Financialization, real estate and COVID-19 in the UK

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Abstract

In the UK, financialization has transformed many areas of the economy, including the housing market. The deregulation of financial markets that took place from the 1980s onwards, combined with the privatization of social housing, has transformed UK real estate from an ordinary good, insulated to some extent from consumer and financial markets, into a valuable financial asset. The financialization of real estate has had a largely negative impact on the UK’s housing market, the wider economy and individual communities; wealth inequality, financial instability, gentrification and homelessness have all increased as the role of the financial sector in UK property has increased. The financial crisis only accelerated many of these trends as distressed real estate was bought up by investors in its wake, and as loose monetary policy pushed up house prices in the period after the crisis. The COVID-19 pandemic is only likely to exacerbate these issues; the UK is sleepwalking into a potential evictions crisis, and ongoing loose monetary policy is likely to prevent a significant and necessary correction in house prices over the long term.

Introduction

Over the past forty years, the UK economy has undergone a process of financialization, understood as ‘the increasing role of financial markets, financial motives, financial actors and financial institutions in the operation of the domestic and international economies’ (Epstein, 2005, p.3). This process has been particularly visible in the UK’s housing markets. Financial deregulation, combined with the privatization of the social housing stock, has meant that financial institutions and investors are increasingly able to speculate over housing and other financial instruments collateralized

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using housing. This has transformed real estate into ‘just another asset class’ (Van Loon and Aalbers, 2017). The resultant increase in house prices has generated significant capital gains for landlords and homeowners while pushing up rents for those in the private rented sector.

The financialization of UK real estate has compromised the affordability of housing, while also generating financial instability and inter-generational, regional and wealth inequality (Blakeley, 2019). As the UN Special Rapporteur on Adequate Housing has noted (Rolnik, 2013), the impact these processes have had on many communities has been disastrous, with many families forced to live in inadequate housing, and many others forced out of areas subject to gentrification due to rising rents (Yee, 2020). Outside of the cities, regional communities have also been affected by the growing disparity between house prices in the capital and those in other parts of the country, which has increased wealth inequality and compromised geographic mobility (Roberts et al., 2018; Blanchflower, 2019).

The financialization of UK housing began in earnest in the 1980s when successive Conservative governments introduced significant changes to the ownership and regulation of both housing and the financial systems. The increase in consumer lending catalyzed by the policies of the Thatcher government has created a regime of ‘privatized Keynesianism’. This means an increasing share of aggregate demand (the demand for all goods and services in the economy) has come to rely on the availability of easy credit to households—particularly mortgage lending (Crouch, 2009). Rather than supporting employment through government borrowing—a macroeconomic approach that became increasingly unpopular with the rise of neoliberalism—governments preferred to facilitate private borrowing. Household debt in the UK increased to a record 95 percent of GDP in 2008 (Bank for International Settlements, 2020).

With the financial deregulation of the 1980s, credit became much more easily available at the same time as the government introduced the right to buy scheme, which allowed middle and working-class households to purchase their council houses from the state. The rise in mortgage borrowing led to an increase in house prices as it assisted speculative purchases of housing, creating a cycle of rising asset prices driven by expectations of future price increases (Wray, 2011). The ease with which households were able to release the equity from their homes in order to finance consumption spending generated yet more instability. The fact that much of this debt was being securitized; a process whereby ordinary mortgage contracts were turned into financial securities (i.e. tradable assets) that could be sold and traded on financial markets was a significant factor leading to the financial crisis of 2008 (Shabani et al., 2014).
As noted, real estate has become ‘just another asset class’ (Van Loon and Aalbers, 2017). This is evident around the world, especially in the most financialized economies. Mortgage lending and securitization has become central to the business models of most international banks and has deepened the links between housing and finance (Aalbers, 2016). It is now easier than ever to invest in real estate without purchasing a particular property through the housing market, but instead by investing in funds that purchase a portfolio of property on investors’ behalf. Real estate—and particularly residential property—has become an asset over which financiers can speculate, rather than the simple commodity it once was. The human right to housing—enshrined in international law—has now been eclipsed by the right of investors to speculate over property values (Rolnik, 2013).

