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Conceptualising 'residential investment': separating the inseparable in asset-based economies

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ABSTRACT
The growth in residential real estate investment internationally since 2008 has led to an explosion of research on residential investment, across economics, sociology, housing and urban studies, geography and planning. But there remains an underlying question of what exactly is meant when we talk about 'residential investment'. This paper analyses the way that 'residential investment' is used as an analytical category within different theoretical approaches to mean slightly different things, with different implications for policymakers. Further to this, we show how these different conceptualisations of investment are related to one another, in the case of the UK. The paper uses empirical material drawn from archive research on the development of the UK housing system to reflect on the vast literature on financing, financialising and investing in residential real estate. This paper makes two key contributions. Theoretically, it clarifies and questions the conceptual divisions created between different forms of residential investment. Methodologically, we demonstrate the benefits of a historical approach, which we argue reveals the path dependent nature of residential investment processes and practices.

KEYWORDS Real estate; residential investment; assetisation; financialisation

Introduction

The growth in residential real estate investment since the 2008 Great Financial Crisis has led to an explosion of research on the topic across analytic perspectives pertinent to housing policy design, including housing and urban studies, economics, geography and sociology. Research has highlighted the way residential property, in a broad sense, is increasingly seen as an asset class (Ward & Swyngedouw, 2018), ranging from individual property owners seeing their homes in terms of future capital gains, to the huge growth in institutional investment as yields from residential

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property grow substantially relative to commercial property. This work reveals the new forms of finance that have emerged in order to fund both housing consumption (Gotham, 2009; Smith et al., 2017) and production (Bardet et al., 2020; Romainville, 2017), its associated actors and activities (Chiapello, 2015; Raco et al., 2019; Theurillat et al., 2010, 2015; Weber, 2016), and their connection to wider financial markets, conceptualised under the umbrella of a financialised model of housing production and consumption (Aalbers, 2019).

This is a broad literature, in which the idea of residential investment is well discussed; however there have been calls for greater clarity about different forms of residential investment, and a more thorough understanding of different actors and practices (Campbell et al., 2014; Özogul & Tasan-Kok, 2020; Raco et al., 2019). Most importantly, Özogul and Tasan-Kok identify a general failure to recognise residential investor heterogeneity. Currently, the conflation of investment practices and the treatment of various investors as a homogeneous group in academic research has weakened analytical precision. In this paper we respond to this call for further precision to unpack what is meant by 'investors' and 'investment', offer a typology for doing so, and thereby help to refine analytical approaches to finance and financialisation in housing studies. We do this by analysing the construction of housing as an asset in the UK through a historical institutionalist approach that renders more visible the relationship between policy and an asset based economy understanding of housing and residential investment (see Adkins et al., 2019). We offer two important conclusions.

Firstly, reflecting on the vast literature on financing, financialising and investing in residential real estate, we show how 'investment' is understood differently within different analytical approaches to housing studies, including by economists, asset-based welfare scholars, land rent theorists and scholars of financialisation. We have organised this analysis according to a typology of residential investment: individual investment, public investment (both direct and indirect), and institutional investment (encompassing investment into both the production and consumption of housing). Rather than seeking the 'correct' understanding of residential investment, we point towards the different policy approaches that stem from these different categories of investment, as used by different scholars. We argue that to-date research has blurred what is meant by 'investment', and advocate instead for the conceptual clarity that this analytic typology provides. It is vital to distinguish between these forms of residential investment because, as we illustrate in this paper, they have different implications for policymakers.

Secondly, using extensive archival research and documentary analysis of housing policy development to reflect on this typology, we show how these different categories of investment are in fact conceptually inseparable. Taking an historical perspective of housing policy development reveals its path dependent nature. Using the case of the UK, we demonstrate that housing investment, broadly conceptualised, is a set of interrelated processes that require personal, private and public resources. Their separation is essential for targeted policy design, but their inseparability presents a challenge to theorists and policy makers alike, since interventions targeting investment in one part of the housing system will necessarily affect interests invested elsewhere.

Our argument that housing investment should be viewed as an historical and path dependent object of study, has implications for how we should approach the political economy of residential investment. This is to propose a rethink of asset-based economies as an object of analysis, understanding them not only as political (Aalbers & Christophers, 2014) but as complex institutional constructions (Adkins et al., 2019). We propose that a more institution-based analysis should necessarily be interested in the development of institutions over time. Analysis must therefore, at least theoretically, go beyond straightforward typologising, to account for the way that investor typologies and investment processes have emerged over time, and in relation to one another.

Methodology

Greater precision around the different actors, processes and practices involved in residential investment enables better policymaking, by increasing our understanding of the various motivations behind investment, how these might affect investment strategies on the ground, how these can in turn affect residential outcomes, and how certain actors respond to certain interventions. One example is the design of regulation intended to cool the amateur landlord market, by cutting tax relief for buy-to-let investors, or capping deposits (HM Revenue & Customs, 2016; MHCLG 2018; UK Finance, 2019). Conversely, knowledge about the constraints experienced by large-scale landlords have been used to pursue a more institutionalised rental market (Montague, 2012; DCLG, 2017). In some local areas, planning restrictions on occupancy of new housing have been drawn up to discourage holiday home investors from adding pressure to housing demand and prices, but the unintended consequences on developer-investor behaviour can have the opposite effect, constraining supply (Gallent et al., 2019). Nationally, policy intending to unleash the supply of new housing by deregulating the conversion of commercial to residential units may have unintended consequences in terms of building quality (Ferm et al., 2021). There is a clear case for distinguishing different types of residential investment, alongside emerging literature on investors (see Raco et al., 2019), to better understand how specific policies might affect investor behaviour, and with what ongoing consequences.

