



The Shelter Effect:

Why Residential Real Estate Deserves a Place in
Your Portfolio





Executive Summary

Among investors with over \$10 million in investable assets, 80% allocate to alternatives. Among those with \$1–5 million, just 39% do. That gap isn't because wealthier investors are reckless, it's because they've seen data most investors haven't.

This paper makes the case that residential real estate deserves a meaningful place in that allocation and that the window to act on it is now. Among alternative asset classes, **private real estate stands alone in offering the lowest correlation to a traditional stock and bond portfolio**, consistent current income, and proven inflation protection — simultaneously. No other alternative delivers all three.

The opportunity is amplified by structural forces that aren't going away: a national housing shortage of at least 1.2 million homes, a generation of delayed homebuyers expanding the renter pool, and affordability dynamics that favor renting over owning in 60% of U.S. metro areas.

But thesis alone doesn't generate returns. This paper walks through PPR's data-driven approach to market selection, portfolio construction, and asset-level value creation — including how mortgage note investing adds a complementary layer of diversification within residential real estate — and a case study demonstrating how these principles translate into real performance.



Key Takeaways

- Among all major alternative asset classes, private real estate offers the lowest correlation to a traditional 60/40 portfolio, making it one of the most effective diversifiers available to individual investors.
- The U.S. housing shortage is structural, not cyclical. Estimates vary by source, but all agree the shortfall is at least 1.2 million homes — the result of nearly a decade of chronic underbuilding following the Great Recession.
- In 60% of U.S. metro areas, monthly mortgage payments for a median-priced home exceed monthly rent assuming a 20% down payment and excluding all other ownership costs. This affordability gap should extend rental demand.
- Real estate outperformed inflation in 7 of 7 recent inflationary periods, supported by three built-in mechanisms: adjustable rents, rising replacement costs, and debt repaid in cheaper dollars.
- Mortgage note investing allows participation in residential real estate at a different point in the capital structure offering diversification within the asset class, not just across it.
- Not all residential real estate funds are created equal. Market selection discipline, supply awareness, portfolio-level stress testing, and operational value creation capability are the key differentiators between strong and average fund performance.



What Are Alternative Investments and Why Do They Matter

For most of American history, traditional investment portfolios have been built on two pillars: stocks and bonds. The rise of alternative investments over the last twenty years has shifted traditional portfolio management recommendations, with alternative assets growing from 6% of global AUM to now over 15%. Historically, most alternative investments were concentrated in Hedge Funds that were unavailable to retail investors. With the large rise in the universe of alternatives that are more accessible than ever, it is important to understand the role alternative investments play in a diversified portfolio and the range of options available.

Alternative investments encompass a broad range of asset classes that fall outside of publicly traded stocks and fixed income. While the category continues to evolve, the core pillars include

Private Equity - Direct ownership stakes in private companies, often with active management involvement aimed at driving operational improvement and long-term value creation

Real Estate - Institutional quality properties or portfolios, typically accessed through private funds or direct investments rather than public REITs

Hedge Funds - Strategies that use flexible mandates - including long/short equity, global macro, and event-driven approaches - to pursue returns that are uncorrelated with the stock market

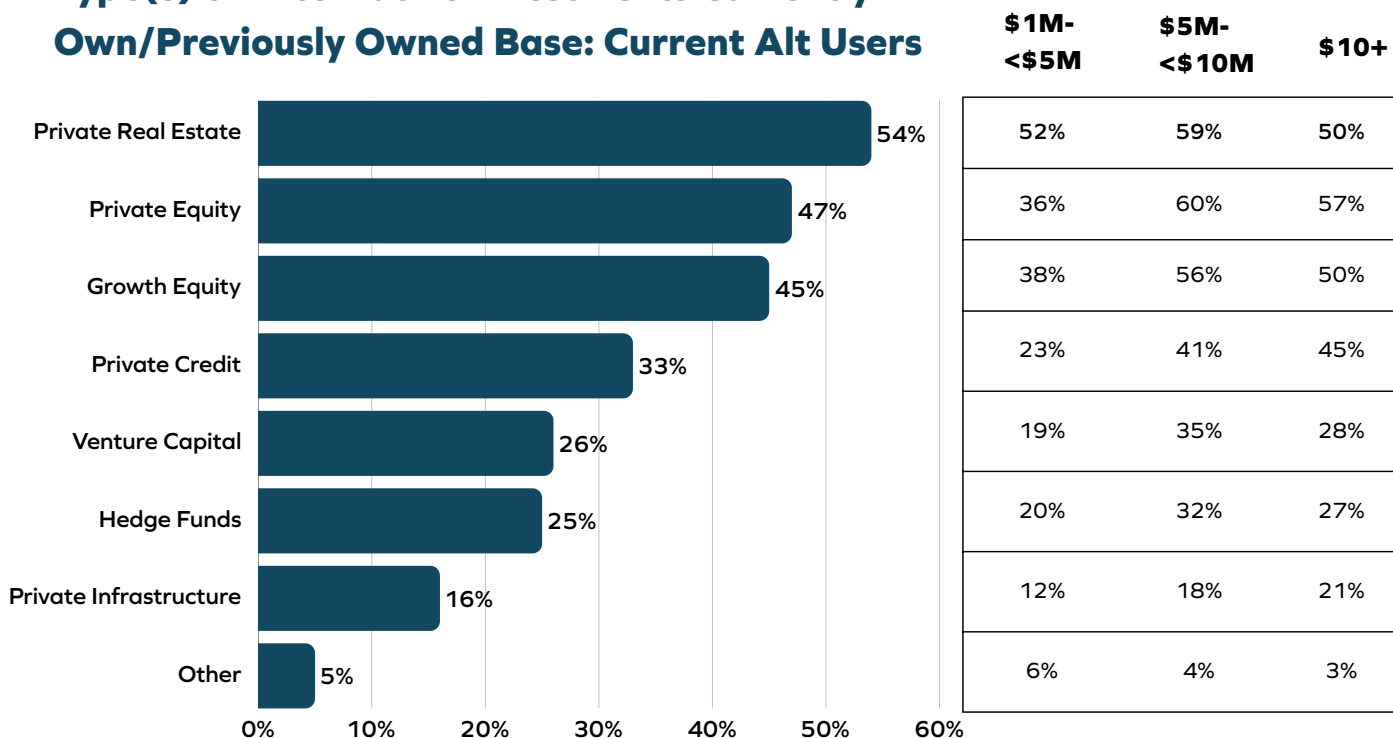
Real Assets & Commodities - Tangible holdings such as farmland, timber, and natural resources that can serve as an inflation hedge

