Building the Future: Listed Real Estate in Dutch Pension Portfolios

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As institutional investors seek to build resilient, diversified portfolios, listed real estate has emerged as a compelling complement to private real estate holdings. The largest and most sophisticated institutional investors in the world recognize the many advantages of REITs and use them widely in their real estate strategies. Nareit analytics show that approximately 64% of the 25 largest global investors use REITs to optimize their real estate investment portfolios.

Dutch pension fiduciary asset managers MN and Bouwinvest have embraced the use of listed real estate within their investment portfolios. Although many US institutional investors draw clear distinctions between public and private real estate investment, MN and Bouwinvest view the real estate asset class through a different lens and believe that public and private real estate are fundamentally the same. As a result, both managers have made strategic, long-term allocations to REITs within their broader real estate / real assets frameworks. This article highlights the advantages of REIT investment and explores each firm's investment philosophies, processes, and portfolios.

Making the Case: REIT Advantages

REITs are real estate. Just like their private real estate counterparts, REITs offer attractive risk-adjusted returns, as well as income generation, diversification, and potential inflation protection opportunities. They are also an important component of the investable universe. Exhibit 1 displays the many advantages of a REIT investment. They include desirable structural and market characteristics, financial and performance benefits, and competitive and operational advantages.

REITs also offer an expansive global menu of investment choices with broad investor appeal. Nareit's 2025 *Global REIT Approach to Real Estate Investing* study indicates that 42 countries and regions have enacted REIT legislation. A total of 1,021 listed REITs with a combined equity market capitalization of more than $2 trillion were in operation around the world at the end of 2024. Investors can easily diversify the geographic footprint of their real estate portfolio using listed real estate.

MN: Listed Real Estate Investing Philosophy And Approach

MN has been managing listed real estate products and portfolios since the 1990s, investing the pensions of approximately two million people from various sectors, including the metalworking, electrical engineering, and maritime industries. Over the past few years, listed real estate has evolved from a component of the equities asset class to a vital part of the real assets cluster. That

Exhibit 1: Why REITs?

Source: Nareit, *Global REIT Approach to Real Estate Investing*, 2025 cluster includes direct investments in Dutch real estate, European and US non-listed funds, infrastructure funds, and European and North American listed real estate separate accounts.

Listed Real Estate Is Real Estate—With a Different Wrapper

Although listed markets may exhibit higher short-term volatility and lead property pricing by several quarters compared with private markets, both markets reflect the same underlying real estate fundamentals over the long term. With this in mind, MN views listed real estate as fundamentally similar to direct real estate.

A key distinction, however, lies in the wrapper. With publicly traded markets, listed real estate offers liquidity and efficient market access to geographies and sectors in an otherwise illiquid asset class. This liquidity enables faster portfolio construction and strategic flexibility.

Strategic Focus: Core Mandates, Developed Markets, And Sustainability

MN's real estate strategy employs a top-down approach to real estate investing. Investment preferences include core mandates with a strong focus on income-producing real estate with low leverage and long-term indexed rental contracts. MN also prioritizes European and North American developed markets with strong governance, rule of law, and transparency. Sustainability is a core pillar of the investment philosophy too.

To monitor overall risks and exposures, MN utilizes a comprehensive risk management tiering framework that assesses assets across four dimensions:

- **Sector:** examine the long-term sustainability of business models, diversification possibilities, regulatory and reputational risks, and predictability
- **Geography:** assess countries by factors including, but not limited to, credit ratings, real estate market transparency, and barriers to entry
- **Development:** distinguish among existing, build-to-hold, and (speculative) development assets
- **Leverage:** prioritize companies with low leverage ratios over firms with high leverage

By scoring each factor across low-, medium-, and high-risk tiers, MN assesses all assets and portfolios the same way. This consistent, top-down approach ensures that listed real estate is fully integrated into the broader real assets risk management framework.

Combinations of listed mandate objectives and tiering framework outcomes prioritize certain sectors. Current priorities include logistics and residential (including affordable housing), student housing, senior living, and single-family rental. These sectors are also prioritized in MN's private real estate holdings.

Primarily, external managers administer MN's active listed real estate mandates to maintain a local presence in investment regions. These mandates incur lower external management costs compared with other real asset products. They are also benchmarked against custom indices tailored to strategic and risk criteria.