In the period since the financial crisis, the housing crisis has—if anything—deepened. In the period since 2008, financial institutions have bought up distressed real estate, which quickly recovered its value, at least in part, as a result of the asset purchasing programmes introduced by central banks around the world (Beswick et al., 2016). The Bank of England’s quantitative easing (QE) programme—under which the UK’s central bank, along with those in other major economies, has created new money in order to purchase existing assets, particularly government bonds (i.e. government debt)—has prevented the reduction in asset prices that otherwise might have been expected in the wake of the crash. Central bank purchases of government bonds have pushed down the returns investors receive from those bonds and encouraged investors to invest in other assets, such as property, pushing up prices (Deleidi and Mazzucato, 2018). While credit conditions have loosened, this has primarily benefitted those with existing assets; it has become more difficult for those without existing wealth to take out a mortgage: one study found that 41 percent of homeowners aged 18–24 had had a mortgage application rejected (Kelly et al., 2019; Clark, 2019). Wages have stagnated for over a decade, and home ownership among young people has fallen sharply: those born in the late 1980s have a 25 percent chance of owning a home at age 27, compared with 43 percent for those born in the late 1970s (Cribb et al., 2017). When housing costs are taken into account, many people in the nation’s capital are now living below the poverty line, despite being in employment (Trust for London, 2020).

Covid-19 is only likely to increase the inequality between owners and private renters in the UK (Furceri et al., 2020). This is because the extremely loose monetary policy (low interest rates and QE) pursued by the Bank of England will maintain high house prices over the long term. As unemployment increases, many people will find themselves unable to pay rent and poverty and homelessness could increase as a result. As the evictions ban imposed by the government comes to an end, the UK is also facing a
potential evictions crisis, in which those who have lost their jobs, or suffered a reduction in their incomes as a result of the pandemic, may find themselves unable to pay their rents (Hammond, 2020).

These inequalities are not inevitable. Prior to the liberalization of financial markets in the 1980s, many more people rented in both the private and social rented sectors. Private rents were controlled by the state and tenants had many other protections (Wilson, 2017). If states wish to tackle the problems associated with the financialization of housing, steps must be taken to insulate the housing market from both financial markets and from consumer markets. Mortgage lending must be controlled, and a significant stock of housing must be provided at below market rents for social renters.

In the first section of the paper, I chart the history of the financialization of housing in the UK back to the monetary and housing policy reforms of the 1970s and 1980s, and in the second section, I look at how these changes were reinforced by the growth of financial globalization. In the third section, I analyze how the relationship between finance and housing has shifted since the financial crisis of 2008, arguing that the crisis did not arrest, and in fact deepened, the financialization of housing. In the fifth and sixth sections, I look at how financialization has affected the UK housing market, and its economy and society, respectively. In the final section, I interrogate the impact the COVID-19 pandemic is likely to have on the financialization of housing, arguing that without significant reforms, the pandemic could lead to an increase in wealth inequality and deepen the housing crisis.

The origins of the financialization of housing
In the UK, the modern era of financialization in the housing market began in 1979, with the election of Margaret Thatcher. One of Thatcher’s first policy announcements was to remove the restrictions on capital mobility that had been in place for most of the post-war period. The result was a significant outflow of capital from the UK as investors moved their capital abroad in search of higher returns. These outflows also began to undermine other areas of the UK’s financial regulatory architecture—most notably, the bank ‘corset’ (the supplementary deposits scheme, under which banks were required to hold reserves against any new loans they issued with the Bank of England) (Financial Times, 2014). Thatcher’s government removed the bank corset in 1981, thereby loosening controls on credit creation. The combination of the removal of restrictions on capital mobility and the loosening of credit controls facilitated an increase in bank lending throughout this period (Aron et al., 2010). The broad money supply rose substantially owing to this rise in lending and stood at 85 percent GDP in 1990, next to 40 percent in 1985
Bank lending provided by financial institutions more than doubled as a percentage of GDP during this same period.

Reforms to the UK’s building societies also contributed to the loosening of credit in the UK in the mid- to late-1980s. Prior to the 1986 Building Societies Act, building societies dominated the mortgage market (Bank of England, 1990). Unlike traditional banks, building societies did not have the capacity to create new money through their lending; they simply lent out the savings deposited with them by certain members to other members looking to borrow. As such, the building societies were forced to keep interest rates relatively high to equilibrate flows of saving and lending, which made mortgage borrowing relatively more expensive than it is today. The 1986 Act introduced provisions to allow building societies to demutualize (i.e. change from a mutual organization to a publicly traded company) and offer traditional retail banking services. The societies were then able to lend much more prodigiously while providing current members with large windfall gains through the demutualization process (Cook, Deakin, & Hughes, 2001). Former building societies continued to play a significant role in mortgage lending, operating as ordinary retail banks—at the same time as traditional retail banks were able to lend much more freely. Former building societies such as Northern Rock were ultimately those most involved in the expansion of the sub-prime market in the UK (Klimecki and Willmott, 2009).