Why Investors Allocate to Alternatives

At a fundamental level, alternatives seek to provide a better risk return trade off compared to a traditional stock and bond portfolio. Each alternative provides diversification benefits as most of the above have return profiles that are less than perfectly correlated with equity and bond market returns. Based on an investors' individual goals, one strategy within the broader alternatives market may be better suited than others, but some allocation to alternatives has become necessary to build a properly diversified portfolio.

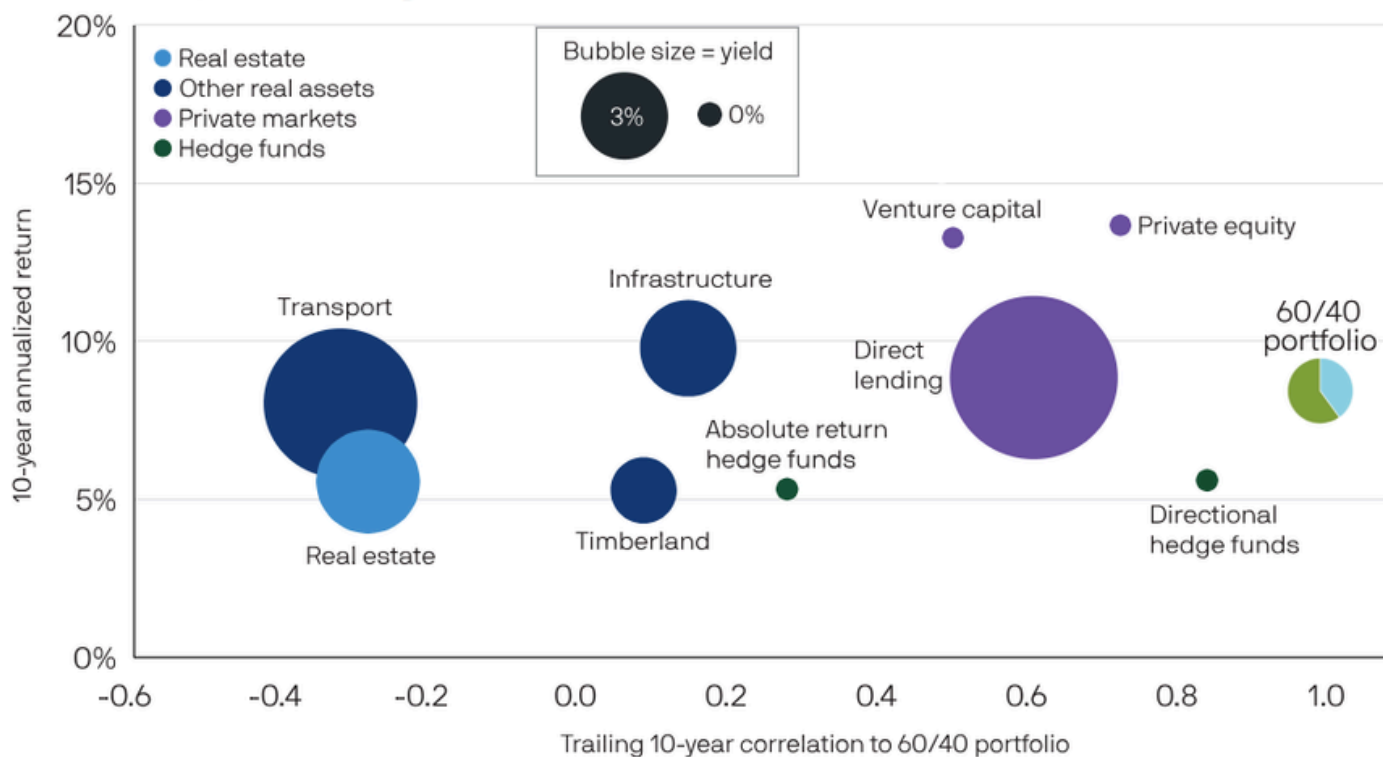
Goldman Sachs Asset Management released their 2025 survey, which indicates that adoption of alternatives rises with higher net worth. Based on their survey of 1,000 individuals with more than \$1 million in investible assets, 39% of investors with \$1-5 million report using alternatives, 63% for households with \$5-10 million, and 80% with investors with over \$10 million. Of those who currently invest in alternative investments, the breakdown is below.

