

IVSC PERSPECTIVES PAPER

Mind the Gap: Exploring the Divergence in Public and Private Real Estate Markets

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IVSC

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| | |
|-------------------------|----------------|
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The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

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IVSC Perspectives Paper

Mind the gap: Exploring the divergence in public and private real estate markets

Background: setting the scene

The divergence in value in public and private markets has been a recurring theme and debate. This tension is often exacerbated during crises or more volatile times. A recent example of this exists in the real estate market¹, where in particular, the office real estate segment witnessed dual headwinds from a rising cost of capital and a challenging leasing environment in the aftermath of the COVID-19 pandemic.

A plethora of media articles in several jurisdictions have highlighted concerns in relation to the divergence in public and private real estate markets. The IVSC believes that it is important for all stakeholders to thoughtfully consider this phenomenon.

Equally, in periods of high and/or unstable volatility, increased measurement uncertainty may cause overreaction to new positive or negative information within public markets and conversely private markets may react more slowly to market changes, especially when comparable transactions are scarce. The IVSC considers that there is room for improvements both in the interpretation of valuations, and in the governance underpinning the valuation process to promote greater transparency.

The focus of this Perspective Paper is limited to the gap between the public and private assets as it relates to real estate. In part, this is due to the sheer importance of real estate as an asset class with an aggregate value estimated at USD 380 trillion globally at the end of 2022². Given the importance of the topic,

¹ For the purposes of this perspectives paper, public real estate refers to real estate investment trusts (REITs) or real estate operating companies (REOCs) that are traded on a public stock exchange. Private real estate references refer to non-public real estate holdings which may be traded through various direct or indirect ownership structures.

² [Total Value of Global Real Estate: Property remains the world's biggest store of wealth](#), Savills

and its significance to a diverse range of stakeholders including investors and policy makers, the IVSC is undertaking to publish a series of perspective papers examining the issues:

- **Paper 1** – Mind the gap: Exploring the divergence in public and private real estate markets
- **Paper 2** – Valuation governance and regulation: Are investors, stakeholders and regulators in private markets yearning for greater valuation transparency?

Taken as a whole, the series aims to promote greater awareness and understanding of the topic, to inform and educate this discussion and debate, as well as provide an opportunity for all stakeholders to provide feedback. This feedback will inform future valuation standard setting processes.

The IVSC considers these objectives as being consistent with the IVSC's overarching mission to i) "build trust in valuation", to ii) "enhance the quality and credibility of valuation practices worldwide" and to iii) "serve the public interest".

What are the issues and why does it matter?

Public real estate investment structures, such as REITs, were created to provide access to an asset class otherwise largely inaccessible to retail investors. These securities often offer a higher level of liquidity than the underlying real estate asset. They enable diversification across subclasses (office, retail, residential etc.) and geographies. Some instruments enjoy tax advantages, such as avoiding entity-level taxation.

Recent trends have seen increasing considerations around the allocation of

capital to private assets in numerous markets. Commentary from market participants such as NBIM³ and IFM Investors⁴ has provided an insight into this public versus private mindset.

However, market commentators and regulators have been scathing of both public and private real estate entities and their valuation service providers in their 'mark-to-market' of underlying real estate holdings.

In public real estate investment vehicles, this criticism is most pointed when a significant divergence emerges between the listed share price and Net Asset Value (NAV) determined by valuations of underlying real estate assets. Some stakeholders have criticised the valuations of underlying real estate assets for not displaying similar discounts as their public (and in some cases private) real estate peers.

It should be noted that NAV may not be a standardised financial measure in some jurisdictions. Varying measures of NAV considered by management in financial disclosures may contribute to divergence.

These phenomena create a heightened level of scepticism, which in turn can erode trust, and sometimes creates wider controversy. When can these divergences occur, and what is driving them?