But this need for distinction and categorisation also poses a conceptual challenge. Analysts understand and use 'residential investment' and 'investors' in conceptually distinct ways and define them differently depending on their analytical perspective. While conceptualising and categorising different types of residential investment is essential, it is also therefore essential that this task is not confused with the concrete reality of this phenomenon. We advocate the conceptual clarity offered by a typology of individual, public and institutional investment, but also argue that when treated separately, these categories offer an incomplete apprehension of residential investment in the UK housing system, something that policy research and policy makers are urged to recognise. In this paper we focus on investment rather than investors. Whilst heavily linked, investors refers to the agents of change and these each have their own priorities and strategies (Ozogul & Tasan-Kok, 2020), these vary over time as shocks, crises and profit-seeking opportunities change (Brill, 2022; Theurillat et al., 2008). In focussing on investment we instead look at capital as a lens through which to understand how various actors, institutions and the state relate to one another in shaping residential investment patterns more broadly. In doing so we overcome the messiness associated with trying to categorise heterogenous, evolving and often opaque investor processes to focus on more visible dimensions (Hughes-McLure, 2022).

We take a historical view of the construction of housing as an asset in the UK, revealing the path dependent relationship between individual, public and institutional residential investment. By using a historical approach, our contribution to the literature is to make explicit the way that specific investment practices and actors have emerged and developed in relation to each other. Moreover, it enables us to draw on the vast literature that spans different disciplines. As Jacobs and Manzi (2020) argue in their discussion of the concept of financialisation and its application within housing studies, it is when applied historically that this concept can be used to make explicit the way that its practices have their origins in earlier stages of capitalist development.

In this regard our main contribution is offered to the asset-based welfare literature, which already problematises the separation of analytic categories such as individuals' decisions in the housing market on the one hand, and broader state restructuring on the other (Kemeny, 1980; Lennartz, 2017; Schwartz & Seabrooke, 2008). But as Adkins et al. (2019, p. 3) observe, the asset-based welfare literature can frame the dynamics of asset and home ownership as an almost automatic set of processes. They argue in favour of a more fine-grained, institution-based understanding of the construction of housing as a financial asset, looking into 'the specific institutional mechanisms of policymaking' (Adkins et al. 2019, p. 2). This paper adopts such an approach, focussing less on identifying the precise nature of housing systems and residential investment at certain points in time (Scwartz & Seabrooke, 2008), and more on how a particular housing system, and the forms of investment within that system, have developed *over* time.

The documentary method used follows Platt (1981) and Scott (1990), as well as Malpass (2008), who worked to 'get at the policy making process' in the UK by consulting official records held in archives and open to public scrutiny. Data collection and analysis focussed on the long run of housing policy history (Stirling et al., 2022), rather than focussing on key moments previously identified in the literature. To achieve this, data were drawn from strategic policy documents of the UK government, particularly white papers, and the internal notes, minutes, letters and draft memos that fed into them. White papers indicate the direction of national policy and the rationalisations presented to the public for this. As such they have greater discursive depth and rhetoric than legislative documents, being unconstrained by the practicalities of actual implementation, or bound by the legal framework that pertains to bills and acts. The National and the Parliamentary Archives contain records of the policy design and development undertaken by Ministers and civil servants in preparation for these strategic papers, which often reveals alternative rationalisations for the direction of national policy, not presented in the published white paper. The purpose of this method is not to trace the formal regulatory structures of the housing system, nor to identify central government policy as the ultimate cause of the assetisation of housing. Rather than being the 'origin' of social change, the work of national government departments is viewed as a conduit. The aim is to observe the construction of housing as a financial asset over time, using the lens of central government policymaking, which acts as a focal point for other private actors and practices involved in residential investment. This view reveals residential investment as a process, and shows how different investment practices grew out of this process in relation to one another.

Individual residential investment

In economic terms, housing is a complex commodity (Quigley et al., 1979; Robinson, 1979, Gibb, 2009). It is spatially fixed, durable, heterogeneous and carries high transaction costs. It is also known to function as both a consumption and an investment good (Maclennan, 1982). Housing 'consumption' and housing 'investment' are often treated as distinct analytical categories in economic theorisations of housing markets, with consumption demand and investment demand (or 'use' and 'exchange' value) seen as separate (Henderson & Ioannides, 1983). This perspective has been challenged within the economic literature, by authors who point out that it fails to recognise the importance of historically and geographically contingent factors, such as national tax structures and their various advantages, determined by national policies (Arrondel et al., 2010).

While it is sometimes acknowledged that investment demand for housing can increase consumption within a limited supply, the investment function of housing is often put aside in economic analysis of markets (e.g., Belsky et al., 2006) or simply seen as less significant than other market signals like price as an indicator of constrained supply (Hilber & Vermeulen, 2016). Housing economists separate investment demand from consumption demand by arguing that it is, relative to other variables, less significant for outcomes like price. Analysis of local market-level dynamics often focuses more on variables like property search frictions, tenure, demographics, earnings and other socioeconomic characteristics such as unemployment (Cheshire et al., 2015; Hilber & Vermeulen, 2016). This kind of analysis sidelines the investment function of housing, privileging income and demand for space as primary determinants of personal housing consumption.

This focus on consumption demand, separated from investment demand, as the primary driver of rising house prices, has had particular impacts on housing policy design in the UK. To offer an example, the Barker Review of Housing Supply (2004) marked as a watershed in thinking around UK housing policy strategy, recognised the role investment demand played in housing market outcomes such as price (Barker, 2004, p. 124). But it was Barker's focus on price, and the need for economic modelling of price within planning, that had the greatest impact on UK housing policy design. Barker (2004, p. 3) identified that the UK rate of real house price growth had grown at a rate of 2.4 per cent over the previous 30 years, in contrast to the European average of 1.1 per cent. At the centre of recommendations was 'the principal objective that planning should take more account of, and use [this kind of] market information' (p. 6). Asking what impact this would have on the way housing markets would be analysed in academic and policy contexts, Meen (2005) anticipated that the review would focus analytic attention on economic modelling of market indicators—particularly price—as a marker of housing need. By 2014, Barker's continued analysis had, as Meen predicted, raised the analytic interest in modelling market signals for housing policy research. This was accompanied by 'a perceived need for a greater understanding of market economics' (Watkins, 2008). Bramley (2013) concurred: 'The Barker aftermath brought economic models into the centre of the system for a few years, briefly institutionalising their role in formal, top-down guidance to the regional planning system.' But residential investment is often neglected in these economic analyses of housing markets, leading to a focus on increasing housing supply as the primary policy response to house price inflation in recent years (Gallent et al., 2018). Proposed policy interventions that do consider the effects of residential investment, such as the tax on landowners recommended by Barker and others, have been neglected (Barker, 2014, Ryan-Collins et al., 2017).

