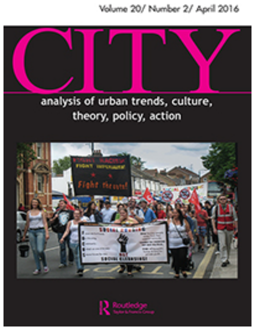

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Speculating on London's housing future

The rise of global corporate landlords in 'post-crisis' urban landscapes

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London's housing crisis is rooted in a neo-liberal urban project to recommodify and financialise housing and land in a global city. But where exactly is the crisis heading? What future is being prepared for London's urban dwellers? How can we learn from other country and city contexts to usefully speculate about London's housing future? In this paper, we bring together recent evidence and insights from the rise of what we call 'global corporate landlords' (GCLs) in 'post-crisis' urban landscapes in North America and Europe to argue that London's housing crisis—and the policies and processes impelling and intervening in it—could represent a key moment in shaping the city's long-term housing future. We trace the variegated ways in which private equity firms and institutional investors have exploited distressed housing markets and the new profitable opportunities created by states and supranational bodies in coming to the rescue of capitalism in the USA, Spain, Ireland and Greece in response to the global financial crisis of 2007–2008. We then apply that analysis to emerging developments in the political economy of London's housing system, arguing that despite having a very low presence in the London residential property market and facing major entry barriers, GCLs are starting to position themselves in preparation for potential entry points such as the new privatisation threat to public and social rented housing.

Key words: private equity, housing crisis, dispossession, global corporate landlords, London

Introduction

As this Special Feature makes clear, London, more than anywhere else in the UK, is experiencing an acute, pervasive and socially explosive housing crisis so severe and polarising that it has become the city's number one political issue. The crisis is dominated by evidence and platitudes over rising property prices and plunging affordability, and for good reason: London is now the unrivalled king of the global property league for the super-rich, with prime property values rising faster than any major city in the last decade (Knight Frank 2015). Ordinary Londoners meanwhile wilt under average house prices of £500,000 (in October 2015)—more than double the country average (Land Registry 2015)—and by far the highest average private sector rents in the UK (Anderson 2015), with landlords increasingly empowered to choose their tenants and a growing willingness to engage them in rental price bidding wars (Lunn 2014). No wonder evictions and homelessness are on the rise. The London housing crisis does not stand uncontested from below and is generating an embryonic 'urban social movement' (Castells 1983) pushing at the political space opened up by the recent election as Labour Party Leader of a leading anti-privatisation voice in the shape of Jeremy Corbyn. But with the crisis worsening all the time, looming around the corner is a palpable sense that once the Conservative Government's current Housing and Planning Bill (House of Commons 2016) becomes law, its intended radical assault on the remaining public housing stock and the security of tenure and affordability it once guaranteed will accelerate the class cleansing of London begun under the Coalition Government (2010–15) (Hodkinson and Robbins 2013).

If this is the today and tomorrow of the London housing crisis that authors elsewhere in this Special Feature examine, our focus here is on its longer-term repercussions. Drawing speculatively on the initial findings of an ongoing international research project investigating the growing transnationalisation of housing systems,[1] this paper suggests that the rise of private equity firms as nascent 'global corporate landlords' (GCLs) in the 'post-crisis' urban landscapes across the USA, Spain, Ireland and Greece might be a harbinger of London's housing future. By *post*-crisis we are referring not to the definitive end of crisis but rather to the immediate aftermath of the extreme structural conditions and uncertainties that characterised the dramatic crisis events of 2007–2008 and which can now be seen as facilitating new rounds of 'accumulation by dispossession' (Harvey 2003). While the suddenness and severity of the global financial crisis conjured illusions that the neoliberal game was up, in reality, the co-constitutive relationship between finance and urban space so central to neo-liberalisation has continued to develop with new asset classes emerging and new financial and investment strategies being pursued. This paper focuses on one such post-crisis development—the vulture-like move by private equity firms and other institutional investors to accumulate wealth from the dispossession experienced by millions of people through foreclosures (repossessions) of distressed residential real estate and mortgages. These corporate vultures precisely target crisis contexts, exploiting household precarity, home loss, state programmes to recapitalise banks through buying up and selling on toxic debts and assets, and the wider structural reverse from home ownership to renting that was kick-started by the global financial crisis.

This paper tracks the rise of GCLs in four of the worst-hit national housing markets during the 2007–2008 financial crisis—the USA, Spain, Ireland and Greece—and examines what this might tell us about the possible future trajectory of the London housing system. A first section draws out what we call the 'Blackstone Connection' between our four post-crisis urban contexts, showing how GCLs like Blackstone—one of the world's largest private equity firms—are taking over and profiting in these landscapes. We then analyse the finance-led real estate boom and bust in the countries mentioned above, subsequent state action to restore this mode of accumulation and the nature of the re-emerging real estate–finance link with respect to the fundamental aspects of GCLs' role in the restructuring of the post-crisis housing markets. The analysis is built on a comparative methodology that traces similar trends and processes over the boom, bust and post-crisis periods in each national housing system using both official data and an interpretative account of how state policies, regulatory structures and investor activities are transforming and reorganising the relationship between finance and urban space. We then apply that analysis to emerging developments in the political economy of London's housing system, arguing that despite the present (low) exposure of London residential property to GCLs and major entry barriers, the picture is beginning to change in ways analogous to these other countries, reinforced by the concerted efforts of the state and a league of real estate–financial complex intermediaries to rapidly make markets, and create new asset classes. While acknowledging that none of the comparators represent cases directly analogous to London, and that we are employing highly variegated and diverse national and urban contexts to comment on a single city, we nevertheless discern clear lessons for London from a comparative analysis of these national case studies. We conclude by arguing that a key task for activism in preventing London's housing crisis from becoming a future corporate dystopia is to block off the main entry point to global corporate landlordism in London, namely, the current government's privatisation assault on public and social rented housing.

