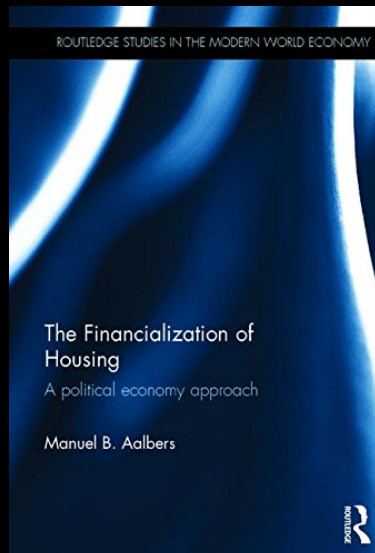


Game of Homes



*Van wie is Brussel?
A qui appartient Bruxelles ?*

January 2019

Manuel B. Aalbers

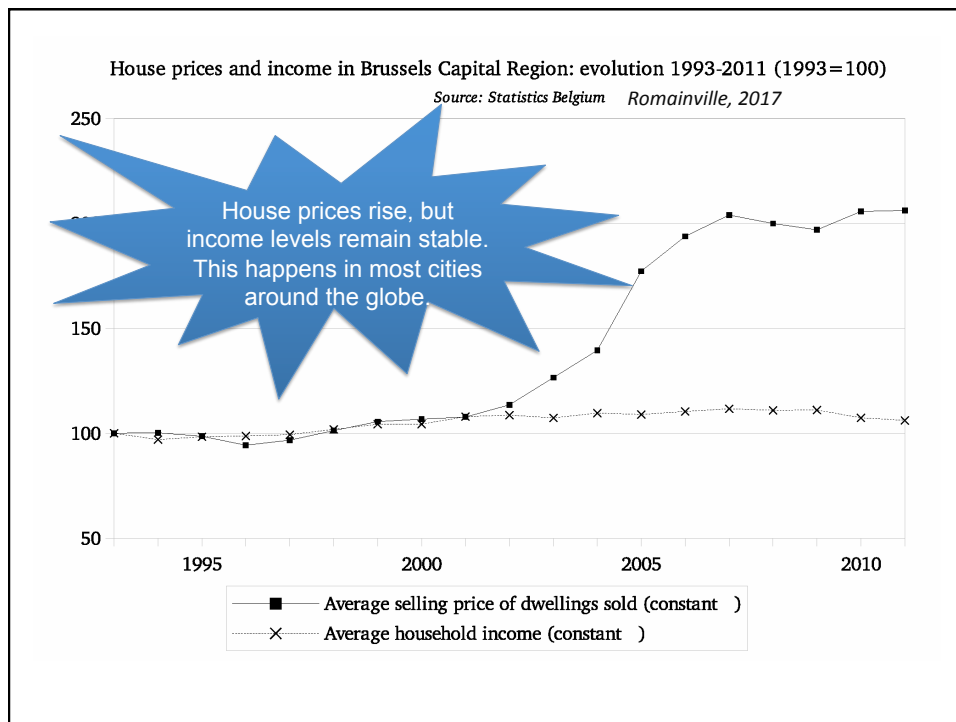
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First some examples

- Example 1: German housing association **GSW** (65,000 units), acquired by private-equity fund **Cerberus**, then listed on the stock exchange
- Example 2: Dutch social housing provider **VESTIA** (90,000 units, mostly in the Rotterdam/The Hague metropolitan area) lost over €2 billion as a result of gambling with derivatives



Key claims

- Housing is central to financialized capitalism: it is not 'just another asset' to be financialized, but *the key asset*
- The financialization of housing is not limited to mortgage markets & securitization, but extends into (formerly social) rented housing
- The financialization of housing is geographically variegated, but there are common trends/trajectories
- The global financial crisis has not stopped the financialization of housing, but has slowed in some places/sectors and has furthered in others
 - > new countries +sub-markets 'opening up'

Financialization: What's housing got to do with it?

Use of derivatives
beyond hedging
risk

Banks, lenders,
private equity
and hedge funds

“the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households.”