Type(s) of Alternative investments Currently Own/Previously Owned Base: Current Alt Users



Each of these asset classes, either taken alone or as part of a basket of alternatives, provides a better return profile than a standard 60/40 portfolio. An investor should understand the risk profile, the liquidity, and their own goals before allocating to alternatives, but the benefits are well measured. The chart below from JPMorgan’s Guide to Alternatives illustrates the 10-year correlation and return profile of several different alternative investments. When assets have low or near-zero correlation, their returns move more independently of each other. In practical terms, this means that losses in one part of the portfolio are less likely to be compounded by simultaneous losses elsewhere. The result is a smoother return profile over time, with less severe drawdowns during periods of market stress.

Correlations, returns and yields



Source: Burgiss, Cliffwater, FactSet, MSCI, NCREIF, PivotalPath, J.P. Morgan Asset Management. Data as of 8/31/25. Correlations and annualized total returns cover the latest 10-year period ended 8/31/25. See footnote 1 for additional disclosure.

Impact on Key portfolio characteristics based on funding source and alternative used

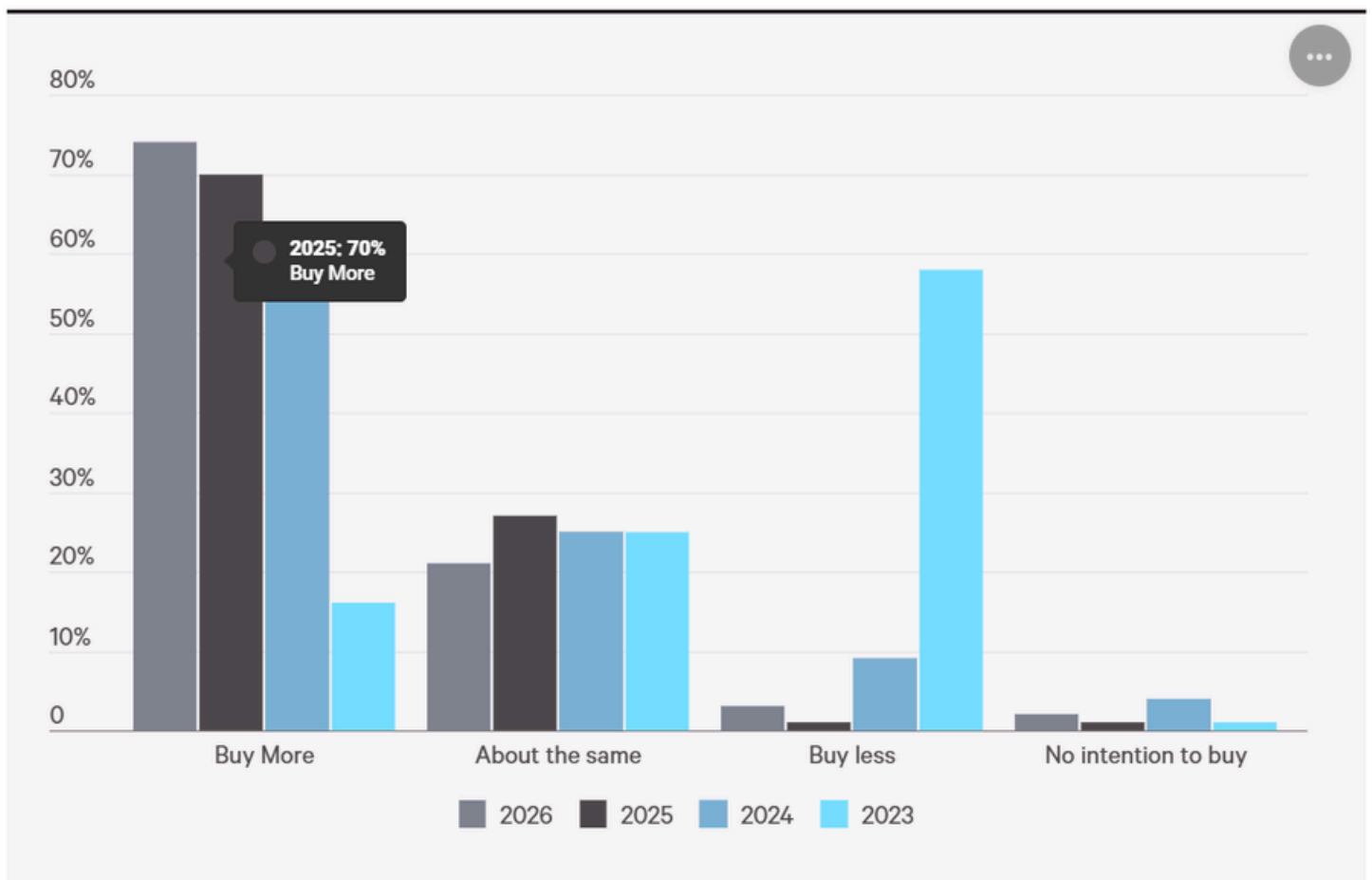
Private Alternative	Asset allocation	Funding Source	Return	Risk	Income
Portfolio	60/40	—	6.93%	10.84%	3.09%
Private Equity	50/40/10	Equity	7.29%	10.74%	2.87%
	60/30/10	Fixed Income	7.63%	12.20%	2.64%
Venture Capital	50/40/10	Equity	7.17%	10.65%	2.87%
	60/30/10	Fixed Income	7.50%	12.10%	2.64%
Direct Lending	50/40/10	Equity	6.96%	10.01%	3.44%
	60/30/10	Fixed Income	7.30%	11.45%	3.21%
Hedge Funds	50/40/10	Equity	6.65%	9.59%	2.87%
	60/30/10	Fixed Income	6.98%	11.03%	2.64%
Transport	50/40/10	Equity	6.97%	9.10%	3.76%
	60/30/10	Fixed Income	7.30%	10.53%	3.53%
Infrastructure	50/40/10	Equity	6.80%	9.76%	3.21%
	60/30/10	Fixed Income	7.14%	11.20%	2.98%
Real Estate	50/40/10	Equity	6.98%	9.55%	3.37%
	60/30/10	Fixed Income	7.32%	11.00%	3.14%