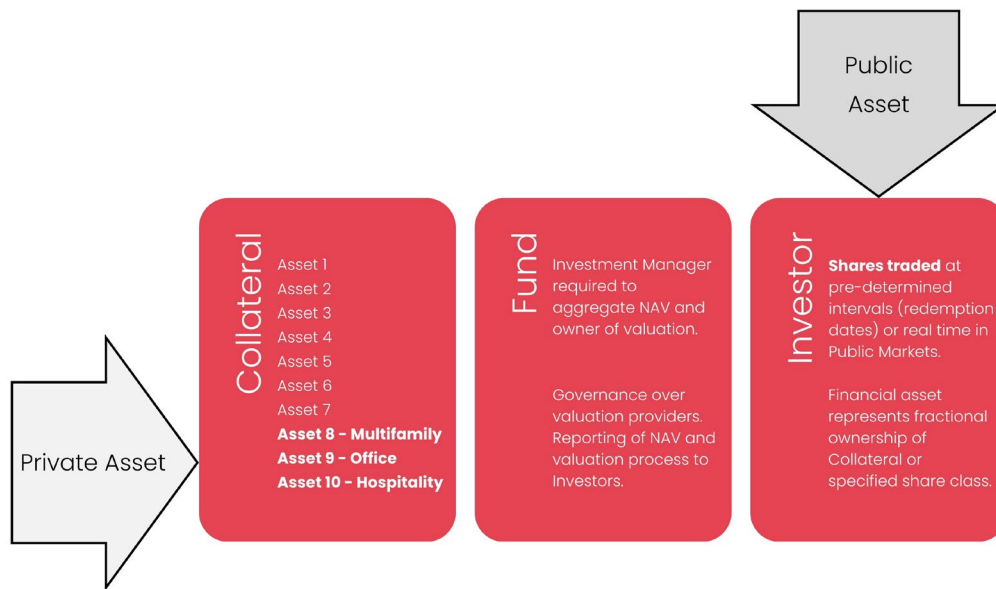
3 Norges Bank Investment Management, '[Investment strategy for the Government Pension Fund Global – unlisted equities](#)', 28 November 2023

4 Australian Financial Review, '[Private markets valuation test awaits super funds](#)', 8 November 2022

What is the interest being considered?

Public and private real estate investment vehicles are underpinned by the same asset class but exhibit distinctly different features. Typical market participants for public and private real estate investment vehicles differ and may apply different assumptions when estimating value.

Some examples of these differences in characteristics, which can impact differences in value movements, are described below:



| Characteristic | Public Asset | Private Asset |
|---|---|--|
| Assets traded/transacted | Fractional interest (share) | Typically, whole asset / underlying title or significant ownership interest. |
| Market participant (typical) | Individual retail investor to institutional capital | Institutional or holders of significant capital |
| Control | Low to nil | High to complete |
| Investor Hold Period | Shorter | Longer |
| Sentiment | Higher | Lower |
| Liquidity | Higher | Lower |
| Propensity for management to prioritise short term (rather than long term) returns/objectives | Higher | Lower |
| Investor access to management | Lower | Higher |
| Investor access to information at asset-by-asset level | Lower | Higher |
| Corporate & Regulatory Requirements | Higher | Lower |

The consideration of the interest traded (or unit of account) in both the public and private real estate investment markets is crucial. This difference is addressed in *IVS 103 Valuation Approaches*, which stipulates that adjustments may be required to account for differences between the subject asset and the guideline transactions or publicly traded securities. These adjustments are known as discounts or premiums and are *“applied to reflect the differences between the comparables and the subject asset with regard to the ability to make decisions and the changes that can be made as a result of exercising control.”*⁵

The impact of leverage must also be considered as in both private and public markets there can be highly structured and complex vehicles which can have varying levels of leverage. This can impact investors in public and private markets in terms of factors such as risk, returns, liquidity, timing of cashflows or redemptions.

Market participants may apply a discount to a controlling interest because of this lack of control (commonly termed a DLOC). Conversely, as with other classes of assets, market participants trading real estate may be willing to pay a premium for the ability to have a controlling interest (known as a ‘control premium’) as it enhances the economic benefits available to the owner of that asset. This typically occurs by contributing to or controlling operating and strategic decisions.

In fact, empirical observations suggest that private real estate investment vehicles attract larger buyers, who want significant ownership or control, governance and information rights, and which might also derive certain synergies. Depending upon their investment strategy, these larger buyers may have little interest in exposure to public real estate. This highlights potential differences in market participants (i.e., buyers and sellers) of public and private real estate assets.

5 IVS (2025) 103.A10.17.b

*All too often, market
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Regardless of the market participant's motivations, these assets differ in their respective characteristics, despite both being underpinned by real estate, and these differences in turn have important implications for risk, and therefore value.

The specifications of the interest being traded, often termed a unit of account, can be a valid reason for the divergence between public and private real estate value, and will often be evident in the premium⁶ to share price that a market participant pays to take a public real estate entity private. This may occur due to differences in investment strategy, time horizon, valuation approach, and assumptions applied by public versus private investors.