Reforms to the housing market itself were also introduced during this period, most notably through ‘right-to-buy’. ‘Right-to-buy’ was introduced via the Housing Act of 1980, which introduced measures that allowed local authorities to sell social housing to social tenants, often at a significant discount below market price. Reforms to the finance sector and the UK’s monetary policy framework ensured that credit was readily available for those seeking to purchase homes through right-to-buy. Many were able to take out zero-deposit mortgages. Right-to-buy remains the largest privatization ever undertaken by the British state: 6 percent of the nation’s stock of social housing was sold between 1980 and 1987 (House of Commons, 1999). Many of these homes would ultimately end up in the private rented sector, where rents were rising owing to the removal of rent controls in 1977 (Wilson, 2017). Between 1988 and 1996, private rents increased by more than 100 percent (Wilson and Morgan, 1998).

With lending rising, and much of this new money being directed towards the purchase of housing, house prices rose substantially (Blakeley, 2018). Rising house prices drove a speculative feedback loop, whereby investors would borrow to invest in British real estate based on the expectation that it would continue to increase in value (Ryan-Collins et al., 2017). Towards the end of the 1980s, however, real interest rates began to rise, which increased the cost of debt servicing and limited credit availability among less
well-off households. As a result, the housing bubble burst, leading to a recession which lasted until 1993.

But in the mid-1990s, the boom began once again. Bank lending increased, and house prices rose with it. Low interest rates, regulatory loopholes and bank deregulation conspired to create a boom in mortgage lending (Aalbers, 2016). The same trend was evident in US housing and financial markets and in those of several other financialized economies, such as Ireland, Iceland and Latvia (Hudson, 2015). In the United States, and to a lesser, though still significant extent, the United Kingdom and other European countries’ banks would issue mortgages and ‘securities’ them, turning them into financial securities that could be traded on capital markets (Tooze, 2018). Securitization allowed banks to continuously increase their lending while still conforming to the letter of international regulation. A number of complex financial instruments were created through this process, most of which were ultimately based on mortgage lending. These included mortgage-backed securities, collateralized debt obligations and credit default swaps (further explained in Tooze, 2018). Higher lending meant higher profits for retail banks, and US investment banks made large profits from the fees charged during the securitization boom (Lapavitsas, 2019).

The revenues derived from securitization gave banks an incentive to continuously increase mortgage lending, reduce their underwriting standards and issue mortgages to less creditworthy borrowers. While the so-called ‘subprime’ crisis originated in US mortgage markets, UK banks had also increased their mortgage lending to less creditworthy households and become involved in the securitization of this lending (Scanlon and Whitehead, 2011). By the late 2000s, banks such as Northern Rock were issuing mortgages worth 125 percent of the home’s value (Dunkley, 2017). Buyers’ optimistic expectations about future returns drove asset prices far higher than models based on rational expectations, and efficient markets would have predicted (Wray, 2011). The ultimate result was the emergence of a bubble. Mortgage lending increased 20-fold in absolute terms between 1997 and 2008, rising from 20 percent of GDP in 1990 to nearly 70 percent in 2008 (Ryan-Collins et al., 2017). Rising home ownership—which peaked at around 70 percent in the early 2000s—allowed the state largely to withdraw from the housing market. Social house building fell substantially and housing associations were set up at arm’s length from local authorities to manage the stock of social housing.

The capital gains that homeowners were accruing in their homes made them feel much wealthier, encouraging them to spend more which fuelled a consumer boom (Shabani et al., 2014). Rising levels of private wealth helped to justify an ideological shift away from the collective provision of social security and to promote an individualized model of risk management.
(Montgomerie, 2014). Many homeowners came to rely far more on the wealth stored up in their homes to insulate them from risk than they did the state, which meant that the opponents of the welfare state were able to cast these benefits as handouts reserved solely for the poor rather than a social safety net that everyone would come to rely on at some point in their lives (Montgomerie, 2014).