In simple terms: when stocks drop, private real estate doesn't necessarily follow. That independence is what protects a portfolio during volatility and downturns.

Why Real Estate as A Preferred Alternative

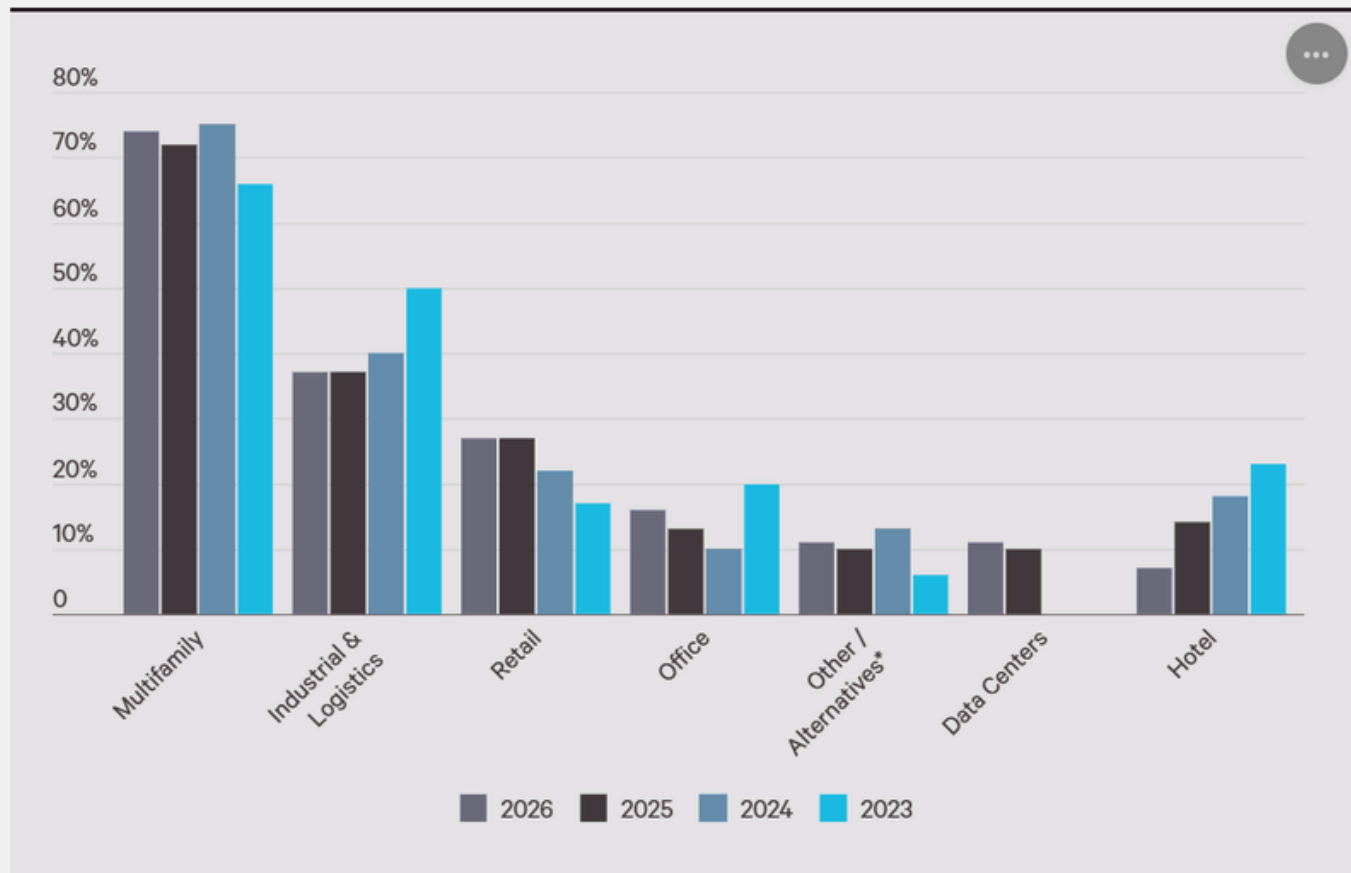
Real Estate has long been one of the cornerstones within the alternative asset class, and for good reasons. As shown above, private real estate is most allocated to alternative among high-net-worth individuals and provides the most uncorrelated returns to a traditional 60/40 portfolio. CBRE’s investor intentions survey illustrates the increasing sentiment for the asset class in the last several years, and multifamily as the clear leader.

