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Public vs. Private Markets: The Shifting Landscape of Investment Opportunities | September 2024

There continues to be an active debate surrounding the merits of public versus private market investing. Private markets, with assets under management (AUM) reported at $13.1 trillion as of June 30, 2023, have been growing nearly 20% per annum since 2011.[1] This growth has drawn investors who are increasingly willing to exchange public market liquidity for the potential of higher returns. Private markets currently represent approximately 10-12% of global AUM, and this share is projected to grow, potentially reaching 30% by 2032.[2] Projections are speculative and depend on various market factors, which could change.

Public markets, while offering liquidity, often limit opportunities for significant gains. Real estate investment trusts (REITs) provide public market exposure to real estate, but research shows that REIT stocks are highly correlated with broader equity market movements, offering little diversification from traditional stock investments. According to research[1], REITs exhibit a correlation of 0.89 with equities, far higher than their correlation with housing-price movements, which is just 0.101.[1]

Private real estate can offer advantages, including tax benefits such as depreciation and the ability to defer gains through 1031 exchanges. Private real estate investments can also utilize leverage, allowing investors to adjust their exposure based on individual risk tolerance. However, these benefits are not guaranteed, and private real estate investments involve risks, including limited liquidity, potential for market downturns, and higher costs than public investments like REITs.

Bain & Company's August 2024 research projects that private market assets will continue their rapid growth, expected to reach $60 to $65 trillion by 20322. This shift is driven by institutional and retail investors alike, who are increasing their allocations to alternative assets in search of higher yields and greater diversification.[1] Looking ahead, the trend toward private markets is unmistakable. While opportunities remain in both public and private markets, informed investors increasingly dedicate a larger portion of their portfolios to private market opportunities. The potential for higher returns, strategic use of leverage, and tax advantages make private real estate an attractive option for many investors.

Private market fee revenue is also projected to double by 2032. Research shows that REITs have less correlation with housing prices than many may assume, making private real estate a more compelling option for those seeking a hedge against inflation.[1]

For those interested in learning more about these trends, I recommend reviewing the research provided by Bain & Company and The Wall Street Journal. Both offer valuable perspectives on the shifts in the investment landscape and the rising prominence of private markets.[1]

[1] McKinsey Article
[2] Bain & Co. Article