Complementing Private Real Estate

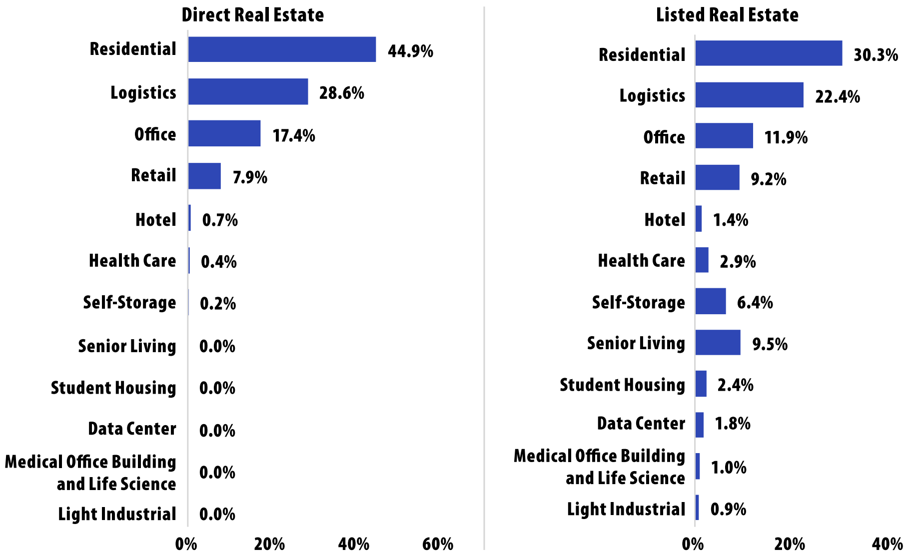
Although listed real estate behaves like direct real estate in the longer term, it typically has higher volatility than direct real estate and greater correlation with general equities in the short term. As a result, MN's exposure to listed real estate is capped at 25% of the real estate portfolio. Today, direct and listed real estate allocations are approximately 75% and 25%, respectively, for the clients that have listed real estate in their portfolios.

Exhibit 2 highlights MN's property sector allocations across its private / non-listed and listed real estate portfolios for its international real estate mandates as of the end of 2024.

The Dutch portfolios primarily focus on residential real estate, grocery-anchored retail, and prime office. The European portfolios initially had a significant weight toward office and retail. However, the introduction of the American mandate and review of the European mandate near the end of 2021 led to a significant shift toward the residential and logistics sectors.

The listed mandates are designed to predominantly provide exposure to low-risk (sub-) sectors and countries, as well as low-leveraged companies with high-quality sustainability practices. The ambition for the listed portfolio is to create positive investment accents by focusing on socially impactful themes. MN aims to achieve this by investing in affordable housing and senior living, including age-friendly and future-proof homes.

Exhibit 2: MN's Direct and Listed Real Estate Portfolio Allocations



Source: MN; as of December 2024

The listed portfolio mainly focuses on logistics and residential property companies. Almost a quarter of the listed portfolio consists of next-generation or niche sectors, including self-storage, health care, data center, medical office building and life science. In addition to sector diversification, the listed portfolio also provides access to countries where there is limited or no exposure via the non-listed space, such as Canada and Switzerland.

Bouwinvest: Listed Real Estate Investing Philosophy And Approach

Bouwinvest manages real estate investments for more than 30 institutional clients in the Netherlands, including bpfBOUW, the Dutch construction workers' pension fund. Internationally, Bouwinvest invests exclusively on behalf of bpfBOUW. As a pension fund for Dutch construction workers, bpfBOUW has a natural appetite for real estate investments; approximately 20% of the plan's capital is allocated to real estate. Bouwinvest's integrated public and private real estate investment philosophy started to take shape from 2011 onward, when the investment firm increased its global real estate allocation following the global financial crisis.

The process of identifying promising markets and sectors revealed that certain real estate segments were more accessible through listed REITs (e.g., Canada, US regional mall, US self-storage). The listed universe also offered attractive exposures to new sectors, such as manufactured housing, single-family rental, senior housing, cold storage, and data center.

In addition, other significant benefits were also derived from the use of listed real estate. They included:

- efficient access to high-quality portfolios and seasoned management teams
- increased liquidity, which facilitates swift sector rebalancing and rotation
- directional information for non-listed investments because listed real estate markets tend to lead direct property markets by 9 to 18 months
- exploration of arbitrage opportunities between listed and non-listed investments

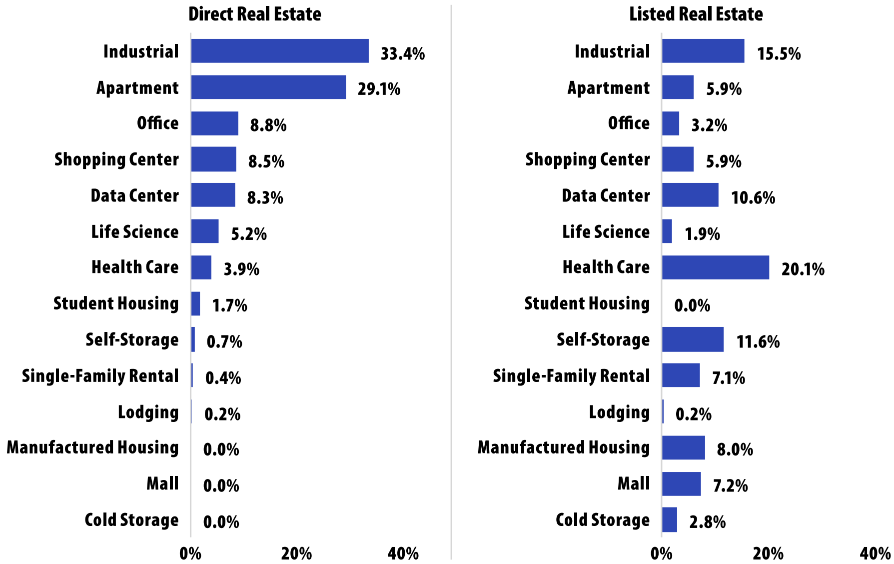
Realizing that ignoring listed REITs would hamper its ability to create an optimal, well-diversified portfolio, Bouwinvest embraced listed real estate as an integral part of its real estate strategy.

