THE GREENS/EFA
in the European Parliament

Launch of the Greens/EFA study 'My home is an asset class' - Q&A

1. What is 'financialisation' of the economy?

Financialisation describes a process by which economic operators' indebtedness and use of financial services has increased and by which the financial services industry accounts for a growing share of the national income and profits. For instance, BlackRock, the world's largest asset manager, manages USD 10 trillion on behalf of institutional investors, a considerable share of the USD 120 trillion managed by the top 500 asset managers worldwide. This means that institutional investors have a growing influence on the real economy: they define the financing and borrowing conditions for firms and by owning shares they can directly influence corporations' strategies and decisions.

2. What is 'financialisation' of housing?

Financialisation affects all economic sectors, including real estate and within that, residential housing. Institutional investors own a growing share of housing markets. For instance, the private equity company Blackstone, the world's largest institutional landlord, has around USD 700bn under management. This trend is increasing, for instance in Berlin where institutional landlords (including pension funds, real estate companies or private equity companies) 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. In sum, real estate has become an important asset class for institutional investors who look for new types of safe assets given historically low bond yields.

This trend leads to a withdrawal of the state from the provision of affordable housing and the decline of housing companies owned by state or local government, churches, unions, or corporations that typically received federal and municipal subsidies in exchange for rent ceilings and allocation priorities.

Hence, residential housing, especially in European cities, becomes more and more expensive and rents are on an upward trend, raising affordability problems for citizens[1].

3. What sums of money are involved?

The portfolio glut is increasingly channeled through private markets: by 2020, pension funds, mutual funds and insurance companies and other investors together lent around USD 7 trillion to private equity funds so they can target alternative asset classes, including residential housing.

Real estate funds have grown rapidly over the past 10 years, driven by growing institutional demand. In the Euro area alone, data from the ECB shows that real estate funds have reached EUR 1 trillion in 2021, from around EUR 350bn in 2010. The figure of EUR 1 trillion is the size of Spanish GDP.

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[1] Financialisation of housing also refers to the growth of mortgage financing and household debt in recent years. The main focus of this research is on financialisation 2.0 - the growing presence of institutional investors in housing markets, how EU regulation is enabling this, and solutions to it.

According to Preqin data, more than 4000 institutional investors, including banks, directed around USD 3.6 trillion of their USD 136 trillion assets under management to European real estate[2] in August 2021. Of these, 1325 investors, with AUM of USD 44 trillion, held residential assets in their RE portfolios. The value of real estate portfolios that include housing was about USD 2 trillion.

Data on institutional investors' residential housing deals (number and size) including multi-family and apartment-buildings in different cities, as part of this research investigation, is available, showing a lower-boundary estimate based on Preqin data, via: https://dataverse.shinyapps.io/big_realestate_deals/ Data source: Preqin, Sebastian Kohl.

4. Why does this issue deserve closer scrutiny?

We are entering the age of the institutional landlord. This is why it is important to both understand the factors that have enabled institutional landlords to transform housing into an asset class (including the role of European level financial regulation) and to design an appropriate regulatory regime. Three factors are worth mentioning:

a) the negative social impact of institutional ownership: evictions, rising rents, inflating house prices - reaching unsustainable levels, last seen during the period preceding the previous financial crisis;

b) the growing structural demand for housing asset classes, with private equity the visible layer of a complex network including banks, private equity funds, pension funds and insurance companies, endowments and wealth managers;

c) the ability of institutional landlords to enlist the state in creating and de-risking housing asset classes, both via (European level) regulatory regimes, macroeconomic policies and crisis responses. The top 3 buyers of non-performing loans in Europe throughout 2015-2017 were the private equity companies: Ceberus, Blackstone, and Fortress, mostly from bad banks set up to clean burst housing bubbles.

5. Who really owns your city?

Insurance companies, public and private pension funds, banks, sovereign wealth funds and asset managers are some of the main institutional investors in residential real estate. These can invest directly, via private equity funds, via equity markets or other debt instruments.

6. European legislation is accommodating institutional landlords to transform housing into asset classes. Which specific pieces of EU legislation are responsible?

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 to a similar scale.

A 2019 report of the European Banking Authority illustrates well the distinctive possibility that European efforts to promote the securitization of non-performing loans may accelerate the shift of housing from

[2] Real Estate includes hotels, industrial (data centers, distribution warehouses), land, offices, shopping centers, car parks, student housing, elderly care, and residential housing. The Preqin database offers one of the most detailed overviews of real estate investors, funds and large transactions in Europe.

retail ownership into institutional portfolios. The top sellers over the 2015-2019 period were commercial banks and public entities set up to manage the collapse of housing bubbles.

7. What is the political and ideological framework behind this?

The political narrative is that public resources alone cannot deliver the required investments in climate, health, education, infrastructure and indeed housing, so policy makers should instead mobilize private finance for these public goals. Instead of direct public investment, the state is expected to create the conditions for private finance to invest in social infrastructure, including housing – such policies come under the umbrella of derisking. De-risking interventions are necessary since private finance will not invest in new asset classes if the risk/return profile does not match their preferences, or their regulatory requirements.

