Institutional investment in the private rental sector in the wake of the Covid-19 pandemic: a review of international 'grey literature' and reflections on the Irish context

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Introduction

The impact of Covid-19 on tenants in the private rental sector has been widely discussed in media and policy debates (see Byrne, 2021), but there has been very little discussion of its impact on investment in the PRS. This is an important issue because it is central to the supply of PRS housing going forward. The story of the PRS sector in 2020 is indeed remarkable. The market outlook is overwhelmingly optimistic, with investors keen to commit more capital and betting on the strength of the sector despite the extremely uncertain economic context.

In what follows, I present a summary of available international evidence of the impact of the Covid-19 pandemic on PRS markets. I draw primarily on reports from large property consultants and real estate agents, i.e. 'grey literature', in particular Savills, CBRE, JLL, and Knight Frank. These organisations produce data on residential and investment markets, typically drawn from publicly or privately available data sets and from data generated by their own market activity. This is complemented by additional sources in some countries such as the British Property Federation in the UK and Freddie Mac in the US. In the Irish context, I also review annual reports of the largest institutional landlord, IRES REIT. Altogether, 43 reports have been analysed, focusing on Europe and on English speaking countries, including the US, the UK, Canada, Australia, Ireland, Spain, Denmark, Austria. Reports covering regions, especially Europe, were also analysed.

A word of caution is required in relation to the data presented in these reports and reviewed below. Property consultants typically present partial data, for example focusing on the transactions they are aware of or using their own surveys of investors to assess rent collection levels or vacancy. As a result, assessments, especially of investment levels, vary. Moreover, they typically do not set out their methodology and therefore it can be difficult to assess the data presented. Finally, they are of course market participants themselves and thus have an interest in the markets they are analysing. Indeed, one of the objectives of these reports is to attract investment and this no doubt influences their content. There are thus very important limits to data sourced from the reports of international property consultants. What follows should be read as a review of how property consultants represent developments in the institutional PRS market, and which includes useful, but partial, evidence. Nevertheless, property consultants play an important role framing how the market is perceived (Magalhães, 2001) and are an important source of information on the development of institutional PRS markets and on market sentiment.

In terms of terminology, I use the term institutional PRS, or often simply PRS, here to refer to institutional investment in private rental housing and, more specifically, '[p]urpose-built large scale residential assets owned by a single entity' (JLL Australia, 2020). Within the sector itself, it is often referred to as 'Build to Rent' (BTR) or 'Multifamily'. I will use these terms on occasion below, but they all refer to the same form of investment. For the most part, the report does not deal with the small scale, 'mom and pop' sector of the PRS market. Where data refers to the PRS market as a whole, rather than the institutional sector alone, this is specified.

The review begins with a brief discussion of the background to institutional PRS investment before the onset of the Covid-19 pandemic. It then presents an overview of key PRS market indicators: investment levels, rent prices, levels of rent collection and vacancy levels. This is followed by a discussion of the factors that explain the relatively strong performance of the PRS sector during the pandemic. The next section discusses some emerging trends that will likely shape the future of the sector. The final section shines a spotlight on the Irish case in more depth.

Background: financialization 2.0?

The PRS has boomed internationally over the last two decades, both in terms of the proportion of households renting and as an investment sector. This is true for existing mature markets, such as the US, Germany and Japan. Perhaps more remarkably, it is also true for a host of new markets who, until relatively recently, had little or no institutional PRS investment sectors, including the UK, Spain and Ireland. The trend can be situated as part of the restructuring of housing systems and housing investment in the wake of the Global Financial Crisis (Byrne, 2020). That crisis had a number of important impacts of relevance here. Firstly, it signalled the exhaustion of the homeownership mortgage market as an avenue for investment, prompting investors to seek out new asset classes (Beswick et al., 2016; Fields, 2018). Secondly, it resulted in a wave of distressed assets in many markets, including US, Ireland and Spain, which in turn opened up the opportunity for investors to accumulate stock to be converted into PRS housing (Beswick et al., 2016). This process, which has been labelled 'financialization 2.0', was very evident between 2012 and 2015, and was supported by the establishment of 'bad banks' in many countries and the disposal of distressed assets by private banks (Byrne, 2016); and legislation, such as that providing for the establishment of REITs in Ireland and Spain (García-Lamarca, 2020; Waldron, 2018).

