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Barriers to Institutional Investment in Rental Housing: A Systematic Review of Market Risks

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Abstract

Housing practitioners and policy experts are advocating for an expansion in rental housing supply in contemporary cities around the world. The objective is to convince institutional investors to include rental housing investment in their investment portfolio to contribute to boosting housing supply. Unfortunately, the rental sector is characterized by numerous uncertainties and challenges, making it unattractive to institutional investors. With the growing attention to institutional investors in various housing market contexts, an understanding of the market risks (also known as barriers), is useful to inform future research and policymaking. Using a systematic literature review methodology, this paper synthesizes the extant literature on the market risks inhibiting institutional investment in rental housing. Findings reveal the following barriers: low profitability, non-progressive rent control policies, unclear target group for rented projects, poor landlord-tenant relations, inadequate property management and unreliable property market information. Among all the barriers identified, low profitability and inadequate property management had great influence on their investment decision. Firstly, institutional investors perceive rental housing investment as less profitable and unattractive in terms of project performance. Secondly, the lack of supporting structures for the property management sector contributes to derailing rental yields. The review also finds that the target group for rental projects are often vague especially for projects under government assistance. The rental sectors in many countries are confronted with numerous problems, some of which greatly inhibit institutional investors from investing in the rental asset. This paper concludes that, although the idea of expanding rental housing supply seems laudable, ignoring these problems may be detrimental to housing markets in the long run. Rental markets in many countries are volatile, and thus not ready to receive institutional investors fully into the sector. An expanded rental sector could be advanced if policy makers take the appropriate steps to resolve the identified challenges. Adequate structural preparations must also be made for large scale rental housing supply.

Keywords: Institutional investor, rental housing, market risks, housing policy, barriers

1.0 INTRODUCTION

There is an extensive body of literature discussing the need to increase rental housing supply around the world (Alakeson, 2012; Eastaway & Varo, 2002; Gilbert, 2003; Gilmour & Milligan, 2008; Glaeser, 2011; Green, 2011; Hatcher, 2015; Peppercorn & Taffin, 2013; Rakodi, 1995). These theoretical debates have informed pragmatic, piloting, and forthcoming initiatives such as the UN-Habitat's New Urban Agenda (UN-Habitat, 2017); Australia's National Rental Affordability Scheme (Australian Government, 2014) and the Low-Income Housing Tax Credit program in the US (Cummings & DiPasquale, 1999; McClure, 2012). Aside these notable examples in the US and Australia, there are equally vibrant policies in the UK, Europe and Asia that are targeted at establishing build-to-rent schemes to help increase rental housing supply. Nationally, many governments have given their unrelenting support to expand the rental sector through various incentivization strategies. The case is no different in the international community as direct provisions have been made in the new Sustainable Development Goals (SDGs) to find sustainable housing solutions worldwide (UN-Habitat, 2015). The advocacies in favour of rental housing supply have acted as drivers for experts to reach grounded justifications (*the why*) and the strategies to achieving this goal (*the how*). The justifications and strategies put forward align with the list of recognized pathways to creating livable and sustainable cities in future.

There are countless reasons why rental housing supply should be given a boost in cities. Gilbert (2003), Green (2011), Berry and Hall (2005) and Andersen (2008) consider changes in housing demand and supply as a critical component. The primal argument relates to the fact that the worlds' population has seen an exponential growth rate and an increase in the number of urban residents over. The global urban population, which was 55 percent in 2018, is projected to reach 68 percent in 2050 (United Nations, 2018). This implies that, many cities are rapidly becoming urbanized and that more people would be residing in urbanized cities in the future. The implication of having more people move to urban centres is significant and hence explored widely (Aluko, 2010; Gan et al., 2017; Gao et al., 2017; Malik & Wahid, 2014). Phillips and Joseph (2017) studied regional housing supply and demand in Australia and found positive connections between changing demographics and housing shortage. Most arguments on changing demographics and disparities in housing demand and supply ends in one voice; ‘a vast percentage of the urban population cannot afford to purchase homes either outrightly or with the aid of residential mortgages (Collinson, 2011). Considering this, policy makers are cogitating on boosting large-scale rental housing supply to meet the rising housing demand. Gilbert (2003) states that, rental housing is less expensive, extra expansive and provides a suitable tenure option for majority of the world’s urban population. There are housing supply shortfalls which could be curbed by boosting rental housing supply in cities. The transitional role it plays and its ability to encourage residential mobility cannot be overemphasized (Santiago et al., 2010). Policy experts are brainstorming to come out with well-developed, market-driven frameworks to encourage institutional investors to go into large scale rental housing investment.

To expand rental housing supply, it is important to evaluate the existing supply mechanisms in major housing markets around the world. Research evidence shows that individual landlords are the dominant rental housing suppliers in many countries (Arku et al., 2012; Bierre et al., 2010; Gilbert, 2012; Hegedüs et al., 2014). With the increase in the world urban population, these landlords are presented with the opportunity to build more rental units to add to the rental existing stock. Unfortunately, most of them lack the financial capacity and an unrelenting desire to re-invest in additional units. Extant literature expresses this lapse in supply as housing deficit and suggests that this gap could be best bridged by inviting institutional investors into the private rented sector (Alakeson, 2012; Berry & Hall, 2005; Lawson et al., 2009; Stevens, 2016; van Loon & Aalbers, 2017). This line of thinking however seems farfetched considering the cloud of volatility surrounding rental housing investment. The question remains as to whether institutional investors would succumb to the enormous pressure to diversify their investment portfolio with large scale rental housing investment; a new asset class to them or would remain objective and critical about their investment decision making. Policy experts have mainly dealt with these issues by pointing out the role rental housing investment plays in multi-asset institutional portfolios. The disposition meted out through government reports and conference proceedings seem to focus on the need to diversify institutional portfolios which are otherwise dominated by equities and securities. Matters concerning rental housing as an asset class have not been completely understood for the purposes of assessing risk-return variance. Understanding the meeting point between portfolio risks and market risks provides an avenue for policy experts to entice institutional investors. More importantly, it gives a clear picture on the role of rental housing investment within institutional portfolios. There is the need to evaluate historical housing supply patterns through the lens of path-dependence to create the right platform for attracting institutional investors.

