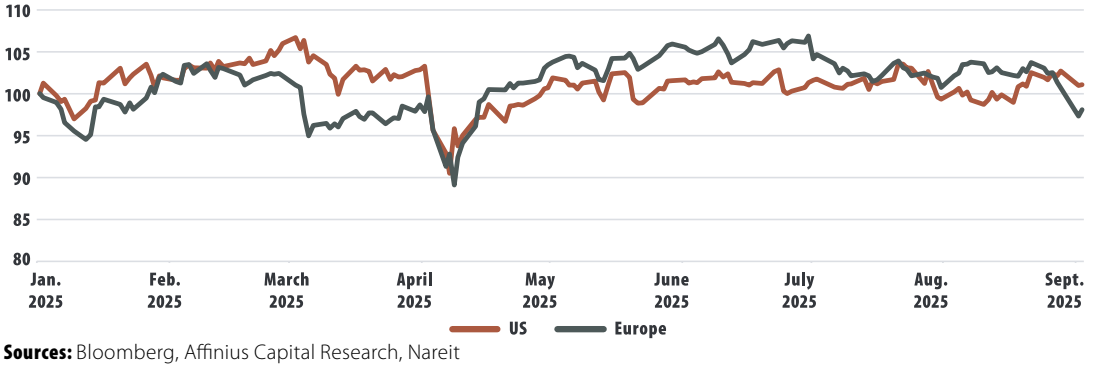
Market at an Inflection Point

Institutional real estate finds itself at an inflection point. After nine quarters of declining values across core property sectors, the market began to stabilize in the second half of 2024, driven by long-awaited rate cuts by the Federal Reserve. Despite the noise and volatility that marked the first half of 2025, valuations have barely budged, reflecting a market adopting a holding pattern. Private market valuations, per NCREIF, have now been essentially flat across the major property sectors, except office, for four straight quarters, and the NCREIF Property Index capital return stands at 0.12% in the first two quarters of 2025. We see the same trends in the UK and Europe, where private valuations are up 0.56% and 1.05% YTD, respectively.[1] Public REITs are sending the same signal, with the public REIT indices essentially flat YTD in both Europe and the US, as shown in Exhibit 1.[2]

Taken together, these data points suggest the market might have reached a valuation floor. The questions

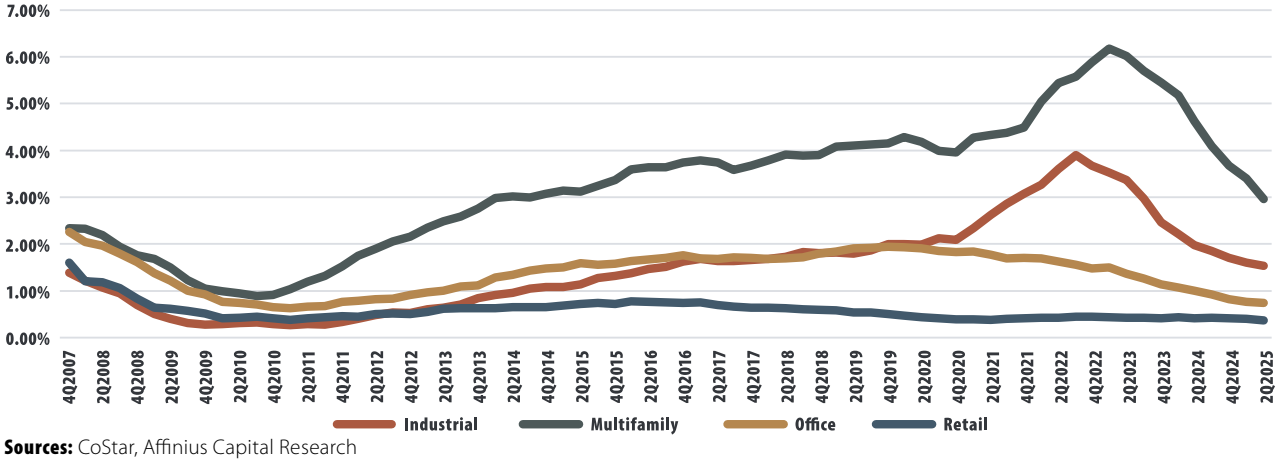
1. Per the MSCI UK Quarterly Property Index and MSCI Global PFI Europe Funds Quarterly Property Index, both measured in domestic currency.
2. The FTSE NAREIT All-Equity REIT Index is up 1.04% YTD, and the FTSE EPRA NAREIT Developed Europe Index is down 1.91% YTD, as of Sept. 5, 2025.