**UK housing and financial globalization**

The process of financialization that took place in the UK economy was inseparable from the wider process of financial globalization taking place at the international level. Capital account liberalization was associated with a sharp rise in capital flows, which rose three times faster than global trade flows from the mid-1990s to 2007, representing around 5 percent of world GDP in the mid-1990s compared with 20 percent in 2007 (Lane, 2012). Also associated with financial globalization was the emergence of ‘global imbalances’ between creditor countries, with persistent current account surpluses, and debtor countries, with persistent current account deficits (Lane, 2012).

Neoclassical theory suggests that large imbalances between countries should not persist over the long term (Mankiw, 2014). An economy with a large current account deficit should witness outflows of capital—unless these outflows returned to the country through, for example, demand for a country’s imports, then its currency would depreciate. A depreciating currency would make the country’s exports more competitive internationally, increasing demand for the currency and stimulating economic growth. Higher growth rates would, in turn, attract more investment flows from abroad. The inverse pattern should apply to economies running large current account surpluses, ultimately leading to global equilibrium.

Prior to the financial crisis, however, no such equilibrium was forthcoming. Deficit countries such as the UK were able to run huge current account deficits without seeing a depreciation of their currencies. Several observers cast UK Sterling as the most overvalued currency in the world for this very reason (Ping Chan, 2015). But in the pre-crisis period, economists were puzzled as to the origin of these imbalances. Ben Bernanke (2004), then chairman of the Fed, accused a number of emerging economies of ‘hoarding’ savings to protect themselves from future crises, preventing the global economy from reaching equilibrium.

In fact, these global imbalances emerged directly from the way in which financial globalization restructured relationships between core and peripheral states in the world system (Blakeley, 2019). From the 1980s onwards, the volume of capital flowing out of the global South has exceeded the volume
of capital flowing into it in the form of foreign direct investment; the capital that flowed back in the financial centres of the global North was then used to support the domestic processes of financialization (Benigno et al., 2020). Deficit countries were able to maintain strong currencies because, even though there was relatively little demand for their goods, there was strong demand for their assets—particularly financial assets. The main reason for the high demand for UK and US assets was the financial deregulation undertaken by neoliberal governments in these states in the 1980s, which facilitated an expansion in the provision of private credit to individuals, businesses and financial institutions (Blakeley, 2018).

Financialization since the crisis

In the wake of the crisis, policymakers realized that monetary policy could rapidly become a blunt tool for stimulating demand after ‘balance sheet recessions’ (Koo, 2014). With households and businesses attempting to deleverage (i.e. reduce their debt levels), cutting interest rates to record lows was like ‘pushing on a string’: even extremely cheap credit could not encourage households to borrow more (Koo, 2014). Central bankers found their efforts hampered even further when, several years after the crash, governments started to impose harsh austerity programmes that sapped demand from the economy (Stirling, 2018). Interest rates eventually fell to zero, or near zero, in many countries, and yet central bankers found that inflation was still below their target range. When Japan found itself in a similar situation after their housing boom had ended, the Bank of Japan developed a new set of monetary policy tools the central bank could use to stimulate demand—QE was first used by the Bank of Japan in the early 2000s and has since been adopted by the world’s three other largest central banks.

The implementation of QE has differed from place to place. In 2009, the asset purchases facility (APF) (known as QE)—was introduced by the Bank of England. The APF uses new money—created by the Bank—to buy up assets on the open market. The central bank has mostly bought up government bonds of varying maturities, but it has also purchased private sector assets. Central bankers initially argued that the increase in the money supply associated with large-scale asset purchases would boost bank lending (Positive Money, 2020). But since the financial liberalization, bank lending has been determined primarily by banks’ risk appetite and demand for lending in the wider economy, not the availability of deposits (Jakab and Kumhof, 2018). The Bank of England now accepts that QE works by reducing bond yields, reducing borrowing costs and increasing ‘a wide range of financial asset prices’ (Bank of England, 2020).
This wide range of asset prices includes house prices. The financialization of housing has meant that UK property—and particularly London property—is a central part of many investors’ portfolios (Aalbers, 2016). As house prices fell in the wake of the financial crisis, cash rich investors were able to buy up relatively cheap properties knowing that prices would start rising quickly once the economy returned to growth. With returns in both bond and equity markets relatively low, and in the context of a British housing market that remained commodified and heavily financialized, investment in UK property increased substantially, driving up house prices (Aalbers, 2016; Hale, 2018). This process was aided by the re-emergence of financial products that allowed investors to put their money in real estate without directly purchasing it. Investment in Real Estate Investment Trusts (REITs)—companies, often publicly listed, that own and operate real estate portfolios—has increased substantially since 2008 (Waldron, 2018). The rise of REITs has deepened the financialization of real estate and has further transformed UK property into ‘just another asset class’ as investors are able to invest in REITs just as they do in many other liquid financial assets (Van Loon and Aalbers, 2017; Waldron, 2018).