In more recent years, PRS markets have settled down into what looks like a more stable pattern. Institutional PRS investment has performed strongly and in most markets has gone from strength to strength. This development is driven by long term demographic and housing policy trends, resulting in structural affordability problems in homeownership markets and the absence of social housing. A growing cohort of households find themselves corralled into an often poorly regulated rental sector, and the result has been significant rent increases across many countries and growing investment opportunities. In this context, institutional investment in the PRS has become an established player in many cities across the US and Europe in particular, playing an important role in housing supply and urban development.

For critics, institutional landlords are 'vulture funds' who prey on the wreckage of the financial crisis to accumulate property assets and exploit tenants. This view is aligned with some of the academic literature in the area of financialization, which has positioned post-crisis institutional landlord investment at the centre of 'financialization 2.0' (Beswick et al., 2016; Fields, 2018). These critics typically focus on the unaffordable nature of institutional landlord stock. In general, institutional landlords in Ireland have indeed targeted the higher rent segment of the market, often targeting middle to high-income migrant employees in Dublin's tech sector, for example (Marler, 2019). In contrast, some argue that institutional landlords are more reminiscent of 'swallows', whose arrival signals the end of the long winter of the Irish property market following the carnage of 2008 – 2014, and the revival of much needed supply (Lyons, 2019). Their argument is that while institutional landlords may be targeting the higher end of the market, all supply is good supply and will filter through to the rest of the market providing much needed housing and stabilizing rents. Unfortunately, there is currently very limited evidence on the basis of which we might assess these differing positions.

In the period immediately before the outbreak of the Covid-19 pandemic there was clear optimism around the PRS sector. For example, in 2019 investment in the sector increased by 7% across Europe. Mature markets did well; Germany was up 8% on 2018. But so did new markets; Poland saw a 30% spike in investment, while Ireland, did even better (or worse, depending on your view), with an increase of 141% (JLL, 2020b). The events of 2020 have impacted the market very significantly. However, as the next section shows, the impact has not been as severe as might have been expected.

The impact of the Covid-19 pandemic on institutional PRS markets

The PRS sector, like virtually every economic sector, suffered a turbulent 2020 with significant declines in investment in many jurisdictions. However, the overall story of the pandemic so far is that the sector has held up better than expected and, in particular, has performed well when compared to other comparative sectors. This is particularly the case in terms of investment and investor sentiment, with the available evidence indicating that confidence in the sector remains high. This confidence is to a large extent justified in terms of the data on the performance of the sector during 2020. Rent prices have held up relatively well internationally, and in particular rent collection has remained surprisingly high and vacancy levels surprisingly low. This section provides an overview of the performance of the sector, focusing on some of the larger English-speaking markets, including the US and the UK.

Investment

As noted above, investment in the PRS had been growing strongly in many different countries in recent years. 2020 saw a reversal of this trend as investment levels fell internationally. However, given the context, investment held up reasonably well and, most importantly, faired very well when compared with other real estate assets (CBRE Canada, 2020). For example, looking at the global picture, across all real estate sectors investment fell by 44% in the third quarter of 2020, when compared with the same period in 2019. PRS investment, fell by just 27% (JLL, 2020c). Savills (2021) report that the PRS was the second most active real estate asset class in Europe in 2020.

The US market, the largest in the world, saw investment fall quite dramatically, from $191 billion in 2019 to an estimated $111 in 2020 (CRBE USA, 2020). In the UK, investment fell sharply in Q2 2020 as the pandemic hit, but even by Q3 and Q4 of the same year investment had rebounded very strongly and by the end of the year was 15% higher than the previous peak in 2018 (CBRE UK, 2021). This was also the year in which the PRS grew to be the largest property investment sector in the Nordic countries for the first time (CBRE Denmark, 2021).

Given that PRS assets performed relatively well, especially when compared with other real estate assets, it is perhaps unsurprising that most of the reports reviewed for this piece suggest that investor demand remains very strong and anticipate investment will grow rapidly in 2021 and 2022. Reflecting this, asset prices performed well. For example, asset prices were up 7.4% year on year in the US (Freddie Mac Multifamily Research Centre, 2021). Strong asset prices are associated with yield compression, which most reports see as a feature of the sector (Knight Frank UK, 2020; Savills, 2021a). Prime yields are between 3% and 4% in most markets (CBRE Spain, 2021b). Nevertheless, yields still compare favourably with long term bond yields (Savills, 2020).