Exhibit 1: REIT Indices Suggest Valuations Relatively Flat YTD



Sources: Bloomberg, Affinius Capital Research, Nareit
Notes: FTSE NAREIT All-Equity REIT index for US, FTSE EPRA NAREIT Developed Europe Index for Europe.

Exhibit 2: US Under Construction Pipeline as a Percentage of Stock



Sources: CoStar, Affinius Capital Research

now are: Does this period of stability mark a durable bottom? Are conditions in place for a renewed phase of appreciation? These conditions are prompting investors to weigh whether the next phase will resemble past recoveries. Several dynamics have historically supported this pattern:

- **Limited New Supply:** Uncertain conditions and tighter lending standards during the period of declining valuations often make it difficult for new construction to pencil. The result is a dearth of deliveries during the early stages of recovery, creating favorable tailwinds for existing assets, especially high-quality, well-located properties. As shown in Exhibit 2, the construction pipeline is declining rapidly across traditional property sectors, particularly industrial and multifamily.
- **Capital Reengagement:** As confidence slowly returns, investors typically reenter the market with a focus on stabilized assets, in which income durability and lower risk profiles are easier to underwrite. This initial wave of capital inflows helps reset pricing and provides a base for broader market recovery. This generally occurs in tandem with stabilizing credit markets because improved financing conditions provide a lever for enhanced equity returns.
- **Income Resilience:** Even through periods of valuation adjustment, stabilized core assets continue to generate relatively steady cash flows. Once the upward pressure on cap rates abates, this income provides a strong foundation for total return acceleration.
- **Capital Rotation Across Sectors:** Downturns frequently reset relative value perceptions across property types. As investors reallocate, sectors with strong fundamentals or supply-demand imbalances often see outsize gains during the early years of recovery.

Many of these historical drivers appear to be aligning in today's environment. Construction pipelines for both industrial and residential have declined significantly, setting the stage for supply constraints to emerge over the next several years. At the same time, demand drivers in sectors such as logistics, housing, and digital infrastructure have proved broadly resilient. Finally, narrowing spreads and early signs of improved financing conditions suggest that the repricing of debt may be easing, an important precursor for renewed capital flows into stabilized assets. The transaction markets have already demonstrated signs of strength, with US transaction volumes up 16% year over year in the first half of 2025,[3] and European transaction volumes up 11% over the same period.[4]

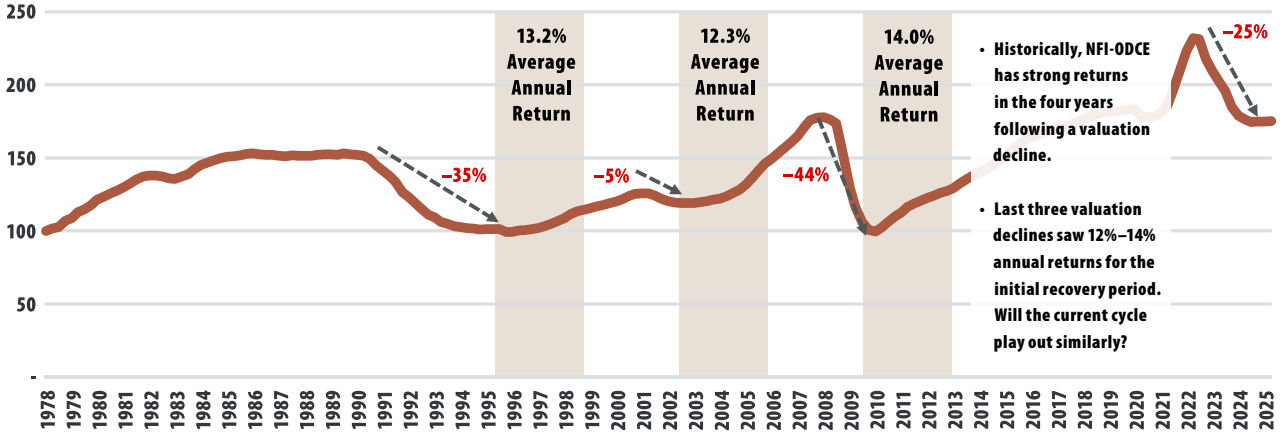
History Doesn't Repeat, but Will It Rhyme?

