

How does the performance of real estate funds correlate with public markets?

The question we often get as a portfolio manager of a commercial real estate fund is “how does your performance of your fund correlate with public markets?”

And the simple answer is this: They are two separate investments. They're structured differently and they're valued differently. Even though there is similar underlying asset, it's the way these assets are traded, which creates a lot of the difference between the two.

Public rates are subject to public market volatility. And when you actually look at the performance of the TSX Composite Index against the TSX Capped REIT Index here in Canada and the performance over time between the two, they're highly correlated.

So, it's subject to daily trading. It's subject to the volatility of speculation of investors buying in and out that asset class on a daily basis. It's subject to investors that are not as sophisticated as those who are investing in commercial real estate through an institutional basis on the private side and on the direct side that we operate in.

When you actually look at the returns between direct real estate and the values that are generated off of that versus public markets, they tend not to be correlated that well over time. And obviously, when you are building a portfolio, you want to achieve a level of diversification and what you really look at is the correlation between returns over time and try to eliminate that correlation in order to create a better diversified portfolio.

Intended for Canadian Advisors and Accredited Investors

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