Unfortunately, there is no paper which has synthesized all the market risks associated with rental housing investment. This paper fills this gap by contributing to the growing literature on the justifications and strategies for expanding rental housing supply through institutional investors. It asks one fundamental question; *what are the barriers to institutional investment in rental housing*? The multi-dimensional nature of this question makes it an interesting topic especially for on-going efforts towards sustainable cities. Using a systematic literature review approach, it searches, organizes, and synthesizes extant literature discussing the pending rental housing market risks which make the rental sector unattractive to institutional investors. It analyzes how the findings could be used as an eye-opener to define a pathway to attract institutional investors. A number of these barriers are identified in highly influential studies conducted in Australia (Berry, 2000; Berry & Hall, 2005; Blessing & Gilmour, 2011; Milligan et al., 2015); in Europe by (Alakeson, 2012; Andersen, 2008; Newell & Marzuki, 2018; van Loon & Aalbers, 2017) and presented in several articles and conferences around the world (Financial Times Business Limited, 2014; Gilmour & Milligan, 2008; Martin et al., 2018; Nethercote, 2020; Oxley et al., 2015). One crucial issue raised about rental housing investment is that the market risk associated with it is not easily diversified and may adversely impact portfolio performance. The contribution of this paper does not only identify the barriers in rental housing markets, but also pools together the body of existing knowledge on the topic. It unravels the *overlooked* loopholes in rental markets, providing a blueprint to prepare for what seems like an inevitable need to increase rental housing supply around the world. The findings provide a guide to policy experts to assess the preparedness of housing markets for an expansion in rental housing supply.

○2.0 METHODOLOGY

This paper applies a systematic literature review methodology to extract and synthesize relevant information on the barriers to institutional investment in rental housing. Theoretically, a standalone systematic literature review begins with identifying the research problem and defining the purpose of the research (Okoli & Schabram, 2010; Xiao & Watson, 2019). This stage is the planning stage where all the preliminary preparations are done (Kitchenham & Charters, 2007; Thomé et al., 2016). In relation to the research problem and question, Berry (2003), Glaeser (2011) and Green (2011) assert that there is a shortfall in rental housing supply in many modern cities and that efforts made to expand it through institutional investors have proven futile because of the many barriers that exist. Unfortunately, not much has been done in housing scholarship to synthesize all relevant literature discussing these inhibiting factors. The purpose of this review is to provide a non-dated conceptual overview of the identified barriers inhibiting institutional investment in rental housing. It identifies papers engaged in this discourse through a step-by-step procedure to gather relevant information as well as on-going debates. Although there is no standardized procedure for conducting systematic reviews across various fields, there are four fundamental steps, namely, literature search, literature selection, data abstraction and the writing of the review (Kraus et al., 2020; Snyder, 2019). In undertaking this review, the researchers ensured that the guidelines followed were transparent and provided an avenue for replication by others.

2.1 Literature Search

The literature search stage is one of the most important stages of the review process and follows right after the planning stage. In searching literature, the attention of the researcher must be focused on achieving sensitivity rather than mere specificity (Nightingale, 2009). That is, being only specific may lead to the omission of very important research material. To adopt sensitive searches, a proven way is to use filters as far as the database permits. In line with Nightingale (2009), several search codes were devised and used in three (3) Built Environment databases, namely, Taylor & Francis, Scopus and Google scholar. The search codes include "institutional investment in rental housing", "institutional investment in residential property", "institutional investment in social housing", and "institutional investment in real estate". Due to the expansive nature of Google scholar, and Taylor & Francis, quotation marks were used to narrow down the search to reflect relatable records. It expanded the search to include all rental housing typologies using sub-categorizations like private, social, and affordable housing. There was no specified date for the initial search as it started from inception to the search date. The initial search results are presented in Table 1.

Table 1 Initial search results from selected databases

Search code	Number of Publications from Database		
	Taylor & Francis ""	Scopus*	Google scholar ""
Institutional investment in rental housing	2	39	87
Institutional investment in residential property	2	46	40
Institutional investment in social housing	3	113	48
Institutional investment in real estate	10	368	101
Total	**17**	**566**	**276**
	Total = 859		

Reasons behind using the search codes were determined on definitional and terminological varieties across different countries. The differences were appropriate because the terms rental housing, residential property, social housing, and real estate, cover an extensive range of papers discussing the subject. Taylor & Francis online database recorded a total of 17 papers, Scopus recorded 257 and Google scholar 276. The overall total results obtained after the initial search was 859 records. These included duplications across the search codes and the databases. The results covered a broad spectrum of peer-reviewed papers, non-reviewed papers, books, government reports, conference proceedings, dissertations, and technical reports. All records from the initial search were imported into Endnote20 which automatically detected 132 duplicates out of the 859 records. This reduced the results to 727 records, eliminating duplications while avoiding errors and repetitions.

2.2 Literature Selection

The next stage was the literature selection stage. The 727 records were screened and scanned using title, abstracts, and conclusion to identify papers discussing the barriers inhibiting institutional investors from going into rental housing investment. After the screening, 479 records were excluded as unrelated, resulting to 248 records ready for full text assessment. The next stage was to design the eligibility criteria for full text assessment. At this stage, papers were read thoroughly to identify the relevant information being sought. There are two schools of thought on literature selection; the first proposes designing eligibility criteria before the literature search (e.g. Borrego et al., 2014; Snyder, 2019, p. 337) whilst the other recommends formulating it after the initial search results have been generated (Kitchenham & Charters, 2007). In this paper, the eligibility criteria were designed in the planning stage and applied in the literature selection stage to justify inclusion and exclusion. First, papers that related to the research question were included whiles those that did not were excluded. Secondly, papers which focused on rental property were included whiles those that discussed other real estate asset classes including commercial, retail, offices etc. were excluded. The final condition for inclusion was based on the language in which the paper was published. Only papers published in English Language were included. The eligibility criteria constituted these conditions for assessing the 248 records. Details on the number of records excluded for each condition are presented in Figure 1. The total number of literature sources selected after full text assessment was 65.

Several highly influential authors made mention of important barriers which needed detailed explanation and elaboration. This meant that there was the need to manually search for other papers to complement the results and enrich the data analysis. Independent hand searches were done based on pre-identified barriers. It is a fact that institutional investors consider risks that are beyond their portfolios as market risks. The search codes (institutional investors) AND (market risk); (institutional investor) AND (residential property) and (institutional investor) AND (barriers) were used across the three databases. The identified barriers as shown in Table 2 were further manually searched to add more materials to support the analysis. For example, in discussing landlord-tenant relations, additional searches were conducted around the discourse surrounding it and how that impact investment decisions of institutional investors. The total number of papers selected for inclusion in this literature review was 71. In other words, 71 papers were found to discuss the barriers inhibiting institutional investors from investing in rental housing. The systematic review guidelines were carefully selected and followed to minimize subjectivity and increase transparency and originality of the findings. The selected literatures were exported to a new library in NVivo 12 along with the downloaded copies of the pdfs for the data abstraction stage. The complete procedure followed from the planning stage through to the literature selection stage is present in the form a flow diagram in Figure 1.