The Blackstone Connection: the rise of the global corporate landlord

On 14 October 2015, housing activists in the USA and Spain organised the third global day of action against Blackstone under the banner '#StopBlackstone Our Homes Are not a Commodity'. The campaign's international focus on Blackstone follows the firm's recently acquired status as the largest single owner of repossessed homes and non-performing mortgage loans in the USA and Spain, respectively, making it arguably the leading *global* corporate residential landlord. Blackstone's poor treatment of its tenants and its market-leading position have fuelled a growing movement to demand it stop buying occupied, foreclosed and subsidised (public or social) housing, as well as ensure that 25% of its housing in any city is affordable to people on low incomes (Right to the City Alliance 2015). But Blackstone has also become a symbolic nemesis for housing campaigners, an example of how the ongoing decline in home ownership rates, constrained mortgage credit and a post-crisis surge in rental demand are enabling global investment companies to become private landlords with unprecedented power over their tenants, who have in turn faced the loss of rent subsidies, unwarranted eviction notices, and exorbitant rent increases and additional charges (Call, Powell, and Heck 2014; Dowsett 2014; Garcia 2015; Ingliss 2015; Van der Voo 2015). Facilitated by enabling states and available private finance, GCLs like Blackstone are targeting severely undervalued property markets, where large-scale acquisition of (distressed) residential assets—ideally high volume portfolio purchases—can be executed rapidly, before the housing market 'normalises'. The devaluation of the targeted housing markets, the potential for impressive capital gains later and the opportunity to use residential assets as the basis for financial instruments means they offer a formidable income yield. Or, as Blackstone CEO Steve Schwarzman stated in 2010 describing his firm's strategy in post-crisis Europe as 'basically waiting to see how beaten up people's psyches get, and where they're willing to sell assets ... You want to wait until there's really blood in the streets' (*Irish Independent* 2014).

While all kinds of investors have waded into the distressed real estate market, the entry of *institutional* investors, and specifically *private equity firms* like Blackstone, deserves special attention by those organising for a more just housing system. Private equity firms raise capital from large institutions such as pension funds and insurance companies to leverage further loans from banks and capital markets in order to pursue investments. One strategy is opportunistic investments in high-risk/high-return markets. In an era marked by high liquidity and low yields, private equity strategies attract institutions seeking to garner larger returns for their clients, for example, pension holders (on these dynamics in the lead up to the global financial crisis, see Acharya, Franks, and Servaes 2007; Creswell 2008). As its name indicates, private equity is not publicly offered, making its funds and actors far more opaque than publicly listed ventures. The combination of light-touch regulation and low transparency can make private equity firms far less accountable to both investors and people on the ground, such as tenants. This is of particular concern in the case of distressed/opportunistic private equity strategies, which by nature are high risk, frequently short term and often associated with loading assets with unsustainable debt (Creswell 2008; Fields and Uffer 2014). Institutional investors also have an edge over smaller actors: they can buy in very high volumes thanks to credit facilities from major retail and investment banks and equity financing from public pension funds (Perlberg and Gittelsohn 2013; Burns 2015). In-house expertise allows them to analyse markets, target purchases and engage in financial engineering to maximise returns. The volume of repossessed homes and distressed mortgages consolidated under the ownership of banks and asset management companies (AMCs) represents a new canvas for institutional actors to capture financial rents, for example, issuing rent-backed financial instruments or repackaging distressed loans into bonds. The result is the centralisation of housing ownership under the control of global investment companies, who are tying residents into capital markets even after the mortgage relation has been severed.

The institutional investor-as-landlord model is the most developed in the USA, where private equity firms started buying up and renting out repossessed detached (single-family) homes as early as 2008 (Brennan 2013). In 2012, some of the world's largest real estate private equity firms, including Blackstone and Colony Capital, followed early entrants like Waypoint into the market. They rapidly accumulated large property portfolios: Blackstone's rental subsidiary Invitation Homes controls about 50,000 rentals, followed by American Homes 4 Rent's 38,000 homes and Colony Starwood Homes' 30,000 (Gopal and Perlberg 2015). Despite controlling a small share of the market overall (about 1% of the nation's 15 million detached rental homes, cf. Zandi and Lafakis 2015), targeted acquisitions by institutional investor-landlords have profoundly impacted Sun Belt markets, including Phoenix, Atlanta and Tampa. Investors have also been entering the market for distressed real estate assets in Spain, taking control of large amounts of land and housing, primarily in the urban centres of Madrid and Barcelona (Mendez and Pellicer 2013; Baker 2014). As in the USA, Blackstone appears to be the dominant player, undertaking extensive and varied purchases. The firm edged out competitors like Goldman Sachs, Oaktree Capital Group, Apollo Global Management and Lone Star Funds in a bidding war for the entire defaulted mortgage portfolio (consisting of 94,000 loans) of failed bank CatalunyaCaixa (at a 40% discount, paying only €3.6 billion for a portfolio valued at €6.5 billion). It has also purchased close to 4000 units of housing directly (much of it state-subsidised), and a portfolio of 29 completed residential developments and vacant land for construction. In Ireland, similar to Spain, state-led deleveraging institutions have acted as 'market makers' for institutional actors, selling almost exclusively to US private equity firms and hedge funds, including Blackstone, Colony Capital, Lone Star Capital and Oaktree Capital (Cushman and Wakefield 2015). So far the surge of foreign investment capital has primarily been directed into Ireland's *commercial* real estate market with debt sales in 2014 amounting to €21 billion suggesting an enormous quantity of transactions (Goodbody 2015). Some of the investment-grade assets being purchased in Ireland are development land, which firms plan to develop as rental housing (Byrne 2015a). In Greece too, firms are attracted to distressed commercial loans, as well as absorbing Greek companies, or controlling Greek banks. In Athens, Blackstone part-owns a real estate developer building a resort on the site of the former airport and also owns a former factory site where it wants to build a shopping mall. Oaktree Capital, Dolphin Capital and Goldman Sachs have also been active in buying up companies, public land and development sites (Hadjimichalis 2014; Vourekas 2014).

Having introduced the basic concept of the 'global corporate landlord' model through the connecting activities of Blackstone in the post-crisis urban contexts of the USA, Spain, Ireland and Greece, we now offer a more considered comparative analysis of how the crisis of neo-liberal urban financialisation and subsequent state action to resuscitate capitalism in these four very different countries has opened the door to GCLs.

