Financialisation of the Housing Markets – The Prevention of Housing as a Human Right

Problem Description

Deregulation of the finance and housing markets all over the world has brought housing into the mainstream of tradeable assets and enabled a whole range of new players, most of them with profit as the only motive, to enter the housing systems. These developments have increased demand for housing as an asset as opposed to housing as a home – and a human right. The new possibilities have motivated large investors to identify loopholes where excess profit can be achieved. These loopholes are effectively used to push up rents, often after mock modernizations of rental housing.

The financialisation[1] of the housing market has accelerated since the 1990s, when post-war regulations of the rental markets were gradually phased out in many Western countries. In combination with the liberalization of money markets and the introduction of information technology into international finance, large investors, some of them mega-investors such as Blackstone, have been given the opportunity to buy significant shares of the rental housing markets, as well as the owner housing markets (for instance in the US).

Financialisation of the rental housing market is commonly defined as a process where, in particular rental properties, are increasingly treated as financial assets instead of as a fundamental human need. This development occurs when institutional investors, private equity firms, and real estate companies prioritize profit maximization over the provision of affordable and secure housing. Financialisation often leads to speculative investment, increasing rents, displacement of tenants, and a focus on short-term returns rather than long-term social benefits. It signifies a shift in the housing market where decisions are driven by global financial markets rather than the needs of local communities.

Challenges and Consequences

The large, international money tanks are not, like for instance national pension funds, part of a cohesion with the surrounding society. They are faceless and have no national, social or ethical obligations and can therefore act completely freely to achieve their sole purpose: maximum profit. And they do so at every given opportunity. In the Irish sociology professor, Rory Hearne's[2] words, they become so-called **vampire funds**, feeding on communities and tenants.

Some economists claim that the free movement of capital and deregulated rental housing sectors contribute to an efficient housing market, in which consumers (note: not citizens or tenants) consume

[1] This paper offers an extended IUT position with its basis found in Point 4 of the *IUT Priorities for the European Parliament (2024-2029)*, also known as the Delft Declaration.
https://www.iut.nu/wp-content/uploads/2023/11/IUT-Priorities-for-the-European-Parliament-2024-2029-Final-Version-IUT-Board-.pdf
[2] Rory Hearne: Gaffs. Why no one can get a house and what we can do about it. 2022.

housing according to economic ability and not as a consequence of housing politics, which means, that the housing stock is more effectively used.

However, this is not what reality reveals. Therefore, let's have a look at Ireland[3], a laboratory for combining a deregulated rental sector with inviting in money tanks.

Inspired by Thatcher and American ultraliberalism, successive Irish governments have completely deregulated the Irish housing market over the past 20-30 years. For example, the right to terminate tenants or tenures was relaxed, so that all leases outside the public sector could be terminated by the landlord without further justification.

It was left to capital-strong investors – money tanks – to take care of the housing construction. Partly by giving large tax concessions to foreign investors and partly by largely stopping the construction of social housing. According to the above-mentioned Rory Hearne, this created what he calls "Generation Rent".[4]

Born in the 1990s and 2000s, this so-called Generation Rent today lives with their parents (estimated at around 350 000 Irish citizens between the ages of 20 and 35) or are stuck with their nails in rental housing that costs an average of 53% of their disposable income – and they are not protected against termination in case their landlord should see better returns with other tenants.

Of Ireland's 300 000 private tenant households, 70% are rented by citizens between the ages of 25 and 44 – the very generation that previously would have been able to buy a home. 54% of them have changed their rented home within two years but have lived in a rented property for an average of ten years. In Ireland, a consequence is the creation of a whole generation of migrant tenants who will never get a foothold in a permanent home. Generation Rent thus accounts for up to a fifth of the Irish population of 5 million.

The Irish Laboratory shows us the reality that the toxic combination of financialisation and deregulation creates. In the Netherlands consequences of similar combinations of financialisation and deregulation observed include: unaffordability for the prospective tenants (tenants are forced to pay for heightened levels of profits), uncertainty (e.g. who is really the landlord of the property?), a housing system that is hard to improve (e.g. maintenance level, insulation, affordable newly constructed buildings, policy can be perceived as being ”taken hostage” by landlords, that are unwilling to deliver on social goals).

The Tenants' Perspective on Financialisation

In countries where no attempt has been made to regulate the loopholes found by companies such as Blackstone when it entered, these kinds of companies have left behind thousands of expensive and poorly maintained homes.

