

Institutional Investors & The City

Stanimira Milcheva
Professor in Real Estate Finance
University College London

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Outline

- Institutional investors in real estate
- Tenant regulations and multifamily housing investments
- Taxation of buy-to-let properties
- The role of institutional investors in affordable housing
- The effects of Covid and work from home on the real estate market
- Summary

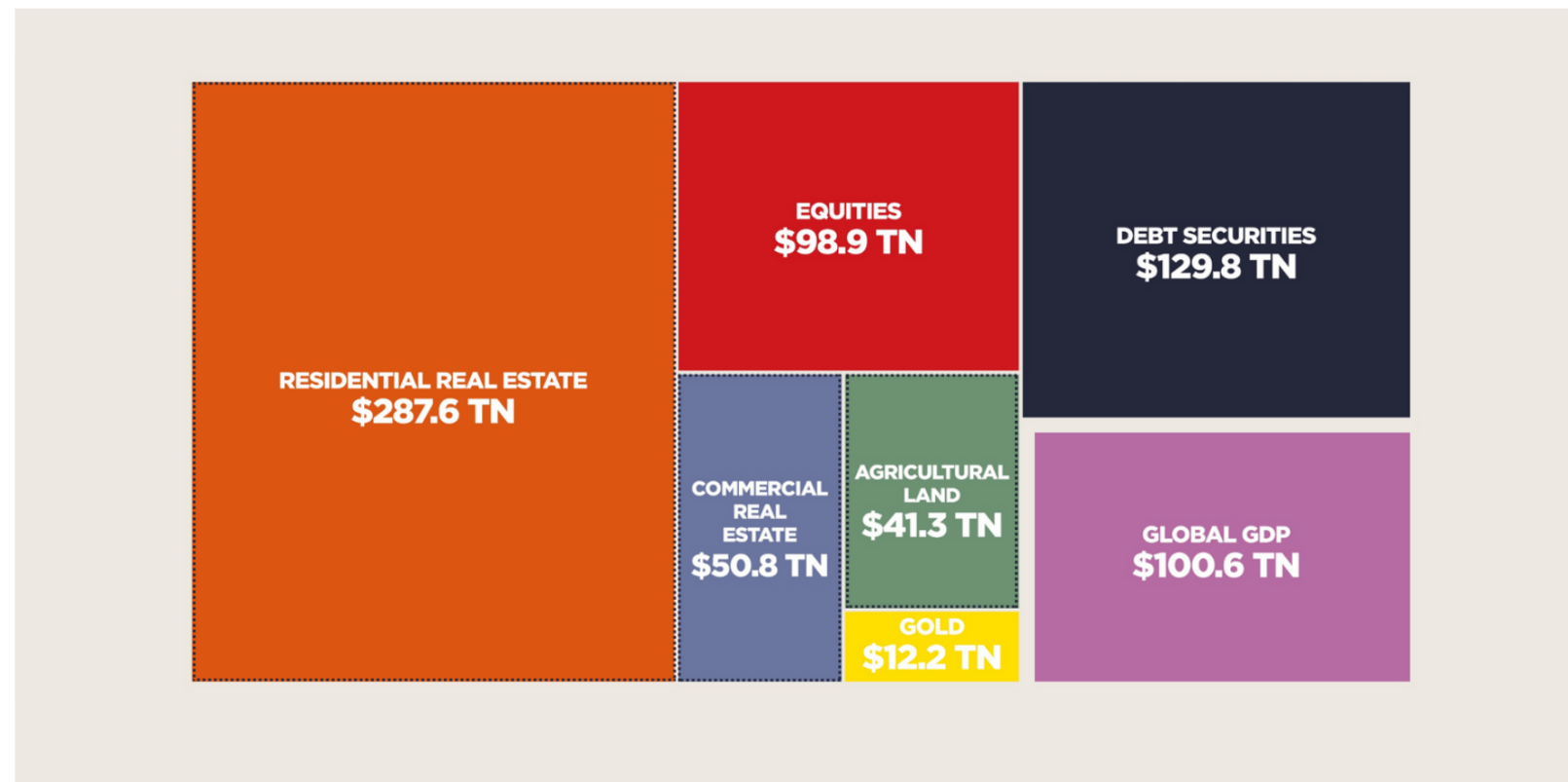
Global Asset Values in Comparison, 2022

Global real estate universe in comparison, 2022

The value of the world's real estate assets in 2022 is **\$380 trillion** according to [Savills Impact report 2023](#).