Preparing the ground for vulture capital: the crisis of urban financialisation in the USA, Spain, Ireland and Greece

The sudden rise of GCLs in North America and Europe outlined in the previous section may appear as a spontaneous post-crisis development but it was strongly presaged in the process of neo-liberalisation itself that has driven the growing interdependence between urbanisation and financialisation over the past 40 years. Finance capital has of course always played a central role in (re)developing urban infrastructures necessary for the reproduction and expansion of capitalist relations (Harvey 1982; Moreno 2014). But neo-liberalisation transformed the built environment itself into a mechanism for value capture by finance as a mode of accumulation (Weber 2002; Newman 2009). This integration of finance and urban space in turn rendered real estate increasingly 'liquid', that is, converted it into a tradeable income-yielding asset (Coakley 1994; Guironnet and Halbert 2014). This ability to trade investments in property on global markets in the form of securities, derivatives and loan portfolios (Weber 2002; Gotham 2006) combined with the neo-liberal state's marketisation mission that removed borders to capital mobility, withdrew from playing a strong direct or regulatory role in providing social and physical infrastructure (including public housing) and incentivised owner occupancy by expanding access to mortgage credit (López and Rodríguez 2010). The outcome was to facilitate finance capital's penetration throughout society through household indebtedness and intensify the finance–real estate relation, exacerbating capitalism's fault lines through cycles of speculation-fuelled crisis that reached unprecedented levels in 2007–2008 and hit our four country cases especially hard.

The importance of expanding home ownership to ever wider sections of society was a central feature of political life in the USA, Spain, Ireland and Greece from the early 1990s. As home ownership grew, historically low interest rates attracted flows of capital into the real estate sector due to its promise of high returns and its reputation as a stable asset class. Economic policies provided tax incentives for promoting home ownership and property development, while planning amendments by pro-growth planning regimes in Ireland, Spain and Greece liberated land for further construction. The global credit boom made both consumer and commercial mortgages widely and easily available; even households with insecure and low-paid jobs could access mortgage debt from so-called sub-prime lenders, helping to fuel the real estate bubble. It was during this period that the transformation of housing from a physical commodity into a financial asset could be observed, either through securitisation (primarily in the USA, but to some extent also in Spain) or the growing interrelationship between local real estate and global circuits of capital (primarily the Irish and Spanish cases), with ensuing market volatility (especially Spain and Greece). The financialisation of housing generated vast increases in house prices everywhere from 1997 to 2008—doubling in the USA, Spain and Greece and tripling in Ireland (see Table 1).

This financialisation of housing in each national context was built on a fundamental contradiction with circuits of capital increasingly organised around investment and trading in mortgage debt and derivative products, which depended on rising asset prices and increasing numbers of people taking on higher levels of personal debt to access housing. In the USA, as securitisation came to dominate the mortgage market, mortgages themselves became the raw materials for globally traded financial instruments (Newman 2009), ending up as 'collateralised debt obligations' (CDOs) in the books of European banks, distributing the risk throughout the system (Aalbers 2008). As US house prices stalled after 2006, subprime borrowers began defaulting in higher numbers, foreclosures increased and the financial instruments crafted from these loans became illiquid, setting off the chain of events that rapidly became a global financial crisis (Harvey 2011; Lapavitsas 2013; Immergluck 2015). National housing systems erupted into chaos resulting in the profound devaluation of both property itself and related financial assets (see Saegert, Fields, and Libman 2009; Immergluck 2010 for the USA; Colau and Alemany 2014, Janoschka 2015 for Spain; Norris and Byrne 2015 for Ireland; and Nikolidaki 2015 for Greece). What became clear in 2008 was the extent to which markets and economies around the world were interconnected, as the collapse of retail and investment banks in the USA like Lehman Brothers led to a housing crisis and destabilised the banking sector in Europe, leading to heightened public deficits (see Spain, Italy and Portugal) and default (Greece) in Southern Europe. Wide sections of the financial system became insolvent due to the collapse of asset values, proliferation of distressed debt and the dispersal of risk throughout the financial system via 'toxic assets'.

Table 1 The boom–bust cycle in the USA, Spain, Ireland and Greece compared

		USA	Spain	Ireland	Greece
The boom years	Peak housing production	6.7 units per 1000 inhabitants	17.7 units per 1000 inhabitants	18.0 units per 1000 inhabitants	11.1 units per 1000 inhabitants
	Price increase, 1997 to peak	93% (nominal), 59% (real)	203% (nominal), 118% (real)	294% (nominal), 187% (real)	173% (nominal), 103% (real)
	2007 homeowner rate	68.7%	80.6%	78.1%	75.6%
The crisis years	Foreclosures	7 million from 2007 to 2014	375,000 since 2008 (nearly 7% of all mortgages)	Negligible; 15% (100,000) of mortgages in arrears	14,000 in 2014–15; huge increase predicted for 2016
	Housing price decline	27% average decrease (tipping point: April 2011)	43% average decrease (tipping point: March 2014)	49.5% average decrease (tipping point: January 2013)	53% average decrease no tipping point in sight
	Homeowner rate decline	5.3% drop (to 63.4%, 2015)	2.9% drop (to 77.7%, 2013)	8.2% drop (to 69.9%, 2013)	1.6% drop (to 74%, 2014)

Statistical data: OECD, Eurostat.

From crisis to opportunity

While the urban legacy of the financial crisis continues to evolve with further retrenchment of public services and redistributive policies under 'austerity urbanism' (Peck 2012), what we are most interested in here, however, are the ways in which the political economic consequences of the crisis have served to produce the terrain for a new round of post-crisis financialisation. As the previous discussion of Blackstone indicates, this has occurred via a series of transformations and reorganisations in the relationship between finance and urban space, many of which have been facilitated and promoted by states. Below we discuss these transformations under the following categories: distressed assets; state re-financing and the 'bad banks'; new financial actors; and new investment strategies.