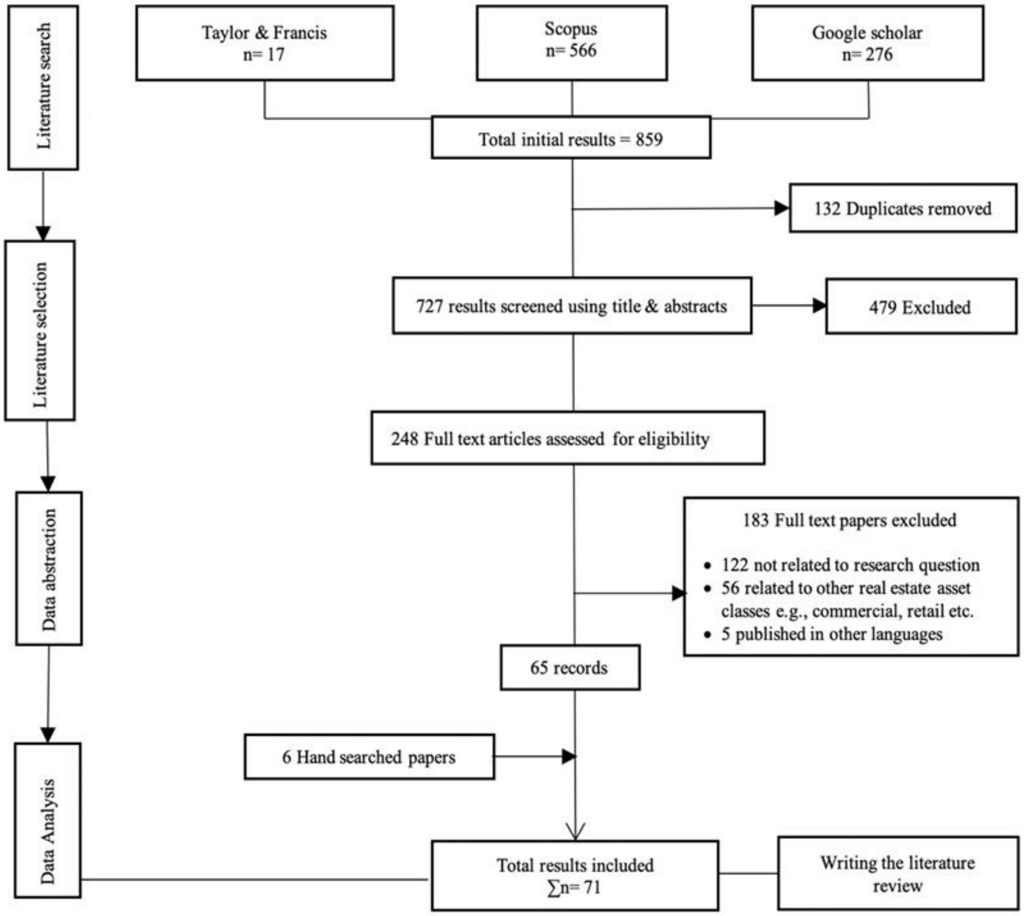

Figure 1 Flow diagram of systematic review process
(Source: Liberati et al., 2009)

2.3 Data Abstraction

Data was abstracted with the aid of NVivo 12; a research software which helps in qualitative analysis. A significant number of barriers were identified in the selected literatures including novelty, illiquidity, high risks, poor market information, high management costs, low returns, inadequate rent control laws, reputational damage, lack of opportunities for investment at scales, weak institutional frameworks, poor landlord-tenant relations, land taxes, high vacancy and tenant turnover, and high transaction cost. These barriers had to be structured in a way that allowed for coherent analysis. The NVivo 12 research software may be used as a supportive tool for qualitative analysis of literature review papers (Bandara et al., 2011; di Gregorio, 2000). This software was used in creating nodes and developing themes that served as major concepts under which relatable barriers were grouped. This information is illustrated in Table 2.

Table 2 Conceptual framework

Concept	Market risks
Low Profitability	Low returns High vacancy Diverse investor motives Illiquidity High transaction cost High management costs High taxes
Non-progressive rent control policies	Political interference Inadequate rent control laws
Unclear target group	Undefined project target No distinction between for-profit and social investments
Poor Landlord-tenant relations	Weak institutional framework Fear of reputational damage
Inadequate property management	Less attention to property management in policy Physical deterioration and functional obsolescence
Unreliable property market information	Novelty Absence of track record Poor information on housing transactions

Six conceptual headings were generated to show the groupings of barriers abstracted from the papers. Fisch and Block (2018, p. 105) assert that, a good systematic review must be concept-centric, that is; the focus must be on concepts and not merely the studies. From a holistic point of view, there are many barriers fueling the apathy of institutional investors towards rental housing investment as seen in Table 2. The papers selected are identified as *market risks* considering the anticipated expansion of the rental sector through institutional investors. There was the need to show the number of authors discussing the barriers and the years of publication (by decade) to demonstrate relevance, research direction and publication trend over the years. This information is illustrated in Figure 2.

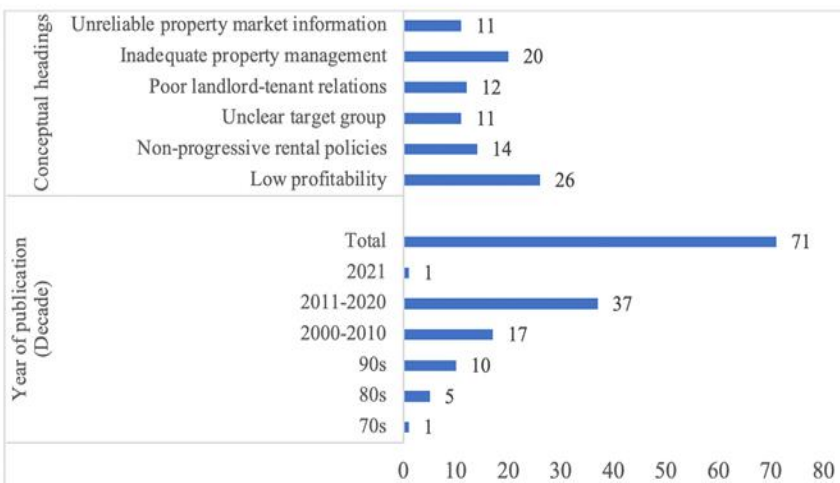

Figure 2 Identified barriers and years of publication

Figure 2 shows the trend of publications over the years as well as the number of authors discussing each concept. A total of 26 papers were found discussing the barriers under low profitability, 20 under inadequate property management. This was followed by arguments presented in 14 papers on non-progressive rent control policies, poor landlord-tenant relations- 12, unreliable property market information- 12 and unclear target group- 11. The distribution on the years of publication shows that there were more papers published in the last decade than the preceding three decades together. This shows the relevance and significance of the discussions in recent years from both policy and theoretical perspectives. Undoubtedly the topic of attracting institutional investors into rental markets has gained attention in recent times than in the past. Further explanation and interpretation of findings are presented in forthcoming sections.