Rent prices

Rent levels have remained reasonably stable despite the enormous economic turbulence. Nevertheless, there were some signs of declines. In terms of average prime rental prices internationally, Savills (2021b) note a decline of 2.5% in 2020. The US saw average rents in the sector down 4.2% in Q4 2020 (CBRE US, 2021). Much greater declines were recorded in some of the biggest cities. Rents fell by more than 10% in New York City and San Francisco (Freddie Mac Multifamily Research Centre, 2021). This pattern reflects geographical variation, and particularly the fact that suburban and other locations outside major cities fared much better (discussed further below). Across the US, urban rents declined in every month since the outset of the pandemic while suburban rents, on average, only declined in April, May and June (JLL, 2021c).

A similar picture emerges in the UK. In the 12 months up to November 2020, average rents outside of London grew by up to 2.8%, while they fell in London by almost 6.1%. There were also declines in some other major UK urban markets. Across many large urban markets, prime or 'Class A' rental assets were hit hardest (for Canada see CBRE Canada, 2020; for UK see Savills UK, 2020). This is attributed to the decline of tourism and international and corporate tenants, arising from travel restrictions, particularly impacting demand for these properties (Savills, 2021c).

Rent collection

Of all the indicators discussed here, rent collection appears to have held up best. In the UK rent collection stood at between 96% and 96%, showing little if any decline from normal levels (JLL, 2020c, 2020a; Knight Frank UK, 2020). A similar picture emerges in the US: JLL (2020c) estimate rent collection levels at 94%, and the Freddie Mac Multifamily Research Centre (2021) indicates that rent collection levels remained within 1% of 2019 levels among institutional landlords. Canada also saw rent collection levels between 95% and 96% (CBRE Canada, 2020; JLL, 2021a). These figures relate to the institutional PRS sector. The wider picture of the rental sector may look decidedly less optimistic. It is estimated, for example, that 9 million Americans are in rent arrears and that "a wave of evictions may be on the horizon" (Freddie Mac Multifamily Research Centre, 2021: 4).

Vacancy

Vacancy rates rose in most markets. In Australia, Sydney recorded a 17 year high in terms of its vacancy rate, resulting in declining rents (CBRE Australia, 2021a). JLL (2021a) state that Canadian vacancy rates increased from 2% in 2019 to 3.2% in 2020. In the US, vacancy increased by 5% across 2020 (CBRE US, 2021). Once again we can see significant variation which complicates the picture. For example, in the US vacancy rates varied by asset class. Class A vacancy was up 5% while Class C vacancy increased by just 3.7% (CBRE US, 2021). Similarly, vacancy rates increased in New York City, but declined somewhat in suburban markets (CBRE US, 2020).

What is driving the PRS market?

As indicated in the above section, PRS markets have proven reasonably robust during this exceptional period. In particular, early concerns around vacancy and rent collection have proven to be unfounded thus far. Perhaps even more remarkable is the overwhelming enthusiasm around PRS investment found in the reports of international property consultants. There is a very strong consensus that the PRS sector will emerge from the crisis stronger and that there is a huge appetite on the part for international capital for PRS investment. Indeed, some commentators see Covid-19 as a 'catalyst' for the acceleration of the PRS sector (JLL Australia, 2021). This is surprising given the level of economic uncertainty and the fact that tenants are more likely to be experience negative economic effects of the pandemic (Byrne, 2021). However, the view within the industry is there are long run structural factors affecting supply and demand for PRS housing which will outweigh any short term issues generated by Covid-19. As one report puts it, "[i]nvestors are taking a long-term view of the asset class and have faith in the underlying fundamentals of multifamily housing" (Freddie Mac Multifamily Research Centre, 2021: 14).

This section examines the drivers of investment in the PRS, focusing on the following factors: demographics, housing demand and affordability; structural supply/demand imbalance; interest rate environment; sectoral resilience. These factors are discussed in turn below.

Demographics, housing demand and affordability

There are a series of long run demographic factors which are viewed as supporting demand for the PRS. These include urbanisation, the growth of smaller households and international migration (in particular high-skilled migration) (JLL Australia, 2020; Savills, 2020). In short, the 'generation rent' phenomenon is set to continue in the post-pandemic era (CBRE Spain, 2021b, 2021a). Moreover, the affordability of homeownership will continue to pose challenges for first time buyers. Indeed, the prevailing view is that affordability will deteriorate further in the wake of the pandemic due to the decline of tenant incomes and economic uncertainty (CBRE Canada, 2020; Savills, 2020). There is also potential for tighter lending restrictions (Savills, 2020). As one report states: '[e]xisting affordability issues, stricter lending criteria and a rise in unemployment… will likely see first-time-buyers delay the long-term commitment of home ownership until the wider economy recovers' (Savills Australia, 2020:1).

