THE ACTIVE EDGE WITHIN GLOBAL REITs

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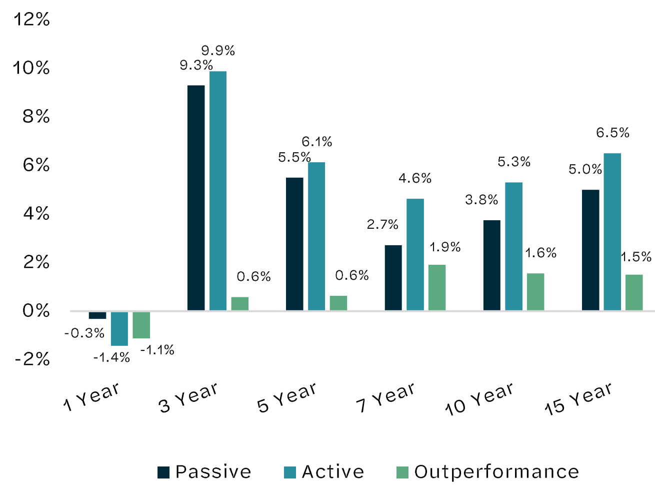
In our 2025 Global Outlook Report and our REITs 101 whitepaper, we outlined several important advantages of active management within global REITs, including the ability to tactically adjust sector and regional exposures as markets evolve, and identify secular growth themes or undervalued opportunities that passive indices often overlook. In this paper, we build on that foundation by taking a deeper look at the distinct edge that active management can provide over passive strategies, demonstrating a long-term track record of outperformance and illustrating how skilled managers generate this value through practical, real-world examples.

Performance

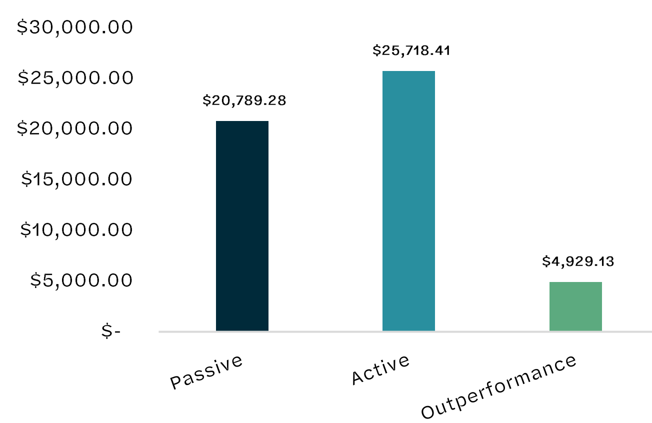
Long-term outperformance remains the most compelling argument for choosing active management within the global REIT space. Active global REIT strategies have demonstrated a consistently strong record of outperforming passive benchmarks, particularly over multi-year horizons. For this analysis, we calculated the simple average net return of the 10 largest global REIT strategies by AUM to represent the performance of leading active managers. As shown in Figure 1, these strategies have exceeded the FTSE EPRA NAREIT Developed Total Net Return Index across every period except the 1-year ending September 30th, 2025, even after accounting for fees. Over a 15-year time frame, this outperformance amounts to 151 basis points annually. When viewed in dollar terms, as illustrated in Figure 2, an initial $10,000 investment in active strategies grows to $25,718 compared to $20,789 for passive, producing a cumulative advantage of roughly 24%.

Figure 1. Active vs. Passive Net Average Annualized Return



Source: eVestment, data as of Q3 2025. Active performance represented by average net return of 10 largest active global REIT strategies by AUM. Passive performance represented by FTSE EPRA NAREIT Developed Total Net Return Index with no ETF management fee adjustment. 15 Year performance excludes 2 of the top 10 active strategies due to shorter track records. All returns in USD.