Distressed assets. The periodic devaluation of capital invested in the built environment has long been a feature of capitalist crises (Harvey 1982). In the current context this process is reflected in the proliferation of distressed real estate assets and related financial commodities that now serve as the vehicle for a renewed finance–real estate complex based on a different set of key actors and new investment strategies. House prices fell by approximately 27% in the USA, 43% in Spain, 45% in Ireland and 53% in Greece (see Table 1), and large swathes of mortgage loans turned bad, particularly those issued at the 2005–2007 peak of the boom in most countries to the extent that roughly 15% of all mortgages in Ireland and more than 30% in Greece are in arrears. This price–mortgage spiral has contributed to the more than 7 million foreclosures completed in the USA (accounting for 15% of all mortgages) and in excess of 375,000 in Spain. Beyond the residential market, investment-grade commercial assets have been equally badly hit. Current estimates suggest that nearly two-thirds of the €879.1 billion of 'non-performing loans' (i.e. distressed debt) held by European banks relate to real estate (BTG Global Advisory 2015).

State re-financing and the 'bad' banks. Selective state intervention in the management of both the wider financial system and specifically with regard to these distressed assets has been vital to the re-establishment of the financialisation–real estate nexus since 2008. One strategy has been state re-financing of the banking system. The US Government spent \$4.5 trillion between 2008 and 2014 purchasing illiquid assets and troubled mortgages and recapitalising banks in an effort to strengthen financial markets and bolster the housing market. This 'quantitative easing' allowed financial institutions to clear up their balance sheets and avoid further losses; meanwhile the US central bank has held interest rates near zero for several years, sending investors abroad in search of profitable yield. Governments in the so-called 'PIGS' countries of Portugal, Ireland, Greece and Spain (a derogatory term for those European Union (EU) member states unable to re-finance their government debt or to bail out over-indebted banks on their own) have ploughed similarly dizzying quantities of money into their respective financial system, bringing about fiscal and sovereign debt crises across the European periphery: Spain's government spent €14.5 billion to recapitalise and merge regional banks from 2010 to 2012, then used €41 billion in bailout funds from the EU to nationalise the regional banks; in Ireland the government spent €65 billion recapitalising and ultimately nationalising much of its beleaguered banking sector; and in Greece more than €90 billion were spent for bank recapitalisations. While in the initial recapitalisations the state participated as a basic shareholder, after Greece's recent third recapitalisation in November 2015, ownership of banks' shares passed to international banks and hedge funds (Alexandri and Janoschka, forthcoming). Interestingly, since 2011 Blackstone has been responsible for stress testing the Greek banking sector, and in September 2015 was hired as an expert advisor by the Central Bank of Greece on the issue of non-performing loans.

A second strategy for dealing with distressed assets has been the establishment of the so-called 'bad banks' or AMCs to acquire and manage distressed assets (Byrne 2015b). Spain's bad bank, SAREB (Management Company for Assets Arising from the Banking Sector Reorganisation), was established in 2012 and took control of debts, repossessed homes, stalled property developments and land from across the Spanish banking sector. Ireland's NAMA (National Asset Management Agency) fulfils the same role, acquiring €72 billion in real-estate-related debt since its foundation in 2010, equal to a remarkable 47% of Irish GDP (gross domestic product), from across the banking sector (Byrne 2015b). From a different angle, in Greece where the need for a 'bad bank' has been solved through the takeover of its national banks by international hedge funds, the rescue and recapitalisation of the banks was accompanied by vast increases in direct and indirect taxation related to property ownership, inaugurating a process of dispossession through unpaid taxes when at the end of 2014 foreclosures were ordered on outstanding tax payments to public and private actors. In all four countries, monetary policy and the reorganisation of assets went hand in hand, orchestrating a flow of capital from the public to the financial system.

New financial actors. The proliferation of distressed (and thus extremely devalued) assets and state structures to acquire and manage them in the wake of the crisis has, from a financial investor perspective, created vast new 'opportunities' and 'markets'. And yet, the very crisis-ridden nature of the financial and real estate sectors in the USA, Spain, Ireland and Greece has required *new* sources and forms of capital to exploit the moment. This has seen a new set of financial actors rise in influence, namely, private equity firms, hedge funds and other 'alternative investment funds' that specialise in distressed assets. These financial actors, often referred to as 'vulture funds' due to their focus on countries and companies in crisis, have been snapping up devalued direct property assets and non-performing loans on both sides of the Atlantic. Real estate investment trusts (REITs) have also emerged as important actors, publicly listed vehicles that allow for real estate investment without buying bricks and mortar property, making for a highly liquid investment. REITs are shareholding companies and investing in their shares is another investment avenue for 'vulture funds'. Legislation providing for REITs was either introduced or amended after the crisis in Spain, Ireland and Greece, and they have become important investors in distressed debt (see below). Similar to the previous boom cycle, substantial tax breaks and other state measures accompany this strategy of orchestrating a new cycle of accumulation by dispossession in the post-crisis era.

The scale of this transformation certainly gives cause for concern. By mid-2015, US institutional investors had amassed half a million single-family rental (SFR) homes, and just seven of the largest firms currently control more than 150,000 properties (with Blackstone and its subsidiary companies, such as Invitation Homes or Bayview Asset Management, heading this list). In European commercial debt markets an estimated €163 billion of distressed debt was offloaded between 2012 and mid-2015, 27% of which was sold on by the bad banks. Ireland has led the way here with its bad banks, NAMA and the Irish Banking Resolution Corporation (IBRC), the largest vendors of distressed real estate assets in Europe in 2014, responsible for just under a third of the €96.7 billion of distressed real estate asset sales in Europe in 2013 and 2014. Spain's SAREB was set up two years after NAMA but has already deleveraged assets worth €20 billion to institutional investors (Cushman and Wakefield 2015) as part of its legal requirement to deleverage assets within 15 years (Font and Garcia 2015). A significant majority of European distressed debt has been bought up by just a handful of 'vulture funds' dominated by US private equity: 33% of all such assets disposed between 2012 and 2014 were bought by Lone Star Funds, 17% by Cerberus Asset Management and 10% went to CarVal Asset Management (Cushman and Wakefield 2014). In the Irish case, for example, 90% of NAMA assets have been purchased by US private equity firms (Byrne, forthcoming).

