

Finding value in plain sight

Why REITs look compelling

For Institutional/Financial Advisers only

May 2026

Listed REITs are trading at 20–40% discounts to stated net asset value (NAV), while unlisted property trusts continue to report relatively modest write downs and stable valuations. The result is a growing disconnect between “price” and “value” that investors should no longer ignore.

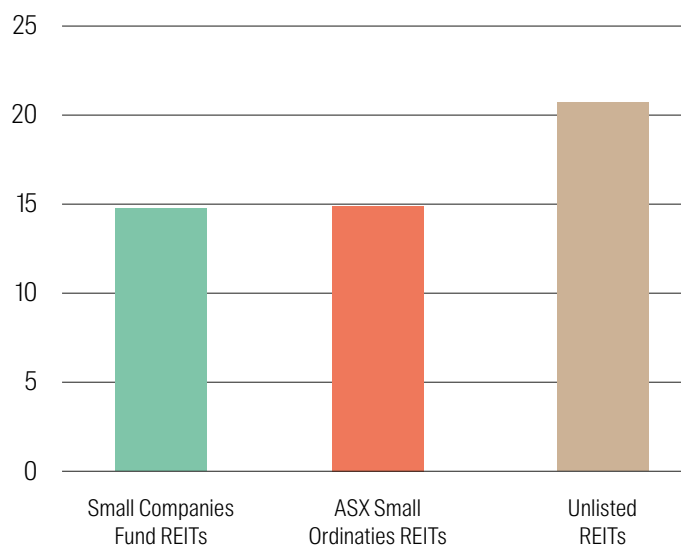
Over the past two years, a material valuation gap has emerged between listed real estate investment trusts (REITs) and unlisted property vehicles. Public market pricing is now implying asset values materially below those still being carried on private balance sheets, raising important questions around valuation integrity, liquidity premiums, and the forward trajectory of real estate pricing.

In recent weeks, listed REITs have repriced rapidly since the markets shifted focus to the risk of stagflation and the emergence of a tightening cycle. Rising risk free rates, widening credit spreads, and a step change in required equity returns have flowed almost immediately into public market pricing. Share prices adjusted first; balance sheets are expected to follow as valuations are adjusted.

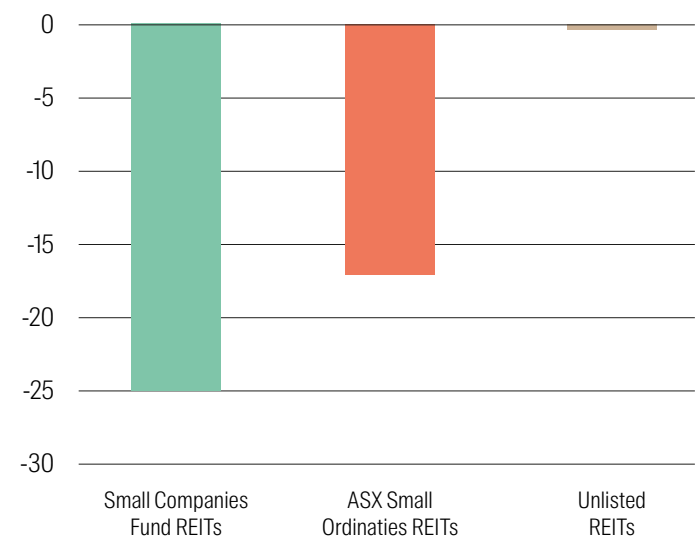
By contrast, unlisted property trusts have exhibited little valuation adjustments, higher reported cap rate stability, limited transaction-based price discovery and continued distributions supported by leverage and capital management.

The outcome is that private market valuations are lagging public market signals, rather than reflecting a genuinely different economic outcome.

Price to earnings



Price to Tangible Book Value



Source: First Sentier Investors at 30 April 2026. 'Small Companies Fund REITs' are REITs held in the Australian Small Companies Fund. 'ASX Small Ordinaries REITs' are REITs in the S&P/ASX Small Ordinaries Index. 'Unlisted REITs' are REITs in the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index.

The reasons – structural or transient?

Liquidity and price discovery

Listed REITs are priced continuously. Every macro shock, every rate hike, credit event, recession fear is absorbed in real time through share prices. This produces volatility, but also transparency.

In contrast, unlisted property valuations rely on periodic independent appraisals, limited comparable transactions, assumptions around terminal cap rates and rental growth and models that smooth volatility rather than absorb it.

In stressed or uncertain markets, fewer transactions occur, which reduces the feedback loop necessary for rapid valuation adjustment. This does not make private valuations “wrong” in the short term, but it does make them inherently backward looking.

Leverage and valuation optics

Unlisted vehicles often employ higher leverage than listed REITs, particularly in core plus and value add strategies. In these structures:

- small changes in asset values have outsized equity impacts
- managers have strong incentives to avoid triggering LVR covenants, and
- downward valuation adjustments can force equity resets, dilutions, or asset sales.

This creates a structural bias toward valuation smoothing, especially in open ended funds where unit pricing directly affects subscriptions and redemptions.