Figure 1: Investor Buying Intentions



Source: North American Investor Intentions Survey, CBRE Research, January 2026.

Figure 3: Sector Preferences by U.S. Investors



Note: Total percentages may not add up to 100% since the responses account for multiple choices. *Other/Alternatives includes self-storage, student housing, senior housing, life science, single-family rentals and others. Data Centers were included in the Other/Alternatives category in the 2023 & 2024 surveys. Surveys conducted prior to 2026 include only U.S. investors.

Crucially, it can also add consistent current income, which contrasts with many other alternative investments which face long lock up periods and illiquidity. Private equity and venture capital typically require years of capital deployment before investors see meaningful returns, following the well-known J-curve pattern (where investors experience negative returns early on before gains materialize in later years). Hedge funds generally reinvest gains rather than distributing cash. Real Estate can work across two fronts simultaneously, providing current income upon property stabilization and access to appreciation through value increases.

Real Estate has historically served as a **reliable protection against inflation**. Income from rents can be adjusted to match rising prices, property values track replacement costs which rise with inflation, and the underlying debt gets repaid with cheaper dollars. The data from 7 recent inflationary environments support the theory.

Commercial real estate (CRE) performance vs alternate benchmarks across inflationary periods

● Outperformance
● Underperformance

Benchmark	1980–82	1990–91	2000–01	2004–06	2011–12	2016–18	2021–22	Success rate ²
Inflation	●	●	●	●	●	●	●	6 out of 7
Average CRE 40-year return ¹	●	●	●	●	●	●	●	5 out of 7
S&P 500	●	●	●	●	●	●	●	4 out of 7
BBB corporate bonds	●	●	●	●	●	●	●	6 out of 7
10-year US Treasury bonds	●	●	●	●	●	●	●	6 out of 7
Gold spot price	●	●	●	●	●	●	●	5 out of 7

Note: Data as of Dec 2022.

¹Average all-sector commercial real estate returns from 1980–2022.

²Inflationary periods where commercial real estate generated superior absolute returns compared with a range of financial benchmarks.

Source: Bloomberg; National Council of Real Estate Investment Fiduciaries Property Index; US Federal Reserve

Real Estate, particularly the residential sector, has key tailwinds underpinning long term success. The next section takes a closer look at what’s driving that demand and why it matters for long-term investors.



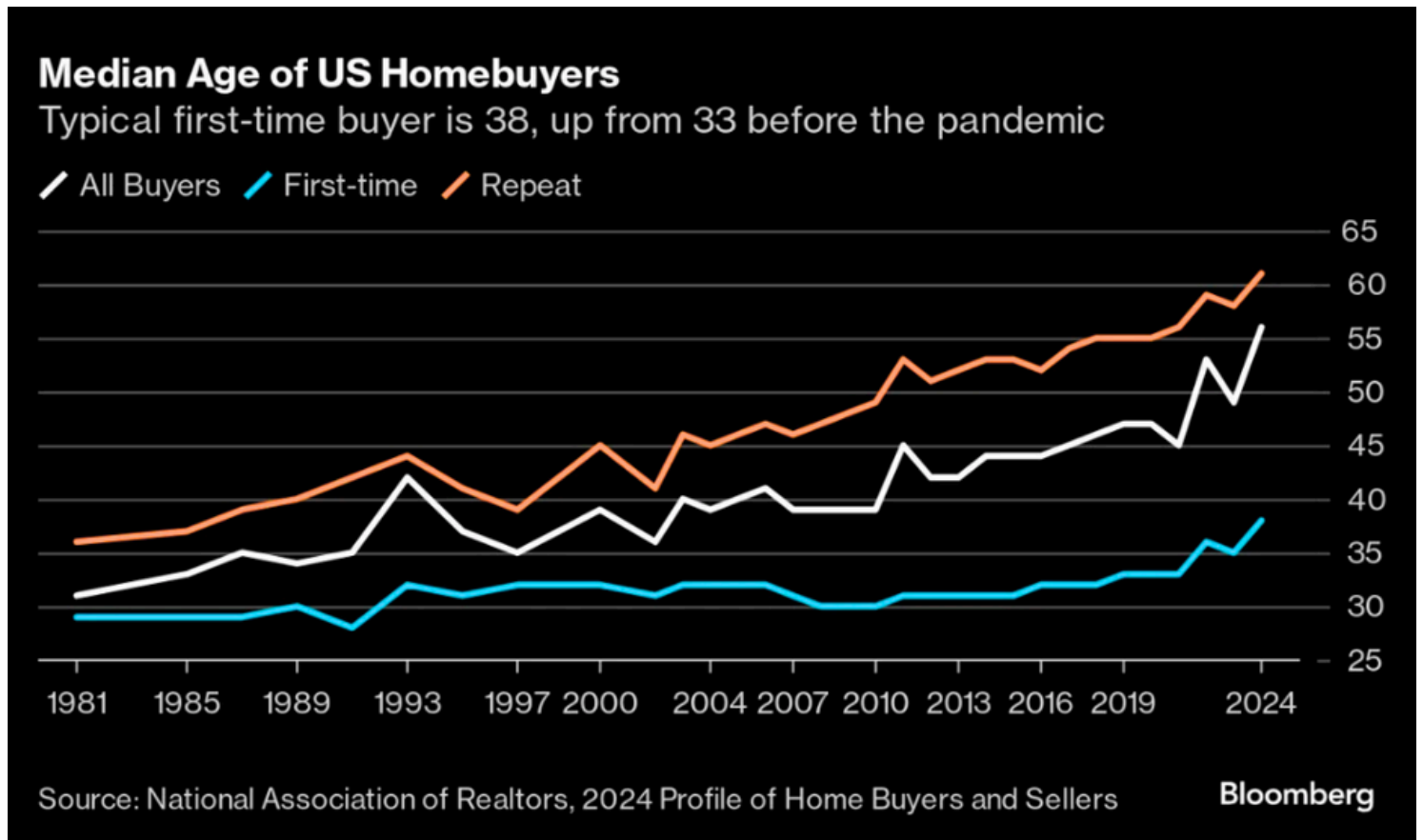
Structural Trends Driving Housing Demand