Such public interventions involve both regulatory de-risking - removing regulatory barriers that prevent investors from creating and holding new asset classes - and fiscal de-risking - using fiscal resources to change the risk/return profile of new asset classes, and thus mobilize private finance. Applied to housing assets, this report shows how regulatory derisking involves **a wide range of policies from favourable tax regimes to weakening of regulatory requirements for housing asset classes** (notably via the Capital Markets Union). In turn, fiscal and monetary derisking encompasses a range of macroeconomic policies supportive of house price inflation.

8. Where are institutional investors present?

In the EU, UK, US and globally. European residential real estate is becoming an increasingly important asset for institutional investors and asset managers.

European capital cities have been the primary target, though unevenly distributed, of institutional investment flows. New data on institutional investors' residential housing deals (number and size) in different cities, as part of this research investigation, is available via: https://dataverse.shinyapps.io/big_realestate_deals/ Data source: Preqin, Sebastian Kohl.

Also see which institutional investors are present in the capital cities in an interactive map here: https://www.eldiario.es/economia/nuevos-duenos-vivienda-han-transformado-fondos-internacionales-mercado-inmobiliario_1_7935880.html (Source: Cities for Rent, Real Capital Analytics)

A majority of private equity real-estate funds are legally domiciled in the US or UK, but German and French funds are also sizable. A minority of the funds invests in one country only, e.g. 134 invest in the UK only, 109 in Germany only, 27 in Italy, 25 in France and the Netherlands. More often, the funds' geographic exposure involves several countries or European regions (Nordics, West, South), Europe as a whole, or even global regions among which Europe.

9. Are institutional investors paying their fair share of taxes?

EU securitization activities typically concentrate in EU low-taxation jurisdictions, allowing institutional investors to minimize tax burdens on capital gains. Illiquid European REITS issued in Ireland or Spain by private equity companies also take advantage of light regulatory regimes and are not subject to corporate tax.

10. Who carried out the research?

The study's authors are [Daniela Gabor, Professor of Economics and Macro-Finance, University of the West of England,] and [Sebastian Kohl, Senior Researcher in Social Sciences, Max Planck Institute for the Study of Societies.]

11. Why are we shining a spotlight on institutional investors as part of the Greens/EFA housing campaign?

The Greens/EFA group in the European Parliament has made housing one of its political priorities. Housing is a human right. We are fighting for decent and affordable housing for all in Europe and for the EU to take its responsibilities where its policies have a clear impact on housing within the Member States. Exactly one year ago, the European Parliament adopted the Greens/EFA-led report on [Access to decent and affordable housing for all]. The report calls on the Commission to assess the contribution of EU policies and regulations to the financialisation of the housing market and the ability of national and local authorities to ensure the right to housing, and, where appropriate, to put forward legislative proposals to counter financialisation of the housing market. More here: https://www.euractiv.com/section/economy-jobs/opinion/why-the-eu-has-a-big-role-to-play-in-tackling-the-housing-crisis/

12. What are the Greens/EFA proposals to address the financialisation of housing and tackle the affordability crisis?

Homes for people, not profit:

1. Recognise there is an escalating housing crisis in Europe.

We call for regular meetings of the EU housing ministers and the ECOFIN Council to discuss rising house prices and rents and the role of financial investors in this evolution in Europe.

2. Close the investment gap in social and affordable housing of €57 Billion per year[3].

    a. Give Member States space for housing investment under the revised Fiscal Rules.
    b. The European Commission should broaden the target group definition for social and publically-funded housing under the Services of General Interest rules.
    c. The EU should promote access to decent and affordable housing through the European semester.
    d. Assess the feasibility of a Housing Fund to steer public and private investment into affordable and social housing and to mitigate the adverse impacts of the collapse of housing bubbles.

3. Stop EU financial rules from encouraging financialisation

Ensure that EU policymakers duly take into account the impact of the EU financial regulatory framework on housing, via a red-flag rule on new and existing regulation, and amend it as appropriate, including by extending the mandate of central banks to identify and prevent housing bubbles.

4. Set EU rules to stop the negative effect of holiday rental platforms.

The expansive growth of short-term holiday rental is removing housing from the market and driving up prices, and has a negative impact on liveability in urban and tourist centres. The Commission should

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[3] Report of the High-Level Task Force on Investing in Social Infrastructure in Europe: "Boosting Investment in Social Infrastructure in Europe" (2018)

propose rules that allow authorities to regulate holiday rental and ensure access to data in order to enforce rules.

5. Mandatory transparency on real-estate ownership and transactions

Everyone should be able to know who owns their apartment or house. The Commission has to fulfil its obligation in the Anti-Money Laundering Directive to report on the need to harmonise information on real estate ownership and on the inter-connection of national registers in order to prevent speculation. The Commission missed the deadline of end of 2020 and should deliver this soon. Mandatory disclosure on institutional investors should also be a feature of the social taxonomy.

6. Avoid social washing of affordable housing by investors

The Commission should integrate environmental and social governance (ESG) criteria, with a distinction between high, struggling, and poor performing housing assets in the EU social taxonomy, in such a way that prevents social-washing of housing and encourages high-performing assets.