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Comparing the Dutch and Irish property markets

This project has been commissioned by Ardstone, a privately owned European real estate fund management platform established in 2005. (It has over €1bn in assets under management and offices in Dublin, London and Barcelona.) Ardstone's platform is institutionally backed by a wide range of European pension funds, multi-managers and sovereign wealth funds. In 2015, Ardstone Homes was launched and has since become one of the largest residential developers in Ireland. It focuses on both the "build-to-sell" and "build-to-rent" markets in the greater Dublin area.

This project asks the question: could Ireland learn from the Dutch market?

Introduction

A comparison of the Dutch and Irish real estate markets is timely for three reasons:

1. Ireland and the Netherlands are the two countries proportionally most affected by the UK's exit from the EU
2. The Irish market has recently attracted significant institutional investment from the Netherlands
3. Ireland's new Land Development Agency, which aims to build 150,000 new homes over the next 20 years, is modelled on best European practice as demonstrated in the Netherlands

This research report:

- Summarises the macro-economic and demographic background
- Compares key features of the two markets
- Examines the role of real estate in institutional portfolios
- Comments on availability of residential funds
- Contrasts the two housing markets (including BTR and social housing)
- Outlines the benefits of and scope for greater cross-border investment

1. Macro-economic and demographic background

Ireland and the Netherlands have much in common. Both countries are members of the EU and of the eurozone and both have a strong tradition in free trade. For Ireland and the Netherlands, the tech sector, foreign investment and agriculture are important.

At the time of writing (August 2019) both countries are enjoying a period of economic growth and moderate inflation. Ireland's GDP is forecast to grow by 3.3% in real terms in 2020 while Dutch GDP is forecast to grow by 1.5%. Consumer price inflation is expected to be 2.3% in Ireland and 1.4% in the Netherlands next year[1]. Unemployment is at low levels in Ireland (4.5%) and the Netherlands (3.3%)[2].

Irish benchmark bonds are rated A+ by S&P, which is lower than the Dutch rating of AAA[3]. At the time of writing, Irish benchmark bonds were trading at around zero and Dutch benchmark bonds at around -0.5%[4].

Ireland has a population of 4.8 million and the Netherlands has a population of 17.3 million[5]. Population growth in both countries is higher than the European average[6].

S Ryan Invest

Urbanisation and population density are key differentiators between the countries. 63% of Ireland's population lives in urban areas and cities while the corresponding figure for the Netherlands is 92%. To put this in context, in terms of urbanisation the Netherlands resembles Japan and Luxembourg, whereas Ireland is more like Portugal or Morocco[7]. In terms of population density, Ireland has 70 people on average per square kilometre whereas in the Netherlands the figure is 415[8]. The Randstad is a metropolitan region where 8.1 million people (nearly half of the country's population) live and work. Amsterdam, Rotterdam, Utrecht and The Hague are in the Randstad[9]. In Ireland, the population is concentrated in the greater Dublin area but not to the same extent as the Randstad.

Ireland's population is younger, with a median age of 37 compared to the Dutch median age of 43[10]. The average Dutch household comprises 2.2 people whereas the equivalent figure for Ireland is 2.8. In Dublin, population growth and the increasing requirement for units that suit one or two-person households means that the city's apartment stock needs to evolve, according to a recent study[11].

2. Key features of the two markets

In this section we examine institutional investment and the real estate investment markets.

Institutional investment

Ireland and the Netherlands have established occupational pension systems, although the Dutch one is far larger in both absolute and relative terms. In absolute terms, Ireland has an estimated $166 billion in pension assets compared to the equivalent Dutch figure of $1,517 billion. Relative to national GDP, Ireland's pension assets stand at 45% whereas Dutch pension assets stand at 167%[12].

The professionally managed real estate market is also well developed in both countries but, as with occupational pensions, the Dutch market is far bigger. Ireland's is estimated to have professionally managed real estate assets of around $30bn whereas the equivalent Dutch figure is $167 billion[13].

To put these figures in perspective, 2% of Dutch pension assets could buy Ireland's entire real estate market whereas 100% of Ireland's pension assets would be needed to buy the Dutch real estate market.

Market transparency

Ireland and the Netherlands are two very transparent markets. According to the latest JLL Global Transparency Index, Ireland is ranked ninth and the Netherlands sixth[14]. The overall ranking is based on six underlying components, in which the Netherlands and Ireland are ranked as shown below:

Table 1 Components of market transparency

	Netherlands	Ireland
Performance measurement	6	16
Market fundamentals	1	>20
Governance of listed vehicles	14	11
Regulatory and legal	6	=13
Transaction process	=11	=1
Sustainability	6	>20

REITs

Ireland introduced REITs in 2013 and the Netherlands introduced them in 1969. There are four REITs listed in Ireland and five in the Netherlands[15].