Figure 2. Active vs. Passive 15 Year Growth of $10,000



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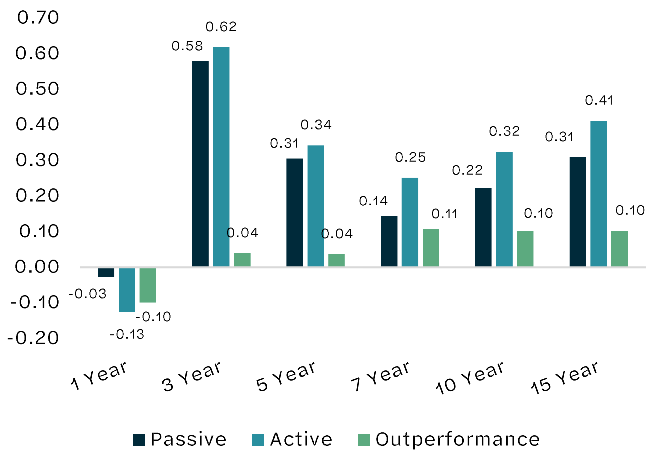
Beyond absolute performance, active global REIT strategies have delivered superior risk-adjusted returns. Apart from the 1-year time period, active managers achieved a higher return-to-risk ratio than the passive benchmark and with a lower standard deviation compared to the benchmark (Figure 3)[1]. This blend of higher returns and lower risk emphasizes the structural opportunities within real estate that skilled active managers can capture.

Figure 3. Active vs. Passive Return-to-Risk Ratios



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A second lens through which to evaluate active management is success rates. Morningstar defines a "successful" fund as one that remains in operation and delivers a higher net return than the average passive fund in its category. Within real estate, success rates for active managers are meaningfully stronger than in most other asset categories.

According to Morningstar's 2025 Midyear Active/Passive Barometer, 43.5% of actively managed real estate funds survived and outperformed their passive peers over the past decade, the highest 10-year success rate among all categories tracked in the report. This compares with a 10-year success rate of only 21% across the broader active fund universe[2].

Taken together, the long-term return profile and the significantly higher likelihood of success relative to other active investment categories, demonstrates that real estate is one of the few areas where active management continues to offer a meaningful and repeatable edge over passive approaches.

ETF CONSTRUCTION MATTERS: WHY PASSIVE EXPOSURE CAN VARY WIDELY

Passive REIT ETFs vary meaningfully in their structure, index methodology, property type composition, and geographic exposure. The largest five real estate ETFs by AUM, including VNQ, SCHH, XLRE, IYR and REET, track different indices and therefore produce materially different return profiles as displayed in the summary table provided in Figure 4. Although inexpensive from a fee perspective, most of these real estate ETFs are highly concentrated in U.S. large-cap REITs, while only one (iShares Global REIT ETF) offers broader global diversification.

Figure 4. Breakdown of Top 5 largest Real Estate ETFs by AUM

ETF Ticker (Name)	Index Tracked / Focus	Expense Ratio	Number of Holdings	Performance			
				1 Year	3 Year	5 Year	10 Year
VNQ (Vanguard Real Estate ETF)	MSCI US Investable Market Real Estate 25/50 Index – US Focus	0.13%	154	-2.3%	9.0%	7.0%	6.1%
SCHH (Schwab US REIT ETF)	Dow Jones Equity All REIT Capped Index – US Focus	0.07%	122	-4.1%	8.3%	7.0%	4.4%
XLRE (State Street Real Estate Select Sector SPDR ETF)	S&P 500 Real Estate Select Sector Index – US Focus	0.08%	31	-2.4%	9.2%	7.2%	-
IYR (iShares U.S. Real Estate ETF)	Dow Jones U.S. Real Estate Capped Index – US Focus	0.38%	61	-2.5%	8.9%	6.7%	6.4%
REET (iShares Global REIT ETF)	FTSE EPRA NAREIT Global REITs Index (Net) – Global Focus	0.14%	325	-0.7%	9.7%	7.2%	4.6%

Source: ETF Database.com, data as of Q3 2025. Returns are NAV total return, net of the ETF's expense ratio in USD. Holdings represent common equity positions only.

For investors seeking broad real estate exposure, these differences can lead to unintended concentration, inconsistent diversification, or performance that does not align with expectations. Fee structures, currency exposure, and liquidity further contribute to dispersion in passive REIT outcomes. Many international REIT ETFs are also unhedged, exposing investors to FX volatility that can overshadow underlying real estate fundamentals.