However, there are some notes of caution to be found. In the post-pandemic era, some argue, housing demand factors will be pushed in different directions. On the one hand, homeownership will be more difficult to access for many, due to the reasons just discussed, on the other hand, tenants incomes will potentially fall (JLL, 2020a; Savills, 2020, 2021a).

Structural supply/demand imbalance

Related to the above housing demand factors is the widely shared view that there is a structural imbalance of supply and demand in many cities and regions, and that this favours rental growth. As Savills (2021a: 3) say, '[i]n many places, the rising need for rental homes cannot be met by the current rate of supply'. The structural supply shortage is caused, it is argued, by many factors, including high land values (CBRE Canada, 2020; CBRE Spain, 2021a; JLL Australia, 2020; Savills, 2020). In the post-pandemic era, this imbalance may intensify due to construction slowdowns associated with public health restrictions, resulting in low levels of supply (Savills, 2020, 2021a). This will further exacerbate the problems associated with affordability in the homeownership sector. This, combined with the factors supporting demand for the PRS, will favour rental growth.

Interest rate environment and yields

On the investment side, one of the principal factors driving appetite for PRS assets is the low interest rate environment and 'supportive monetary policy' (CBRE Australia, 2021b: 5; see also Freddie Mac Multifamily Research Centre, 2021). Average yields in institutional PRS assets in Europe were 3.25% in 2020. This compares favourably with long term bond yields; average EU sovereign bond yields were 0.3% in 2020 (Savills, 2020). Low bond yields are 'driving investors up the risk curve' and supporting much greater demand for alternative assets (JLL Australia, 2020). Taxation is another important feature, particularly with regard to the favourable tax treatment of REITs (Waldron, 2018).

Sectoral resilience

Another factor on the investment side, and the final factor discussed here, is the very widespread belief that the PRS sector is 'resilient', 'defensive' and 'counter-cyclical'. This, it is argued, is key to the continued appetite of investors despite the high levels of economic uncertainty. As argued by CBRE Canada (2020: 6), **'**[a] key and often-cited characteristic of the multifamily sector is its countercyclical nature and ability to withstand economic downturns'. This belief is in part supported by the performance of the PRS during the Global Financial Crisis and in part by its resilience during 2020 (Savills, 2021a). Moreover, as noted above, a decline in the economic context may intensify demand for PRS housing as households are unable to access homeownership. In this sense, the sector has a 'counter-cyclical' quality (JLL Australia, 2020; Savills, 2021a). This is linked to the belief that PRS assets provide long-term, stable income streams, further enhancing their 'defensive' nature (Savills, 2020, 2021b)**.**

This perception will be a key factor in shaping PRS investment in the post-pandemic era. As (JLL, 2020c) note **'**[r]eal estate investors are turning to defensive assets in the face of economic uncertainty'. It is also argued that 'defensive sectors', including the PRS, will find it easier to attract funding given economic uncertainty (CBRE Spain, 2021b). In the 43 reports I reviewed as part of this research, only two raised any cautionary notes in relation to the belief that PRS investments are 'defensive' and 'resilient', and in these cases it was simply to note that these qualities will be tested by the Covid-19 crisis (e.g. CBRE Australia, 2021b).

Trends in the PRS sector

The most important trend in the PRS sector currently is its shift from 'alternative' to 'core' asset. Over the past decade, PRS deals, as a proportion of real estate investment globally, have doubled, and in the process the asset class has become more mainstream and more appealing to a wider range of investors (JLL, 2020c). Savills (2020: 3), writing in the European context, argue that:

Multifamily cannot be considered anymore an alternative investment. It has become an asset class suitable for core strategies, particularly in markets such as Germany, Netherlands and the Nordics, where volumes are comparable or even higher than offices. The sector is also maturing rapidly in Spain and Ireland where last year's volumes were two and five times higher compared to the five year average, respectively.

If the reclassification of PRS as a core asset continues, it will likely lead to greater investor demand, in turn supporting prices. This shift is, therefore, also associated with the compression or 'inward movement of yields' (Knight Frank UK, 2020: 2).

The geography of rental demand

Another significant trend, and one much commented upon in the media, is the geographical shift of rental demand from urban centres to suburban and regional markets. Suburban and regional markets fared significantly better than urban cores, which have traditionally been the best performing markets, across many countries during 2020. Average rents in London declined much more than the national average, for example, and the same is also true for cities including Birmingham, Manchester and Edinburgh (Savills UK, 2021b). This trend was also evident in the US where rents declined in some of the traditionally strongest core urban markets, such as New York City and San Francisco, but did much better in suburban, regional and mid-western markets (CBRE US, 2020; Freddie Mac Multifamily Research Centre, 2021).