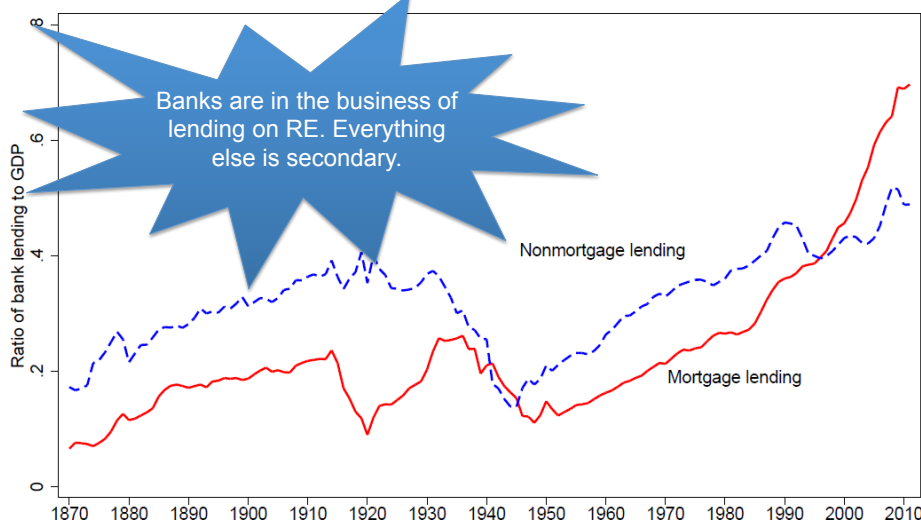
Stock exchange,
global capital market

Credit scoring.
EBITDA, FFO, etc.

Home as an
investment good

Aalbers, M.B. (2019) Financialization. In: Richardson, D. et al. (eds) *The International Encyclopedia of Geography. 2nd Edition*. Wiley. [Also at: <http://kuleuven.academia.edu/ManuelAalbers>]

Figure 2: Bank mortgage and non-mortgage lending to GDP, 1870–2011: Average ratio to GDP by year for 17 countries
Jorda et al., 2014



Notes: Mortgage (residential and commercial) and non-mortgage lending to the business and household sectors. Average across 17 countries. See text.

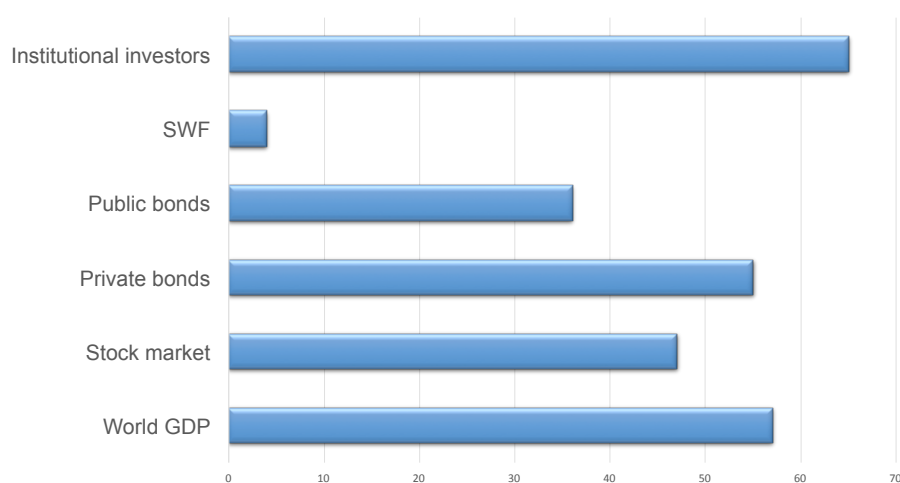
Blowing Real Estate Bubbles

1. 'Pension Fund Capitalism' (Clark)

Fernandez, R. & Aalbers, M.B. (2016) Financialization and housing: Between globalization and Varieties of Capitalism. *Competition & Change* 20.2 (2016): 71-88. [Also at: <http://kuleuven.academia.edu/ManuelAalbers>]