Overall, the wide variation in ETF construction highlights that passive REIT exposure is neither uniform nor straightforward. Even within the passive universe, selecting the “right” ETF requires making active decisions around geography, property type mix, market-cap exposure, and index methodology. This complexity underscores the value of active management, where portfolio construction is intentional, research-driven, and aligned with real estate fundamentals rather than dictated by benchmark constraints.

HOW ACTIVE MANAGERS GENERATE ALPHA

As outlined in our past publications, there are several practical ways active managers generate outperformance relative to a passive index.

Active Sector & Regional Positioning

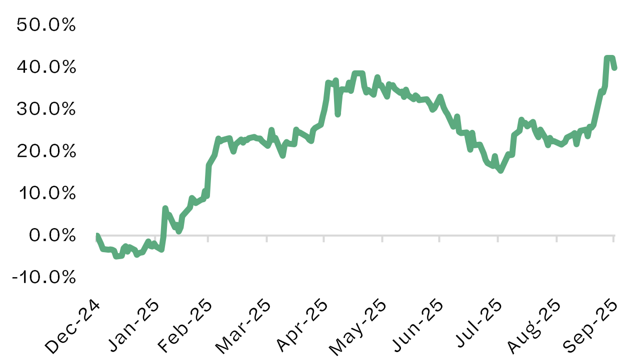
One of the most common tools at their disposal is the ability to overweight or underweight specific sectors and regions within the global REIT benchmark. A clear example of this is the secular growth trend in the senior housing sector in North America, where demand has significantly outpaced new supply. Companies such as Chartwell Retirement Residences in Canada and Welltower in the U.S. have benefited from rising occupancy levels, higher margins and stronger pricing power supported by aging demographics leading to robust NOI growth. From the start of 2023 to Q3 2025, Chartwell returned 173.2% (CAD) and Welltower returned 190.6% (USD), far exceeding the performance of any major global REIT benchmark[3]. As of the end of Q3 2025, Welltower and Chartwell represented a weight of 6.3% and 0.2%, respectively within the global benchmark - the FTSE EPRA NAREIT Developed Index. An astute active manager with an overweight allocation to these companies versus the benchmark would have captured meaningful outperformance relative to the market.

Moreover, avoiding the numerous underperformers within the benchmark in a given year is equally as important to driving outperformance. As of Q3 2025, there have been 34 companies within the FTSE EPRA NAREIT Developed Index that have seen a decline greater than -10% (in local currency) during the year so far[3]. An active manager would have generated material outperformance this year by just limiting their relative exposure to these names or avoiding them entirely.

Off-Benchmark Opportunities

Active managers also benefit from the flexibility to invest in companies that are not structured as REITs but still derive the majority of their revenue from real estate activities. These names are excluded from major global benchmarks due to screening criteria, yet they can be significant contributors to performance. Commercial real estate brokers such as JLL and CBRE Group are strong examples. Although not classified as REITs, their leasing, transaction, and property management businesses are tied directly to real estate activity. From the start of 2023 to Q3 2025, JLL returned 87.2% (USD) and CBRE returned 104.7% (USD), once again outperforming the broader global REIT universe[3]. Another example in the Canadian market is Extendicare, which operates long-term care facilities. Previously structured as a REIT, the company was reorganized as a corporation in 2012 and is not included in major global REIT benchmarks. As shown in Figure 5, Extendicare delivered a 40% (CAD) return year-to-date through Q3 2025, meaning that even a modest allocation from an active manager would have contributed meaningful alpha.

