The Dutch investor universe is skewed towards pension funds

> Diversification is the main reason for Dutch investors to hold real estate
> Non-listed funds still the most popular route into real estate, but JVs and clubs not far behind
> Fear of a market correction the biggest cloud on the real estate investment horizon

The Investor Universe Netherlands Study examines real estate's role in Dutch institutional investment, describing the overall investment landscape and investigating investors' motivations for holding real estate, and the ways these are being implemented in practice.

The Dutch institutional investor landscape has long been dominated by pension funds and insurance companies. Other types of investors, such as family offices and foundations, play a smaller but growing role in the Netherlands.

'For us, real estate is included as diversifier into our asset mix to help us reduce our portfolio risks. Low risk is key, therefore we also prefer Core over Value Added. Indirect real estate has proven to offer us the stability that we seek.'

Philips Pension Fund

The investor landscape has historically been skewed towards pension funds as the Dutch government was one of the first to initiate pension funds, seeing pension income as a key concern for households.

The survey sample represents €108.8 billion in real estate AUM and €1,204.0 billion in total AUM, as at end 2018. This equates to over half of the Dutch institutional investor universe estimated to be €188.2 billion for real estate and €1,939.7 billion for total assets, based on figures estimated from the Dutch Centraal Bureau voor Statistiek (CBS).

Diversification is seen as the most important reason for holding real estate, although

'The way your investment organisation is structured can have an important impact on the investment decision outcome. Once we started to increase the real estate expertise within our investment team, we have become more eager and able to have a globally diversified real estate portfolio.'

Blue Sky Group

investors also consider return enhancement, risk-adjusted performance and income to be significant attributes.

Dutch investors' growing preference for non-listed real estate has been at the expense of both direct and listed real estate, as it benefits from not being linked to a volatile stock market sentiment and offers greater investor control.

While most Dutch investors plan to invest more in non-listed real estate funds over the next two years, joint ventures and club deals are also a likely growth area. These approaches do, however, generally require scale and thus tend to be more popular among larger investors.

> *'In the Netherlands, we have witnessed a gradual transition in real estate investment modes. Especially, among the larger pension funds, who first invested directly in local real estate, and over time have started to use different means of indirect investments to structure their real estate exposure.'*
>
> SWECO

The dominance of pension funds in the Dutch institutional investor universe means that Dutch investors as a whole tend to have a longer investment horizon – typically 11 - 20 years – than their European peers , which most commonly focus on a period of 5 - 10 years.

Both the survey and investor interviews discussed the investment decision process and in particular 'who determines the real estate allocation'. Most respondents across Europe identified internal decision makers as being predominant which was also the case in the Netherlands.

For Dutch pension funds, the internal allocation decision is generally made outside the real estate team itself. Typically, there is a policy cycle in which asset-liability modelling (ALM) analysis is used by the investment strategists to determine the multi-asset allocation, including that to real estate. The real estate team generally plays little part in this process.

Investors are increasingly focusing on environmental, social and governance (ESG) issues in their strategies and allocations. With real estate allocations now significant in many investment portfolios, such concerns are coming to be more explicitly addressed in the sector.

Building sustainability is a key element of the ESG agenda for real estate portfolios. Although it has become evident that sustainability issues can impact the value and income from real estate, many investors took some time to integrate sustainability policies into their investment processes.

But today, in the era of transparent environmental data, sustainability is deemed important or very important by almost all Dutch investors in the survey.

For further details contact research@inrev.org. The full report is available to members at inrev.org/research.

Figure 1: Real estate investment horizon