2.3.1 A Measure of Quality

In assessing quality, a set of well-defined criteria may be developed to measure rigorousness, credibility, and relevance of research materials (Feng et al., 2017, p. 43). Since the exclusion and inclusion stage had already been carried out, there was the need to set standards to measure the quality of the results gathered using journal rankings and levels of indexation. This step was used as a benchmark for assessing the quality of the results obtained using well-known databases called Web of Science and Journal Citation Reports. This step helped to verify citation statistics needed to satisfy the requirements of having a representation of high-quality contributions on the topic.

The literature review covered the top cited papers from high-ranking journals. Since the journal approach was not used to carry out the search, a cross-checking method was adopted to identify the journals which published the 71 records generated for the final inclusion. In line with identifying the barriers to institutional investment in rental housing, the scholarship in built environment journals was the target. The results were carefully checked to verify the quality of the journal, the credibility of the authors and the number of citations. The 2020 Journal Impact Factor (JIF) ratings was therefore used to check several indexing information such as volume of publication and citation. This is presented in Table 3 along with the number of relatable papers published by each journal.

Table 3 2020 Journal Impact Factor of selected journals included in the review
(Source: Web of Science and Journal Citation Reports 2020)

Journal	2020 Journal Impact Factor	No. of Papers in this Review
Urban Studies	4.663	6
Housing Theory & Society	3.77	1
International Journal of Housing Policy	3.612	5
Housing Studies	3.516	8
Real Estate Economics	3.418	2
Urban Policy & Research	2.448	3
Journal of Housing & Built Environment	2.414	3
Housing Policy Debate	2.360	3
International Journal of Strategic Property Management	2.093	1
Science & Technology for the Built Environment	1.990	0
Journal of Real Estate Finance & Economics	1.479	2
Journal of Portfolio Management	0.709	3
Journal of Property investment and Finance	0.59	1
Financial Markets & Portfolio Management	0.29	1
International Journal of Urban Sustainable Development	0.38	1
Property Management	0.25	4
Other sources	-	27
		Total = 71

A cross-checking was done with results obtained from the three databases, Taylor and Francis, Scopus and Google scholar to list the journals identified and the number of papers under each. Papers included in the review covers a wide range of high raking journals such as Urban studies, Housing Theory & Society and Housing Studies. As shown in Table 3, the results were gathered from high quality housing journals judging by the Journal Impact Factor (JIF). This reflected not only the discourse within the finance literature but the perspective of scholars in the housing studies fraternity. The next section describes the procedures followed at the writing stage, specifically on the methods used in writing and analyzing the results.

2.4 Writing the Literature Review

There are two broad ways to analyze and write systematic literature reviews, namely using quantitative means- through meta-analysis or qualitatively through descriptive analysis (Rubak et al., 2005). The discussions were presented in the form of descriptive analysis. A useful technique for analyzing qualitative systematic reviews is to compare the quality and strengths of findings from different studies through argumentative disposition (Snyder, 2019, p. 335). In writing the review itself, there is the need to create the right balance between breadth and depth (Fisch & Block, 2018). This means that it is not just about presenting a significant number of studies on a subject but also including important information through a good in-depth analysis of results. The papers selected for this review followed a qualitative analytical approach which compared the quality and strengths of findings from indexed and non-indexed papers. It was structured to show adequate breadth and depth as well as show relationships between the market risks identified. The analysis was supported by hand searched papers which contributed to creating the depth of understanding needed for coherent analysis. The review ends with a conclusion, limitations to the findings and recommendation addressing gaps for further research.

3.0 DISCUSSION

Institutional investors have a large portion of investments in financial markets, with little inclination towards rental housing investment. The idea of attracting them into rental markets means; creating an enabling environment which does not only improve the sector but most importantly fits their investment strategy. After previous engagement with institutional investors in various countries, there is a great concern about the severity of the risks associated with rental markets and the position of institutional investors on the kind of challenges influencing their decision to stay away from the sector. The discussion covers a broad spectrum of ideological viewpoints and conventional knowledge pertaining to what many scholars have identified as *barriers* to institutional investment in rental housing. The primary objective of this paper is to probe into the factors which impact the decision of institutional investors towards rental housing investment. To better understand this discourse, certain pointers need to be made concerning what *barriers* mean and to identify its relation to market risks. Foundational studies in portfolio selection and management reveals two main types of risks institutional investors deal with:

market/systematic risk and specific risk/unsystematic (Markowitz, 1952, 1959). Market risk refers to the unfavorable *market conditions* within which selected assets belong whiles specific risk relates to the variability of returns of assets within a portfolio (Levitz, 1974). In this sense, market risks consider the outlook of the external investment environment and are often measured using broad indexes. Rental housing belongs to the broader asset class real estate and thus subject to its market conditions. The existing market conditions and regulatory environment of rental housing influences the investment decision of institutional investors in various ways. The objective of this paper goes beyond a mere discussion on specific risk-return variability to an analysis of *rental housing market risks.* This points out a market overview of the unfavorable conditions inhibiting institutional investors from investing in the rental sector despite the numerous diversification benefits promised from its addition to institutional portfolios. The discussion is therefore organized into two parts, the first analyzes the barriers identified from the 71 included papers, whiles the second part, reflects on the relative importance and relationships between them. The paper ends with a conclusion and recommendation for further research.

3.1 Barriers to Institutional Investment in Rental Housing

Mainstream housing scholarship is beginning to pay more attention to the challenges/limitations in rental housing markets. It is believed that these limitations have become *barriers or barricades or stumbling blocks* to many governments' policy initiative towards the expansion of the rental sector. This discourse is not only relevant for policy directions but also good for the advancement of theoretical disposition on the subject. The discussions below are extracted from extant literature as the *market risks* which influence institutional investors' decision towards rental housing investment. These risks are also known as systematic risks because they are not easily diversified using formulas and computations as some specific portfolio risks. The following barriers were identified from the literature referred to in this paper.

