White Paper

Market Question

What are the current and future trends to pay attention to?

CoStar Advisory Services provides strategic investor communications through publications of white papers addressing a range of topics relevant to the CRE investor community.

Why U.S. commercial real estate (CRE)?

Investing in U.S. commercial real estate provides the long-term benefits of CRE investing and deserves a significant place in a well-diversified investment portfolio.
CRE offers income-driven returns

- CRE has historically performed well compared to other investment alternatives.
- One of the most attractive features is that like the returns of bonds, CRE returns are heavily weighted to income over capital gains.
- CRE’s income-focused returns also provide a hedge against inflation. CRE income returns rise over long-term investment horizons with increasing rental rates, whereas fixed-interest income from most bond investments erodes in real value over time with inflation.
CRE adds portfolio diversity and reduces risk

- The substantial contribution of steady income to CRE returns helps temper the volatility of the asset class.
- Even during economic recessions, most commercial properties continue generating more income than operating expenses.
- Over the long term, CRE’s return-to-volatility ratio remains favorable relative to other major asset classes.
CRE’s role in optimal portfolio allocation

• Modern portfolio theory allows for the construction of portfolios with optimal allocations of the various asset classes given their historical risk and return profiles.

• To minimize the portfolio volatility for any given level of target return, significant allocations to CRE have historically been necessary.