New investment strategies. The entry of 'vulture' capital signals a significant transformation in the urban housing systems of post-crisis countries. In short, diverse facets of the financial–real estate complex are being concentrated in one set of global actors who are gaining control of both direct property assets and financial assets linked to property. While it is too early to understand the implications of these actors' investment strategies, some of the dynamics emerging in the private rented sector seem to us both illuminating and concerning. As our discussion of Blackstone has already indicated, rental properties have emerged as a major new 'asset class' for the new breed of investor, underlining how housing realities and financial dynamics are driving new rounds of financialisation. Two features of housing systems in crisis-hit countries are particularly salient here—the plummeting of property prices on the one hand and the drying up of mortgage credit and with it possibilities for investment in mortgage markets on the other. In this context, and given the continued and exacerbated unavailability of social housing, the private rented sector has grown quickly and with housing stock available at exceptionally low prices, investor yields in the rental sector have become attractive. We have already noted that private equity and institutional investment in US rental markets has exploded in the wake of the crisis: as of July 2015, eight companies had issued 21 SFR securitisations, covering the rental income stream of 84,000 properties with a market value of more than $16 billion. Despite their novelty, from the start these instruments have been subject to more market demand than can be accommodated (Corkery 2014; Tricon Capital Group 2015). As the market evolves it remains to be seen whether corporate landlords are gearing their investments with excessive leverage that could affect their ability to effectively manage the properties, which could have problematic implications for both tenants and bond investors. Meanwhile six SFR REITs in the USA are now publicly listed on the stock market. REITs have also emerged as a key vehicle for re-financialising housing via the rental sector in Spain (called *socimis*) and Ireland. Indeed, Ireland's largest landlord—the Irish Residential Real Estate Investment Trust (IRES)—with 1200 apartments largely bought from NAMA is now a REIT, largely financed by Canadian firm CAPREIT, which aims to 'consolidate the fragmented Irish rental market' (IRES website 2015); IRES has announced it hopes to increase rents by a startling 20% across its portfolio in 2015 (Byrne 2015a).

The involvement of global finance in local real estate markets is far from novel; indeed, it was perhaps the central driver of the global financial crisis. What is novel, however, is the nature of the flows of capital which characterise the post-crisis context. During the boom, property was linked to global flows via numerous avenues. In the USA, this infamously took the form of mortgage securitisation and related derivative products. In Europe, certainly in Ireland, Spain and Greece, this primarily took the form of national banks borrowing on inter-bank markets and lending into their respective national construction and property sectors. In all these cases, the key actors were in some sense familiar: property developers; mortgage brokers; and domestic banks. But the rise of GCLs is transforming the world of urbanisation and finance. A housing estate in a local neighbourhood of Madrid can now be directly owned and controlled from the heights, so to speak, of the global financial system, largely without the involvement of domestic actors. In a sense, then, the link between local property and global flows of capital has been *intensified*. The implications of tenants and for housing markets in Europe are as yet unclear, but the example of Blackstone and the US experience (Call, Powell, and Heck 2014; Fields 2015; Ingliss 2015) suggests that the cost of rent and security of tenure are likely to be the first victims of this emerging 'investment' strategy.

Standing back from this comparative picture and thinking about how it relates to the UK, and particularly its global city of London currently gripped by a housing crisis that in many ways sets it apart from the rest of the national housing system, our final section below now explores what the post-crisis rise of the GCLs in the USA, Spain, Ireland and Greece might realistically imply about the long-term denouement of the London housing crisis.

The London housing crisis of 2015: entry point for global corporate landlords?

Connecting London's housing crisis to foreign investors has become a cause célèbre in recent years with lurid media tales of billionaire oligarchs buying up mansions they then leave to crumble whilst empty, and foreign non-resident buyers vacuuming up the vast majority of homes put up for sale, thus preventing local residents from buying and helping to inflate prices and rents for everyone (Hill 2013). Some commentators have gone as far as to claim that the capital's housing stock provides a 'new global reserve currency' (Goldfarb 2013). However accurate that analysis might be, it remains firmly rooted in the present and firmly focused on individual overseas ownership, thus leaving alone the crucial issue of financialisation and the future role of GCLs in a post-crisis London housing system. Looking far further ahead, we want to explore what the rise of GCLs elsewhere might mean for London.

On the surface, current evidence suggests the answer could be 'very little at all'. The UK has by far the least financialised rental sector among comparable advanced capitalist countries (Faulkner 2015) with corporate residential landlordism and institutional investment at less than 1% (DCLG 2011; Investment Property Forum 2014). By mid-2013, institutional capital held just one-fiftieth of the £837 billion of private rental stock in the UK (Investment Property Forum 2014), and as Table 2 shows, both the contribution of direct GCL investment and the exposure of UK REITs to the private rental sector (PRS) are at present insignificant.

There are three compelling reasons why this picture is unlikely to change either now or in the foreseeable future.

(1) *Structural limits to institutional investment in private renting.* Private renting in the UK was a marginal and marginalised tenure for much of the 20th century as a result of state policies in favour of owner occupation and public house building. By the 1990s, the PRS housed barely over 10% of Londoners (Greater London Authority 2014).

Table 2 Global corporate landlords and real estate investment trusts in the UK private rental sector

Proportion of UK PRS stock directly held by overseas investors (GCLs), by value	0.2%[a]
Proportion of UK PRS stock held by REITs, by value	0.3%
Proportion of overseas investors' (GCLs) directly held PRS holdings as % of total UK housing stock, by value	0.04%
Proportion of REITs' PRS holdings as % of total value of UK housing stock	0.06%

[a]The GCL figures only account for whole block purchases and not for purchases of individual units. This is due to the availability of data and is not expected to make a large difference to the figure. All reviewed sources agree that institutional exposure to residential rental assets is extremely low.
Source: DCLG (2011) and Investment Property Forum (2014).

While the neo-liberal assault on public housing and the state-led efforts to re-boot the PRS through the roll-out of housing demand subsidies (housing benefit) have seen it rapidly re-emerge to house just under one-third of the population, this has so far been driven by individual not institutional private landlords with 78% of landlords in the UK PRS owning just one unit, and 95% owning less than four (DCLG 2011). The PRS renaissance has therefore been accompanied by a shift towards wide-spread small-scale landlordism, linked to the rise of asset-based welfare (Lowe 2011). This poses major entry barriers to the *existing* PRS for GCLs.