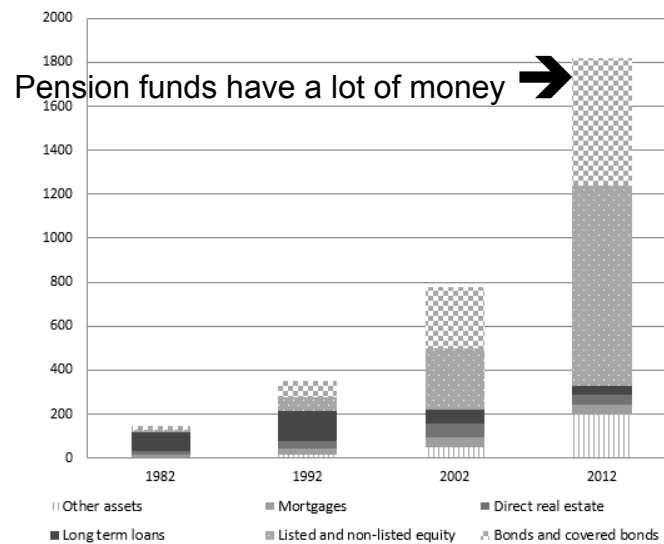
A Wall of Money

Size of institutional investors, markets and world GDP in \$ Trillion
(2009)



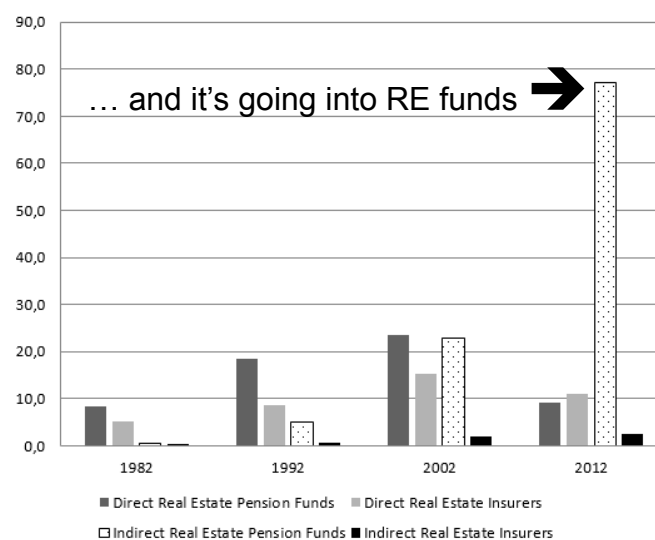
Source: IMF FSR 2011; OECD institutional investor data

Assets under mgmt by Dutch institutional investors (in €bn)



Van Loon, J. & Aalbers, M.B. (2017) How Real Estate Became 'Just Another Asset Class': The Financialization of the Investment Strategies of Dutch Institutional Investors. *European Planning Studies* 25(2): 221-240. [Also at: <http://kuleuven.academia.edu/ManuelAalbers>]

RE investments of Dutch institutional investors (in €bn)



Van Loon, J. & Aalbers, M.B. (2017) How Real Estate Became 'Just Another Asset Class': The Financialization of the Investment Strategies of Dutch Institutional Investors. *European Planning Studies* 25(2): 221-240. [Also at: <http://kuleuven.academia.edu/ManuelAalbers>]