The impact of financialization on the UK Housing Market
How have these changes affected communities in the UK? Mortgage lending remained subdued in the immediate aftermath of the crash. Households were attempting to deleverage so demand for credit was low, and banks had become more risk averse and were subject to more regulation, so were less willing to lend (Harari, 2018). But as house prices started to pick up, mortgage lending began to increase once more. Low demand in the rest of the economy made lending to small businesses relatively risky, but with house prices rising, mortgage lending was once again seen as very safe. Wages, however, had stagnated; so much of this borrowing was undertaken by the already wealthy meaning that the distribution of housing wealth is increasingly skewed towards the wealthiest (Roberts et al., 2018). Today, the number of homeowners with a mortgage is 13 percent lower than it was a decade ago (UK Finance, 2019).

Homeownership has therefore been placed out of the reach of many households. At the same time, social housing stock as declined, rents have risen and conditions deteriorated in the private rented sector. As a result, as a signatory of the UDHR, the UK is currently failing to meet its legal obligations to support the human right to adequate housing. In 2013, the UN special rapporteur on adequate housing—Raquel Rolnik—visited the UK to determine how the UK was progressing on this objective. She pointed out that house prices had increased by 200 percent between 1997 and 2012,
while median full-time earnings rose just 55 percent. Prices in the UK had, at that point, ‘risen at a rate double the European Union average for the last 30 years’ (Rolnik 2013, p. 8). Rolnik writes ‘homeownership and the financialization of housing had a strong impact on the role of housing in the United Kingdom, transforming it from a social good into a financial asset’ (Rolnik 2013, p. 6). She argues that social and affordable housing is especially scarce, pointing out that ‘waiting lists for social rental housing have grown, homelessness rates have increased, and the private rented sector has expanded to become the only option for many despite its insecure tenure’ (Rolnik 2013, p. 8). Much housing also fails to meet the standards of adequacy set out by the UN: as many as 35 percent of properties in the private rented sector do not meet the government’s ‘Decent Homes Standard’.

Research from Shelter has shown the human impact of this crisis on ordinary people. Shelter (2018a) points out that the rising housing costs—the average home now costs eight times the average annual income—has led to falling home ownership—home ownership is down five percentage points on a decade ago, and on current trends, only half of today’s young people can expect to own their own home. Meanwhile, the provision of social housing at affordable rents has been steadily eroded—in 1997/8, ‘75% of all affordable housing delivered in England was at social rent. In 2017/18, this had fallen to just 14%’ (Shelter, 2018a, p. 4). As a result, the average share of income that young families spend on housing costs has trebled over the last fifty years (Shelter, 2018b). About 22 percent of the population, and 30 percent of children, are now classified as living in poverty in the UK after housing costs (Francis-Devine et al., 2019). Nearly 320,000 people in England are now homeless, including 130,000 children (Shelter, 2018).

Unequal ownership of property has meant that some people have benefited from the capital gains associated with rising house prices, while others have lost out. The UK is already a highly wealth-unequal society, with the richest 10 percent of people owning 44 percent of the nation’s wealth and the least wealthy half owning just 9 percent (Roberts et al., 2018). Wealth is twice as unequally distributed as income in the UK—the Gini coefficient for wealth is 0.62, while that for income is 0.32 (Roberts et al., 2018). And, the disparities are growing. Between 2010/12 and 2012/14, the wealth of the top 10 percent increased by 21 percent, while that of the bottom 50 percent increased by just 7 percent (Roberts et al., 2018). Half the increase in the country’s wealth over this time period was therefore monopolized by the top 10 percent (Roberts et al., 2018).