Demand is thus shifting to suburban, regional and rural markets (CBRE Australia, 2021a; JLL, 2020a; Savills UK, 2020). The factors driving this are already well known and much commented upon: working from home; a greater desire for space within the home; a desire to be closer to natural amenities; the closure of many urban amenities (CBRE Austria, 2020; CBRE Canada, 2020; CRBE USA, 2020; JLL, 2021c, 2021a; Savills UK, 2020). It may also be driven by affordability issues, reflected in the fact that 'Class A' assets saw the largest declines in rents and occupancy (CBRE Canada, 2020; CBRE US, 2020). These dynamics indicate that 'urban submarkets will lag in the multifamily sector's overall recovery', whereas suburban and regional markets will do better (CBRE US, 2021; CRBE USA, 2020).

There is some evidence to suggest that the trend towards suburban/regional markets pre-dates covid and is related to demographic factors. The 'generation rent' phenomenon is of course more than simply a generational issue and reflects class and other inequalities (Christophers, 2017; McKee, 2019). Nevertheless, it does have a clear generational dimension in that those households who formed during the peak of the global property bubble and in the aftermath of the crash, roughly between 2005 and 2014, were most effected by declining levels of homeownership (Byrne, 2020). This generation has now 'come of age' and many such households may be seeking to start a family. Many remain unable to access homeownership and this cohort may be driving demand for rental properties in suburban and regional markets (JLL, 2021a; see also Savills UK, 2021). In short, '[m]illennials are reaching life stages where urban living is often traded in for larger housing options in less-dense submarket…' (CRBE USA, 2020).

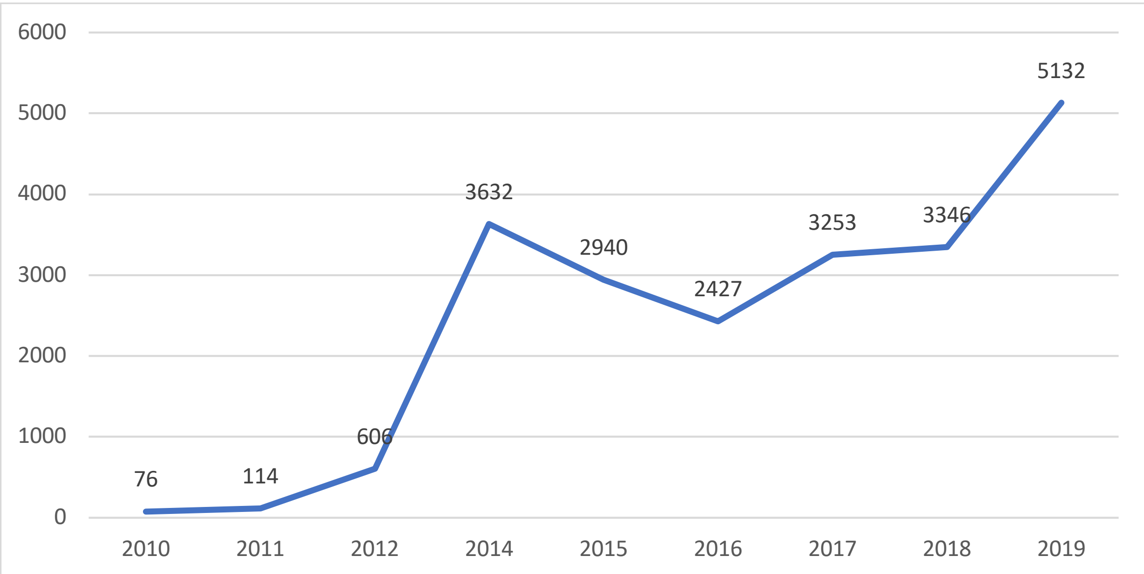
Rent price moderation, then growth

The consensus view across all markets is that we will experience an initial period of stable or small declines in rent prices, followed by a strong recovery (Savills UK, 2021a). In relation to the short term impacts, for example, Savills (2020: 2) note that '[t]he ability of low income households to meet their rental obligations will be tested over the next few months as government support measures start phasing out. This will eliminate positive rental growth expectations for this year and next, while some moderate downward rent adjustments may also occur.' Most analyses estimate that rents will rebound by 2022. For example, in the US context, CBRE US (2021: 8) write that: '[t]he COVID-driven market downcycle is expected to continue in the first half of 2021 with further rent decline. Rents should begin increasing in Q3 2021 and reach pre-COVID levels by Q1 2022.'