3.1.1 Low Profitability

Low profitability is a major barrier influencing the investment decision of institutional investors towards rental housing investment. The rental asset is argued to be less profitable than other assets, for example it gives a return of between 3-5% as against 7-9% with commercial property (Jones, 2007). The returns are often linked with the level of risk associated to the asset. There is a theme in institutional literature concerning which asset class is risker. In the 70s and 80s, Levitz (1974) and Fraser (1986) compared the risks associated with property investment with that of government equities and found that, equities are riskier than property. This did not resolve the contention as there were definitional varieties on the type of risk being considered and the generic attribute of what the scholars referred to as *property*. Recent studies in housing scholarship have taken contrasting positions on earlier studies by asserting that residential property is riskier than other assets (e.g. Berry & Hall, 2005; Milligan et al., 2015; Montezuma, 2004, 2006). This assertion is often made when the risk-return profile of rental housing investment is being discussed. Investing in rental property comes with operational expenses and other costs related to transactions and the overall management of the property. The higher the operational expenses the lower the profitability. Profit-driven investors such as institutional investors after assessing the peculiarities associated with rental housing investment, act cautiously by avoiding an obvious arena of uncertainty (Berry & Hall, 2005; Davidson & Evans, 2015; Susilawati et al., 2005). The illiquid nature of rental housing investment makes it worse when there are high vacancy rates, low returns, high taxes, high management costs and low returns (Nowlan, 2018; Scanlon et al., 2013). The implications of low profitability on the investment decision making of institutional investors cannot be underestimated. The more profitable a rental housing investment is, the more likely the investor would carry out adequate maintenance, which would subsequently lead to a high quality of housing (Downs, 1983; Lundström, 1986). This means, the proceeds from the property would determine whether the investor would re-invest in the property or not. Dilapidation and functional obsolescence are common in many rented markets, as investors hold back the little profits they make. Low profitability associated with rental housing investment is therefore linked to the extra cost of holding the property (Trojanek & Trojanek, 2012, p. 75).

There are arguments which centre on the nature of the rental market. Rental housing markets are often made up of laid-back non-profit oriented individual investors who invest in rental housing for reasons other than rental income, capital gains and negative gearing (Andersen, 1998; Priemus, 1998; Seelig, 2001). These dominant actors have diverse reasons for investing, some of which are for convenience, family reasons, prestige etc. As seen in many countries, the rental sector has become the playing field for significant number of non-profit oriented individual landlords. There is no doubt that the amalgamation of individual investor behavior and psychology drives the culture in rental markets thereby affecting the profitability and attractiveness of the asset. Institutional investors are not all conservative in contrast with many individual landlords and do not find the rental market a conducive investment arena to achieve their portfolio goals.

Finally, the propensity for government involvement in the rental sector using stringent conditionalities and regulations is a concern for institutional investors. The battle between socialistic ideologies of grasping a stronghold of control on the sector and those of capitalistic dispositions to leave the market to operate by itself is a matter of contention. Low profits in the rental sector cannot be discussed without pointing out the regulatory restrictions on taxes and rents. In some jurisdictions rental prices are capped with rent ceilings; a conditionality which pushes institutional investors away. Although the original intention for rent control laws is to protect tenants, it works against investors by limiting their returns (Berry & Hall, 2005; Eastaway & Varo, 2002). A detailed explanation on the dynamics of rent control and its influence on institutional investors decision is discussed in the next section. Just as observed in the Low-Income Housing Tax Credit program in the US, many governments are supporting the rented sector through what Blessing and Gilmour (2011) call *an invisible hand*. To increase rental housing returns, it is important to reduce several risks associated with the derailment of profits generated from rental housing investment (Berry & Hall, 2005, p. 91). Institutional investors may be persuaded to discuss the idea of balancing profit making with social goals if the uncertainties associated with returns are addressed (McMahon, 2006; Tang et al., 2017). In summary, the profits on rental housing investment is a barrier to institutional investors' decision making. This is broken down to reflect matters on low returns, high vacancy, diverse investor motives, illiquidity constraints leading to high transaction costs, high management costs resulting from operation expenses, and high land taxes (Ciochetti et al., 2002; Craft, 2001; Heiss, 1990; Kanoria & Muzaffar, 2017; Pires et al., 2018). These factors tend to affect profits realized from rental housing investment, making the asset unattractive.

3.1.2 Non-Progressive Rent Control Policies

Rent control policies are a scare to institutional investors. For jurisdictions which have it in their regulatory framework, there are issues with its progressiveness and sensitivity to market changes. The existing literature points to two directions of thinking, first; the act of instituting rent ceilings, and second; the act of removing existing rent ceilings. There is a contention in the literature on whether rent control policies negatively affect the rental sector or not (Kattenberg & Hassink, 2017; Kettunen & Ruonavaara, 2015; Kutty, 1996; Levine et al., 1990; Oust, 2018). The contrasting views in literature have created what Kutty (1996) calls *a theoretical ambiguity.* Meaning, it is still not clearly proven the extent to which rent control affects rental markets. Rent control policies are a defense mechanism against unreasonable investors who exploit or anticipate exploiting tenants by charging extremely high rents (Desmond & Wilmers, 2019). They provide tenant protection benefits in the short term (Levine et al., 1990), but puts investors in a disadvantaged position in the long term (McKenzie & Lee, 2018). The back-and-forth adjustments on rental prices function as a complicated *jigsaw* looking for its master or better still; *robbing Peter to pay Paul* scenario which could potentially heighten the already strained relationship between landlords and tenants. Institutional investors in jurisdictions that enforce rent control pay more attention to market considerations and therefore tend to avoid such interference by government.

From extant literature, rent regulation or de-regulation affects rental housing markets in three main areas, namely, the investors' yield, the quality of the existing rented stock and the building of additional stock (Coleman, 1988; Kutty, 1996; Olsen, 1988; Tandel et al., 2016). It has been established that, investors do not go on to build new rented stock, when the existing stock performs badly (Coleman, 1988). In an investment environment where rental yields are constrained, the performance of this asset is negatively affected and may not entice investors to increase its component within their portfolio. Rent regulation is not a bad policy but becomes an issue when such policies are not periodically reviewed to become progressive to the changing dynamics in the market. As has been established, rent control policies that are non-progressive tend to lead to massive declines in the quality of housing (Moon & Stotsky, 1993). On the flip side, removing rent control laws comes with advantages of relieving prospective renters from unnecessary searching costs and making the search for new accommodation easy (Oust, 2018). The correlation here is that a rental market that is devoid of restrictions would encourage investors to disclose information about their properties. To put it in the context of the barriers discussed, institutional investors shun away from rental property investment because of the likelihood of government intervention using rent control laws, something that affect rental yields (Crook & Kemp, 2002). Again, this relates to the previous point on low profits. A rented sector without changes to rent, taxes and land is likely to attract institutional investors.

3.1.3 Unclear Target Group

One of the major confusions about the rental sectors in many countries is the misconception about the differences between socially responsible rental investments facilitated by government and market driven initiatives. The existing framework of rental housing projects is fundamentally flawed in terms of target groups for which such projects were commissioned (Courtney, 2018; Han et al., 2021; Hansson & Lundgren, 2019; Lennartz et al., 2012; Özogul & Tasan-Kok, 2020). The theory on target groups is categorized into four main levels: the extreme poor, low-income households, middle income households and high-income households. There is a myth surrounding the concept of *housing affordability* (Baker et al., 2015; Luffman, 2006; Stone, 2006), that can be traced to the multifaceted meanings accorded to the rental housing typologies in many countries. As some assert, affordability is relative and cannot be generalized for all households. The confusion about target groups in rental housing markets creates a lot of problems for both public and private entities. From the perspective of government, it is essential for public housing or social housing schemes, often commissioned as non-profit projects, to be set aside for specific groups of people. As evident in many housing markets, social rental housing programs are often characterized by long queues, bureaucratic bottlenecks, and carefully calculated invasion by ineligible households (Stanovnik, 1994). This happens because these projects either do not have predetermined target groups or the allocation mechanisms are weak. For the private sector, target group is crucial in their marketing strategy but are sometimes forced to change project direction to adapt to the prevailing housing market conditions (Lennartz, 2016).