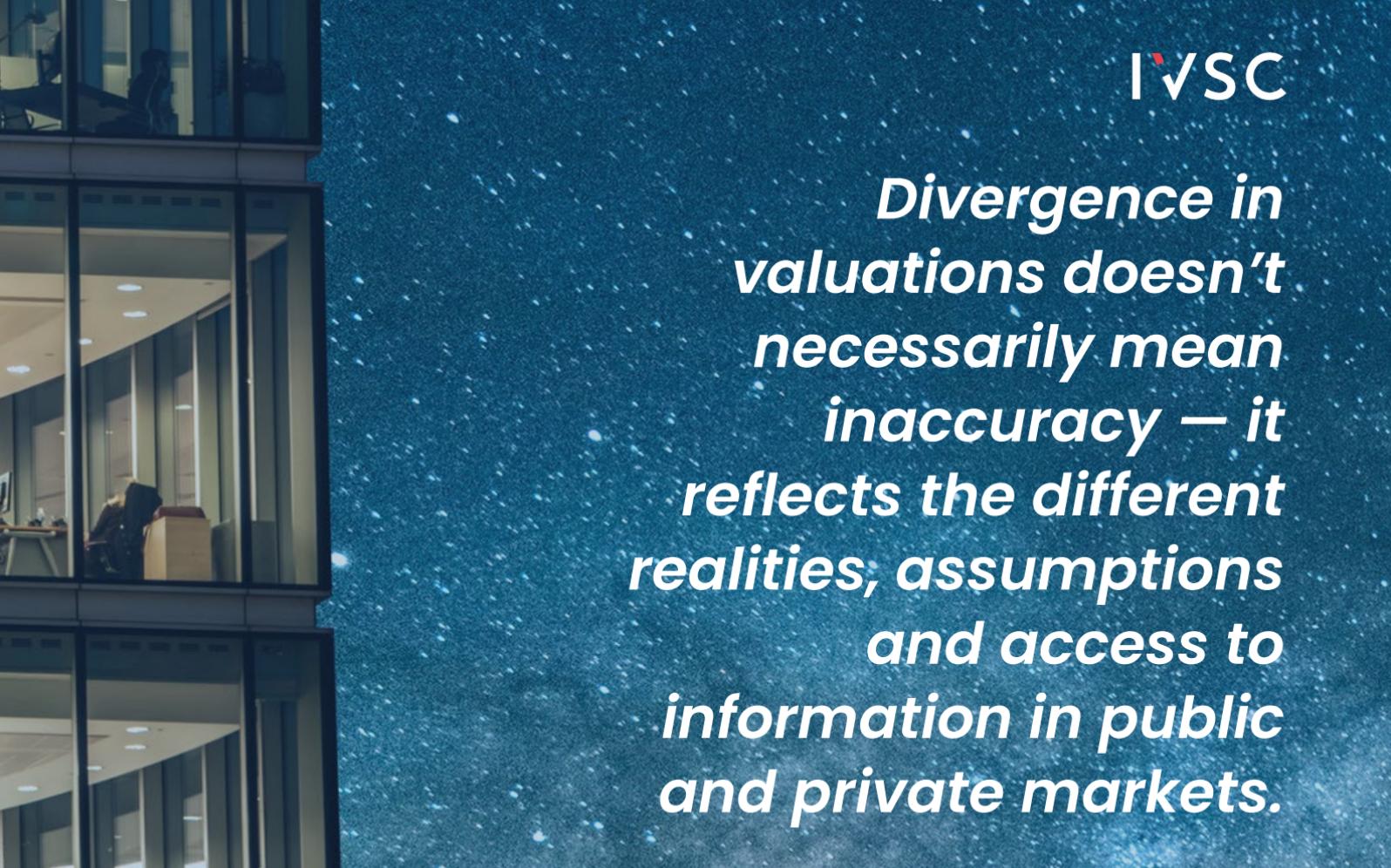
Institutional buyers of private real estate

⁶ Median premium or discount to net asset value (NAV) of real estate investment trust (REIT) from February 2019 to February 2024, by property type, Statista

assets are usually sophisticated investors with longer-term investment horizons, and more likely to invest through market cycles. In contrast, public market REIT stock prices can be significantly influenced by minority shareholder trading, portfolio rebalancing and shorter-term investment horizons, as well as investor sentiment. Understanding an investment's characteristics and considerations of markets participants is crucial when valuing public and privately held real estate.

Doing away with the generic reference to real estate; not all real estate is created equal

All too often, market commentators consider real estate as a monolithic asset class and assume that because one portfolio of assets has seen its valuation marked down 20%, a revision of the same amplitude should be applied to other portfolios.



Divergence in valuations doesn't necessarily mean inaccuracy — it reflects the different realities, assumptions and access to information in public and private markets.