The institutional PRS market in Ireland

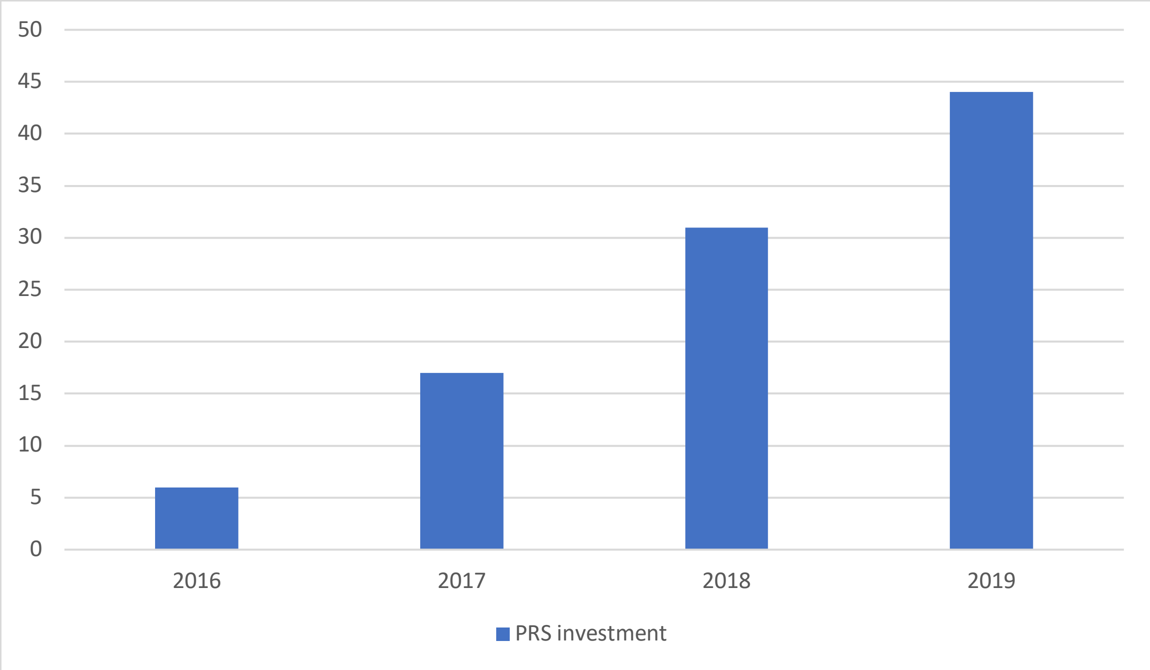
In recent years the PRS has been the most prominent sector of institutional investment in Dublin. As can be seen in Figure 1 below, institutional investment dramatically increased from just 76 units purchased in 2010 to 5,132 in 2019. Institutional landlords now dominate new supply, in particular of apartments (as opposed to single-family houses) in urban areas. In 2019, PRS investment accounted for 44% of all transactions in Dublin, growing from just 6% in 2016, as detailed in Figure 2 below. There are now approximately 15,550 residential units owned by institutional landlords in Ireland (CBRE Ireland, 2021b).

Figure 1 - Institutional investment in the Irish rental sector, annual property purchases, 2010-2019



Source: Property Price Register. Note: the figures above are based on two NACE categories of non-household purchasers of residential property presented in the PPR data: 'real estate' and 'financial'. These include all residential property purchased by real estate and financial companies in Ireland, and thus measure investment of institutional landlords.

Figure 2 - PRS investment as proportion of total real estate investment, Dublin



Source: Hooke and MacDonald, 2020

Investment in the PRS by institutional landlords thus represents a major new development in the Irish housing system, and one which is likely to shape how Irish cities develop in future years. Indeed, housing policy has set the expansion of the institutional landlord sector as a priority (Department of Housing, 2016a). The *Strategy for the Rental Sector* document (Department of Housing, 2016b: 17), for example, highlights the benefits of institutional provision of rental housing in terms of its capacity for 'tapping new sources of finance from institutional investors such as pension funds and Real Estate Investment Trusts' as well as 'an enhanced level of professionalism to the estate management of housing projects, seeing residents as long term "customers" rather than tenants'.