Policy experts are calling for institutional investors to invest in rental housing, as an alternative investment. The question on what kind of collaboration is being sought should be clear in terms of support structures, target group for which such projects would commence and the nature of revenue to be expected. Verifying the target group is one of the avenues to measure rental housing investment success or failure. This comes with first; identifying what the target is. Is it for the entire market or for a specific income threshold? Second, the defined target group must benefit from demand-side assistance programs (if any). The right mechanisms must thus be put in place to ensure that the project serves its predetermined target group and that this group is empowered to pay the required rent. Otherwise, profitability would be affected which would creep into the other variables. For a vibrant rented sector, governments must play a key role in facilitating access to public and social housing programs to avoid long queues and to avoid the wrong group getting access to projects which are not meant for them. They must endeavor to eliminate all ambiguities and regulatory barriers to ensure that large scale institutions participate in providing rented units for the pre-determined target group (Ball, 2010). On the other hand, if the direction is to bring in institutional investors to invest in rental stock in capitalistic spirit, then this must be made clear. Defining the free-market principles that will guide such investments is paramount to the success of the project.

3.1.4 Poor Landlord-Tenant Relations

Corporate landlords are often shielded from the direct confrontations made by tenants towards their individual landlords. For instance, REITs which have holdings in rental properties work with real estate agents who deal directly with tenants. There are several reasons why healthy landlord-tenant relationships are important in attracting institutional investors into rental housing markets. First, the vital symbiotic relationship between the two parties soars when there are breaches in tenancy agreements, further escalating into other internal conflicts. For instance, disagreements with rent increments, share of utility bills and interference in personal space, are almost an inevitable aspect of this relationship (Arku et al., 2012; Desmond & Wilmers, 2019; Smith, 2017). Using cognitive mapping strategies, Pires et al. (2018) found that the risk of tenant behaviors pushes away institutional investors. Additionally, there are other external factors such as discrimination against prospective tenants based on race, ethnicity, physical disability, or sexual orientation (Gbadegesin & Olatoye, 2013; McMahon, 2006; Verhaeghe et al., 2016). These are obviously expected in many housing markets, but the problem is the absence of efficient institutional frameworks to manage these problems (Malkawi, 2011; Sackel, 2012).

Landlords indeed reserve the right to choose who they allow into their dwellings. The tenant selection criteria become an issue when it graduates to market level discrimination as was demonstrated against Aboriginals in Western Australia (Solonec, 2000). In some cases, individual landlords exploit who they view as 'risky tenants' by charging extremely high rents. Tenants also hold bad perceptions about landlords especially about whether they have good intentions for them or not (Arku et al., 2012). The complaints made by tenants against landlords and vice versa should be critically evaluated and redressed. The power struggle between landlords and tenants often escalates and adversely affect the entire rented sector. The resentments tenants hold against individual landlords could be transferred to institutional investors and thus create a politically damaging image for them (Scanlon et al., 2013). With an overview of the problematic relationship between landlords and tenants, the potential reputional risks at play does not help in attracting institutional investors (Pomeroy, 2017). Measures must be put in place to manage landlord-tenant relationships to make the sector an attractive environment for large-scale investors. None of the two parties should be favoured to the detriment of the other and also the right institutional frameworks must be put in place to ensure a smooth resolution of potential conflicts.

3.1.5 Inadequate Property Management

A rental sector is directly linked to the property management sector, making it a major factor in the rental agenda. There are concerns about the decline of public/social housing projects due to physical deterioration and functional obsolescence (Aziabah, 2018; Ball, 2010; Coleman, 1988; Lennartz, 2016; Nowlan, 2018; Sarıoğlu-Erdoğdu, 2015; Shiki, 2014). The arguments made point to the fact that property management has not been prioritized in housing policy. Property management plays a crucial role in rental housing supply and cannot be overlooked when assessing rental markets. Property managers take on the responsibility of running the property, an area which is often unattractive to institutional investors. Alakeson (2012) asserts that, institutional investors are not interested in the development and running of the property, but only in the returns. The implication is that, without a specially set up entity for property management, the rented property may become dilapidated. As noted earlier, many public/social housing projects are often described with words like 'deteriorated, dilapidated, declined, cheap quality, broken down, depreciated, run-down, abandoned' associated with public/social rented dwellings (Aziabah, 2018; Coleman, 1988; Megbolugbe, 1983; Sarıoğlu-Erdoğdu, 2015; Shiki, 2014). This is partly because the property management task is not given the required attention. Additionally, the financial and administrative commitment needed for the sustenance of rental housing is inadequate.

The high operational expenses asspciated with runing rental housing investment is a great worry to institutional investors. Garboden and Newman (2012) and Wood (2001) argue that operating costs for small low-end rental housing are more than that of bigger rented projects. This means that scaling up may be an advantage to realize economies of scale in operating costs. For decision making, Bowles et al. (2001) suggests a flexible plan to cater for any unexpected changes in operating costs. The element of uncertainty would always be present in measuring the performance of properties. Failure to adequately prepare for operating costs can therefore lead to the deterioration of rented properties. In big rental projects, the property management approach must be clearly defined to reduce any form of indecision among the relevant stakeholders. Aziabah (2018) reiterates the importance of having a reliable source of finance for property management. This does not necessarily have to be from the property itself; it may come from other sources (e.g., government sources). As discussed earlier under investor's yield, the quality of rental housing does not only benefit the tenant and investor, but mostly makes the rented market attractive to large scale investors. Current rental housing markets are often dominated by individual landlords and lack the professional knowledge to properly manage (Priemus, 1998). The impression is that institutional investors are much more professional and would not have these voids associated with their properties. Following prior studies conducted in; Ghana by Aziabah (2018); in Australia by Yates (2013); in India by Tandel et al. (2016); in Nigeria by Megbolugbe (1983); in Slovenia by Stanovnik (1994); in England and the Netherlands by Lennartz (2016), this paper identifies that, the property management sector in many countries have not been given the required attention. To curb this problem, policy experts need to include property management as a priority in housing policy and encourage adequate maintenance in rental projects. From the sideline, institutional investors may be encouraged to throw in big sums of money to support the expansion of rental housing supply in large cities.