Listed REITs face no such constraint: equity trades where the market clears, irrespective of management preference.

Behavioural and governance dynamics

Unlisted property trust investors are accustomed to:

- lower volatility
- stable distributions, and
- long term holding periods.

As a result, managers and boards are acutely conscious of maintaining confidence. Abrupt valuation resets can trigger redemption risk, funding pressure, or reputational damage.

Public REIT investors, by contrast, accept volatility as the cost of liquidity. Price discovery can be severe, and are expected to track a shift in valuations in real time, ahead of any adjustments made to valuations on in the accounts.

Are listed REITs too cheap, or private assets too expensive?

The critical question for allocators is whether:

1. Listed REITs have overshot to the downside, driven by short term sentiment and forced selling; or
2. Unlisted property valuations have not yet fully adjusted to higher rates, lower leverage capacity, and structurally higher required returns.

While we do not seek to answer that concretely. Our analysis highlights that there is at the very least a significant relative valuation disparity in support of a significant relative allocation to listed REITs.

The basic premise being that public markets tend to overreact initially and stabilise once earnings and balance sheets prove resilient. While private markets tend to undershoot initially and catch up later through valuation drift, capital raisings, and selective asset sales.



The timing mismatch creates a period, often lasting several years, where listed real estate offers better implied value than private market equivalents.

The opportunity for capital allocators

Listed REIT discounts to NAV now imply exit cap rates materially above those embedded in many private valuations. In effect, public markets are pricing in either:

- further valuation declines, or
- permanently higher required returns.

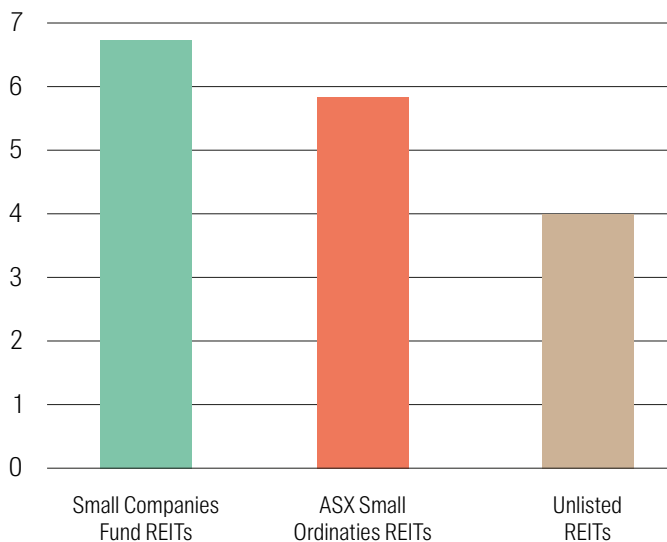
Unless one believes private valuations are structurally insulated from capital market repricing, this gap is unlikely to persist indefinitely.

Valuation convergence rarely occurs through modelling alone. It occurs when:

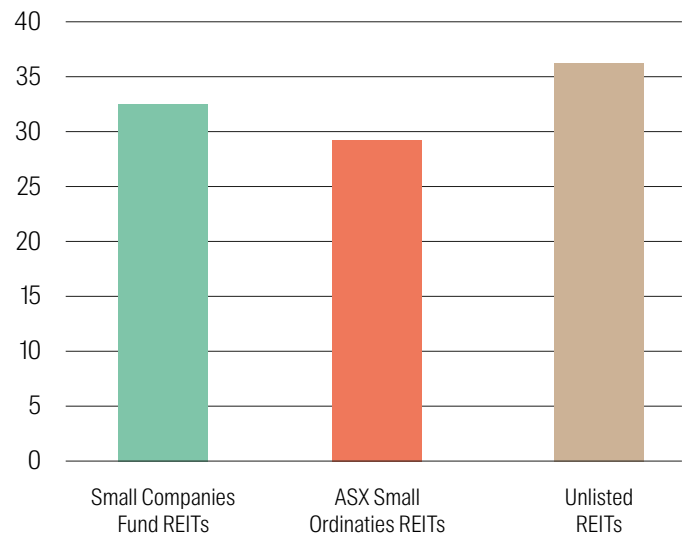
- assets trade
- capital structures are stressed, or
- refinancing tests equity assumptions.

As debt maturities peak and refinancing costs reset, private market transactions will increasingly anchor valuation reality, forcing convergence toward public market signals.

Dividend Yield



Gearing



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Conclusion

The valuation dislocation between listed REITs and unlisted property trusts is not merely a technical anomaly; it is a function of liquidity, governance, behavioural incentives, and valuation mechanics.

Public markets may be volatile, but they are rarely silent. Private markets may appear stable, but stability often reflects inertia rather than immunity.

Over time, capital markets tend to enforce consistency. Whether through valuation drift, refinancing stress, or transaction evidence, price and value ultimately reconcile. For investors willing to navigate the volatility, today's dislocation may represent less a warning – and more an opportunity.

This analysis challenges the assumption that unlisted equals “lower risk”. In reality, paying a significant premium for often the same hard assets, in a vehicle with a perception of stability, can offer lower returns and higher risk over the medium and long term.

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