The experience of the Irish PRS during 2020 is very much along the same lines as the international experience described above. The sector was hit by Covid-19 and the associated economic turbulence, but proved reasonably resilient. Moreover, the outlook remains positive. A headline from (CBRE Ireland, 2021: 1) puts it succinctly: '[M]ultifamily sector shakes off pandemic in another year of robust transactional activity'.

PRS Investment in 2020

Total investment in institutional PRS in Ireland in 2020 is estimated at €1.75 billion by CBRE Ireland (2021) and at €1.2 billion by Savills Ireland (2021) and Sherry Fitzgerald (2021). According to CBRE Ireland (2021), this represents a decline of 27% on 2019 levels. According to JLL (2021b), investment volumes across real estate were down 59%, which suggests PRS outperformed other sectors. However, Sherry Fitzgerald (2021) estimate investment levels in institutional PRS as €2.5bn in 2019. This obviously suggests a much bigger fall off in investment between 2019 and 2020 than presented by CRBE data.

All commentators put prime yields at 3.75% (CBRE Ireland, 2021b; Hooke and MacDonald, 2021; Knight Frank, 2021). Yields have declined in recent years, as property prices have recovered, but they remain higher than European averages and compare very favourably to Irish sovereign bonds, which are in negative territory.

The PRS continues to be among the highest priorities for investors in Irish real estate (Knight Frank, 2021). European institutional capital was the dominant investor in residential stock in 2020, representing 48% of capital invested, and 97% of all institutional PRS investment was in Dublin (CBRE Ireland, 2021b). There is also some evidence of geographical shift in demand, leading to expectations of 'more suburbanisation of the multifamily offering in Dublin, with some providers developing and acquiring schemes in locations with good public transport links, proximity to employment and natural amenities' (CBRE Ireland, 2021b: 3).

Table 1 - Institutional ownership residential sector, 2020

Institutional landlord lords	Ownership
IRES REIT	24%
Kennedy Wilson	16%
Urbeo	9%
LRC Europe	8%
Comer Group	7%

Source: Derived from CBRE Ireland, 2021b

Rent collection and occupancy

Rent collection and occupancy remained virtually unchanged (CBRE Ireland, 2021a). There is limited data available for the sector as a whole, but we have data from Ireland's largest institutional landlord IRES REIT (Irish Residential Properties REIT, 2021). Rents, rent collection and occupancy all performed well in 2020:

- Net rental income rose from €50.5 million to €59.8 million;
- 98.4% occupancy, up very slightly on 2019, but down slightly on 2018;
- Rent collection 98.9% for 2020, showing virtually no decline from 2019;
- Average Monthly Rent = €1,624, up 1.8%.

We do not have specific data on rents in the institutional PRS sector in Ireland. Nevertheless, looking at rents across the PRS is instructive. Looking at data from Q4 2020 (Residential Tenancies Board, 2021), average rents nationally grew year-on-year by 2.7%. In Dublin the figure was 2.1%, while in the Greater Dublin Area it was 5%. Outside the GDA, average annual rents grew by 3.4%. This suggests a similar pattern of geographical variation as evident internationally, with rents in Dublin increasing slower than those across the country. Indeed, focusing just on Dublin City, average rents grew by just 0.1% between Q4 2019 and Q4 2020. To some extent, this reflects patterns that were evident prior to the Covid-19 pandemic, as rental growth had already started to moderate in Dublin. It may thus reflect the fact that rents in Dublin have peaked and that the nature of demand for rental housing is changing as renters grow older and their priorities change.

As in cities internationally, there is some evidence of decline 'at the very upper tier of the residential rental market in Dublin', which relates to the decline of business travel and tourism (CBRE Ireland, 2021b: 3, see also CBRE Ireland, 2021a).

Drivers of PRS investment in 2020

There are a number of key drivers of housing demand for rental properties, including favourable economic and demographic trends (Sherry Fitzgerald, 2021) and the growth of the multinational sector and international high skilled immigration (Irish Residential Properties REIT, 2021). In addition, there is a universal view that there is a persistent imbalance between supply and demand which will support the growth of the sector. It is worth quoting a number of reports on this point:

The fundamental issue supporting the investment thesis for the multifamily sector in Ireland… is the inherent supply demand balance in the residential sector - which to all intents and purposes, worsened during 2020, with less than 20,000 housing units delivered during the year… (CBRE Ireland, 2021a: 30).

The fundamentals which underpin PRS demand remain strong, most notably favourable demographic and economic trends, together with a supply shortage, which has been an enduring feature of the market in recent times. This has been exacerbated further by the onset of COVID-19 and the national restrictions which followed (Sherry Fitzgerald, 2021: 7).