In each of the past several cycles, valuations in the four years following a downturn in real estate delivered double-digit annualized net returns for core real estate funds. This pattern reflects both the cyclical nature of valuations and the resilience of income-producing assets once pricing resets and capital begins to reengage, as discussed above. Today, as investors reassess portfolio positioning,

3. Real Capital Analytics.
4. Savills, Spotlight: European Investment—Q2 preliminary results and forecasts.

Exhibit 3: Historical NFI-ODCE Total Net Returns Following Valuation Declines

History doesn't repeat but often rhymes.



Sources: NCREIF, Affinius Capital Research

these historical precedents suggest that the current environment may represent a period of opportunity rather than retrenchment. Exhibit 3 demonstrates the strong performance of US core real estate assets following the valuation declines of the three previous real estate cycles. Valuation declines across the globe are fairly similar in the current cycle: down 25% in the US from 2022 peaks, 21% in the UK, and 19% in Europe.[5]

At the same time, drawing simple parallels across cycles can be misleading. The drivers of recovery vary. Whether tied to interest rate regimes, credit availability, or shifts in tenant demand, these factors must be considered despite real estate's long-established cyclical recovery dynamics. In today's environment, the opportunity extends beyond traditional core strategies. Investors with the ability to execute efficiently and move across the risk spectrum are well positioned to take advantage of relative value by selectively targeting sectors and situations in which incremental yield is available without meaningfully altering the risk profile.

Defining risk profiles for commercial real estate investors is not without its challenges and shortcomings. Institutional real estate strategies are often described along a risk-return spectrum spanning core, value-added, and opportunistic, but the boundaries between these categories are less rigid than many investors assume. The clearest definition exists at the core end of the spectrum.[6] These standards provide a formalized benchmark for what qualifies as "core" in practice: While they provide useful guardrails, the definitions are arbitrary in many ways and often do not provide for the most efficient risk-adjusted returns.

From Core to More: Capturing Incremental Return

In institutional real estate investing, the term *core-plus* is widely used yet inconsistently defined. At its simplest, core-plus strategies are viewed as an extension of core—high-quality properties but with added elements of risk or return enhancement. However, what qualifies as the "plus" is highly situational and could include:

- **Leverage:** Moderately higher levels of debt could lead to a core-plus definition.
- **Vintage and Quality:** A building's age, condition, or need for repositioning might introduce enough incremental risk to move it from a core to a core-plus definition.
- **Property Sector / Geography:** Property types outside the traditional office, industrial, retail, and residential sectors were historically considered outside the core definition, as were exposure to secondary markets, this is less often the case today.
- **Life Cycle:** Modestly lower occupancy or shorter weighted-average lease terms. From a fund perspective,

5. NFI-ODCE, MSCI UK Quarterly Property Index, and MSCI Global PFI Europe Funds Quarterly Property Index, all measured in domestic currency.
6. The NFI-ODCE sets minimum requirements around stabilized occupancy (≥ 75% leased), property-type concentration (≥ 75% in office, industrial, residential, or retail, with diversification across at least three sectors), and leverage (≤ 35%).

TA REALTY

Investing in what's next

Industrial | Data Centers | Multifamily | Retail

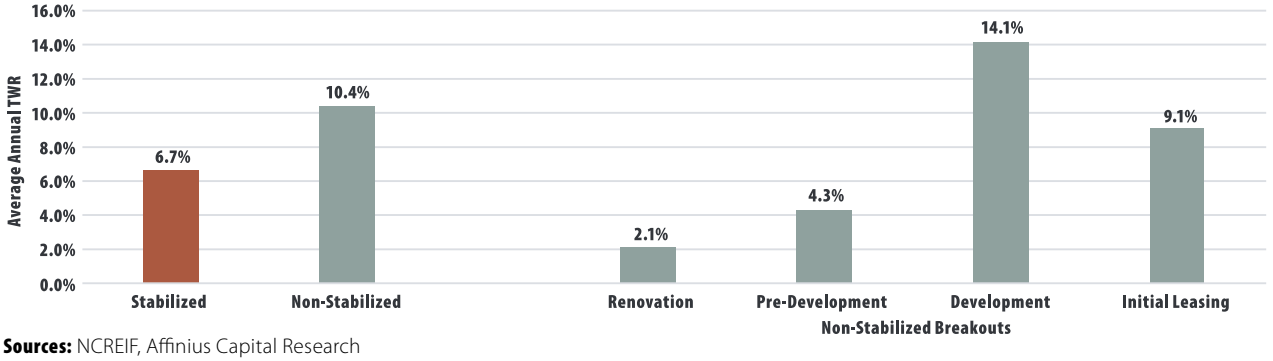
TA Realty is an established investment management firm, leveraging 40+ years of experience to provide insight and access to today's compelling investment themes through diversified and property specific funds.