3.1.5 Unreliable Property Market Information

Strategic and tactical asset allocation models used by institutional investors are heavily dependent on historical data and market trends. Just like any investment media, making decisions about rental housing investment requires a thorough assessment of market data. Unfortunately, the rental data needed to check market trends are lacking in many housing markets. Poor availability, credibility and reliability of property market information is one of the most overlooked challenges in rental housing markets around the world. Rental housing investment is a novel asset class to institutional portfolios, and thus not much is known about its performance indicators in the eyes of a typical institutional investor. The data needed for this judgement is largely absent in the market (Abdulai & Hammond, 2010; Awuah et al., 2017; Bowles et al., 2001; Henry, 1995; McMahon, 2006; Milligan et al., 2015; Scanlon et al., 2013; Waweru et al., 2014; Yates & Wood, 1996). It is most of the time not discussed in policy debates although it controls the arena of investment decision making. There are many housing markets with poor records on housing transactions and this is a characteristic of a market *not ready* for an expansion. Berry (2000) states that, due to the segmented nature of housing markets, gathering, and updating housing transactions is a difficult task because of the differences in locational attributes. Data on leases signed, bonds received, and rents charged are not readily available in certain locations which impacts transparency for sound investment. Further, this does not give enough information for tactical decision making in the investment media. This is a major limitation in both advanced and developing countries as data sources are not reliable. Awuah et al. (2017) assert that the reliability and access to property market information is poor in many countries and so professional valuers adapt by keeping their own database and using experience and a high level of discretion in their work. Rental housing is considered a novel asset class within a typical institutional portfolio. Whether it is through direct investment or through listed markets, they show low correlation with capital investments. Investor knowledge in the rental asset is not as impressive as those in equities and securities. Creating adequate property market information is important to demystify the complexities associated with rental housing investment and minimize the novelty factor pushing away institutional investors (Milligan et al., 2015, p. 22). This means blending public and private data sources to develop credible and reliable databases from which different actors may access information from.

3.2 Reflection of Findings

The findings from this review offer theoretical and conceptual contributions to the discourse on attracting institutional investors into the private rented sector. It provides a basis for policymaking and implementation regarding establishing build-to-rent schemes which involve institutional investors. The findings offer three main insights, namely, a historical overview of the discourse, a summary of various viewpoints, and relationships between identified market risks. Firstly, the historical overview provides information on the trend of the discourse, including the years of publications of the papers, presented in decades. The literature search was done without date specification to give a true reflection of the number of published papers. The illustration in Figure 2 proves the relevance of the discourse. It shows that more papers have been published along with conference proceedings and reports in the past two decades than was previously the case. Secondly, the identified market risks were presented using various ideological viewpoints. There is a difference between the total number of papers selected for the analysis (71) and the total number of papers discussing the categories of market risks (94). This is because some authors discussed more than one market risks or barriers. For example, Milligan et al. (2015) discussed low profitability and unreliable property market information in the same paper. This meant that the paper was counted twice in the discussion. The hand search approach used also contributed to the recurring papers in the various categories.

Lastly, based on the number of papers selected for inclusion and the analysis presented, there were essential relationships between the conceptual barriers. From the analysis, it is seen that two of the identified barriers stood out as having a stronger influence on the investment decisions of institutional investors, namely low profitability, and inadequate property management. This judgement was not only based on the quantum of papers discussing it but most importantly, on the causal relationships identified. There are two main areas of discussion, the first is the profitability of rental investment as opposed to other investments. Assets which exhibit significant liquidity are associated with high returns than those which fall within the category of alternative investments. Although, this is not always the case, rental housing investment is perceived to have liquidity constraints and thus considered less profitable than other primary assets such as securities and equities. Secondly, the general outlook of property management practices in rental markets are unattractive to institutional investors. The number of papers discussing this is significantly higher than the other risks. On the regulatory side, scholars make mention of ambiguous collaborative mechanisms put in place by policy experts. The strategies taken to attract institutional investors into the rental space are gradual and with great intent. Unfortunately, there is no clarity with respect to project objective, that is, whether the intention is to incentivize institutional investors to create special purpose vehicles for government exposure or to simply facilitate the expansion of rental supply using the financial giants in the investment environment.

All the market risks identified in this review are important determinants of institutional investment in rental housing. However, some have more influence than others, judging by the position of an institutional investor in generating risk-adjusted returns and their perception on the rental asset. The level of flexibility of their asset allocation models, which are often time high, requires bureaucratic permissions from various boards of trustees and decision-making departments. In simple words, it is often not easy to convince the board of trustees to allow a a new asset to be added to existing portfolios unless the asset is proven profitable and useful at that point in time. With the barriers identified in this paper, the rental asset can be classified as highly volatile in many respects. Adding rental housing investment to institutional portfolios may not be easy if these barriers are not minimized or removed completely from the market. Table 4 gives a description of the important information derived from papers discussing the various barriers whiles Figure 3 presents the causal relationship identified from the analysis of findings. These two illustrations represent a summary of the findings from this review and the important relationships identified for the purpose of influencing remedial measures in future housing policies.

Table 4 Summary of findings

Category	No. of Papers	Summary on market risks
Low profitability	26	Portfolio performance is measured using benchmarks on risk-return variance. Papers selected under this concept mentioned the low returns associated with rental housing investment. Rental yields are generally argued to be lower than other assets due to factors such as high vacancies, high transaction costs, high management costs and high taxes. Institutional investors classify these factors as constraints to liquidity and a major factor deterring them from rental housing investment.
Non-progressive rent control policies	14	The existing or potential political interference in the rental sector is a major factor inhibiting institutional investors from rental housing investment. The use of rent control policies is a red flag to investors, especially in countries where these policies are not progressive to reflect market changes. Although rental prices are determined by market-driven forces, government intervention through tenant protection programs is a major concern to institutional investors.
Unclear target group	11	The advocacies to attract institutional investors are proposals put forward by policy experts and government machineries. Unfortunately, a number of these proposals have undefined targets. That is to say, the distinction between profit-oriented collaborations and social investments is not clear. There should be clarity on whether the advocacies focus on achieving housing affordability for mid-to-low-income households or government assuming its facilitative role in the rental market.
Poor landlord-tenant relations	12	Landlord-tenant relations are often bedeviled by internal and external conflicts relating to lease agreements, evictions and rent increments. Institutional investors who look forward to becoming corporate landlords are concerned about the possible reputational damage lurking around the corner. Rental markets are mostly localized, making room for direct interaction between landlords and tenants, unless it operates in the form of a listed REIT. Unfortunately, the mediating agencies required to resolve landlord-tenant conflicts are either absent or ineffective in many countries, creating backlogs of unresolved complaints.
Inadequate property management	20	There is a perception that institutional investors are not interested in directly managing rental properties. This means that a professional property management company may have to be consulted to work with them. The problem in many rental markets is that property management is not a priority in housing policies. There seem to be a challenge with physical deterioration and functional obsolescence with many government-assisted rental projects. This is a major deterrence to institutional investors' decision to collaborate with government in a build-to-rent scheme.
Unreliable property market information	11	Making investment decisions is greatly hinged on the available market and historical data on performance. The rental sector is deprived of both historical and real time data on rental prices and other important information on the performance of the asset. The existing institutional portfolios do not contain rental housing investments. Adding it to assets selected makes it a novel asset class (i.e., new) and therefore not much information is present to make informed decision. Housing transactions are mostly not recorded (in developing countries) and thus there is not much track record to make projections about future performance.
	$\Sigma = 94$	

