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Study | 27.01.2022

My home is an asset class

Study about the financialization of housing in Europe

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SUMMARY

Over the past decades, institutional landlords – from real estate companies like the German giant Vonovia to private equity companies like Blackstone, or pension funds like ABP, the Dutch pension fund for government and education employees – have minted EUR 40bn of Berlin's houses into assets that they rent out. This is roughly double the combined value of London's and Amsterdam's institutionally owned houses and it is a trend that has accelerated since the COVID19 pandemic.

Europe's residential real estate has become an attractive asset class for investors worldwide, supported by a range of government policies that are ostensibly aimed at homeowners: support for housing markets pushes up house prices and reduces affordability for citizens, whereas income support for rent-paying households ensures stable returns for investors.

In response, citizens across Europe – from Berlin to Dublin and Madrid – have mobilized to pressure governments into taking action. From rent controls to better regulation or even expropriation of institutional landlords, the political tide seems to be turning against a decades-old phenomenon known as

the financialization of housing.

A mega-trend across housing markets everywhere, it can be understood as the disproportionate growth of housing finance relative to the underlying housing economy or the turn to Housing as an Asset Class (HAC), captured by the increasing for-profit and financial orientation of actors in housing markets, and encouraged in Europe by a broad range of European-level financial legislation.

In this report, we explore the growing importance of institutional landlords such as Blackstone, focusing in particular on the mechanisms through which European legislation has accommodated their strategies to transform housing into asset classes. We use data to map the complex financial ecosystem behind private equity landlords. We then propose
a set of reforms that would de-financialize housing for the public good.

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KEY TAKEAWAYS:

- This study examines the growing footprint of institutional landlords in European residential housing. It identifies three reasons why institutional ownership deserves closer scrutiny, despite its relatively low share compared with private small landlords/owners:
    - the negative social impact of institutional ownership;
    - the growing structural demand for housing asset classes, with private equity/funds being the visible layer of a complex network of institutional landlords that includes banks, pension funds and insurance companies, endowments and wealth managers;
    - the ability to enlist the state in creating and de-risking housing asset classes to meet that structural demand, both via (European level) regulatory regimes and macroeconomic policies.

- Institutional ownership threatens to accelerate the trends unleashed by the financialization of housing: deeper financial markets have not substantively increased either aggregate home ownership or housing supply, but instead have inflated house prices and pulled down rental yields. Housing affordability is a key problem across Europe's cities, alongside decline or stagnation of urban living space per person, more overcrowding, and higher burdens of housing costs, particularly in bigger cities and for lower-income households and for tenants.

- Opaque structures of institutional ownership: there is little granular detail on institutional landlords, whether from either public or private sources. For instance, data from the European Public Real Estate Association shows non-listed (private equity) funds owned 30% of the EUR 2.7 trillion real estate assets in the EU282, while EU listed property companies and REITs owned 20% in 2020. Insurance companies, pension funds and sovereign wealth funds directly owned another 16%, but also invested in private equity funds, public equity and other housing asset classes. However, institutional landlords do not separately report the value of the residential housing assets they hold.

- Recent European initiatives under the Capital Markets Union – including the Simple, Transparent and Standardized Securitization regime, the Securitization of Non-Performing Exposures and revisions to Solvency II capital requirements for insurance companies – will further ease the transition of residential housing from private into institutional ownership. This solidifies an uneven

playing field, penalizing European citizens that cannot mobilize financial resources on a similar scale.

- Without a regulatory framework, the COVID19 pandemic will accentuate four fundamental drivers of housing as an asset class:
    - under cyclical pressures to address COVID19-related increases in public debt, Member States might further withdraw from providing affordable housing, beyond the (national variations in) Recovery and Resilience Plans' investments. The revision of the economic governance framework should avoid a return to austerity policies and should encourage the opposite: increased public investment in social housing.
    - Member States might again rely on institutional landlords as a countercyclical force to clean up burst housing bubbles, as institutional landlords can easily absorb non-performing mortgage loans, often with preferential support from the state (e.g. post-2008 Spain, Ireland or Greece).
    - build-to-rent: the growing, often direct, involvement of private investors in the development of new rental housing, replacing housing companies.
    - macroeconomic (fiscal and monetary policies), regulatory and housing policies that support house price inflation and institutional ownership. In particular, when developing a new Social Taxonomy, the Commission and co-legislators should ensure that it prevents any social washing of housing assets held by institutional investors.

KEY POLICY RECOMMENDATIONS TO REGULATE INSTITUTIONAL LANDLORDS

1. A Sustainable Institutional Housing framework: a social-washing-proof Social Taxonomy to anchor mandatory disclosure and regulation of institutional landlords

a. Carve out special provisions for Housing in the Social Taxonomy.

Given the importance of Housing and the precarious state it finds itself in across most Member States, housing should be treated as a special asset class within the Social Taxonomy plans of the European Commission. The aim is to both improve transparency across the board and to regulate institutional landlords, while minimizing social washing. A socially-washed Taxonomy would allow Blackstone to market its residential funds as eligible under Social Taxonomy, even if its practices as an institutional landlord worsen living conditions for its tenants. To minimize social washing, we propose the following two housing pillars:

- Apply both the vertical and horizontal dimensions to housing assets. In the Taxonomy proposals, the horizontal dimension focuses on the processes and practices of companies that issue housing assets, while the vertical dimension defines adequate living standards via an Availability, Accessibility, Acceptability and Quality (AAAQ) framework rooted in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights. The vertical dimension is critical to minimize social washing.

- Create a three-bucket AAAQ approach in the vertical dimension that distinguishes clearly between the high, struggling and poor performance of housing assets. To avoid social washing, establish a high performing/ struggling/ poor benchmark for each AAAQ criteria and require the simultaneous fulfilment of the four benchmarks within the bucket.

b. Develop and implement a mandatory disclosure regime for institutional investors with exposure to housing asset classes.

The Social Taxonomy is (thus far) intended for a subset of investors that focus on social impact. We propose mandatory disclosure for all institutional landlords using the Social Taxonomy in the approach outlined above. Mandatory disclosure would not be too onerous given the wide use of asset-level disclosure in the private GRESB ESG standards.

c. Develop and implement an escalation-based regulatory regime for institutional investors with housing asset classes on their balance sheet.

This aims to increasingly align institutional landlord practices with housing as a human right. Using the Social Taxonomy framework proposed above:

- first remove all regulatory privileges conferred in EU legislation for the past decades to all but the highest performing (positive tilt)
- set out incentives and a timeline for aligning HAC portfolios with the high-performance benchmark, including progressively tighter penalties (negative tilt).

2. A European Housing Fund that works as a:

- Countercyclical force to ring-fence the collapse of housing asset bubbles that typically result in the transfer of housing units from small private or public ownership into institutional portfolios. This curtails the erstwhile reliance of Member States on institutional investors as a countercyclical mechanism during periods of crisis, and the use of public bad banks as a conveyor belt for distressed housing assets passing from commercial banks to institutional portfolios.
- Structural force, to raise financing for public investment in social housing.

3. A Housing Red Flag Rule on new European-level regulatory initiatives: this requires the constellation of European regulators to ensure that new regulatory initiatives do not inadvertently de-risk housing asset classes for institutional landlords. The Rule would ensure that housing asset classes are ring-fenced from any regulatory easing initiatives.

4. An extended macroprudential mandate for European central banks to react to house price inflation through the tighter, but socially just, regulation of mortgage lending following examples from Sweden and New Zealand.

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Contact person



Francesca Jenner

Social Justice Campaigner

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