3. Role of real estate in institutional portfolios

Institutional investors hold real estate for different reasons:

- Relatively stable cash flows
- Diversification, due to its generally low correlation with other asset classes
- Potential for capital growth
- Protection against inflation
- Lower volatility relative to other growth assets
- Competitive risk-adjusted returns compared with other asset classes

Certain types of real estate can be used as part of a liability-matching or defensive portfolio, but in general real estate is considered part of the "growth" or "return-seeking" portfolio, along with equities and alternative asset classes.

Residential real estate is considered particularly good for investors seeking inflation protection[16], and industrial/logistics real estate was traditionally preferred by investors seeking high income returns.

According to a recent report[17], Irish defined benefit pension schemes hold 50% of their assets in bonds, 28% of their assets in equities and 22% in alternative assets such as property, infrastructure and hedge funds. In the Netherlands the corresponding figures are 58% in bonds, 31% in equities and 11% in other asset classes.

Domestic life insurance companies in Ireland hold less than 1% of their portfolios in real estate, while the corresponding figure for the Netherlands is 2.2%[18].

4. Availability of residential funds

Background

In Ireland, open ended property funds have been available to institutional investors since the 1960s while close-ended funds are usually associated with the retail/HNW market.

Irish open-ended property funds traditionally invest across multiple sectors, whereas in the Netherlands single sector funds are the norm[19]. In Ireland, funds have concentrated on commercial real estate (office, retail and industrial/logistics) rather than residential, whereas in the Netherlands residential is recognised as an investable sector alongside the others.

Ireland has a small number[20] of long-established open-ended funds; the Netherlands has at least 21 open-ended funds[21].

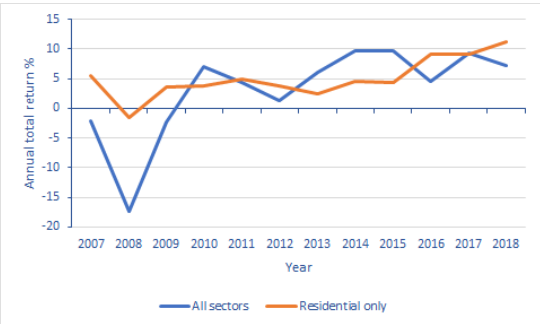
Funds investing in residential property are well established in the Netherlands, where there are at least eight open ended residential funds available[22]. In Ireland, there are very few options for pension fund investors in the residential sector. There are two Irish listed housebuilding companies and one listed residential leasing company on the local stock exchange.

In Ireland, institutional investors' reluctance to invest in residential is partly due to history. Ireland's largest life assurance company had at one stage owned a block of 299 apartments in Dublin, which it sold to private investors in the early 1990s. Some tenants of the apartments were subsequently served with notices to quit and others faced large rent increases, which led to negative press coverage for the life assurance company, which had only recently transitioned from State ownership.

That stance is changing in line with population changes and social shifts towards renting, and with the delivery of new purpose-built rental developments.

Residential funds in Europe[23] have outperformed all-sector funds over time by 2.2% per year.

Chart 1 Past performance of European open-ended funds



Source: INREV

5. Closer look at the Dutch and Irish housing markets

In terms of housing type, houses are more prevalent in Ireland than in the Netherlands.

Table 2 Distribution of population by dwelling type

Dwelling type	Ireland	Netherlands
House	92%	76%
Flat	8%	19%
Other	<1%	5%

Source: Eurostat. Columns do not total to 100% due to rounding error.

In terms of whether housing is social housing or otherwise, Ireland has significantly less social housing than the Netherlands.

Table 3 Distribution of housing stock by social v. private

Social or private	Ireland	Netherlands
Social	13%	32%
Private	87%	68%

Sources: Irish Economic and Social Research Institute; Irish government; Aedes.nl

In terms of tenure, the split between owner-occupiers and renters is very similar at approximately 70% owner-occupiers and 30% renters.