But a historical view of individual investment into housing reveals its importance beyond the immediate determination of price. The accumulation of wealth through housing is achieved through numerous economic welfare benefits that fall to housing ownership. For instance, when paid through a mortgage, housing costs reduce over time, eventually providing rent-free occupation. This is related to the benefit of 'imputed rent', which is the rent that homeowners would pay if they did not own their own homes: as owners they save it instead. From the inception of income tax in 1803 until 1963, these income savings made through imputed rent were estimated and taxed through Schedule 'A' tax, the result of which was to level out the economic effects felt from renting and owning (Kilroy, 1978). The removal of Schedule 'A' tax in 1963 meant that individuals could save more of their income by owning rather than renting. A further economic benefit felt by owners is that the capital gains derived from the sale of housing is tax-free, distinguishing housing from numerous other vehicles for personal investment and savings. Additionally, buy-to-let investors receive yield not only on the capital they have invested (as they would through investment into stocks and shares and other assets) but also from the value of the property bought using a mortgage loan, which is usually much larger than the capital they have available to invest.

These benefits are not a natural feature of ownership, but historically constructed. They make buyers relatively better off than renters, and mean housing is often more attractive than investments made through other means. While some scholars emphasise the risks associated with ownership (Saegert et al., 2009), the capital accumulated by owning (relative to not owning) can be a significant determinant of additional consumption (Ong et al., 2013). These benefits act as an incentive for individuals to invest in ownership rather than renting. When housing becomes more expensive in relation to wages, this also intensifies the incentive to 'get on the housing ladder early', as protection against continued price rise (Barker, 2014, p. 42). It also means that increasing the supply of housing is against the interests of homeowners (Coelho et al., 2017).

The investment benefits accruing to homeowners means that individual residential investment is not only speculative, as in the case of homeowners who hope to resell their homes for a higher price (Aalbers & Christophers, 2014). It also includes owner-occupiers who choose ownership as an alternative to investing capital elsewhere, because the economic benefits that flow from housing are superior to those from other assets. As Smith (2015) argues, 'It is not possible to buy the location, the fabric, the services or the domestic spaces, of a home, without also purchasing the substantial investment vehicle attached to this mélange. These constituents are neither divisible nor (in most jurisdictions) separately priced; as far as the fusing of functions packaged into residential property is concerned, it is "all or nothing"'.

In collapsing the conceptual distinction between investment-driven and consumption-driven demand for housing, Smith and others (Ronald, 2008; Smith, 2008; Searle & Smith, 2010) raise the importance of another analytic variable that is otherwise obscured from view: the relationship between market actors (in this case, individual investors, investing in the ownership of housing), and the broader structural context of state restructuring (Doling & Ronald, 2010; Lennartz, 2017; Lowe, 2011; Lowe et al., 2012; Ronald & Dewilde, 2017; Schwartz & Seabrooke, 2008). This analytic approach uses the concept of 'asset-based welfare' to describe a distribution of welfare throughout the economy based on the ownership of assets, in this case housing. This is distinguished from systems of distribution which are based more heavily on social insurance (Kemeny, 1980). House purchase decisions are linked to support for social security and the growth of the welfare state: just as a private system of health insurance is a disincentive for individuals to carry the burden of public health insurance, households may prefer to save more of their income towards investing into housing through deposits and mortgages, than for the provision of social housing and other forms of welfare provision from the state (Kemeny, 1980). Whether people buy housing because of welfare state withdrawal (Castles, 1998), or sanction the withdrawal of welfare because of the security their housing already provides (Kemeny, 1981), is viewed as less important than establishing that this relationship exits (Kemeny, 2005).

A key point for policymakers is that asset-based welfare extends the definition of residential investment to include the role that housing can play in building and maintaining wealth for all homeowners: investment demand is not seen as analytically distinct from utility or consumption demand. Neither do individual investors need necessarily to engage with speculative practices, or the 'exchange value' of housing. Policy makers are constrained by this 'hybrid form' (Smith, 2015) because any attempt to deter investment consumption of housing can also affect the welfare benefits into which 'ordinary' homeowners have invested.

A further implication of this approach to understanding individual residential investment is that it is not seen as analytically separate from broader state restructuring. The dynamics of local housing markets are not only understood with regard to 'downstream' variables like local planning restrictions and construction activity; 'upstream', structural variables like regional inequality or tax structures enabling intergenerational transfer of wealth should also be considered (Gallent et al., 2020). Individual residential investment decisions (and the wealth effects thereof) also serve a macro socio-economic function at national and international levels (Barker, 2014; Muellbauer, 2008, 2018). How individuals organise their lives and personal welfare strategies, particularly relating to house purchase and equity withdrawal (Ong et al., 2013; Smith et al., 2009; Watson, 2010) is therefore pertinent for policymakers who are interested in the distributive mechanisms of the state.

Public residential investment

Following from the asset-based welfare perspective, and its blurring of the analytical boundaries between individual investment and macroeconomic organisation, this section looks closer at the connection between individual residential investment and the broader macro-concerns of state restructuring. From this perspective, individual investment is not separable from public investment into the housing system.