The asset class is the world's most significant store of wealth and more valuable than all global equities and debt securities combined.

It is worth almost 4 times that of global GDP.

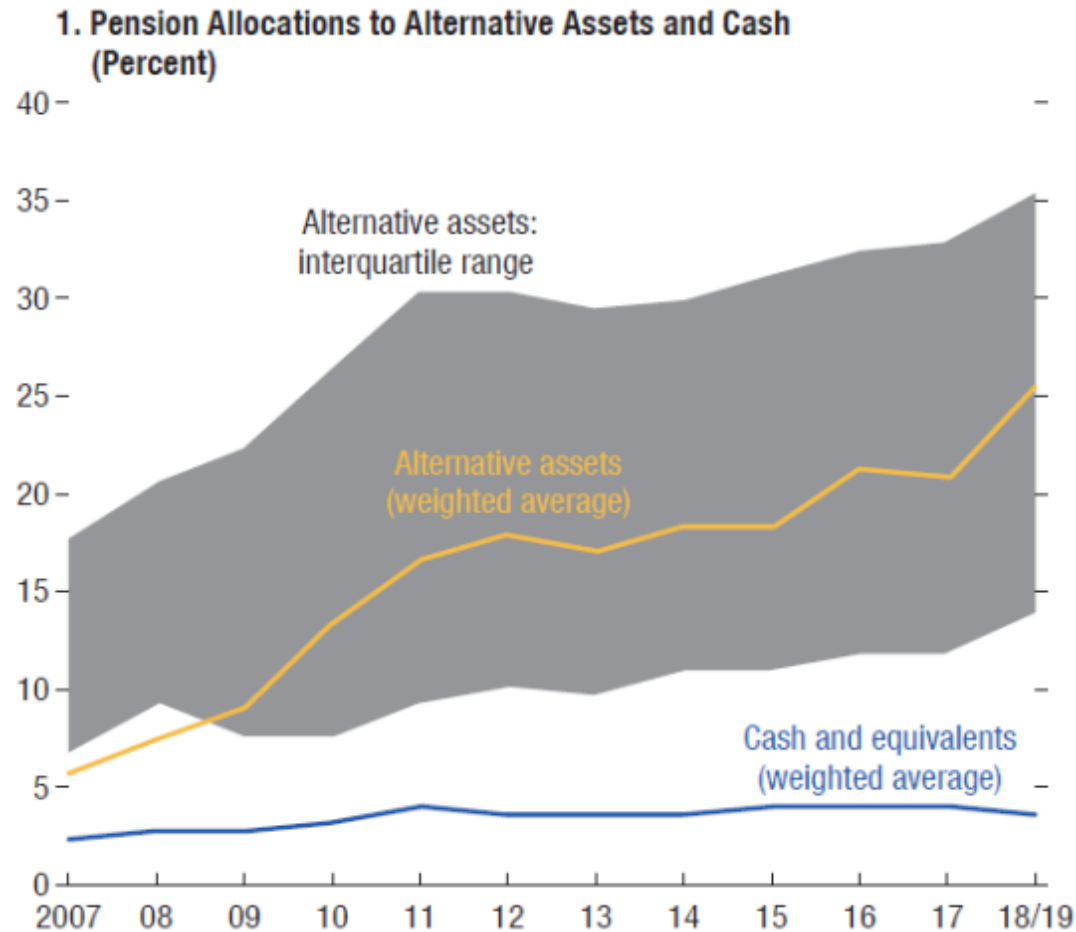


Source: Savills Research, and Savills Research using World Bank, Bank for International Settlements, World Federation of Exchanges, World Gold Council

Why Are There Institutional Investors in Real Estate

- Diversification reasons
- Also, in a low interest rate environment, real estate has become more attractive as it provides higher yields than other asset classes – search for yield arguments
- Asset-liability management with its debt-like characteristics of stable and predictable cash flows
- More recently, investors can demonstrate compliance with an ESG agenda making real estate a good social and environmental value investment

Search for Yield by Institutional Investors



High nominal return targets are pushing pension funds further into alternative assets, raising liquidity and leverage risks.