In Ireland, there are 254,000 social housing units[24] and they make up about 13% of total housing stock. In the Netherlands, there are 2.4 million social housing units comprising about 32% of the total housing stock[25]. The share of social housing is particularly high, often above 50%, in the bigger cities[26]. In Amsterdam, 40% of new residential developments must be for social housing, 40% for mid-range housing and the remaining 20% for the open market. In Ireland only 10% of new developments must be social.[27]

Social housing

Social housing could be defined as housing provided by government agencies or non-profit organizations, such as housing associations, for people on low incomes or with other needs, for example, people with disabilities and households experiencing homelessness[28]. In the Netherlands housing associations are neatly defined as "private organizations with a public task"[29]. While housing associations dominate this segment, it is also possible for social housing to be part of the investment portfolio of a profit-seeking fund manager.

In Ireland, access to social housing is means-tested and somewhere in the region of 75,000 to 85,000 households need and qualify for social housing[30].

In the Netherlands, the principal target group is low-income households and the cheaper rented housing is intended primarily for this group, which gets housing benefits from the government. However, this is not the only target group – a secondary target group for social housing consists of lower middle-income groups who are unable to find suitable housing on the market. There are other target groups too, including the elderly, disabled persons, students, refugees and homeless persons because they can all experience problems finding appropriate or affordable housing on their own[31].

Affordable housing

The terms affordable housing and social housing are sometimes used interchangeably, but often they refer to distinct segments. Affordable housing is sometimes defined as housing units that are affordable by households whose income is below the median household income (which in Ireland is approximately €39,000[32]). There is no official or fixed definition of what constitutes income for the purpose of calculating affordability – for example, income ranges such as €50,000 to €75,000 are sometimes used.

Affordability is often measured as the ratio of housing payments (whether rent or mortgage repayments) to annual income and the affordability "ceiling" is sometimes set at 30%; that is, a household cannot afford to pay more than 30% of total income for housing[33]. This would suggest that for the median Irish household, affordable housing payments should not exceed €975 per month[34].

Affordable housing may be targeted at different groups, including:

- Key workers (that is, teachers, nurses, social workers, policeman and other essential employees who earn too much to qualify for social housing but who cannot afford to live near their places of work)
- Older people wishing to down-size

Just as there are several target groups within the Dutch version of social housing, so too are there several different target groups within any Irish affordable housing category.

Mid-market

In the Netherlands, the concept of the mid-market segment, which is defined as tenants paying monthly rent of between €720.42 and €1,000, seems comparable to the Irish concept of affordable (at least under one definition).

Getting to affordability

Affordability, whether for renters or purchasers, can be achieved in different ways. The components of total cost are clearly identifiable and some of them are within the control of the owner (where existing stock is to be rented) or the developer (where new stock is to be sold). However, one very significant component is land cost, which is more complex. The cost rental approach is one possibility – this means that land cost and developers' profits are excluded, which would reduce rent by a significant margin.

The Netherlands has for many years used an active approach to land management by local and central government, while in Ireland the approach by government has been more "hands off" and market led. Now, with the advent of Ireland's Land Development Agency, Ireland may embrace a move towards a form of land management that is more closely aligned with Dutch practice.

Social, affordable and other housing side-by-side

Social housing works best when mixed in with other housing, and this is very noticeable in Amsterdam. Having social, affordable and free market units standing side by side is socially preferable to segregation.

6. Scope for greater cross-border investment

In Ireland, where pension schemes tend to be considerably smaller than in the Netherlands[35], there is limited scope for institutional investors to invest significantly into individual international markets other than the biggest ones such as the US, the UK and Germany. As such it is less likely that a medium-sized market such as the Netherlands would be targeted. Irish institutions are more likely to gain exposure to the Dutch market via a non-listed pan-European fund, many of which include Dutch assets.

In industry surveys, the Netherlands is often ranked somewhere between fourth and seventh in Europe in terms of popularity as an investment destination for global real estate investors (France, Germany and the UK usually being the first three). Ireland does not get ranked as highly (or may not be offered as an option in surveys) although Dublin has been one of the top European investment destinations in the annual Emerging Trends in Real Estate survey[36].

Irish investors can invest in Dutch REITs and it is possible that many already do because the REIT Unibail-Rodamco-Westfield (URW) is a constituent of both the FTSE EPRA NAREIT Developed Europe Index and the Eurostoxx 50 equity index.

For Dutch investors, the opposite is true. Dutch pension schemes, with their large asset base and internal teams, can deploy capital in smaller markets such as Ireland, whether by means of investing directly in individual assets, by investing in pooled vehicles (funds, joint ventures or clubs) or by investing in listed real estate entities.