Numerous analysts have recognised that individual residential investment, as 'an instrument of economic development', has been a defining feature of UK national housing policy throughout the twentieth- and twenty-first centuries (Gallent et al., 2019). The macroeconomic importance placed on individuals' housing consumption is illustrated by Alan Holmans (then chief housing economist at the UK Department for the Environment, responsible for housing policy) when in 1990 he wrote that 'the discovery of an effect (or alleged effect) from house prices on consumers' expenditure and the savings ratio has given a powerful boost to economists' interest in house prices … Both the Treasury and the Bank of England are interested in house prices and their macro-economic effects".[1] He underscored equity withdrawal as a means by which a newly borrowed sum "could go to pay for carpets, curtains, re-modelling the kitchen, and a holiday'.[2]

Literature engaging with this aspect of housing investment primarily comes either from economics, geography and sociology. Housing is understood as a resource which can stimulate effective demand in the economy (Cloyne et al., 2016). From a more critical perspective, it is argued that housing is used to extend effective demand beyond the amount that incomes will carry it: 'housing, as an exchangeable store of value, furnishes means of funding effective demand when other sources dry up' (Aalbers & Christophers, 2014). Analysts using this conceptualisation of residential investment sometimes use the term 'privatised Keynesianism' (Crouch, 2009; Watson, 2010). Research in this field addresses the role of individual investment and housing wealth on macroeconomic activity (Aoki et al., 2004; Iacoviello, 2005). One emphasis is on equity release, gains through housing exchange, or making funds available through the acquisition of more mortgage debt (Wood et al., 2013; Ong et al., 2013). Researchers also study the way monetary policy alters the cost of debt, the value of housing, households' disposable income and non-housing consumption (Muellbauer & Murphy, 2008; Calza et al., 2009).

These effects from individuals' investment into housing also extend to 'a host of important vested interests' (Kemeny, 1980), including building societies and other finance institutions, the construction and improvement industry, and exchange professionals such as estate agents, solicitors, surveyors, insurers and mortgage brokers. The economic benefits of individual investment are also compounded by industrial production throughout the construction, renovation and decoration industries. For example, construction of residential property is worth roughly £75bn to the UK economy (ibis world, 2020).[3] This is all, however, dependent on the circulation of housing (Aalbers & Christophers, 2014) and has created an incentive for public investment into the housing system, as this section illustrates.

Direct public investment (Keynesian approach)

Public policymakers' recognition of the macroeconomic wealth effects that could be created through the housing system was not always focussed on housing as an exchangeable store of value, or equity withdrawal.

Throughout the twentieth century the state invested in housing construction, both publicly and privately developed, and across all tenures. This started in the early 1900s, when direct public investment into the housing system was used to foster national economic development using public building programmes funded at direct cost to the Treasury (and therefore the taxpayer). Direct public residential investment is defined here as the publicly financed production of housing, not only for its own sake but to stimulate economic growth. When public housing investment practices first emerged in the early 1900s, local authorities would take out loans from the Exchequer to build housing and to pay the costs of contractors and housebuilders.[4] These homes would then be let to tenants whose rent was determined by earnings. Local authorities also offered mortgages for those looking to buy. Local authority income from rent and from mortgages was then used to repay their loans, with any shortfall borne by central government in the form of a grant.[5] [6] The social function of housing was certainly important as well. Particularly after both World Wars, direct public investment into housing was intended to correct for market failure, since the costs of construction were hugely inflated and houses 'cost more than the rents that workers can afford to pay will reimburse'.[7] But in addition to subsidising housing, the policy rationale for direct public investment included economic development and growth, framing housing as the 'Key to British recovery'.[8]

Indirect public investment (privatised Keynesian approach)

Distinct from this direct form of public investment, indirect public residential investment is defined here as when public funds are spent on encouraging other actors, agencies, individuals or institutions to invest in the consumption or production of housing. Part of the rationale behind indirect public investment is still to generate macroeconomic wealth effects from the housing system, but with the difference that these are financed through private channels (e.g., individual or institutional residential investment) rather than public channels.

In the latter half of the twentieth century, public money continued to be invested into economic growth through the housing system, but this was increasingly done indirectly, using public funds to finance economic incentives for individual house purchase, rather than through publicly financed construction. For example, the 1958 'House Purchase' scheme (MHLG, 1958) used public funds to enable more people to buy their own homes.[9] Another example of public money spent on incentives for private house purchase (and as an instrument of national economic development) was via the withdrawal of Schedule 'A' tax in 1963, the introduction of the Option Mortgage Scheme in 1967, and the retention of tax relief on mortgage interest (MITR) and for improvement of property, when in 1969 this was abolished for other loans. The retention of MITR is notable because those borrowing for alternative investments would pay tax on the interest, dividends and capital gains they secured (Kilroy, 1978). Mortgage borrowing therefore became financially more efficient than other loans. For those who did not qualify for tax relief, the Option Mortgage Scheme served the same effect: 'Demand for houses for owner occupation is stimulated by tax relief on mortgage interest … option mortgage subsidy, which is roughly equivalent in value to tax relief at the basic rate, is available in lieu of tax relief to any house purchaser, irrespective of income'.[10]

By viewing individual residential investment as historically constructed in this way, the analytical distinction between private and public investment becomes blurred. These 'encouragements' to house purchase amounted to a public subsidy to owner occupiers (Malpass, 2008), in effect supporting owner-occupation as a form of publicly financed housing (Wyly & DeFilippis, 2010). UK policymakers revealed that the intention behind this form of public investment was to encourage individual, private investment into housing, thereby using the private circulation of capital to support construction and other industrial processes throughout the UK. By generating growth through private rather than public channels, this form of economic development was intended to cost less to public budgets than investments made directly through the Exchequer.[11]

But historical analysis of this period reveals that privatised Keynesianism also had the effect of locking the government in to indirectly supporting private housing investors as a matter of national economic growth, at increasing public expense. Individual and public investment practices therefore paved the way for the incursion of institutional investment in the UK housing system (as we illustrate in the next section).