As with the valuation of any asset, the clear identification and description of that asset and the interest being valued is paramount. This is stipulated as part of *IVS 101 Scope of Work* whereby *“the subject asset(s) and/or liability(ies) in the valuation must be clearly identified.”*⁷

Within ‘real estate’, a valuation may be influenced by sub-asset class considerations (retail, industrial, office, residential, entertainment & leisure, healthcare, social, agricultural, etc), locational differences, varying rental growth rates, grade criteria, tenancy profiles, vacancy rates, lease characteristics, supply and demand, development potential, and highest & best use considerations, amongst others.

As such, to suggest that there should be near perfect correlation in value movements between two real estate portfolios (public or

private) that are invariably not identical is misplaced. Similarly, whilst two portfolios of assets might share similar characteristics from a distance, specific factors driving market demand within each portfolio might be vastly different.

Often, when such differences are identified between two portfolios of real estate assets, they might result in very valid reasons for a divergence in performance. As such, a private real estate portfolio may indeed have divergent changes in value relative to a public real estate portfolio at various points in time. Premium-grade office is not equivalent to B-grade office stock, industrial real estate in Germany is not industrial real estate in the UK, and so on.

7 IVS (2025) 101.20.01.a

The importance of a valuation date, being only a point in time over an investment horizon

Media headlines can be misleading. A recent title pronounced that “Two office towers sell at discounts of more than 20 per cent”.

However, the body of the articles explains that the 20 per cent discount was relative to its previous ‘peak value’ in December 2021, but that the recently reported sale price was in line with the most recent valuation undertaken on the assets in December 2023.

In accordance with *IVS Glossary*, the valuation date is defined as ‘*the point in time to which the valuation applies*’. This represents a core foundation of any valuation assignment and is separate from the investment risk (or value movement) that exists over a holding period.

Importantly within IVS 102, *“the valuation date will also influence what information and data the valuer considers in a valuation. The valuer should be aware that most bases of value prohibit the consideration of information or market sentiment that would not be known or knowable with reasonable due diligence on the measurement/valuation date by participants.”*⁸

Therefore, investment risk considers the prospect that the value of investment might appreciate or depreciate during a holding period, whereas the valuation of an asset only seeks to represent value as at a particular point in time, known as the valuation date. A valuation does not seek to represent the value of an asset as at any other time, nor does it intend to communicate what the value of an asset might be at a point in the future.

When considering the valuation of any underlying real estate asset, it is highly probable that the value of that real estate asset will vary at a different point in time, perhaps materially during times of flux or volatility. An awareness of the valuation date is critical when utilising any valuation information given appraisals for properties are generally not available as frequently as investors trade shares.

Valuation frequency across the holding period will always need to be balanced and tailored considering the facts and circumstances associated with

- Regulatory demands,
- The underlying assets,
- The holding vehicle, and
- The market itself.

Frequent valuations (where not of an adequate quality) do not necessarily entail better governance outcomes. The trade-off between cost, the quality of a valuation, and its frequency should be front of mind for any person instructing a valuer.

As a result, any investment in public or private real estate that relies on valuations to either inform investors, or set unit prices, should carefully consider the appropriateness of valuation frequency to ensure that the underlying assets have been valued at a sufficiently frequent interval to provide useful information to market participants at the necessary points in time. Similarly, when market participants or commentators cross-reference public and private real estate markets, they should be particularly cognisant of the timing sensitivities associated with valuation and pricing indicators in each.

Information asymmetry is another source of divergence between public and private real estate and can be an incremental source of volatility in public real estate.

The importance of a Basis of Value: Not all transaction evidence is necessarily equal, and not all market participants share the same motive

The valuation of any asset valued in accordance with IVS entails a basis of value. This is referenced within *IVS 101 Scope of Work*, distinguished as part of *IVS 102 Bases of Value*, considered within *IVS 103 Valuation Approaches*, and mandated as part of *IVS 106 Documentation and Reporting*, for example.

Basis (bases) of Value are defined within the *IVS Glossary* as “the fundamental premises on which the reported values are or will be based”. *IVS 102 Bases of Value* elaborates by stating that it “describes the fundamental premise or requirements on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and intended use of the valuation, since the basis of value may influence or dictate the valuer’s selection of methods, inputs and assumptions, and the ultimate value.”⁹

For example, IVS-defined bases of value include Market Value,¹⁰ Investment Value¹¹ and Liquidation Value¹², each with subtle but important differences. Critically, bases of value dictate the type of comparable evidence utilised in a valuation assignment, and different bases of value will often lead to different value outcomes.

Market Value implies “an arms-length transaction” between “a willing buyer and a willing seller”, after “proper marketing” has



been conducted, with each party having “acted knowledgeably, prudently and without compulsion.”