Table 4 Top 10 Dutch pension schemes ranked by real estate assets

Fund	€m in real estate
APG	45,000
PGGM	24,300
PMT	6,100
BpfBouw	8,500
PME	3,500
Rabobank	2,140
Philips	2,070
Shell	1,300
ING	1,650
SPF Beheer	1,860

Source: IPE Real Assets 2017

As an example, APG currently invests in Ireland via a joint venture with Hines and by means of substantial holdings in two of Ireland's four REITS, namely, IRES and Green REIT[37].

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Conclusion

There are notable differences between the Dutch and Irish real estate markets and between the two countries' institutional investors. The biggest difference is the greater emphasis on social housing in the Netherlands. Another major difference is the scale of the two countries' pension industries, the Dutch one being roughly ten times greater in terms of assets.

There are areas in which both countries face similar challenges, such as the urgent need for affordable housing in the capital cities. It is interesting to note that to promote affordability Amsterdam and Dublin have both recently placed restrictions on AirBnB and similar home-sharing platforms. There is significant scope in Ireland (primarily Dublin) to deliver additional apartments to meet unsatisfied demand. There is also a clear need for more social and affordable housing in Dublin and Ireland in general.

The money to achieve both will need to come from both public and private sources. Institutional investors in Dutch real estate have historically enjoyed a wider choice of investment vehicles than investors in Irish real estate. Some of the gap in terms of choice has been narrowed since Ireland introduced REITs in 2013; however, there is still quite limited choice for those investors who seek access to Irish real estate via non-listed funds. For institutional investors, a non-listed Irish residential fund that targets private, social and affordable housing would be a useful addition.

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Endnotes

[1] Source: OECD https://data.oecd.org/gdp/real-gdp-forecast.htm#indicator-chart
[2] Source: www.countryeconomy.com
[3] Source: www.countryeconomy.com
[4] Source: Financial Times
[5] Source: UN
[6] Source: Oxford Economics
[7] Source: CIA Factbook
[8] Source: www.countryeconomy.com
[9] Source: https://www.nl-prov.eu/regional-offices/randstad-region/?lang=en
[10] Source: www.worldometers.info
[11] Demographic Drivers and Changing Housing Demands in Dublin Over the Coming Decade by Future Analytics (2019)
[12] Source: Willis Towers Watson, Global Pension Assets 2019
[13] Source: MSCI, Real Estate Market Size 2018
[14] Source: http://greti.jll.com/greti/rankings
[15] Source: Global REIT Survey 2018 (EPRA) and author
[16] For example, in the US the value of multi-family (apartment) was a complete inflation hedge in the period Q1 1978 to Q4 2016. Source: CBRE
[17] Mercer, European Asset Allocation Survey 2019. Published on 8 July 2019
[18] OECD, Global Insurance Market Trends 2018. Exposure to real estate risk is a much wider concept because it incorporates mortgage bonds and other exposures. EIOPA's Financial Stability Report measures this.
[19] Source: INREV
[20] Source: author estimate counting IPUT; ILIM*2; Aviva Friends First; SSgA/New Ireland; Davy Real Estate; Appian Burlington
[21] Source: INREV
[22] Source: INREV
[23] Adjusted to avoid country effects
[24] ESRI figure of 254k divided by Department figure of 2,032k see Estimate of Housing Stock for each year ended 31 December - 1991 to date
[25] https://dkvwg750av2j6.cloudfront.net/m/6a82b6001e710f31/original/Facts-and-figures_2017.pdf;
[26] Social housing in the Netherlands (2013) by Hoekstra
[27] The local authority has the discretion to decide what percentage of a development must be reserved for social housing, but this is subject to a cap of 10% of the development.
[28] Figures not always consistent (e.g. compare ICSH website and ESRI)
[29] Hoekstra
[30] http://35.241.128.85/data-hub/welcome-housing-data-hub. ESRI says it was 86,000 in 2017 see
[31] Source: Aedes.nl
[32] That's disposable median household income: gross figure is higher. See https://www.esri.ie/system/files/media/file-uploads/2018-06/WP594.pdfhttps://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2017/income/
[33] Another way to measure affordability is to estimate the number of years of saving need to accumulate a deposit (source: Just How Affordable Is Housing for Ireland's First Time Buyers? EY-DKM 2019)
[34] 30% of €39,000 is €11,700 per year or €975 per month
[35] There is no Irish occupational scheme in the world's top 300 schemes by assets but there are 12 Dutch ones (source: Willis Towers Watson).
[36] By ULI & PwC. Among European cities Dublin was ranked third in 2019 and seventh in 2018
[37] Green REIT may delist later this year