During the 1960s and 1970s, public subsidies to owner occupation continued to grow relative to their economic impact, partly due to increasing numbers of homeowners, and partly due to inflation. The growing cost of this indirect public investment into housing to the Exchequer revealed that its goal, which had been to encourage private housing consumption and investment as a replacement for direct public investment into housing, had failed: private investment into housing took increasing amounts of public finance. As Kilroy (1978, pp. 38–42) observed of the owner-occupied sector: 'instead of the financial self-sufficiency claimed, forecasts indicate growing calls on the country's resources … Tax revenue foregone through the absence of Schedule A has been variously estimated at £930 millions in 1974/75 and £1500 millions in 1976. Yet home buyers have continued to enjoy tax relief on their mortgage interest borrowing too'. While these public subsidies still worked as an efficient means of stimulating economic growth they were sanctioned by the Treasury. But by the mid 1970s rising interest rates had caused sharp increases to the housing costs borne by central government for both council housing and private housing through MITR (Malpass, 2008). In 1974, a central government review of these growing public investments into the housing system was supported by the Treasury, in particular because 'owner occupied housing has become a valuable capital asset. It is wasteful and inequitable to use government intervention further to stimulate demand for what history shows can be left to individual preferences working through the market'.[12]

This review was originally intended to revise the way that housing was financed in Britain (Malpass, 2008), but by 1977, this was shown to be politically impossible. The general public were by this point so heavily invested in home ownership that withdrawal of public investments would have profound effects not only for those with mortgages but for the economy as a whole. Retention of MITR was therefore justified by the fact that households had planned their budgets around housing costs, and 'should not have to face sharp and disruptive increases in costs totally disproportionate to changes in their ability to pay' (DoE, 1977, p. 7). But what is more, this was fundamentally an issue of supporting industry, economic activity and growth, as revealed in both published policy documents and unpublished policy development records:

> 'Any change which would substantially raise the cost of housing to the householder in relation to prices and incomes generally would probably lead to a large reduction in housing investment' (DoE, 1977, p. 6)

> 'Mortgage relief: (i) Entire removal of mortgage relief is not a plausible option (ii) Recognise that removal of higher rate relief may have political attraction but will involve high friction costs … Housing industry badly effected'[13]

> 'Major changes cannot be made very quickly. For they would play havoc with the housing market; disrupt the construction industry; the effects on housing demand and on the building industry would be haphazard and uncertain: disruption in one sector of the market tends to cause ripples going well beyond that sector'[14]

Government thus found itself locked into continuing indirect investment into the housing system through subsidies to private investment into housing. This had, and continues to have, several implications for our understanding of residential investment and for policymaking thereof. The 1977 housing finance review represents a watershed moment in housing policy history: while original proposals were for a tenure neutral housing policy, the UK had committed to supporting the housing system with its division between direct public investment into social tenures, and indirect incentives invested to encourage private investment into housing. Private investment into housing was treated as a public good, warranting public investment and public policy intervention.

Institutional residential investment

Institutional investment into housing consumption

As we have seen, national economic growth and private housing investment had come to be seen as interdependent by the mid-twentieth century and were used to justify increasing amounts of public spending for stimulating private housing consumption. It was during the early 1970s that housebuilding activity and the availability of mortgage finance became framed as interdependent within government. Developers, it was said, 'cannot be expected to go on starting new houses at a greater rate than they can sell them'.[15] Therefore, investment into housebuilding was seen to rest on demand for owner occupation, rather than on the capacity of (or support to) the industry itself. Regardless of the ability of industry to build, the demand for and supply of mortgage finance was a central concern for central government housing and economic policymakers, based in the Department of the Environment (DoE) and Treasury respectively:

> 'The level of private housebuilding in the immediate future is threatened by the high cost and shortage of mortgage funds … On present trends new house sales may fall to not more than 120,000 this year.'[16]

The previous section showed how investment was maintained by incentivising home ownership - through a series of tax reforms used to invest public revenue into private housing consumption. As the benefits of residential investment extended throughout the economy, this created 'an almost irresistible force for the sponsorship of owner occupation' (Kemeny, 1980:377). This section details how, once the connection between private housing investment and economic growth had been recognised and cemented in policy terms, policymakers became locked into trying to stimulate increased levels of private investment (not for the sake of housing policy but for growth), and new measures were needed to maintain the flow of private funds into housing. Increased private investment into the housing system was therefore sought through the restructuring of the mortgage market, allowing GDP growth to be based increasingly on debt, and allowing a range of new institutional investors to emerge within the housing system. At first, this strategy was achieved using public money to subsidise building society investment into the provision of mortgages. Later, encouragements to mortgage lending also included regulatory reform, enabling mortgage lenders to access new forms of capital. Successive deregulatory measures aided this by untethering finance capital from its previous constraints, allowing growth of the money supply. They also resulted in the development of secondary mortgage markets (mortgage backed securities) where investors could buy mortgage portfolios from lenders (Aalbers, 2016), leading to the process 'now commonly referred to as financialisation' (Gunnoe, 2014, p. 485).

Scholars of financialisation have argued that it has emerged and is practised differently in different locations, and that situated analyses are therefore vital to understanding its variegated effects (Aalbers, 2017; Ward & Swyngedouw, 2018). In the case of the UK, historical analysis shows how the financialisation of housing found fertile ground in the national policy preference for encouraging private investment into the housing system, over direct industrial investment and development. For example, in 1972, the threat of collapsing economic circulation led policymakers to design a 'mortgage stabilisation scheme', using a grant from central government given to building societies to support the flow of mortgages.[17,18,19] This amounted to another indirect public investment into private housing consumption. As the 1970s progressed, further mortgage stabilisation measures were proposed in order to 'stop the housebuilding industry from falling apart'.[20] Government expenditure on housing had shifted from direct investment into housebuilding, towards subsidised owner occupation in tandem with mortgage stabilisation.