(2) *Crisis but no systemic crash.* In contrast to how GCLs entered the post-crisis urban landscapes discussed in this paper, London and the wider UK context managed to avoid the catastrophic impact of the global financial crisis on the housing system. There is therefore currently no giant pool of distressed assets that can be systematically acquired by vulture capital. London experienced a sharp but relatively modest decline in average house prices by 17% between 2008 and 2009, returning to their pre-recession levels by 2012 and now standing at 41% higher than that low-point figure (Land Registry 2015). Despite rising unemployment and mortgage arrears, repossessions peaked at 0.43% of all mortgages in 2009 and dropped to 0.26% by 2013 (DCLG 2014)—compared to 15% and 7% in the USA and Spain, respectively. Reasons for the comparatively small scale of repossession include the central bank's decision to drop the base interest rate from 5.75% in 2007 to 0.5% in 2009 where it currently sits, state rescue schemes for mortgage holders, and a semi-formalised pact between the state and financial institutions encouraging the latter to exercise restraint in their repossession activity (Wilson 2014). This latter measure could be interpreted as a quid pro quo for the scale of the rescue package gifted to the financial sector in the wake of the credit crunch. Given the systemic interdependence between the UK economy and the housing market—and the potential for economic collapse should interest rates rise, banks abandon forbearance and house prices fall, with all its political implications—it is unlikely the UK Government would do anything to change these current favourable conditions in the near future (see Edwards 2015).

(3) *London's over-priced property market.* Alongside unavailability of distressed real estate, a third barrier to GCLs is London's overvalued housing market. UBS, the major Swiss investment bank, reports that London property is the most over-priced of any major city in the world, and urges 'caution' with respect to the city, which scores higher than any other on their Global Real Estate Bubble Index (UBS 2015). Overvaluation combines with under-availability to explain the current absence of GCLs in London's rental market and while London property may provide high capital returns, the entry costs are arguably prohibitive in London.

However, while the present low levels of GCL exposure in London, the hitherto absence of a crisis sufficient to prepare the ground for the next round of financialisation of housing in the city and the historical entry barriers to GCLs in the PRS might reflect the present pathway, there is another way of viewing the London housing crisis in ways far more relevant to a GCL takeover in the long term. We have identified three broad gateways through which this can happen, and in fact *already has*:

(1) *The UK's 'bad bank' and its sub-prime mortgage auction.* Although the UK avoided a full-scale housing market and mortgage meltdown, many UK banks including Northern Rock were fatally

wounded by the global financial crisis and were effectively nationalised by the UK Government. Beneath the political radar, in 2010, the government set up its own state-owned deleveraging vehicle ('bad bank') called UK Asset Resolution (UKAR), taking over the toxic assets it held from the nationalisation of Northern Rock and Bradford and Bingley, who had embraced sub-prime lending and extensive securitisation. By 2011, UKAR's mortgage book was worth £77 billion (UKAR 2011), making it larger in book value than Spain's SAREB and similar to Ireland's NAMA. Like its Irish and Spanish equivalents, UKAR has been rapidly deleveraging these distressed, undervalued assets by selling them on to a coterie of *private equity funds and investment banks* queuing up to take them off their hands, with its book value reduced to £51.1 billion by March 2015 (UKAR 2015). UKAR's latest sale was of the Granite portfolio, transferred for £13 billion to private equity firm Cerberus. It beat off competition from rival consortia of Goldman Sachs/Blackstone and JPMorgan/CarVal to buy 118,323 securitised mortgages, including many of Northern Rock's now infamous 'Better Together' loans that allowed mortgagors to add a £30,000 loan on to a full mortgage targeted at sub-prime borrowers—the pinnacle of the UK's pre-recession credit binge (Dunkley 2015). Cerberus also acquired a £3.3 billion portion of TSB's mortgage debt, giving it control over an additional 34,000 mortgages across the UK (Dunkley 2015). While we do not know how much London property is contained in these two portfolios, these transactions, and others like them, reveal GCLs' readiness to participate in the financialisation of the UK housing market and gain a foothold in preparation for a more serious phase of the London housing crisis to come.

(2) *State-led financialisation of the 'new' PRS*. GCLs might struggle to access the existing PRS dominated by individual landlords, but an alternative entry route is currently being prepared through a state-led project to transform the London rental property market into an internationally tradeable asset class. This project can be visibly traced at least as far back as 2007 at the height of the housing boom when the Labour Government created the legislation allowing REITs to be set up in the UK. But in reality it has much deeper historical roots laid during the decades of public housing privatisation and the major deregulation reforms of the PRS during the late 1980s that re-empowered private landlords to raise rents and evict tenants. This laid the basis for the PRS's rapid re-emergence and predicted growth over the next 10 years with London experiencing the potentially systemic tenure shift towards private rental we have observed in the other locations (Whitehead et al. 2012; Greater London Authority 2014). The state-led project works alongside an informal 'discourse coalition' (Hajer 1993) of real estate intermediaries to construct a compelling case for GCL investment in a financialised 'rental revolution' (Knight Frank 2014) that would benefit investors while solving London's housing affordability crisis. The financialisation of student housing has trail blazed this agenda. Purpose-built student accommodation was recently declared a 'mature and globally recognised' asset (Savills 2015), and student housing REITs are now listed on the London Stock Exchange. The £4.2 billion of investment in the first five months of 2015 already surpassed any previous year-long total, and overseas capital accounted for over 90%, dominated by North American private equity and institutional investors (Savills 2015). No wonder given the startling 97% average increase in student

housing rents in the decade to 2012–13 (National Union of Students 2012; Greater London Authority 2015).