Source: IMF Global Financial Stability Report, 2021.

Largest Owners/Investors in US Real Estate, 2021

Value of US-based real estate properties for each investor

Company	Portfolio size	Type of investor
Blackstone	\$ 81,401,517,183	Equity Fund 880bn AUM
Brookfield AM	\$ 79,811,188,929	Equity Fund 800bn AUM
Simon Property Group	\$ 42,507,957,360	REIT
TIAA	\$ 32,794,867,587	Pension Fund 1,300bn AUM
JP Morgan	\$ 32,740,438,261	Investment Manager
Vornado	\$ 31,789,241,472	REIT
Irvine Co	\$ 26,143,141,046	Developer/Owner/Operator
PGIM Real Estate	\$ 25,295,347,514	Insurance 1,270bn AUM
Starwood Capital	\$ 23,926,530,059	Equity Fund
SL Green	\$ 23,312,834,837	REIT

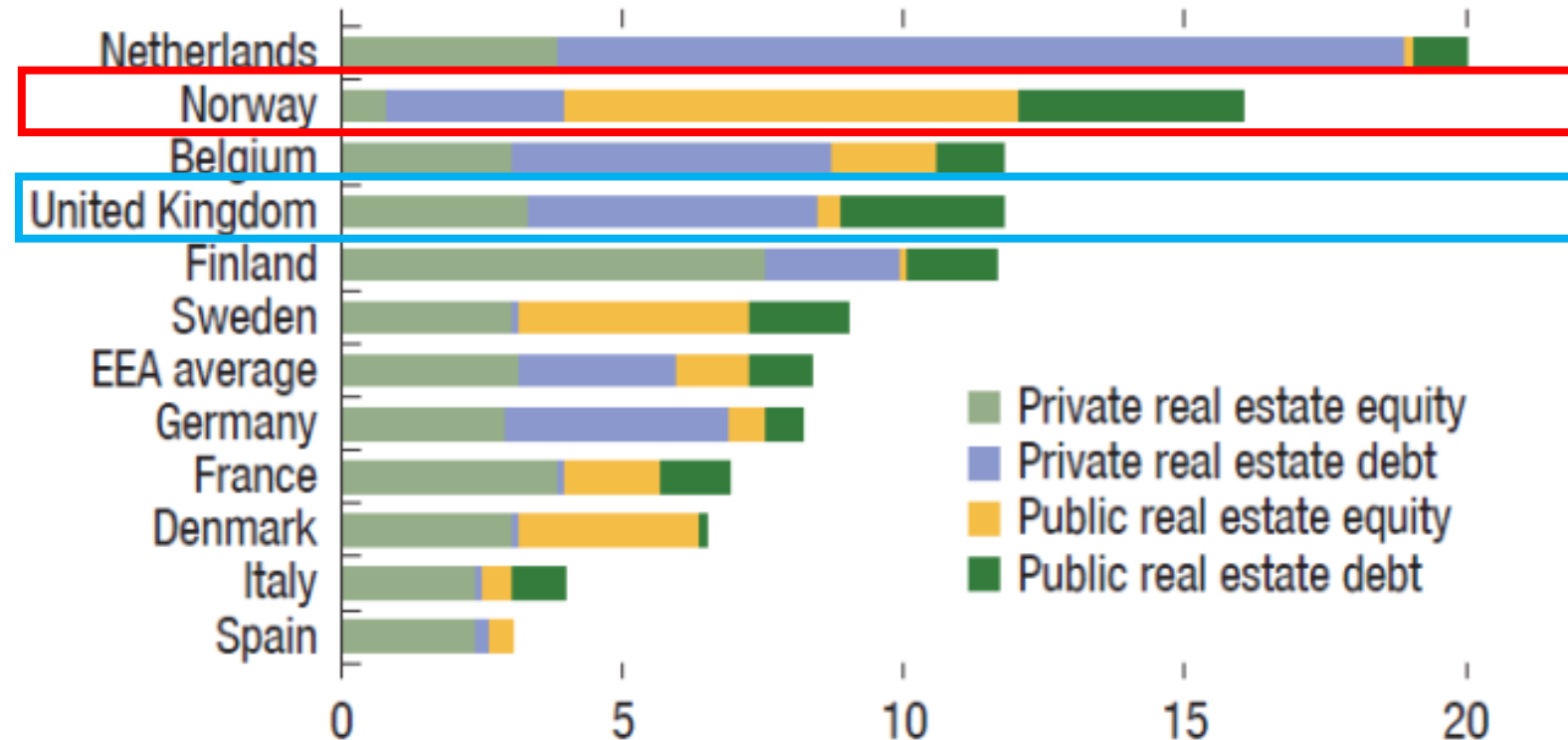
Note: Cvijanovic, Milcheva, van de Minne, 2021. Preferences of institutional investors in commercial real estate. Own calculations using RCA data. Blackstone is also the largest RE investor in the world (\$514bn in RE worldwide)

