Geographic diversification in global real estate

Real estate remains misunderstood by investors accustomed to liquid markets. Its relatively opaque nature demands deep geographical knowledge; long timelines and trading costs may reward a long-term view. Yet these perceived constraints, and its dual nature — potential for bond-like income with equity-like value — underpin its diversification potential. This article draws on Nuveen Real Estate's research across the U.S., Europe and APAC to make the case.

The $12.5 trillion investable global real estate market is far from homogeneous. Three regional universes define the landscape: the Americas, over 40%; EMEA, approximately 30%; and APAC, over a quarter. Developed markets account for $11.1 trillion, so stock is concentrated in a few mature economies.[1]

Just seven countries — the U.S., China, U.K., Japan, Germany, France and Australia — represent approximately 75% of the global investable universe. The U.S. alone accounts for over half that subset and commanded around 44% of global transaction volumes between 2007 and 2025, underscoring the concentration risk of a purely domestic American strategy.

These regions differ structurally. The U.S. leans toward alternative sectors and residential while Europe retains a larger office and retail opportunity. APAC has vibrant listed markets, with developing Asia overrepresented in the listed universe relative to its total stock share[2]. Unlisted real estate makes up 60% of the global total, with open-ended core pooled funds the largest share.

For an illiquid asset class, capital mobility across geographies is critical. The U.S. is unrivalled in transaction value, but Europe and APAC differ. European cities account for a disproportionately large share of the 150 most liquid cities globally — London, Paris, Berlin, Stockholm and Zurich are reliable anchors. In APAC, Tokyo and Seoul each account for about a quarter of their national economies[3]; Tokyo leads on liquidity, with Seoul, Sydney, Shanghai and Hong Kong also prominent.

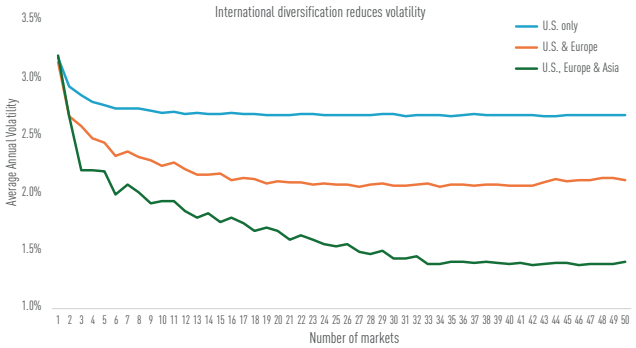
City liquidity fluctuates substantially: markets that appeared highly liquid in benign conditions have suffered sharp reversals during stress, such as Dublin, Madrid, Barcelona, San Francisco, Las Vegas, Seattle and Sydney. This argues for diversification across multiple liquid markets rather than concentration in a few pools. In APAC, 60% to 70% of prime stock is held by domestic investors with strong holding power, so pricing volatility is more contained during stress, such as during COVID-19.

Currency fluctuations are more likely to amplify portfolio volatility than dampen it. The eurozone partially mitigates this, with approximately 70% of European transactions in euros across 21 member states — a structural advantage for pan-European exposure. In APAC, some economies have a soft dollar peg, though prolonged yen weakness since 2021 has weakened total return performance in U.S. dollar terms.

Risk premiums vary across markets and sectors, and target returns should aim to compensate for the full spectrum of risks. Across developed markets they range from approximately 1.9% to 4.3%, rising sharply in emerging economies. Offices and hotels typically carry higher required returns than stable residential and industrial assets.

The diversification dividend: what the data shows

As shown in the chart, Nuveen Real Estate's simulations (based on MSCI Global All Property Index data between 2008-2025) show volatility declines sharply as assets are added across markets — but the speed and magnitude depends on whether diversification stays domestic or goes international. For a U.S.-only portfolio, diversification benefits plateau rapidly: adding more than five domestic markets yields almost no additional volatility reduction. The picture changes dramatically once European and APAC markets are introduced. A portfolio spanning all three regions and up to approximately 30 markets continues to benefit from meaningful volatility reduction; beyond 30 adds no material value. A globally diversified portfolio achieves substantially lower average annual volatility than a U.S.-only portfolio of equivalent breadth.



Adding European and Australian allocations to a predominantly U.S. portfolio lowers risk but also returns modestly. Risk-adjusted returns suggest the gain in lower volatility outweighs this. Between 2008 and 2025, the Sharpe ratio for the U.S.-only portfolio is 0.57, but adding European and Australian allocations at 33% and 8% weightings respectively raises it to 0.66.

Crucially, even when an international market underperforms the domestic market on a standalone basis, its inclusion can improve risk-adjusted returns. China, Spain, Ireland and Canada are strong diversifiers relative to the U.S., Australia and France. Diversification does not require every region to outperform, only that return cycles diverge enough to smooth returns.

Industry drivers of city performance matter, not just historic correlations. Washington, Hong Kong and Frankfurt are driven by financial services, making their outlook highly correlated. Canberra and Dublin are weighted to public services and technology, offering diversification relative to financial cities though their concentration may carry risk. Hong Kong and Nashville also cater to consumer services, diversifying their profiles further.

These benefits are material and available even to investors in the world's largest real estate market; the U.S. is no substitute for global diversification, and gateway and secondary cities are additive. The challenges of international investing — currency risk, structural complexity, varying tax regimes and market transparency — require specialist expertise. Investors need a manager with local knowledge and global perspective, able to build portfolios that maximise the benefits only a multi-regional allocation offers.

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Sources:
All data comes from Nuveen Real Estate Research unless otherwise stated.
[1]MSCI, 2025. *Developed markets: Americas (U.S., Canada), APAC (Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea), Europe (Austria, Belgium, Czechia, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, U.K.).
[2]EPRA, 2025.
[3]CEOworld, November 2025.