This indirect public investment was intended to draw institutional investment into stimulating individual housing consumption, and thereby to maintain housing production and associated macroeconomic benefits. In addition to building societies receiving public investment, the Building Societies Association (BSA) was also advised that 'the future of the movement lay in its own hands; and that it would be in their own interest to develop very quickly new policies on borrowing and lending.'[21] The DoE informed the Treasury that building societies could not be relied on to provide an adequate flow of mortgage funds 'under traditional policies'. Their funds were traditionally raised by deposits made by savers, but the level of these savings were relatively static, whereas £160 m net new receipts were required monthly in order to provide the mortgage funds necessary to keep construction afloat. 'New methods'[22] of securing investment into the housing system had to be found. In order to encourage this institutional investment, policymakers between the Treasury and the DoE proposed that the means of generating mortgage finance should be freed from deposits made in the 'small savings market':

> 'Building society finance might be restructured so that it rests to a substantial extent on long-term loans from the private capital market … I should be grateful if we could discuss the propositions put forward in this letter as a matter of urgency'[23]

This marked the beginning of a period within government focussed on expanding the level of investment flowing from the mortgage market into the housing market. The Bank of England and the BSA discussed 'non-traditional' policies for funding mortgages, including 'special arrangements for tapping the capital market for long-term funds'.[24] Later in the 1970s, measures to expand the mortgage market and its flow of capital into the economy included a £100 m scheme to encourage 'downmarket lending' to those on lower incomes, and/or investing in older properties in city centres, which building societies would otherwise avoid.[25] Central government would provide public investment for urban improvement and regeneration, and ask building societies to apply 'a more flexible interpretation of their lending rules', challenging 'the over-restrictive lending rules which some building societies at branch level continue to apply'.[26]

While 'interventionist' measures at the demand-side of the housing system (like urban regeneration and MITR) continued, supply-side measures, classed as 'non-interventionist', were sought because they required less (indirect) investment from public funds. The mortgage market therefore took centre stage, as institutional investment was increasingly used to replace public investment into the housing system, all the while drawing private interests based on housing growth more closely into national economic organisation. As banks joined the mortgage market and repackaged and sold their loans on to institutions like pension funds, this generated a new form of residential investment—institutions invested into housing consumption, drawing profits not from housing itself but from the business of financing housing consumption (Aalbers, 2016).

This historical view shows how, in the UK, this proliferation and development of institutional residential investment grew out of earlier stages of capitalist development (Jacobs & Manzi, 2020). The political response to the economic problems faced in the 1970s, from low growth, unemployment, rising public debt and high inflation, was to seek new forms of private investment, increasingly independent from public finance, but increasingly able to influence government policy (ibid). It could be argued that these new forms of private residential investment have also been treated as a public good, are central to the political economy of public policy, and are analytically inseparable from the economic organisation of the state.

Analysis of the financialisation of residential consumption is pertinent to policymakers concerned with the macroeconomic growth drawn from institutional investment into housing consumption, and with its effects on individual consumers. One expression of this is a recent interest in macroprudential policy (Cerutti et al., 2015b; Kim & Mehrotra, 2019). Institutional investment practices have drawn increasing numbers of marginal borrowers into housing investment (Smith, 2015). They also generated a set of institutional interests that were not concerned with the housing needs of consumers but to facilitate their own investment (Jacobs & Manzi, 2020; Smith, 2015). Negotiating a balance between these interests has become a policy problem in the UK and internationally. As Svensson (2018, p. 4) notes: 'It is not only the resilience of lenders, banks and other financial intermediaries, that matters. The resilience of borrowers, including households, and firms, for example in real estate and construction, may also matter. Importantly, there may be a trade-off between financial stability and resilience on one hand and efficiency, growth, and prosperity on the other.'

Institutional investment into housing production

At first, the financialisation and colonisation of housing production and consumption by financial calculations (Bardet et al., 2020; Chiapello, 2015) drew heavily on the investment benefits that could be drawn by financial institutions from loans against the mainstream housing stock (Gotham, 2009). In the UK, this mostly comprised single-family housing, sold to consumers through the mechanism of a mortgage loan. But the financialisation of housing has extended beyond facilitating increased borrowing for individual investment and switched towards increased reliance on non-bank financial institutions such as pension funds to finance real estate development and particularly the construction of large rental blocks. In recent years, following two national government reviews of how to draw funding into housing provision (DCLG, 2012), investment has increasingly come from asset managers such as L&G and M&G, via housing specialist intermediaries such as Greystar and Grainger. So-called 'patient capital' (see Van Loon, 2016) seeking out liability matching returns for global pension funds have identified the overheated private rental sector in the UK as a site for stable income streams (Rolnik, 2013). This type of investment was historically against investing into housing because of the perceived reputational risk embedded in a diffused tenancy model. However, stagnant returns in other asset classes since 2008 have made residential property, particularly in overheated urban rental markets, increasingly attractive. As such, channelling their money into strategically located sites across cities such as London, the Oxford-Cambridge Arc and Manchester, institutional investors have seen housing as a means of securing long-term income streams.

This 'second stage' of financialisation has been captured by the heuristic device of financialisation 1.0 and 2.0 (see Wijburg et al., 2018). Such an approach distinguishes between early stages of financialisation and the rendering of housing, particularly through consumption patterns, of housing as an asset class; and later stages as institutional investment and long-term interests in rental return become involved in both the consumption and production of residential property. Evidence of this can be found in housing systems globally, where in the UK, as others have argued, the construction of the Build to Rent sector as an asset class from the outset departs from a pure shift in strategy as captured in this device (see Brill & Durrant, 2021) and instead represents a more comprehensive entanglement of finance and housing that departs from both a more productive use of capital or property as a home entirely (see Madden & Marcuse, 2016): so called financialisation 2.0.

This stage of financialisation has refocused academic attention on residential investment actors and activities in recent years. As new forms of finance have emerged, research has sought to understand the practices involved directly in reshaping the built environment (Archer & Cole, 2021; Bardet et al., 2020; Raco et al., 2019; Theurillat et al., 2010; 2015; Weber, 2016). This actor-centred approach looks particularly at institutional investment into the production of housing: the dynamics between developers, planners, financiers and other professionals involved in housing development. Understanding the motivations, behaviours and practices of these actors has important implications for housing policy. This is because they are often involved in conditioning the built environment according to the needs of a financialised regime of accumulation, rather than of residents (Smith, 2015).