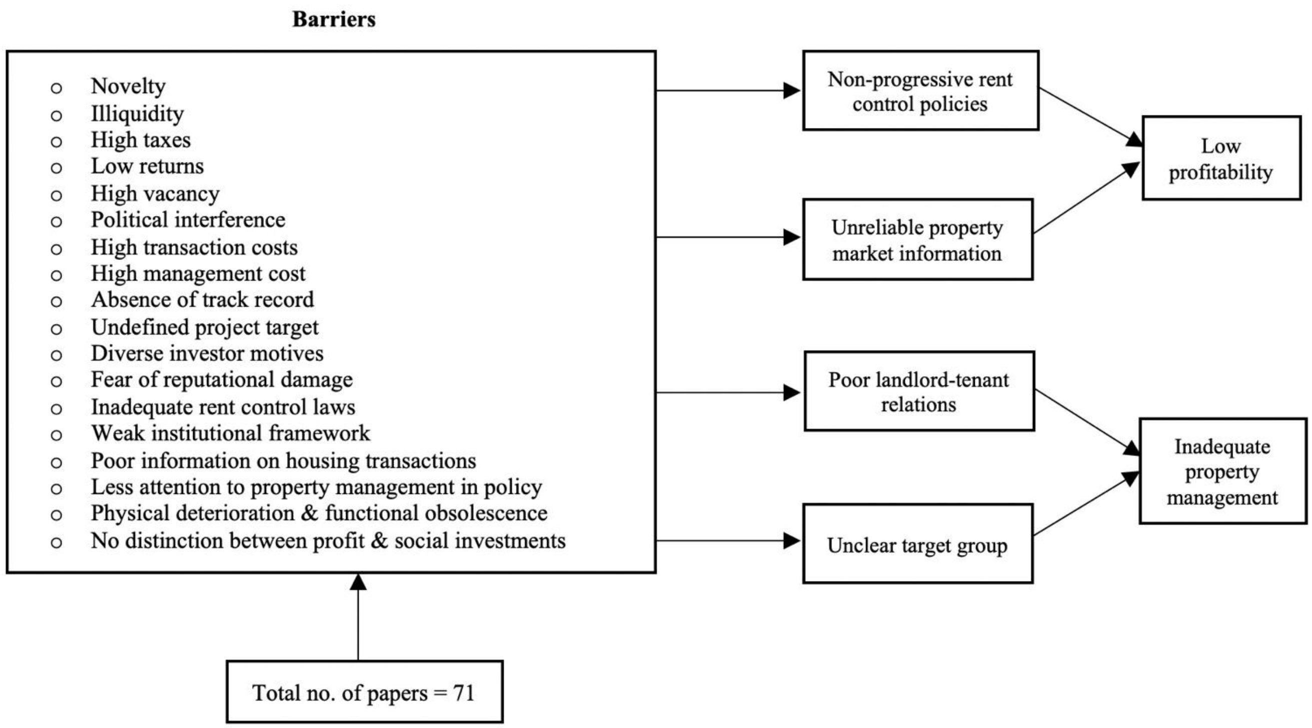

Figure 3 Relationships between identified market risks

The breakdown of Figure 3 is shown in Table 2, where the various rental housing market risks are matched with the concepts identified. Figure 3 shows how the various concepts relate to each other in terms of causation. It was identified from some of the authors that the position of rent control policies and unreliable property market information ultimately leads low profitability. Additionally, poor landlord tenant relations and unclear target group result in a rental sector full of property management issues. The various concepts and their associated barriers are presented in Table 2 in the methodology section. The relationships identified in Figure 3 provide a good starting point to minimize the market risks in rental markets. By dealing with the unfavorable rental market conditions, the rental sector would become attractive to institutional investors.

4.0 CONCLUSION

This paper contributes to the body of knowledge on the barriers inhibiting institutional investors from investing in rental housing. There are several reasons why institutional investors show immense apathy towards rental housing investment. Studies conducted around the world reveal that, rental housing is perceived as a volatile asset. Although the rental asset promises diversification benefits to institutional portfolios, it is associated with high levels of market volatility. The use of correlation coefficients, risk-return variances and internal volatility benchmarks is good, but there are external market risks which impact portfolio performance. These risks act as barriers to efforts being made towards attracting institutional investors into the private rental sector. Rental housing investment is novel to institutional investors and so efforts must be made to understand it. Several rental housing market risks were identified from this review, and conceptually categorized into six major barriers, including low profitability, non-progressive rent regulations, unclear target group, inadequate property management and unreliable property market information. The identified market risks contribute to the fragility and volatility of rental housing investment in several ways. First, institutional investors find the rental asset less profitable when compared to other assets. Secondly, the market within which the rental asset belongs is characterized by many unfavorable conditions related to political interference, rent regulation, lack of track record, many failed projects etc. The review revealed a negative perception about rental housing investment among institutional investors. These investors describe the rental asset as problematic. Expanding this 'problematic sector' into a larger one, may potentially lead to bigger gaps if these risks are not resolved. Policy experts and housing practitioners need to reflect on the current situation (*what is*) and understand how that may affect any upcoming build-to-rent schemes (*what will be)*. The pending challenges are far reaching and may require special solutions or mitigation measures before an expansion of the rental market. For institutional investors to diversify their investment portfolio with a sizable component of rental housing investment, all or most of the barriers must be minimized. This would make the rental sector attractive to large scale investors. The prospect of scaling up rental housing supply is good and thus should be encouraged in the housing policies of rapidly urbanizing cities.

4.1 Recommendation for Further Research

Studies which are inclined towards private real estate equity funds, real estate investment trusts (REITs), pension funds, insurance companies etc., all of which qualify to be grouped under institutional investors, may offer other insights. This paper covered all relevant papers which stated the term 'institutional investor' in their title, abstract, keywords, full text, or conclusions. It is possible that significant number of results pertaining to what an *institutional investor* represents without the usage of the terminology may have been omitted. The different types of institutional investors cover a broad range of entities which have different organizational structures and investments media and could not be covered in this review. A blind spot exists on synthesized publications which makes no mention of the term institutional investor but have the same discourse on rental housing market risks. Future research is therefore needed to understand the barriers confronting the portfolios of specific institutional investors.

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