Holding up student housing as a model of rental market financialisation, the 2010–15 Conservative-led UK Coalition Government turned its focus on the mainstream rental sector with the launch of a review in 2012 into the 'barriers to institutional investment in private rented homes' (DCLG 2012). It was led by none other than Sir Adrian Montague, a City of London veteran with a long track record in private equity investment in public projects, who in a previous appointment to the Treasury pioneered the Labour Government's use of the Private Finance Initiative between 1997 and 2001 that opened the door to more than £300 billion worth of lucrative contracts for private corporations investing in public infrastructure. His eventual report outlined four areas for strategic state intervention: market making; pump priming; creating and incentivising new investment vehicles; and the eradication of elements unattractive to investors. In line with this roadmap, in 2013 a market-making 'PRS Taskforce' was established within the Department for Communities and Local Government to 'kick-start the new private rented sector ... characterised by a growing number of large scale, professionally managed developments, owned and managed by institutional investors' (House of Commons 2015, 12). A £700,000 'Build to Rent' fund was established in 2012, increased to £1.1 billion in 2013, to help finance construction. Despite mixed success so far, the asset class is nevertheless beginning to emerge with 21,388 build to rent apartments either completed, under construction or in the planning process as of October 2015 (Patnaude 2015)—a decade ago the figure was nearly zero—with 93.4% of completed homes built in London. Early movers in the sector include: Essential Living, who are capitalised by M3 partners, a London-based manager of global funds; Get Living London, offering 1439 rental homes on the former Olympic site in East London and owned by the Qatari sovereign wealth fund; and Fizzy Living, backed by £200 million from Abu Dhabi Investment Authority.

Following a slow start, UK REITs are also now beginning to flourish from new incentives including abolishing the 2% entry charge and zero capital gains tax with around 40 UK REITs listed, with capitalisation of over £33 billion (British Property Federation 2015). The majority of REITs centre on commercial real estate, although some hold mixed portfolios, featuring residential and commercial. The first residential-only vehicle—the Mill REIT—launched in 2014 and focused on London, but was liquidated in October 2015 citing a lack of interested investors. However, there are signs that London rental property is becoming attractive to institutional investors and private equity. According to an industry consultant UK REITs plan on devoting a quarter of their future activity to residential projects, and the government's exemption of financial capital from capital gains tax in April 2015 may have been behind Lone Star Capital's acquisition in October 2015 of a portfolio of mixed-use UK real estate assets for just under £1 billion. The REIT sector will have been massively boosted by the government's 2013 decision to change the law controlling the development of office buildings meaning that empty offices can now be converted into houses or flats without planning permission. This creates a further entry point for GCLs: as a highly valorised central node in the global financialised economy, the City of London's *commercial* property portfolio represents a highly traded global asset class where over 60% of the stock is held by overseas capital (Investment Property Forum 2014). By converting their empty offices to housing, GCLs can overnight become major players in the London housing rental market.

(3) *Capturing the London rent gap through social housing privatisation*. Up to now, the exposure of the social housing sector to global financial flows and ownership has been extremely limited. The exception has been the New Labour Government's experiment with the Private Finance Initiative in public housing regeneration which has seen around 20 council estates in England—including six in London—taken over on long-term lucrative investment contracts owned to varying degrees by offshore infrastructure companies with often disastrous consequences for residents and the taxpayer (Hodkinson 2011; Hodkinson and Essen 2015). However, this could now change as a result of the new and highly aggressive phase of social housing privatisation underway since 2010 (Hodkinson and Robbins 2013) that threatens to generate multiple routes through which a large pool of social housing can be acquired by GCLs as follows:
   - The relaunched Right to Buy (RTB) offers council tenants in London a £102,000 discount on the purchase of their council home, and in the future all housing association tenants being able to buy their homes at equivalent discounts. Recent research has found that at least 36% of former council homes sold under the RTB in London are now owned by buy-to-let landlords (Copley 2014). There is no reason why the new glut of ex-council homes destined to enter the housing market should not also find their way into the hands of institutional landlords.
   - English local authorities will be required to sell all their empty council homes valued in the top third most expensive properties for the local area. For London, the implications are stark: Shelter (2015) estimates that 1433 council homes would be forcibly sold each year under the scheme with up to 60,314 eventually affected. But these stock numbers could rise even further under plans to legally compel social landlords to charge market or near market rents to tenants with an income of over £40,000 in London and £30,000 elsewhere. Consultancy firm Savills estimates 60.1% of the 27,108 affected households in London will neither be able to afford market rent or be able to buy their house under the RTB (Brown 2015), placing them under greater risk of eviction to the PRS and growing the numbers of empty council homes that could be forcibly sold off as bulk sales with institutional investors waiting in the wings.
   - Following a change in UK law in 2010, investors can now profit for the first time from social housing in Britain and the government has been going to extra lengths to make the existing social rented sector attractive to institutional investors by further deregulating rents and tenancy protections. State funding for social house building in England is now conditional on renting out new homes at up to 80% of local market rents; and the government has created flexible landlord-friendly tenancies by ending statutory security of tenure for new social tenants. It is against this background that the recent, seemingly inconsequential, statutory

reclassification of housing associations as 'public non-financial institutions', taking them out of the charitable sector, and effectively bringing them into the public sector, now appears as a deliberate act by the government to prepare the sector for either full-scale deregulation or full-scale privatisation, but in either scenario institutional investors and private equity can takeover and profit (Wiles 2015). This is because by reclassifying all housing associations as public bodies, their debt is placed onto the public books, providing the state with a ready and effective motive to remove that debt by either deregulating them further so as to prompt a reversed classification, or by effectively selling off the debt to investors. This 'nationalise to privatise' strategy (Wiles 2015) would bring social housing in London (where the most profitable estates lie) one step closer to corporate takeover, GCL capture and the consequent loss of the city's affordable rental stock.

- Against a background in which London Local Authorities are operating under a rampant austerity programme, and cuts to local government have been higher than almost any other public department, many London urban authorities are seeking to exploit the 'rent gaps' (Smith 1979) located in their own public housing estates (Watt 2009, 2013), which are sited in the most expensive real estate market in Europe, to expand the overall housing supply at the expense of affordable and secure housing under so-called 'regeneration' schemes. The motivation is clear, and at times explicitly acknowledged, with senior Labour politician Lord Adonis (unintentionally) adopting a rent gap analysis in a recent influential report urging councils to knock-down and 'regenerate' estates, commenting that there are 'particularly large concentrations of council owned land in inner London, and this is some of the highest-priced land in the world' (Allen and Pickard 2015). In order to redevelop these estates, some London local authorities are using the opportunities afforded by the global real estate fair, MIPIM, each year, to attract global investors to finance and build new homes and mixed-use developments, opening the door to GCLs.