The policy requirement to understand the political economy of the residential property industry, and the behaviours of different types of investor, has led to various schemas used to distinguish different actors, practices and behaviours. For example, Özogul and Tasan-Kok (2020) note four main ways of categorising residential investors. Residential investors are sometimes distinguished according to their spatial scale, with analysts referring to 'local', 'regional', 'national, 'international', 'foreign', 'overseas' or 'global' investors (Fernandez et al., 2016; Hoang, 2018; Savini & Aalbers, 2016; Searle, 2014). Investors can also be distinguished by their size, ranging from 'small' to 'large' investors, or from individual and 'amateur' to institutional investors (Allon & Barret 2018; Goldstein, 2018; Pawson et al., 2017; Pawson & Milligan, 2013; Rogers et al., 2015; Walks & Clifford, 2015). The object of investment, the type of finance used and the nature of investment behaviour have also been used to distinguish between different types of residential investor (Özogul & Tasan-Kok, 2020).

But the categorisation of residential investors can run into trouble, for instance when categorisation according to size distinguishes 'owner occupiers' from 'institutions', without taking into account the relationships between these forms of investment and macroeconomic organisation. Özogul and Tasan-Kok (2020) illustrate that some analytical categories overlap, with certain forms of investment being grouped differently depending on whether size, scale, or object of investment (etc.) are used to distinguish their characteristics. Categorisation also has a tendency to iron out historicity. For example, the relatively recent incursion of non-bank financial institutions into residential investment begs the question of when and why institutional investors began to enter this area (Romainville, 2017). The answer may be different in different geographical contexts, and may encompass different scales and different types of actor (Aalbers, 2017). But, as the UK case presented here suggests, understanding these 'why' questions can require historical analysis in which the analytical boundaries between different types of investment are problematised.

Separating the inseparable

There is a clear case for distinguishing and categorising different types of residential investment in order to understand how specific policies affect the behaviour of different investors differently. Nevertheless, based on the historical analysis presented in this paper, we would argue the case for recognising connections between institutional, public and individual investment. Amongst researchers focussed on the macro-organisation of residential investment and asset-based housing systems (e.g., Aalbers, 2016; Schwartz & Seabrooke, 2008) this is an approach taken by those who have focussed on the way that individual, public and institutional residential investments have combined and compounded each other (Gallent et al., 2019; Ryan-Collins, 2021). This is the final analytical approach to the study of residential investment cited in this paper, with its own implications for public policy.

Growth achieved through financialisation occurs through financial channels, rather than through productive means (Aalbers, 2008, p. 148; Krippner 2005, p. 174). Credit created for the purpose of investing into existing property, rather than for construction of new property, can be thought of as 'unproductive' because the growth of capital is unrelated to growth in productivity in the real economy. But the success of mortgage debt as a source of investment returns during the 1990s and 2000s led banks to invest less and less into real economic activity and increasingly into lending for finance, real estate and household purposes (Lapavitsas & Powell, 2013). As a consequence, the economic growth derived from property in the UK—whether related to house price inflation, rental yields or investment into mortgage markets—has become increasingly detached from the productive capacity of the economy (Gallent et al., 2019, p. 71).

That residential investment might deprive the real economy of investment was already clear to the Treasury during the 1970s. During the housing policy review, the Treasury was aware of the cost of mortgage interest relief to the exchequer, and was sceptical of its continuation:

> '[…] owner occupied housing has become a valuable capital asset… Price distortions over a long period have led to an excessive flow of real resources into private housing. General housing subsidies and tax exemptions inflate housing demand; more people want to live in small households, older households have little encouragement to trade down, everybody wants more space; this distorts the choice between housing and other items of privately financed consumption, and hence between investment in housing and investment in industry … From the standpoint of the economy as a whole, we should welcome any action which offered the prospect of diverting more resources into industrial investment. In fact, we may question whether it would not have been better for the country post-war if our priorities for housing as compared with industrial investment had been closer to those of other European countries'[27]

This statement reveals the path dependent nature of different forms of residential investment practice in the UK. It illustrates how the strategy for economic growth through housing investment, pursued by UK government since the 1940s, had locked the country into a path that relied on housing for growth, and deprived other industrial sectors of investment. This strategy encompassed both individual and institutional residential investment, with roots in the policy preference for home ownership, followed by the liberalisation of credit and increasing supply of mortgage finance (Ryan-Collins 2021). Since most mortgage debt is based against existing housing as its collateral, rather than new construction, readily accessible mortgage finance can be used to bid up house prices and draws an even greater proportion of institutional investment into the financial services sector (ibid). Gallent et al. (2019, p. 57) explains how this has led to an 'imbalance' in the industrial makeup of the economy. As increasing amounts of capital flows into real estate and related services, this 'enlarges their contribution to the national economy and leaves less capital investment for other sectors, squeezing the contribution, for example, of 'production' and especially manufacturing'.

From a policy perspective, this means the implications of residential investment are not limited to the effect of rising house prices on consumers, but are also macroeconomic, with less productivity growth seen nationally. This has provided an argument against the current housing policy focus on raising the supply of housing, since this does not consider the elasticity of mortgage credit compared with the inelastic supply of land (Ryan-Collins, 2021). In other words, the proportion of finance that can flow into housing is relatively large, whereas the proportion of new housing units that can be produced in relation to those that already exist is relatively small, particularly when other constraints such as local environmental carrying capacity or infrastructural capacity are taken into consideration. This perspective of residential investment therefore leads to the proposal of more structural reforms, such as encouraging lending to industry and other investment options for households (Ryan-Collins, 2021), increasing the availability of non-market forms of housing provision (Gallent et al., 2019), or tax reform (Barker, 2014; Ryan-Collins et al., 2017).

Conclusion

This paper has illustrated the complexity inherent in conceptualising residential investment, using empirical material to reflect on research from different analytical perspectives with housing policy relevance. It has sought to underscore the need for better understanding of the landscape of residential investors and investment practices, whilst also addressing some of the difficulties associated with designing policy responses to these practices. These difficulties exist because residential investment is not only a set of practices, but also a set of processes (Jacobs & Manzi, 2020), meaning it is historically contingent and path dependent. The dynamics of residential investment have been historically constructed through an accretion of institutional processes, rather than being a-temporal entities which can be studied in isolation. Rather than focussing on any one kind of investor or investment practice, we have demonstrated that residential investment, broadly conceptualised, is a set of interrelated processes that require personal, private and public resources.