There remains a clear and significant supply and demand imbalance for all tenures of housing in Ireland. Due to the Covid-19 pandemic, the CSO reported that house completions decreased (Irish Residential Properties REIT, 2021: 6).

As is this case internationally, there is a widespread view that the PRS sector 'displayed its much vaunted defensive characteristics' (CBRE Ireland, 2021b: 1; Savills Ireland, 2021); 'weathered 2020 with considerable resilience' (Hooke and MacDonald, 2021: 1); and that the 'resilience of the country's multifamily sector was impressive' (CBRE Ireland, 2021a: 29).

There is also ample evidence of optimism in the PRS sector into the future. This largely relates to the same set of factors outlined in the international context above. There are also a number of factors which are more specific to the Irish context. First, the Irish economy weathered 2020 particularly well, and this relates largely to the strong performance of multinationals. Employment in these sectors is very important in terms of demand for institutional rental properties (Savills Ireland, 2021). Second, demographic trends, such as population growth and urbanisation, are particularly favourable in Ireland (Irish Residential Properties REIT, 2021). Moreover, and as outlined above, all commentators believe there is a structural imbalance between supply and demand and that this will be exacerbated by the pandemic's impact on supply over the next two to three years.

Conclusion

At the outset of the pandemic, many commentators identified a potential for major issues in the PRS sector, in particular rent arrears, collapsing rents, and high levels of vacancy. So far, this has not materialised, at least in the institutional sector. The 'resilience' of the sector throughout 2020 has increased the appetite of capital for PRS assets. Moreover, the difficulties faced by other sectors, such as retail, further support the attractiveness of PRS housing. The economic uncertainty associated with the pandemic also makes any change in monetary policy unlikely, and this is central to investment in real estate generally and PRS assets specifically. The events of the past year should be considered in conjunction with long run trends. Demographic and housing market trends over the medium and long term are favourable for PRS investment. There are two factors which are particularly relevant. First, there are chronic affordability issues in many cities around the world and these are leading to much greater difficulty accessing homeownerships, difficulties which are only likely to increase in the post-pandemic economic context. Second, and relatedly, a structural imbalance between supply and demand can be identified across many cities. This will support high prices long term and ensure demand for PRS housing remains strong.

It is also worth discussing briefly what we might consider the direct competition of institutional PRS housing: the so called 'mom and pop' sector. In many countries, small scale, armature landlords have dominated the PRS for many decades. The quality of housing is often poor and property management is often highly amateur. In this regard, institutional PRS housing has a major competitive advantage in that it can provide professionally managed housing, often with newer stock. PRS institutional investors also often buy entire apartment blocks before they come to market, and forward funding deals are increasingly prevalent. This means 'mom and pops' do not have the opportunity to acquire units.

The 'financialization of housing' has a really important role to play here. The demand on the part of international capital for real estate assets appears to be virtually unsatiable. The restructuring of real estate sectors in the wake of the GFC has led to significant changes. The emergence of PRS markets in many countries is now leading to the move of PRS assets from alternative to core. The long term low interest rate environment and expansionary monetary policies are also crucial here. All of this suggests that institutional landlords have the potential to play a major role in shaping cities and housing systems. This is particularly true when we consider the potential expansion of institutional PRS investment beyond urban cores to suburban and even regional locations. Moreover, the PRS sector can also be considered alongside other 'living' sectors, in particular Purpose Built Student Housing, Co-Living and Senior Living, which are all anticipated to be major growth areas.

There is an urgent need for further research to assess the impact of these developments and to inform Government policy. In the Irish context, as in the UK and elsewhere, the Government has embraced 'build to rent' as having the potential to address supply problems. There is an inherent plausibility to this approach as opening up new sources of investment in residential housing has the potential, of course, to increase supply (see Lyons, 2019). Nevertheless, in the Irish context there has been no research, to my knowledge, on the likely impacts of institutional PRS investment on such crucial matters as land values, rent levels, homeownership rates, and planning. This needs to be addressed urgently.

Finally, the widespread optimism around institutional PRS investment is remarkable. Reading the reports of property consultants, it can be difficult not to feel that this optimism may be exaggerated, and that there may some 'bubble' thinking afoot. The PRS sector has expanded very rapidly in many jurisdictions simultaneously, and it seems likely that any major change in current conditions may cause significant challenges for the sector. So far, markets seem to have bought into to the 'resilience' hypothesis, but this has yet to be tested fully.

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