How about the Norwegian Institutional Investor Context

A small market mostly dominated by domestic players, given the institutional context of Norway.

- Norwegian Government Pension Fund Global managed by Norges Bank Investment Management (SWF) 1, 477bn AUM
- Aberdeen Standard Investments (investment manager)
- Pareto Asset Management (investment manager and REITs)
- Storebrand Asset Management
- KLP Eiendom (insurance company)
- PFA Real Estate (DK pension fund)
- DnB NOR Group (financial institution)
- Alecta Real Estate (SE pension fund)
- Olav Thon Gruppen (property company)
- Entra ASA (property company)

CRE Exposures of European Insurers, 2019 Q2, %



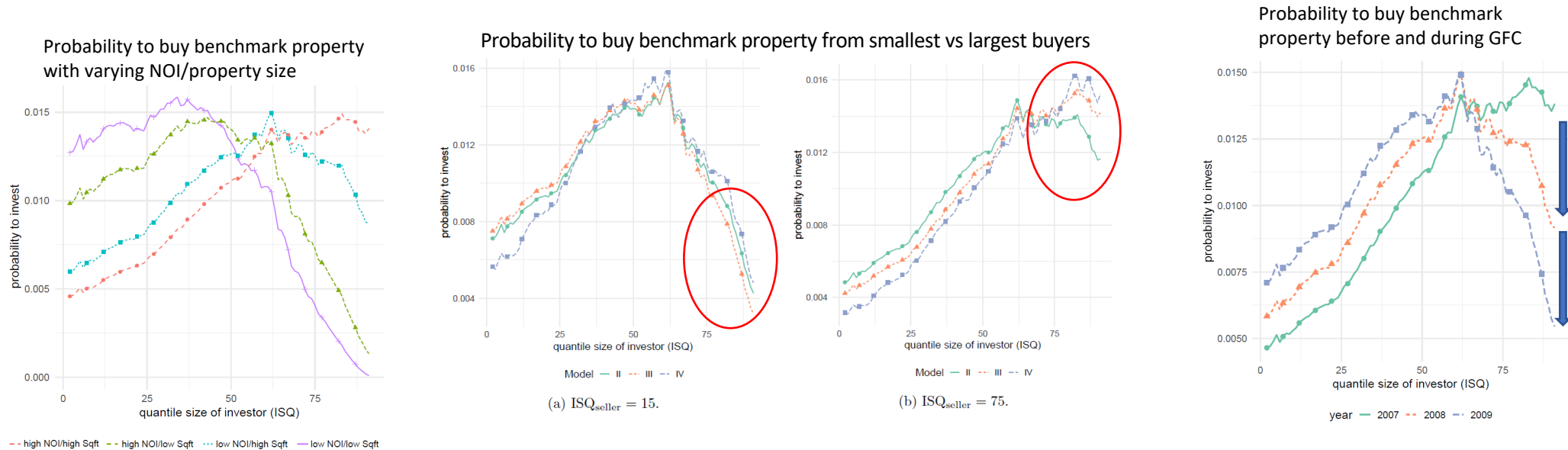
In Netherlands and Norway insurance companies are significant provider of debt and equity in CRE. In Norway, the provision is through public markets, especially equity, while in NL it is through private markets.