The Demand Floor

According to any number of sources, the US is facing a housing shortage. Spurred by the great recession, the United States faced nearly a decade of chronic underbuilding. Estimates vary widely depending on the methodology, but ultimately all agree that the shortfall is at least 1.2 million homes and may be as many as 8 million, providing long term support to the residential real estate asset class.

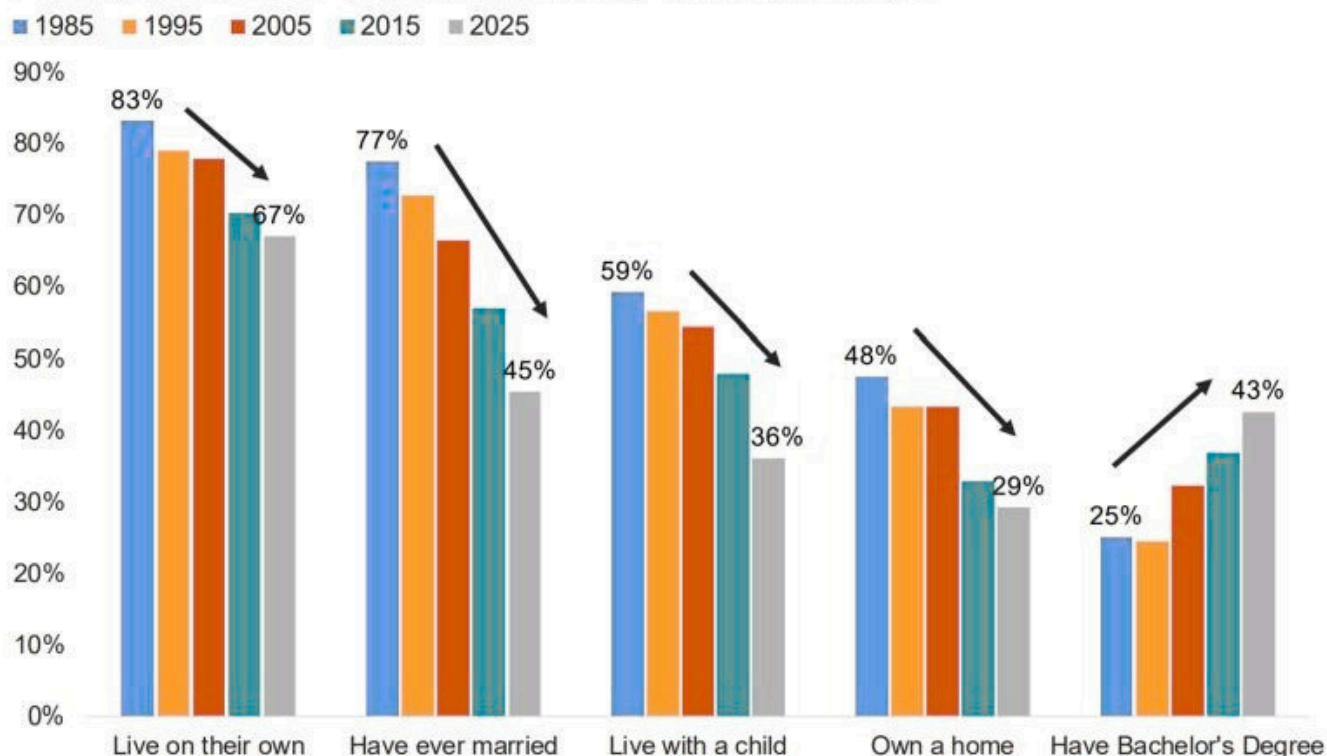
Source	Estimated Shortage
J.P Morgan	~1.2 Million
Moody's Analytics	~2 Million
Goldman Sachs	3-4 Million
Freddie MAc	~3.7 Million
Realtor.com	4.03 million
Up for Growth	~3.8 million
Zillow	~4 million+
Bookings Institution	~5 million
McKinsey & Company	~8 million

In addition to a severe lack of supply, rental demand has been fueled by delayed household milestones among younger generations. First time homebuyers are drifting up in age due to a confluence of factors, increasing the available renter pool.