Figure 5. Extendicare YTD Return as of Q3

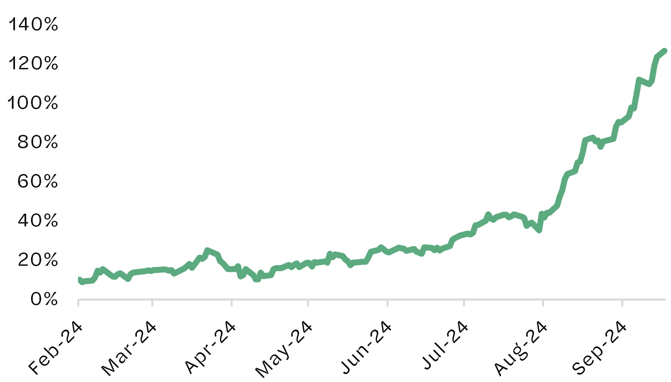


Source: Bloomberg LP. Total Return in CAD. Timeframe from January 2nd, 2025 – September 30th, 2025.

IPO Participation & New Equity Raises

Another advantage active managers possess is the ability to participate in Initial Public Offerings (IPOs). Passive REIT ETFs are designed to replicate an index and are limited to holding only the securities included in that index. Newly listed REITs often take several quarters or even years to qualify for benchmark inclusion, meaning passive investors can miss the strongest phase of performance. By contrast, active managers can participate at the IPO and in subsequent equity raises, often leveraging their relationships with sell-side brokers to do so. A recent example is American Healthcare REIT, which went public on February 7th, 2024, but was not added to the FTSE EPRA NAREIT Developed Index until late September of that year. As illustrated in Figure 6, the company generated a cumulative return of 126.7% between its IPO date and index inclusion. A passive strategy would not have captured this performance. Even a 2% active allocation to American Healthcare REIT during this period would have contributed roughly 253 basis points of outperformance relative to the benchmark.

Figure 6. American Healthcare REIT Return from IPO to Index Inclusion



Source: Bloomberg LP. Total Returns in USD. Timeframe from February 2nd, 2024 – September 23rd, 2024

Index Rebalance Awareness & Flow Anticipation

Another strategic advantage active REIT managers possess is the ability to anticipate index rebalancing and the associated fund flows from a security being added or removed. Major global benchmarks like the FTSE EPRA NAREIT Developed Index undergo quarterly reviews whereby securities may be added or removed from the benchmark based on certain criteria such as market capitalization and liquidity. Passive ETFs, constrained to replicate the index post-rebalancing, must buy or sell these changes accordingly, often driving significant price movements — known as the "index effect". A prudent active manager, leveraging proprietary research and market intelligence, can identify potential inclusions early and position accordingly. For instance, a REIT approaching an index's $500 million free-float cap threshold may experience a rise in stock price post-inclusion as passive investors purchase shares to align with the index. Active managers can take advantage of this “passive buying” by strategically purchasing the shares of the to-be included company ahead of time thereby creating alpha for investors. A security may become a constituent of multiple indices at various points in time, allowing active managers the chance to replicate the strategy. This foresight, unavailable to passive strategies, strengthens active management's dynamic edge in capitalizing on mechanical market inefficiencies.

Recap

Within the global public real estate investment landscape, we believe active managers hold a distinct edge over passive index strategies. Real estate is inherently nuanced, often driven by region-specific fundamentals and an expanding set of niche and specialty property types. This complexity creates opportunities that skilled active managers are uniquely positioned to capture. The long-term outperformance of the largest active global REIT managers, both in absolute returns and on a risk-adjusted basis, underscores this advantage. Their results are supported by several key sources of alpha, including tactical sector and regional positioning, the ability to invest in out-of-benchmark names, and early access to IPOs and new equity issuances that passive strategies cannot. At Hazelview, we take pride in our long-term track record of performance, both in terms of the benchmark and relative to our peers. We continue to view active management as a core pillar of public real estate investing and look forward to highlighting more of our active investment lens in our upcoming 2026 Global Outlook Report.

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SOURCES
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1. eVestment, data as of Q3 2025. Passive performance represented by FTSE EPRA NAREIT Developed Total Net Return Index with no ETF management fee adjustment. 15 Year performance excludes 2 of the top 10 active strategies due to shorter track records. All returns in USD.

2. Morningstar Manager Research, Morningstar's US Active / Passive Barometer Midyear 2025. Data as of Q2 2025.

3. Bloomberg LP. Total Returns in local currency. Timeframe from January 2nd, 2023 – September 30th, 2025.

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