In Sweden in 2006 Blackstone entered the market by buying thousands of former public housing homes. 10 years later they left the Swedish market with a huge profit (approx. SEK 6 billion) – the same as the amount originally invested. In Germany, the property giant Vonovia in 2024 owns a staggering number of

[3] Financialization in 13 cities. An international comparative report. London School of Economics / Boligøkonomisk Videnscenter, København 2024 https://www.lse.ac.uk/geography-and-environment/research/lse-london/documents/Reports/Rapport-Financialisation-Samlet-05.06.pdf
[4] Rory Hearne: Gaffs. Why no one can get a house and what we can do about it. 2022

600 000 homes, most of them former social housing, now poorly renovated, now however with a rent fixed by the overheated rental market. In 2022 for every Euro paid by the tenants, 45 Cents were paid to the investors as return.

Going forward addressing the problems caused by financialisation, measures need to be taken by national governments. Measures to foster greater equity and social cohesion rather than generating excessive profitability of large multinational investors with little or no interest in building local communities.

Regulate and Limit Speculative Investments

One of the most effective ways countering financialisation is by regulating speculative investments. Policies must restrict excessive rent increases by introducing rent control measures that cap annual rent hikes. For instance, Germany's (proposed) regulations in cities like Berlin provide a model for stabilizing rental markets and preventing exploitative practices. Additionally, requiring financial returns on rental properties to materialize over long-term investments discourages short-term profiteering. Denmark's regulatory response to Blackstone's entry into its rental market demonstrates how such measures can successfully deter speculative activities. Furthermore, requiring landlords to disclose ownership structures ensures transparency and accountability, preventing speculative practices from being concealed behind complex corporate setups.

Strengthen Tenant Protections

Protecting tenants from the destabilizing effects of financialisation is essential. Laws enhancing security of tenure should be enacted to prohibit no-fault evictions and provide long-term leasing options that protect tenants from displacement. Sweden's collective bargaining model exemplifies how secure tenure can coexist on a rental market subject to a well-defined legal framework. At the same time, empowering tenants with legal mechanisms to challenge unfair practices, such as unjustified rent increases after superficial renovations, strengthens their position and prevents exploitation by landlords seeking excessive profits.

Expand Public, Affordable and Non-Profit Housing

A robust public, affordable and non-profit housing sector is vital for countering the dominance of speculative investors. Governments need to reinforce cost-based rent models, ensuring that public and non-profit housing providers base rents on actual costs rather than market dynamics. Vienna's social housing model offers an example of balancing affordability with quality, showing how equitable housing policies can address diverse income levels effectively. Furthermore, incentivising non-profit housing providers through tax benefits or subsidies would enable them to compete with private investors while prioritizing the needs of tenants over profit motives.

Reduce Attractiveness of Financialisation

Diminishing the appeal of financialisation, policymakers could introduce progressive taxation on short-term profits from rental properties. Such taxes could disincentivise speculative investments while generating revenue for public housing projects or tenant subsidies. Imposing penalties on vacant properties owned by investors would also deter speculative hoarding of housing stock, encouraging its productive use to meet pressing housing needs.

Strengthen International and National Cooperation

Given the cross-border nature of financialisation, coordinated EU-level legislation can be useful to ensure a consistent approach across member states. Additionally, member states should share best practices from successful anti-financialisation efforts, such as Denmark's post-Blackstone regulations and Germany's rent stabilisation initiatives. These examples demonstrate how policies can be tailored to specific housing markets while addressing common challenges posed by financialisation.

Promote Public Awareness and Advocacy

Raising public awareness is crucial for addressing the social costs of financialisation. Educational campaigns can highlight the detrimental effects of speculative investments on tenants and emphasize the benefits of regulated housing markets. Denmark's efforts to inform tenants of their rights offer a compelling example of how to build community resilience against exploitative practices. Simultaneously, strengthening tenant unions and advocacy groups can amplify the push for stronger regulatory frameworks, ensuring that tenant interests are adequately represented in policy discussions.

Implement Financial Accountability

Ensuring accountability in the rental market requires monitoring and regulating landlord incentives. Energy-efficient upgrades and other renovations financed by landlords must reflect genuine improvements rather than serving as pretexts for unjustified rent hikes. Housing observatories can be established to track trends in financialisation, enabling policymakers to adapt quickly to emerging speculative strategies and safeguard the long-term stability of the rental market.

Conclusion

Given the reality, that the conditions on the international investment markets will not change shortly, the only remedy against the dominance of money tanks is to make the rental markets less attractive to them. If you want to maintain private investment in the rental housing market at the same time as the general population has access to (decent and affordable) housing, this can only be done by regulating the rental housing market so that returns are limited and so that returns can only be achieved on long-term investments. For example, as has been attempted in Denmark after Blackstone's entry into the Danish market for rental housing.

Finally, in order to balance the rental market, it is also necessary to uphold a large public/non-profit rental housing sector, in which rent is based on costs, rather than market fixed rent.