Fewer US adults reach typical adult milestones by 30, partially because more adults opt for college than in previous generations.

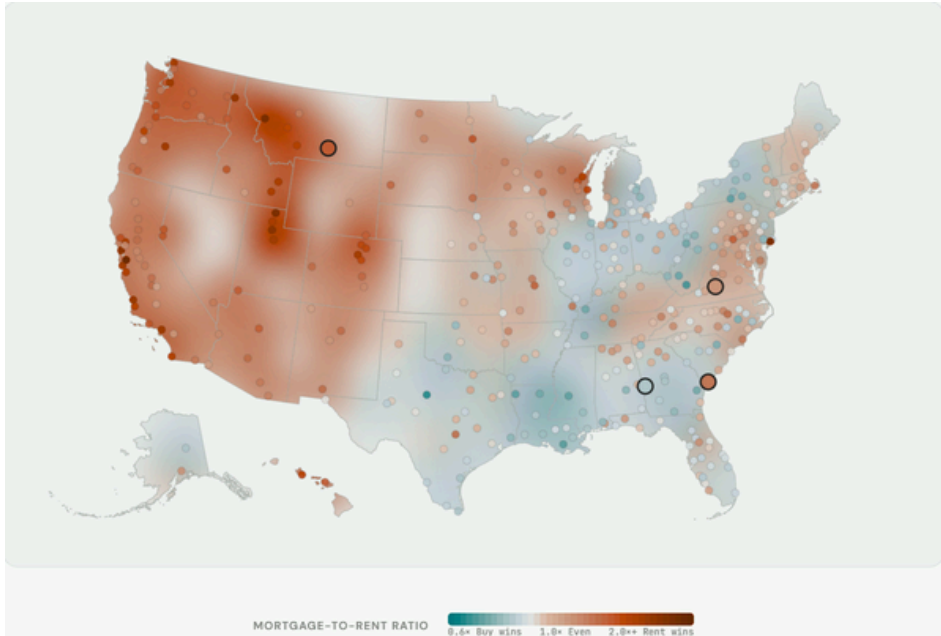
Percentage of US 30-Year-Olds Reaching 'Adult' Milestones



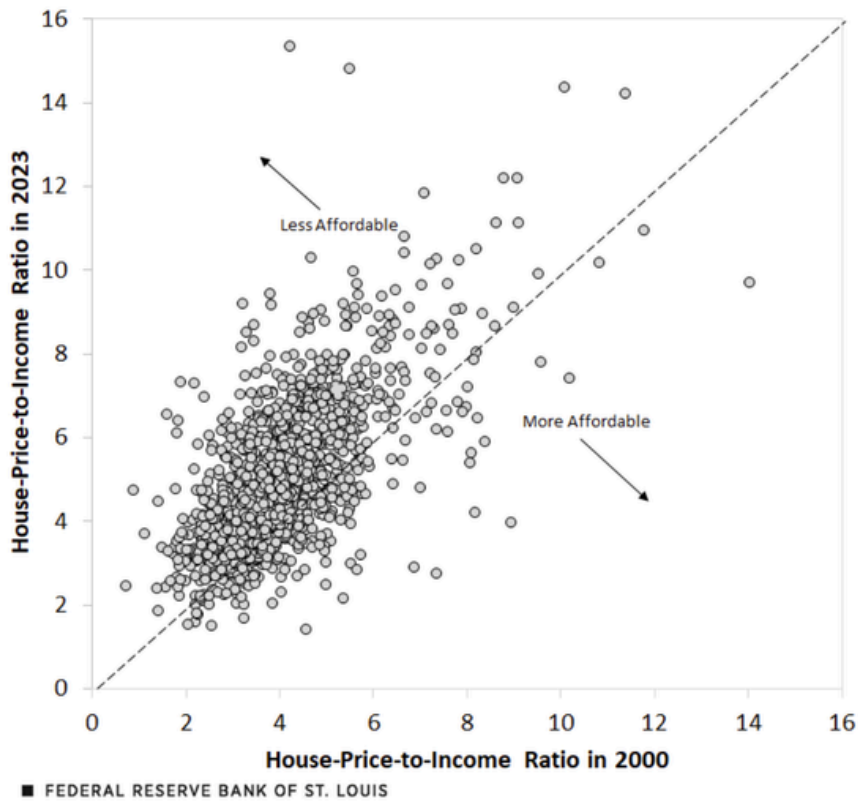
Sources: John Burns Research and Consulting, LLC, tabulations of U.S. Census Bureau Current Population Survey Annual Social and Economic Supplement via IPUMS-USA (Data: 2025, Pub: Dec-25)



Affordability concerns are the crux of the issue. The chronic undersupply of housing has led to real estate prices outpacing income growth, making home ownership a difficult obstacle for much of the country. Outside of a few pockets nationwide, renting is a far cheaper alternative to owning, and the issue has only been exacerbated by higher mortgage rates. Analysis of 379 metro areas using Zillow data shows that monthly mortgage payments for a median priced home exceed monthly rent in 60% of markets. This analysis assumes 20% downpayments and no additional homeownership costs outside the mortgage payment, which understates the affordability crunch.