Source: IMF Global Financial Stability Report, 2021

Evidence for Investor Segmentation

- The research around the institutional players is not as advanced due to lack of data on who are behind the properties.
- In our paper [*Preferences of Institutional Investors in Commercial Real Estate*](#) we are able to track the ultimate owners of the commercial real estate in the US and assess how buyers and sellers trade.
- We show that CRE investors lead to market and investor segmentation by investor size, mainly driven by investor preferences.

CRE Investor Preferences and Segmentation



Source: Cvijanovic, Milcheva, van de Minne, 2021. *Preferences of institutional investors in commercial real estate.*

What we find

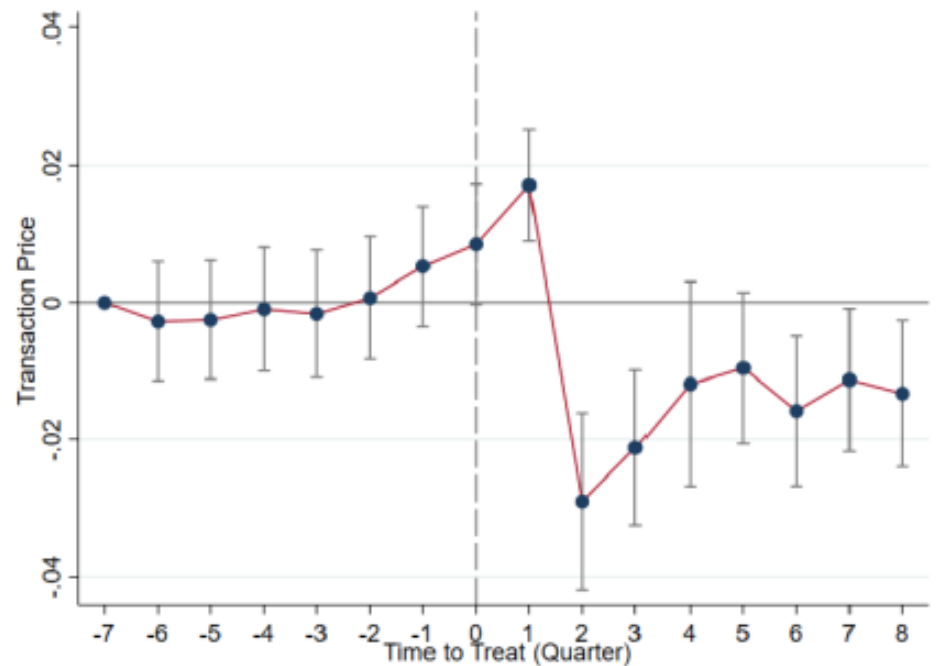
- Very large investors prefer buildings with high NOI and high sqft while small investors are interested in low NOI/low sqft buildings.
- The probability that the largest buyers will buy from the largest seller is the highest. The largest buyers hardly buy from the bottom 25 percentile of the sellers.
- During GFC, the top 15 percentile of largest investors quickly withdrew from the market while the remaining sizes did not substantially change their trading behavior.

Are Buy-To-Let Investors Put Off by Taxation?

- In the UK, the political desire to increase home ownership in the absence of sufficient housing supply has manifested itself by increasing transaction taxes for second homes since 2016.
- In our paper [To Rent or To Own? The Effect of Additional Transaction Tax on Buy-to-Let Housing Market](#), we estimate the average effect of a 3% additional transaction tax (SDLT) in 2016 on second homes, looking at buy-to-let transaction prices, rents, and market liquidity.

Taxation Taxes and Prices of Rental Units

Figure 1: Effects on Transaction Price



Notes: The figure shows DD coefficients and 95% confidence intervals from estimating equation (2) on transaction price. Standard errors are clustered at both year-month and district level. Treatment time is defined as the announcement date of the additional 3% transaction tax on BTL housing. Treated properties are defined as the BTL housing. Control properties are those properties with living purpose. The dotted vertical line represents the time of announcement.

Following the announcement but before the implementation of the additional SDLT, the average transaction price of buy-to-let (BTL) properties as compared to other housing goes up immediately by **2%**

Prices for BTL drop rapidly **by 3%** after the implement date. BTL sell at **1.5 to 2%** discount as compared to similar non-BTL housing as a result of the policy.