Demand for housing as a financial asset

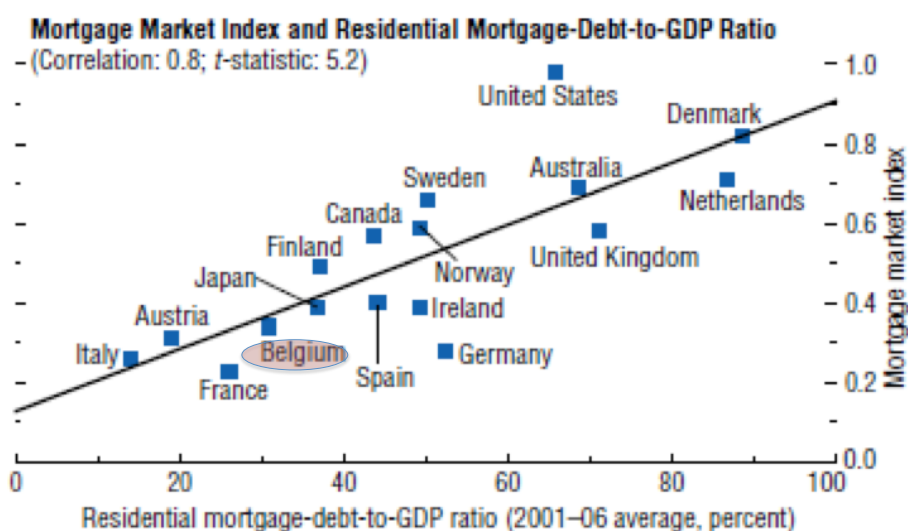
1. 'Pension Fund Capitalism' (Clark)
2. 'Savings glut', global imbalance (Bernanke)
3. Post-crisis monetary policies -> demand for 'High Quality Collateral' (HQC) by pension funds + other institutional investors, e.g. government and RE debt
4. Capital Markets Union (EU)

→ **Global pool of liquidity: looking for a safe haven**

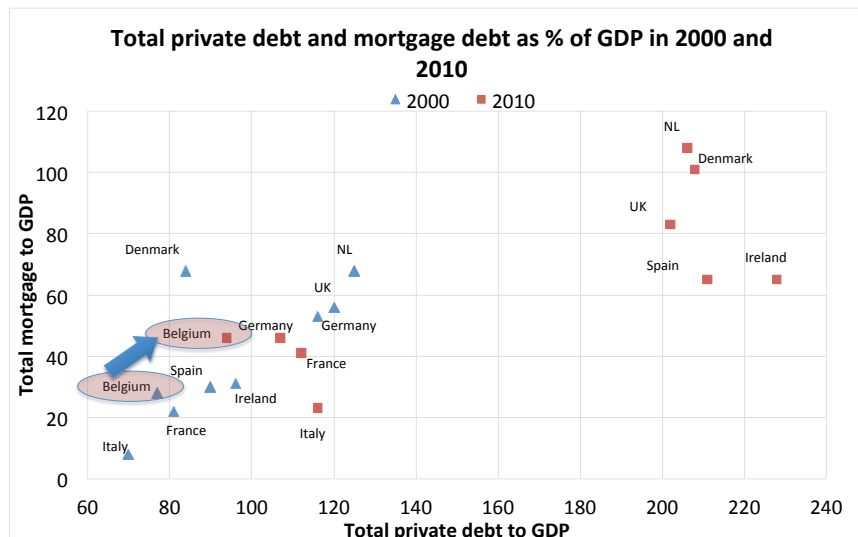
→ **Financialization of housing/RE:** securitization, leverage for housing market actors (mortgage debt, loans to developers), etc.

Fernandez, R. & Aalbers, M.B. (2016) Financialization and housing: Between globalization and Varieties of Capitalism. *Competition & Change* 20.2 (2016): 71-88. [Also at: <http://kuleuven.academia.edu/ManuelAalbers>]

What causes high mortgage debt?



What causes high mortgage debt?