What will actually happen with respect to these three gateways remains conjecture and speculation, but there is no doubting the interest that global investors have in entering the UK social housing sector and especially its London portal. This was evidenced in 2011 when Hong Kong-based Chow Tai Fook Enterprises Ltd—owned by billionaire Cheng Yu-Tung—joined forces with two other Hong Kong investors to acquire a £30 million stake (61%) in the UK's Pinnacle Regeneration Group. As well as wanting to diversify their investments out of Hong Kong's over-heating property market, they explained their main motive was the opportunities created by government cuts to social housing for investors to fill the hole through regeneration partnerships with local authorities and gain the 'key into a door', namely, the door of London's profitable real estate market (Barwell 2011). Sensing similar opportunities to profit from London's affordable housing shortage and the upward pressure on rents and prices everywhere, in the spring of 2014, a private consortium purchased the New Era estate in the London Borough of Hackney. Built in the 1930s by a charitable trust in Hoxton, the 96-flat estate provides affordable accommodation for working-class Londoners. Its new owners were led by Westbrook Partners, a private equity firm headquartered in New York specialising in international real estate—an archetypal GCL—and primarily invested in by US pension funds. On acquisition, the consortium offered tenants the chance to remain on the estate, provided they could meet the new 'normalised' rents, amounting to an increase of 400%. Amid growing tenant and media opposition, Westbrook then served eviction notices for Christmas, but were eventually forced to back down and in December 2014 the estate was transferred to a charitable landlord, the Dolphin Square Foundation, who assured tenants of continued affordable rents. However, what this shows is how a new class of investors are eschewing prime real estate for which they could overpay in favour of opportunities to buy into the social housing sector that will generate strong returns in the long run. This has particularly menacing implications for London for the simple reason that despite four decades of neo-liberal roll-back policies that have decimated the overall public housing stock by over 3 million homes and reduced social renting from 30% to less than 18% of the UK population (DCLG 2015), tenant opposition to privatisation means London still has a relatively large amount of public and social rented housing, especially in the central urban areas proving so attractive to corporate investors (see Watt 2009).

Returning to our main question, at present London's and the UK's fundamentals are importantly different to the post-crisis national contexts that have spawned GCLs, suggesting that the path of rental financialisation and the rise of the GCL in the city is still one which can be forestalled, resisted and subverted. However, we have identified that London's social and public housing—the legacy of the lengthy post-war class compromise, and a source of convenient, affordable housing for many Londoners—could be *the* portal by which GCLs can gain large-scale access to London's housing in a post-crisis future scenario. This points to a key task for activism in preventing London's housing crisis from becoming a future corporate dystopia—blocking off the main entry point to global corporate landlordism in London by resisting the current government's privatisation assault on public and social rented housing.

Conclusion: back to the future, but which future?

The hitherto absence of critical research on the financialisation of London's rental housing market inevitably makes the work presented here a first but important step in better understanding the long-term ongoing economic and residential restructuring of London. While the findings are clearly preliminary, there is a strong message for London in the snapshots of sudden housing market restructuring in the USA, Spain, Ireland and Greece. The recent shift towards the private rental society, in which the rental sector develops as a centrepiece for the new financial strategies of accumulation and dispossession, has deeply disturbing implications for the notion of housing rights, showing that even without a mortgage contract in place, financial capital is still able to exert control over housing and residents. Indeed, beyond fulfilling the obligations of the lease agreement between tenant and landlord, today rent payments serve as the basis of a global asset class (Bryan and Rafferty 2014). What should be clear at this stage is that the emerging new model re-floats some parts of the real estate economy on the shoulders of the vast majority of the population, the '99%' that is unable to participate in global speculation flows. It further pushes us towards the next stage of the financialisation of housing and the urban more generally, applying again a new and equally heavy load of social pain onto those who have been suffering now for decades the negative effects of previous rounds of financialisation.

At present London is different, marked by the absence of a large pool of available, undervalued assets—the equivalent of foreclosed homes in the USA, or social housing portfolios in Spain—for GCLs to fasten onto. The likely continuation of state policy dedicated to preventing mass mortgage repossessions makes the path of rental financialisation via the future takeover of GCLs seem improbable. However, recent targeted discourses concerning social housing providers, and apparently inconsequential alterations to the state's classification of social housing stock, alongside key elements of the Housing and Planning Bill, provide a direction of travel which—if followed in the ways that we have speculated—could see the mass transfer of social and public housing to the private sector, with GCLs being the most likely recipients. The slow erosion of London's public housing through 'regeneration' and the capture of state-induced rent gaps provides a clear portal for GCLs to (incrementally) take over London's 'undervalued' housing estates. But what is also clear is that the future of London's housing, and the consequences of financialisation, or otherwise, of the rental sector, remains decidedly open. The recent example of how tenants on the New Era estate in the London Borough of Hackney successfully resisted the takeover of their affordable homes by a US private equity firm shows that London and Londoners can resist the dispossession of their residential use values, and the financialised inflation of exchange values, and achieve an equitable outcome. Tellingly, a leading investment chronicle, reviewing the lesson to be learned from the New Era estate, cautioned interested investors that the London rental sector has become a 'political "hot potato"', and noted that investment in the sector carried 'reputational and political' risk (Handy 2015). Private equity and institutional investors—GCLs—are at present only tentatively responding to the state-led coalition's persistent attempts to financialise the PRS. It is clear that the opposition of tenants and ordinary Londoners can, as in the case of New Era, robustly repel financialising capital, and demand an alternative: a more equitable, sane and affordable solution to the present housing crisis. All of this remains speculation with more research needed to better understand the particularities of the London situation compared to the four post-crisis national contexts discussed and provide a more robust treatment of how the new financialisation may develop, or be forestalled.

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1 This paper stems from ongoing research into the transnational dimension of housing systems being undertaken by an international network of researchers and activists. The findings presented here build on insights and evidence generated by 30 participants from 11 countries who gathered in London in July 2015 for a three-day meeting to share their own research about the emergent phenomenon of global corporate landlords. The authors would like to thank those participants who all contributed to the analysis presented here and to the editors and two anonymous referees for their supportive and critically constructive comments.

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