Transaction Taxes and Rents

Table 6: Effects of STLD on listing rents (BTL versus non-BTL rental property)

	(1)	(2)	(3)	(4)	(5)	(6)
Treat x Post	0.060*** (0.002)	0.058*** (0.003)	0.057*** (0.003)	0.058*** (0.002)	0.056*** (0.002)	0.050*** (0.002)
N	315,443	325,897	334,334	292,241	254,961	291,820
Month	Yes	Yes	Yes	Yes	Yes	Yes
Property type	Yes	Yes	Yes	Yes	Yes	Yes
Tenure	Yes	Yes	Yes	Yes	Yes	Yes
Old or New	Yes	Yes	Yes	Yes	Yes	Yes
Location	District	City	County	District	District	District
Bedrooms	Yes	Yes	Yes	Yes	Yes	Yes
Bathrooms	Yes	Yes	Yes	Yes	Yes	Yes
Energy rating	—	—	—	Yes	—	—
Time-on-market						Yes
Exclude	—	—	—	—	>Mar 2017	—

Notes: Table 6 show results from estimating equation (1) with a single posttreatment dummy, replacing the dependent variable as the rent, instead of transaction price: $\ln(\text{rent}_{i,t}) = \alpha_i + \lambda_t + \omega_{g,t} + \alpha \cdot \text{Post}_{i,t} + \beta \cdot X_{i,t} + \epsilon_{it}$. Treatment is defined as the announcement date of the additional transaction tax Treatment time is defined as the announcement date of the additional 3% transaction tax on BTL housing. Treated properties is defined as the existing rental property. Control properties are those properties with living purpose. All specifications include year-month fixed effects, plus energy rating, number of bedrooms, number of bathrooms and new or old indicators. Standard errors are clustered by district and year-month level.

The findings reveal a 6% increase in rents for BTL properties as compared to other rental units.

The taxation costs are passed on to the tenants.

Source: Lai and Milcheva, 2022, To Rent or To Own? The Effect of Additional Transaction Tax on Buy-to-Let Housing Market

The Role of Institutional Investors in Providing Affordable Housing

- It is possible that institutional investors with patient capital (pension funds) can provide funding for investments whose pay-offs take a long time (development)
- By structuring the financing in a way to provide stable steady (predictable) inflation-linked bond-like cash flows that mimics the pay-off of a bond, the focus is shifted away from the speculative residual valuation model which is short-term oriented to minimise sells risk

Institutional Investment in Affordable Housing

- In the UK, shared ownership (SO) is a form of affordable housing where the buyer can obtain as little as 10% share in a designated SO home and pay rent to a registered provider (RP) for the remaining share.
- The RP is essentially the landlord who also in most cases owns the properties.
- SO and affordable rent in the UK are inflation-linked and are attractive for such investors.
- Affordable housing can also be seen as a social impact investment and demonstrate compliance with the ESG agenda.

An Affordable Housing Tenure: Shared Ownership

- In our report [*The Maturing Shared Ownership Market - Data-Led Analysis*](#), we show that debt investors, i.e. lenders, do not carry much risk due to the structure of the market.
- We also demonstrate that while designed to be a product in which households aspire to eventually get full ownership, very few (1%) staircase each year to less than 100%.
- The product provides a way to step on the housing ladder for households on incomes between 30k and 47k, who otherwise, would have not had the chance to buy on the open market.

Summary

- Institutional investors are interested in real estate as part of a diversified portfolio of assets and understanding their role can shed light on some of the dynamics on real estate markets.
- The real estate market has attracted investment in a search for yield in a low interest rate environment and a host of regulatory changes following the Global Financial Crisis.
- Real estate responds strongly to changes in regulations and taxation in which investors often trickle down the burden to residents or tenants.
- Affordable housing is not anymore is something we academics talk about but is now the primary item on the political agenda. While subsidies are essential, institutional investors can play a role in the provision of affordable housing if patient capital is used and financing is structured in a long duration way with inflation-linked cash flows and political certainty.

Thank you!

Email: s.milcheva@ucl.ac.uk

Website: www.stanimilcheva.com

[Twitter: stani_milcheva](https://twitter.com/stani_milcheva)