tarealty.com

Exhibit 4: NFI-ODCE Allocation to Nonoperating Properties as a Percentage of Gross and Net Real Estate

Sources: NCREIF, Affinius Capital Research

Exhibit 5: Performance of Stabilized Versus Non-Stabilized Properties, 2013–2Q2025



Sources: NCREIF, Affinius Capital Research

this could include an allocation to non-stabilized real estate via redevelopment or "develop-to-core" strategies.

The diversity of these interpretations underscores the gray areas inherent in real estate classification systems. Unlike fixed income, where maturity and credit rating provide clear delineations, commercial real estate risk categories are inherently based on judgment. This ambiguity creates both challenges and opportunities: challenges in benchmarking, reporting, and aligning expectations and opportunities for investors to exploit inefficiencies in how strategies are labeled and priced. Notably, "develop to core" has emerged as an increasingly popular approach within the core-plus framework, in which investors accept development risk in exchange for creating modern, stabilized assets that ultimately qualify as core. For the following analysis, we focus on this non-stabilized property component of core-plus investing because it provides a useful lens into how incremental development and lease-up exposure can differentiate performance outcomes relative to fully stabilized portfolios.

The NFI-ODCE funds serve as an example: The percentage of market value within the funds allocated to non-stabilized properties[7] was 5.5% of gross real estate, and 5.7% of net real estate, as of 2Q2025. As shown in Exhibit 4, this percentage has stayed fairly consistent since NCREIF began to offer this level of reporting granularity 12 years ago. Note that the level of non-

7. For NCREIF, the definition we use for *stabilized properties* is operating properties, defined as existing properties that are purchased, regardless of current occupancy. For a newly developed property, *operating* is defined as reaching 60% occupancy or having been available for occupancy for a year from its certificate of occupancy. If a property has been recently purchased with a "redevelopment" strategy and the property is undergoing substantial expansion, re-tenanting, rehabilitation, or remodeling, the property is defined as operating when occupancy reaches 60%.

Exhibit 6: Historical Absolute and Risk-Adjusted Portfolio Performance at Various Weightings to Non-Core Properties

Allocation	Total Return	Total Volatility	Sharpe Ratio
100/0 Core/Non-Core	6.65%	4.04%	1.25
95/5 Core/Non-Core	6.84%	4.09%	1.28
90/10 Core/Non-Core	7.03%	4.14%	1.31
85/15 Core/Non-Core	7.22%	4.20%	1.34
80/20 Core/Non-Core	7.40%	4.25%	1.36
75/25 Core/Non-Core	7.59%	4.32%	1.39

Sources: NCREIF, Affinius Capital Research

Exhibit 7: Global Real Estate Fund Performance Comparison, 3Q2010 to 1Q2025

	Core	Core-Plus	Value-Added	Opportunistic
3-Year	–1.6%	0.0%	–4.0%	–1.3%
5-Year	3.4%	6.2%	4.4%	6.4%
10-Year	5.7%	7.9%	7.1%	7.7%
Since 3Q2010	7.4%	10.4%	8.8%	9.7%

Sources: MSCI, Preqin, Affinius Capital Research

stabilized investment in the UK and Europe in the major indices is similar to that in the US.[8]

Since NCREIF began disaggregating this data in 1Q2013, non-stabilized assets within ODCE portfolios have generated an average annual return of 10.4%, compared with 6.7% for stabilized properties, a 375 basis point differential. This return premium highlights the incremental value that develop-to-core and lease-up strategies can deliver, even within diversified, income-oriented fund structures. The consistency of this pattern is particularly notable. From 2013 through 2024, non-stabilized properties outperformed stabilized assets in 11 of 12 calendar years. The breakouts by type of non-stabilized properties within ODCE funds are shown in the gray bars of Exhibit 5, and since 2013, the various stages of the development life cycle have significantly outperformed properties, while renovation properties, by design, tend to lag during the capital investment period before subsequently outperforming once stabilized and thus bring down the overall performance of non-stabilized properties.[9]