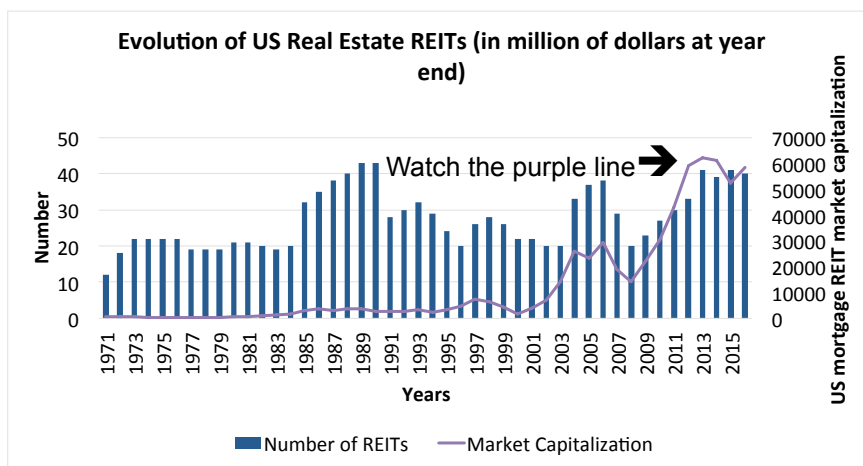


Mortgage debt is only part of the story... The Financialization of rental housing

- **Housing associations** (NL, UK): derivatives
- **Private equity and hedge funds** buying up entire social housing companies (Germany), company housing (Germany, UK), rent-stabilized housing portfolios (NYC)
- **Publicly listed RE companies** ["Real Estate Investment Trusts" – **REITs**] doing the same (Germany, but also NL, UK, Spain, Ireland), also student housing (Canada, Poland) and single-family housing (US)

See: chapter 7 of the book *The Financialization of Housing*.
See also several of the papers in a 2017 special issue of *International Journal of Urban & Regional Research*.

REITs in the U.S.



REITs in the world



Housing associations	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GEHAG Berlin (24,500 units)	Public ownership		WCM / HSH Nordbank				HSH Nordbank			Oaktree Investment			Deutsche Wohnen							
GSW Berlin (66,700 units)	Public ownership									Cerberus / Whitehall (Goldman Sachs)								Deutsche Wohnen		
LEG NRW & Land NRW (93,000 units)	Public ownership												Whitehall (Goldman Sachs)		LEG Immobilien					
WB-Rhein Main Frankfurt (14,500 units)	Public ownership		Viterra AG (E.ON) / Hypovereinsbank						Deutsche Annington (Terra Firma Capital Partners)						Deutsche Annington		Vonovia			
KWG Kiel (11,000 units)	Public ownership		WCM						Vitus Gruppe						Deutsche Annington		Vonovia			
GAGFAH BfA (30,000 units)	Public ownership									Fortress						Deutsche Annington		Vonovia		
Woba Dresden (47,830 units)	Public ownership										Fortress						Deutsche Annington		Vonovia	
TLG Wohnen FRG (11,350 units)	Public ownership												TAG Immobilien							
LEG Kiel Schleswig-Holstein (22,000 units)	Public ownership		DGAG Grundvermögen				Blackstone Group		Prelis (Pirelli AG) / RREEF (Deutsche Bank)						Buwog					

Wijburg, G. & Aalbers, M.B. (2017) The alternative financialization of the German housing market. *Housing Studies*. <http://kuleuven.academia.edu/ManuelAalbers>

Housing associations	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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Germany used to have a lot of social + publicly-owned housing and even company housing. Now a lot of it is owned by RE funds that are listed on the stock exchange + is attractive to international investors like pension funds.

Wijburg, G. & Aalbers, M.B. (2017) The alternative financialization of the German housing market. *Housing Studies*. <http://kuleuven.academia.edu/ManuelAalbers>

Things not discussed

- Casualization of labour
- Gentrification and displacement
- Super-rich buying housing abroad
- 'Touristification'
- Airbnb
- ...

-> All these developments squeeze the market for affordable housing even further

Lessons from housing financialization

- All these practices are **enabled by state actors**, e.g. REITs and securitization need regulation to be made possible
- Likewise governments can **(de-)regulate** loan-to-value and loan-to-income ratios
- The financialization of housing is driven by the **demand for financial products** rather than the demand for housing
- These practices mostly (but not exclusively) focus on the **existing housing stock** not on new construction
- This implies that additional supply of finance in housing markets often does **not result in additional supply of housing**
- Instead, it results in **inflating (rising) housing prices and rents**

Game of Homes



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