Looking at Public and Private Real Estate Through the Same Lens

Bouwinvest's conviction is that public and private real estate are one and the same. Past results show that listed and non-listed allocations have taken turns in supporting the overall portfolio's performance. This has offered a degree of stability to bottom-line performance of regional mandates. Bouwinvest believes that adding listed exposure can positively contribute to the overall portfolio's risk-adjusted return.

The underwriting and investment processes for public and private real estate investments are similar. Controlling for lags in appraisal-based valuations of non-listed real estate, the volatility of listed and non-listed real estate returns does not differ significantly. Correlations between public and private real estate

Exhibit 3: Bouwinvest's Non-Listed and Listed Real Estate Portfolio Allocations



Source: Bouwinvest; as of December 2024

are also highly positive over medium- to longer-term investment horizons.

Both volatility and liquidity have a place in Bouwinvest's proprietary risk-return framework. Listed REITs' increased volatility in the short term is accepted—and can even be advantageous—by rebalancing when pricing may have overreacted. Listed real estate liquidity can also be used to quickly and proactively adjust the overall mandate's allocation toward outperforming sectors.

Completing the Portfolio With Listed Real Estate

Bouwinvest's international real estate mandates are roughly equally split among Europe, North America, and Asia-Pacific. They each adopt an integrated investing approach, with approximate private and public real estate allocations of 75% and 25%, respectively.

In order to achieve a well-integrated and diversified portfolio of private and public real estate, Bouwinvest follows a unique process that divides the real estate universe into market-sector "buckets," e.g., US health care, European logistics, Singaporean commercial.

For its execution of listed REIT exposures, Bouwinvest engages with local REIT investment managers to implement individual bucket strategies. Executing individual listed bucket exposures as opposed to one overall listed regional mandate provides Bouwinvest with important control over the sizing of each individual listed strategy. This allows the mandates to effectively rightsize and steer their listed exposures in alignment with their unlisted exposures, avoid unwanted overlap between the two, and optimize for a well-diversified integrated portfolio.

Following this process, the listed exposures show strong tilts toward niche / new economy sectors such as health care, self-storage, and data center. Other complementary allocations include relatively sizable exposures to segments such as single-family rental, manufactured housing, and cold storage, which are more difficult to access in scale via unlisted investment structures. Exhibit 3 depicts Bouwinvest's property sector allocations across the firm's private / non-listed and listed real estate portfolios for its international real estate mandates as of the end of 2024. More than 60% of listed investments refer to nontraditional sectors that complement the overall mandate.

Listed Real Estate and the Denominator Effect

With the denominator effect, pension plans often find their real estate allocations pushed above target levels. When this happens, plans typically look to sell their most liquid real estate assets—i.e., REITs. However, the timing of these sales is often less than ideal.

Bouwinvest's integration and understanding of public and private real estate has allowed it to take a more thoughtful and strategic approach to this challenge. When the most recent denominator effect came into play for the firm in 2022, Bouwinvest and its pension fund client bpfBOUW held extensive discussions aimed at keeping the plan's real estate allocation on

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target. Although the mandate's approximately 25% listed REIT allocation initially screened as the obvious source of liquidity, the organizations decided not to liquidate the parts of the listed REIT allocation where valuations had already substantially corrected. Instead, signals from the public market were used to execute several redemption requests across the mandate's private investments. These requests were made at an early stage and resulted in the swift liquidation of a good portion of the private property investments.

Building the Future During Dutch Pension Reform

Under the Future Pensions Act, which came into effect on July 1, 2023, the Netherlands is undergoing a major transformation of its pension system that must be completed by Jan. 1, 2028. Key reforms include a shift from defined benefit to defined contribution schemes. For fiduciary managers such as MN and Bouwinvest, this transition underscores the importance of building and maintaining flexible, transparent, and risk-aware investment strategies—qualities that listed real estate is well positioned to support.

As institutional investors continue to navigate a complex and evolving market environment, particularly in the context of pension reform, listed real estate offers a unique opportunity to help build resilient diversified portfolios. REITs can help investors achieve their real estate investment objectives by offering relative value opportunities, complementing existing portfolio allocations through broader diversification and sustainability enhancement, and improving overall portfolio performance. With this in mind, institutional investors should increasingly consider REITs in their portfolio construction endeavors. ■

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