The performance history of ODCE funds suggests that modest allocations to non-stabilized properties can meaningfully enhance portfolio outcomes. As of 2Q2025, the average ODCE allocation to non-core assets stood at 5.5% of gross real estate market value, slightly below the 5.9% average since NCREIF began reporting the data in 2013. Based on recent performance, a 5% incremental increase in non-core allocation is associated with an approximate 19 basis point uplift in total return for core portfolios. Importantly, though volatility rises moderately with higher non-stabilized exposure, the improvement in return more than offsets the added risk, resulting in stronger Sharpe ratios, as shown in Exhibit 6.

One trade-off, however, is that greater allocations to non-core assets tend to reduce current income yields because development and lease-up strategies emphasize value creation over immediate income. Further, by pursuing development, investors can secure the newest, highest-quality assets in the market without paying the acquisition premium that comes with fully marketed, stabilized core properties. This underscores the role of non-stabilized properties as a performance enhancer within diversified portfolios: an allocation

8. MSCI uses a definition of "held not stabilized" for *non-core*, which is when a property is less than 75% occupied for at least half the quarter in the time period; this is different from the NCREIF *operating property* definition. As of 2Q2025, the market value of non-core properties in MSCI's US Quarterly Property Index, Europe Quarterly Property Index, and UK Quarterly Property Index were 15%, 11%, and 15%, respectively.

9. NCREIF life cycle definitions are as follows: renovation—undergoing substantial rehabilitation or remodeling; pre-development—raw land or land undergoing property site development; development—property under construction, including preparation and installation of infrastructure; initial leasing—completed construction that is less than 60% occupied since the end of construction and has been available for occupancy for less than one year.

that can increase risk-adjusted returns but requires careful balancing against investor objectives for income, liquidity, and portfolio stability.

For investors evaluating relative value across the risk spectrum, this evidence underscores the additive role that selective exposure to non-stabilized real estate can play in portfolio construction. While these strategies entail higher execution complexity, the track record suggests that, when deployed prudently within core-plus frameworks, they have historically provided an efficient means of enhancing returns without materially shifting the overall risk profile of ODCE funds. Crucially, outcomes in this space are not uniform. Manager selection becomes paramount, as the ability to identify, execute, and deliver on development and lease-up strategies determines whether non-stabilized exposure translates into true performance uplift. For skilled managers, this segment offers a compelling opportunity to generate incremental value as the real estate cycle turns upward. As conditions align today, the premium for execution skill could take on increased importance.

Note that the outperformance of core-plus strategies has also been demonstrated globally and at the fund level. Comparing MSCI's Global Core Quarterly Property Fund Index and the Preqin Real Estate Core-Plus, Value-Added, and Opportunistic indices, we observe in Exhibit 7 that core-plus funds have outperformed since the inception of the Preqin indices in 3Q2010.

Conclusion

Evidence points to a market at a turning point. With valuations stabilizing, construction pipelines contracting, and financing conditions showing early signs of normalization, the foundation for cyclical recovery is being laid. History suggests that such periods create outsize opportunities for investors able to allocate capital efficiently across the risk spectrum. Within this context, core-plus strategies stand out. By incorporating a modest share of non-stabilized properties, investors have historically captured incremental returns, averaging 375 basis points over stabilized assets since 2013, without materially altering the overall risk profile of diversified portfolios. The result has been not only higher absolute total returns but also improved Sharpe ratios, reflecting enhanced efficiency in portfolio construction.

For institutional investors reassessing positioning at this inflection point, the implication is clear: Core-plus can be a tool for enhancing outcomes in the early stages of recovery by taking advantage of the market upswing while also benefiting from inherent value creation at the property level after early stages of recovery. Although trade-offs exist, particularly in the form of reduced current yield, the long-term benefits of selective exposure to development and lease-up strategies are compelling. In a market in which demand drivers remain resilient, supply pipelines are thinning, and capital is beginning to reengage, core-plus offers a means of capturing relative value while positioning for the next leg of the cycle. In short, this is a moment where the "plus" may prove additive in more ways than one. ■

Edmund Donaldson is Senior Managing Director—Portfolio Management, Mark Fitzgerald is Managing Director and Head of Research, Peter Hoberman is Managing Director—Portfolio Management, and Suzanne Martinez is Managing Director and Head of North America Global Investors Group at Affinius Capital.