At the other extreme, Liquidation Value seeks “the amount that would be realised when an asset or group of assets are sold from a liquidation sale” with the “seller being compelled to sell as of a specific date”, and the marketing period being classed as either “orderly” or “forced.”

These distinctions become important in the context of the tension between valuations of public and private real estate assets. Evidence of the circumstances of sales in private real estate markets are often transparent (or discoverable). Thus, the valuer is often able to select evidence to accord to a particular basis of value. Conversely, transactions in public real estate markets are typically opaque and the circumstances and motives of parties to a transaction are often unknown.

⁹ IVS (2025) 102.10.01.

¹⁰ IVS (2025) 102 A10

¹¹ IVS (2025) 102.A40

¹² IVS (2025) 102 A60



In abnormally volatile markets, pricing displayed in public real estate investment vehicles may display elements of exuberance or distress. Whilst stopping short of suggesting that public markets act irrationally during times of abnormal or unstable volatility, the liquidity afforded in public markets means that the psychology of investors can have a material impact on publicly listed prices during these periods.

More generally, investors in private real estate often have a long-term investment horizon, investing larger amounts of capital and are typically investing 'through-the-cycle'. This contrasts with public real estate where stock prices may be influenced by trading of small parcels, minority shareholder trading displaying signs of distress, broader market rebalancing and investors with shorter-term investment horizons. Consequently, there can be periods of significant divergence between public and private market valuations, beyond

the fundamental differences in investment characteristics and market participants.

As stated above, Market Value requires that the *"willing buyer and a willing seller"* each *"[act] knowledgeably, prudently and without compulsion."* This may result in a valid reason for divergence in the apparent performance of public and private real estate markets. Ultimately, the application of robust valuation approaches and consistent assumptions should align with how market participants value and transact in private real estate.

Information asymmetry: Does information available to investors differ between public and private real estate portfolios?

There is frequently information asymmetry that exists between investors in public real estate structures and private real estate assets.

Whilst public markets will often have stringent information disclosure and applicable regulatory regimes, there is still an abundance of incremental information that valuation professionals have access to in undertaking valuations of underlying real estate, that public real estate investors may not.

This is particularly evident in public real estate entities whose portfolio comprise large numbers of real estate holdings. Information released to investors via exchange announcements will often detail aggregated financial information but will fail to disclose details at an asset level. This information is often not released as it may be commercially sensitive, it may not be deemed material or practicable, or it may reduce the competitive position of the public real estate entity.

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Conversely, valuers undertaking valuations of underlying assets within this portfolio will often have details pertaining to more granular information on each real estate asset, along with access to asset owners and/or managers. Such details may include the identity of tenants, the duration of leases, the timeline of rent revisions, the terms of outstanding options, the responsibility for maintenance expenses, the occupancy levels, the upcoming capex requirements, and whether there are alternative higher and better uses that exist for the property, for example.

When collected over a large portfolio of real estate assets, this additional information available to a valuation professional will often exceed that available to public real estate participants, arguably making that valuation professional better informed, and thus better able to risk-adjust valuation models on an asset-by-asset basis. On the other hand, public real estate participants may need to rely on shorter-term forecasts and be forced to make aggregate assumptions regarding underlying assets that may or may not be consistent with the information held at the asset level.

Such information asymmetry is another source of divergence between public and private real estate and can be an incremental source of volatility in public real estate.

Before we venture to the next perspectives paper, we need your feedback!

The next perspectives paper will consider *“Valuation governance and regulation: Are investors, stakeholders and regulators in private markets yearning for greater valuation transparency?”*

The IVSC welcomes readers’ insights and

feedback to inform the trajectory of its work. To better understand what ongoing issues (if any) readers have observed with the divergence in public and private real estate in your jurisdiction, your answers to the following series of questions would be useful:

- **Question 1:** What other reasons do you believe result in the divergence of public and private real estate markets?
- **Question 2:** How can regulators, management and boards of public and private real estate holding companies contribute to better disclosure?
- **Question 3:** To what extent do you believe that sentiment in public markets accounts for the “gap”?
- **Question 4:** In what ways can real estate valuation stakeholders improve valuation quality during times of volatile markets or a low transaction environment?
- **Question 5:** Are investors, stakeholders and regulators in public and private real estate markets yearning for greater valuation transparency?

The IVSC invites any further feedback to be sent to the following email address:
contact@ivsc.org.



INTERNATIONAL VALUATION
STANDARDS COUNCIL

20 St Dunstons Hill
London, EC3R 8HL
United Kingdom
contact@ivsc.org
www.ivsc.org