[Is urban housing becoming a commodity? Reflections on housing financialisation in EU cities]

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By Sjoerdje van Heerden, European Commission, Joint Research Centre (JRC), Unit B3 Territorial Development, Seville, Spain. email, Ricardo Barranco, European Commission, Joint Research Centre (JRC), Unit B3 Territorial Development, Ispra, Italy. email and Carlo Lavalle, European Commission, Joint Research Centre (JRC), Unit B3 Territorial Development, Ispra, Italy. email

There are indications that over the past years investors have been increasingly active on urban housing markets, using housing as a vehicle for wealth and investment, rather than considering it a social good. An increasingly dominant role for investors, financial agents and financial instruments on the housing market, is also known as the *financialisation of housing*. Assumingly, housing financialisation has negative consequences for housing affordability, driving up prices, and decreasing the affordable housing stock especially for lower and middle classes. To get a better understanding of housing financialisation and its relationship to housing affordability, the Joint Research Centre (JRC), the European Commission's science and knowledge service, conducted an exploratory study on the topic (Van Heerden, Barranco, and Lavalle, 2020).

Analysis of the situation in a selection of European Union (EU) cities (Athens, Barcelona, Berlin, Lisbon, Paris, Porto, and Vilnius) by local experts *(see full list below)*, illustrates that housing financialisation can take different forms, e.g. ranging from the management of housing through the use of raised funds (e.g. shares), borrowed funds, or funds one owns outright (Aalbers, 2016). Furthermore, financial instruments and products are likely to include a combination of structures, such as mortgage-backed securities. In this case, spatially fixed property is transformed into fictitious capital, whereby housing values depend more on the volatility of financial markets, and less on the intrinsic value of the property and the location (Van Loon and Aalbers, 2017).

One driver of housing financialisation that is observed in all cities under analysis (although to varying degrees) is investment in short-term accommodation for tourists. For example, in Athens, investment in short-term rental accommodation for tourists is combined with, and fuelled by, the demand for residence permits offered through the Gold Visa Programme. The amount invested via the Golden Visa Programme from 2013 to 2018 was an approximate EUR 1 billion, which corresponds to 41% of the net foreign capital inflow for real estate purchases recorded by the Bank of Greece for that same period.

The external attractiveness of Portugal has also changed the residential markets of Lisbon and Porto in significant ways. Both housing markets largely recovered from the great financial crisis (2008) based on high demand for tourist accommodation and related investments. The construction of, and conversion to, tourist rentals has been especially important for the rehabilitation of the city centres.

Equally, in Barcelona, the weight of transactions by legal entities increased by 19% between 2014 and 2017, whereas the territorial distribution of property ownership indicated that legal entities were most active in the central strip of the city, corresponding to the neighbourhoods that also experienced a high concentration of short-term rental accommodation for tourists.

At the same time, in most cities, the link between finance and housing also appears to have consolidated due to a more general demand for housing, and a strengthened role of financial agents. For example, in Portugal real estate investment funds (which have existed since 1985) have shown a significant growth, and also real estate investment trusts (known as SIGI) have recently emerged. Both structures allow for the transformation of fixed assets into 'tradable' assets, enabling any external agent to obtain ownership (Santos, 2019).

Furthermore, in Berlin, the two biggest private property owners, Deutsche Wohnen SE and Vonovia SE, are both listed on the stock exchange, belonging to the 30 biggest and most valuable German companies of the DAX (Deutsche Wohnen replaced Deutsche Lufthansa in June 2020). Over the years, both companies build up their housing stock by buying several residential portfolios, including apartments formerly owned by municipalities or municipal housing companies. The ownership of both companies shows how interesting the German housing market has become for Anglo-Saxon funds and other international financial investors; among the biggest shareholders of Deutsche Wohnen are Massachusetts Financial Services Corporation (MFS) (United States), BlackRock, Inc. (United States), and Norges Bank (Norway) (*Deutsche Wohnen SE, Geschäftsbericht*, 2018). Blackrock also holds large shares of Vonovia, as does the Government Pension Fund of Norway (*Vonovia SE, Geschäftsbericht*, 2018). In Vilnius for example, the demand for, and construction of, luxury apartments has increased substantially. While the constructions sector is largely domestic, lately it has also been stimulated by foreign investment funds from the Nordic and Baltic countries.

Moreover, the majority of city studies suggest that housing financialisation (in its various forms) has a negative impact on housing affordability, especially for the lower and middle classes. In Barcelona, in 2018, a household with an income of 2.5 times the interprofessional minimum salary (€2,146 a month net) could only afford rental housing in five of the 36 municipalities in the metropolitan area (spending less than 30% of their income). In Lisbon, house prices in the most attractive areas rose to such unprecedented levels that the middle class, receiving salaries consistent with national averages, do not have access.

Also in Amsterdam, the medium incomes are also overburdened by rental costs. Furthermore, analysis of 2015 transaction data shows that private individuals (buy to live) systematically pay more per square meter than investors. It is believed that most of the bought property returns to the market as tourist rental, luxury rental, small studio housing for singles, and renovated turnkey apartments for sale. Notably, in Paris, it is hard to attribute the recent evolution of house prices to non-household actors. While the city sees high and dynamic house prices, no massive foreign or financial investment was present in the French housing market up to the year 2017.

The majority of the cities studied confirm the assumption that housing financialisation negatively impacts housing affordability, and that a discrepancy between income levels and housing expenditure is becoming a common issue. It also became clear that causality is complex, pointing to the housing system as a myriad of factors that either directly or indirectly influence and/or reinforce each other. In this respect, other factors of importance (non-exhaustive) are the backlog in new construction, an influx of qualified skilled workers with higher incomes to urban areas, the provision of social housing, and low-interest rates.

Quantitative modelling could help to gain further insights into these dynamics, taking into account endogeneity issues, interaction effects, and non-linear relationships. However, for such exercises, high quality, comparable, sub-national data are required. The need for more data is also one of the main observations from the exploratory study concerning future research. To better understand housing financialisation across EU cities, as well as its consequences, more (harmonised) data is needed.

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List of local experts

Athens: Nikos Karadimitriou (University College London).

Barcelona: Maite Arrondo Segoiva (independent housing consultant).

Berlin: André Moschke (City of Berlin).

Lisbon and Porto: Márcio Ferreira; Fátima Loureiro de Matos; Catarina Maia; Diogo Ribeiro; Teresa Sá Marques; Miguel Saraiva (University of Porto).

Paris: Pierre Madec; Xavier Timbeau (Sciences Po, Paris).

Vilnius: Vygintas Jakas (City of Vilnius).

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