Nevertheless, we propose a typology of residential investment, distinguishing individual investment, public investment (both direct and indirect), and institutional investment (encompassing investment into both the production and consumption of housing). It is vital to distinguish between these forms of residential investment because they have such different implications for policymakers, globally. While we acknowledge a need for greater clarity around residential investors and investment practices, we recognise that differentiating and categorising different forms of investment can pose a theoretical problem. From a public policy perspective, interventions targeting investment in one part of the system can affect interests invested elsewhere. For example, individuals' consumption demand for housing is not separate from individuals' investment demand: attempts to deter residential investment can also affect the welfare benefits into which 'ordinary' home owners have invested. For this reason, policymakers are urged to recognise that these categories offer an incomplete description of residential investment in the UK housing system.

Our analysis of the historical co-construction of individual, public and institutional residential investment has theoretical implications for political economy analysis of housing. This can be approached from a broader national and international perspective (Schwartz & Seabrooke, 2008), or analysis of narrower, local coalitions of interests (Coelho et al., 2017). We argue that analysis should also be able to account for the way these different levels interact, across different scales and moments in history. Our argument that housing investment should be viewed as an historical and path dependent object of study, has implications for how we should approach the political economy of residential investment. Analysis must, at least theoretically, go beyond straightforward typologising, to account for the way that investor typologies and investment processes have emerged over time, and in relation to one another. This does not mean that every study of residential investment must entail a comprehensive account of residential investment. As Clapham (2005, p. 240) writes, while 'concentration on some aspect of the whole is usually necessary … a framework needs to be in place whereby partial pieces of the jigsaw can be related to the rest of the picture.' Asset-based housing systems analysis requires this kind of 'ideographic' approach (ibid) that recognises the interactions between local housing market actors and broader macroeconomic organisation.

Notes

1. National Archives: Letter from A E Holmans, to Mr Wroe, 8 March 1990, IFS Conference on Understanding the Housing Market, 'Housing Market Briefing', T 547/261.
2. National Archives: Understanding the Housing Market: Conference Sponsored by Institute for Fiscal Studies, Note for Record', 8 March 1990, 'Housing Market Briefing', T 547/261.
3. https://www.ibisworld.com/united-kingdom/market-research-reports/residential-building-construction-industry/.
4. Parliamentary Archives F/177/1/5 - F/178/1. Lloyd George Papers. 'Notes on the principal questions which arise from the consideration of Mr. Rowntree's Memorandum - Memorandum by Lord Salisbury', 1917 [1911-19 Housing & War].
5. Parliamentary Archives F/177/1/5 - F/178/1. Lloyd George Papers. 'Memorandum on Housing in England and Wales', by the Reconstruction Committee, May 1917, pp4 [1911-19 Housing & War].
6. For a review of subsidy history see Holmans (1987).

7. Parliamentary Archives F/177/1/5 - F/178/1. Lloyd George Papers. 'Memorandum on Housing in England and Wales', by the Reconstruction Committee, May 1917, pp4 [1911-19 Housing & War].
8. National Archives: Memorandum of the Reconstruction Committee, June 1917: 'Housing in England and Wales: Memorandum by Mr Leslie Scott – Considerations upon Mr Rowntree's Memorandum (R.C. No.89) and Lord Salisbury's Memorandum' p11.
9. National Archives CAB 21/4421 Housing Policy 1953-1960, 'Home Ownership' Joint Memorandum by Secretary of State for Scotland and Minister of Housing and Local Government and Minster for Welsh Affairs (July 1958).
10. National Archives: Draft General Statement on Current Situation on Housing in Great Britain (1972-4), HLG 118/2937.
11. National Archives CAB 21/4421 Housing Policy 1953-1960, Note to the Prime Minister on Housing Policy (general proposals to be included in a White Paper) dated February 4th 1953: 'The Minister of Housing also wanted to include in this scheme proposals for encouraging private ownership of new houses. This will be welcomed by the Chancellor since the owner-occupier costs the Exchequer nothing, and on every new house privately owned the Exchequer saves a subsidy of £770'.
12. National Archives: 'Housing policy review – Draft paper for the Chancellor T 379/25.
13. National Archives: 'Housing policy review—Draft paper for the Chancellor T 379/25.
14. National Archives: 'Housing policy review—Draft paper for the Chancellor T 379/25.
15. National Archives: Draft letter from secretary of state for the environment to the Chancellor of the Exchequer (1972-4), HLG 118/2937.
16. National Archives: Draft letter from secretary of state for the environment to the Chancellor of the Exchequer (1972-4), HLG 118/2937.
17. National Archives: Draft letter from secretary of state for the environment to the Chancellor of the Exchequer (1972-4), HLG 118/2937.
18. National Archives HLG 118/2116, Letter dated 22 March 1973 from W. O. Ulrich, an official involved with drafting the 'Widening the Choice' White Paper.
19. National Archives HLG 118/2116, General Question and Answer Brief on White Paper on Housing and Land, 26 March 1973.
20. National Archives: 'Home Ownership and Private Sector Housebuilding, letter from T M Heiser to Mr Barnett, 10 March 1974.
21. National Archives: Draft Minute from Sir Idwal Pugh to Secretary of State, February 1974 HLG 118/2937.
22. National Archives: Draft letter from secretary of state for the environment to the Chancellor of the Exchequer (1972-4), HLG 118/2937.
23. National Archives: Draft letter from secretary of state for the environment to the Chancellor of the Exchequer (1972-4), HLG 118/2937.
24. National Archives: Memo titled 'Building Societies and Home Ownership' drafted by 'H4 Division' in February 1974, HLG 118/2937.
25. National Archives: 'Funds available will rise to £300M in 1978/9 and will be supported by a new review procedure to examine applications initially rejected by societies'.
26. National Archives HLG 118/2618 'Inner City Areas', agenda for the meeting of the 'Director-General's Board' on Inner City Priorities, to consider 'the problems of definition or approach to further possible area-based initiatives in the Inner City'. Dated 7 April 1977.
27. National Archives: 'Housing policy review—Draft paper for the Chancellor T 379/25.

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The authors declare no conflicts of interest.

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