Change in Housing Affordability in Select Counties: 2000 vs. 2023



With all these trends working in concert, residential real estate is primed to outperform other alternative asset classes. Few other asset classes have such fundamental supply/demand imbalances of this scale.

Mortgage Note Investing

Beyond direct property ownership, mortgage note investing offers another avenue for generating returns within residential real estate. Rather than owning the physical asset, note investors hold the debt secured by it. They step into the position of the lender, collecting monthly principal and interest payments from the borrower while the underlying property serves as collateral.

This strategy can complement a property-focused portfolio in several ways. Performing notes generate predictable, contractual cash flow with a defined maturity and a secured position in the capital stack. Because the investor sits in a senior position relative to the equity holder, the risk profile is inherently different. If the borrower defaults, the note holder has a legal claim on the property itself, providing a recovery mechanism that unsecured investments simply don't offer.

Non-performing notes present a different but related opportunity. Investors can acquire distressed debt at a discount to the unpaid principal balance and pursue resolution through loan modification, restructuring, or ultimately foreclosure and disposition of the underlying property. When executed well, the discount at acquisition creates a margin of safety that can produce attractive returns across multiple resolution paths.

For a portfolio already built around direct real estate ownership, note investing introduces a layer of diversification within the same asset class. The return drivers are different, the risk profile is different, and the cash flow characteristics are different. It allows a manager to participate in residential real estate across multiple points in the capital structure rather than concentrating solely in equity positions.



What to Look for in a Residential Real Estate Fund

Not all residential real estate funds are created equal. The structural tailwinds outlined in this paper benefit the entire asset class, but the gap between a well-managed fund and an average one can be significant. When evaluating fund managers, investors should consider:

Market selection discipline. Does the manager go beyond headline job and population growth? The composition matters — which industries are driving employment, what wages they offer, and whether the demographic profile of new residents matches the rental product. Markets that look strong on the surface can underperform if the growth is concentrated in sectors vulnerable to disruption.

Supply awareness. Many high-growth sunbelt markets experienced massive construction waves in recent years. A credible manager should demonstrate a clear grasp of how much new supply has been absorbed, what's currently in lease-up, and what's in the near-term pipeline. A growing market with excessive supply can still produce disappointing returns.

Portfolio construction, not just deal selection. An individually attractive property can be a poor addition if it overconcentrates the portfolio in a single market or asset type. Look for managers who stress-test acquisitions against scenarios like rising unemployment, higher cap rates (which lower property valuations), and inflationary pressure and who evaluate each deal in the context of the broader portfolio, not in isolation.

Operational value creation. After acquisition, the returns shift from market-level tailwinds to property-level execution. Strong managers drive above-market performance through targeted renovation strategies, data-driven leasing, and active asset management, not passive ownership. Ask how the manager plans to improve each asset, and what data and technology they use to inform those decisions.

Diversification within residential. A fund that combines different residential strategies like direct property ownership, development, and mortgage note investing offers a broader set of return drivers and risk profiles than one concentrated in a single approach. This diversification within the asset class provides additional protection against any single strategy underperforming.

The Case for Acting on What the Data Shows

The data presented in this paper points to a set of conclusions that are difficult to argue with individually and powerful in combination.

Alternatives improve portfolios. The evidence across decades of market data is clear: allocating beyond stocks and bonds produces better risk-adjusted returns. The wealthiest investors have understood this for years. What's changed is that access is no longer limited to institutions and the ultra-high-net-worth.

Among alternatives, residential real estate occupies a unique position. It is the most broadly allocated alternative among high-net-worth investors, and for good reason — no other asset class combines low correlation, current income, and inflation protection in a single investment. These benefits are observable across decades of return data and seven distinct inflationary cycles.

The structural case is durable. The housing shortage is a real, tangible condition rooted in a decade of underbuilding, compounded by demographic shifts that are expanding the renter pool and affordability dynamics that make homeownership increasingly difficult. These forces don't reverse quickly. They provide a demand floor beneath residential real estate that few other investments can claim.

But the asset class alone isn't enough. How a fund selects markets, constructs its portfolio, manages supply risk, and executes at the property level determines whether an investor captures the full potential of these tailwinds, or just a fraction of it. The checklist in the preceding section is designed to help investors evaluate those capabilities with rigor.

For investors who have been considering an allocation to alternatives or those who haven't yet explored residential real estate, the convergence of broadening access, structural demand, and proven portfolio benefits suggests the question is no longer whether to allocate, but how much and with whom.

What Comes Next

For investors who find the data in this paper compelling, our team is available to discuss how residential real estate fits within your specific portfolio, answer questions about fund structures and minimums, and provide a candid assessment of whether this allocation makes sense for your goals.

[Schedule a Call](#)



About PPR Capital Management

PPR Capital Management, ranked #1 fastest-growing private company in the greater Philadelphia area by the Philadelphia Business Journal's 2025 Fast 50 list, is a private equity real estate firm that manages investment offerings which primarily invest in distressed assets and mortgages, as well as residential and commercial real estate throughout the United States. Founded in 2007, PPR's mission has been to provide financial wellness to our investors while making a positive social impact on the communities in which we invest, live, and work. For more information, please visit our website at pprcapitalmgmt.com.