Prior to the crisis, young people were able to get onto ‘the housing ladder’ by taking out larger mortgages at low interest rates, but after the crash, that option has been less readily available—a trend witnessed across European
countries (Kelly et al., 2019). Rather than going to first time buyers, the houses that are built today have tended to end up in the hands of those who already have access to much of the capital needed to purchase the home, or the up-front cash needed to secure a mortgage. For the bottom half of the population by income, the property ownership rate went down from 55 to 52 percent, while for the lowest decile, it fell from 46 to 36 percent (Office for National Statistics, 2018b). For the top half, it stayed the same at 84 percent.

Landlords have profited handsomely from this change. The average gross rental income for landlords is £33,000—more than half the average salary (Ministry of Housing, Communities and Local Government, 2018). In London, this figure rises to £41,000. The other side of the coin to rising landlord incomes is the rising costs associated with housing for those who do not own their homes outright. According to the English Housing Survey conducted by the Office for National Statistics (2018a), the average private renter spends a third of their income on housing costs, next to 28 percent for social renters and 17 percent for owner-occupiers with mortgages. For private renters aged 16–24, this figure rises to 48 percent of household income—for those with families, the figure rises to 78 percent of head tenant and partner income. Housing costs for the average renter in London are nearly as high as those for the average 16–24 year old, standing at 43 percent of household income. Most private renters are therefore unable to afford to save for a home. About 64 percent of those living in the private rented sector have no savings at all, next to 83 percent of those living in the social rented sector. About 71 percent of private renters who do not expect to buy say that this is because they are ‘unlikely to be able to afford it’ (among other reasons). Only 14 percent say that they ‘like it where [they are]’.

The Impact of Financialization on the UK’s Economy and Society

The financialization of housing, driven by its use as collateral for the issuance of loans, has not simply priced many buyers out of the housing market; it has been a significant source of financial instability. Housing is one of the most significant forms of collateral in modern financial systems (Aalbers, 2016). During the upswing of the financial cycle, a large amount of lending is collateralized against housing. Anticipating continuous future increases in house prices, banks will lend at ever-higher loan-to-value ratios, sometimes granting mortgages worth more than the value of the property itself (Ryan-Collins, 2018). But when the financial cycle turns, credit dries up, house prices begin to fall and some homeowners find themselves in negative equity. People sell their homes anticipating future price falls, creating a self-reinforcing cycle of falling house prices. Defaults escalate and foreclosures rise.
In the pre-crisis period, rising lending secured against dwellings pushed up asset prices—particularly house prices—which led to the emergence of a wealth effect that encouraged yet more borrowing. As the banks became more optimistic, underwriting standards deteriorated and more people were able to access much larger loans (Aalbers, 2016). As argued in a paper from the European Financial Stability Board (Kelly et al. 2019), countries that experienced a property boom before 2008 exhibited significantly higher loan-to-value (LTV) and loan-to-income (LTI) ratios... and an increasing tendency towards longer-term loans compared to borrowers in other countries... Credit easing persisted when house prices increased and consequently induced high indebtedness and more credit expansion, which resulted in substantial pockets of risk before the Great Financial Crisis hit.

Exhibited significantly higher loan-to-value (LTV) and loan-to-income (LTI) ratios... and an increasing tendency towards longer-term loans compared to borrowers in other countries... Capital flows into booming asset markets in financialized economies like the UK’s have also created significant regional and sectoral imbalances. The UK has had a large and persistent current account deficit for over thirty years—in 2017, the current account deficit reached a peacetime peak of 6 percent of GDP (Blakeley, 2018). This persistent current account deficit, without an associated weakening in the Sterling exchange rate, was explained by high demand for British assets, including property and assets derived from lending against property (Blakeley, 2018). The result has been the emergence of an acute ‘Dutch disease’. This refers to the suppression of Dutch manufacturers that occurred after the discovery of natural gas pushed up the value of the currency. ‘Dutch disease’ has created significant sectoral and geographical imbalances in the British economy. By repressing demand for exports, this has exacerbated the process of deindustrialization that began in the 1990s and 2000s. Between 1970 and 2007, manufacturing declined from 27 percent of gross value added to just 10 percent (Rhodes, 2017). Today, the UK is highly import dependent. What manufacturing remains is also dependent upon imports and global supply chains (Jacobs et al., 2017). Over time, this Dutch disease has become locked in, meaning that a currency devaluation will not reverse the problems caused by the appreciation (Mitchie, 2014).

The impact that this deindustrialization has had on the economic geography of the UK has been stark. Manufacturing accounts for 10.2 percent of jobs in the North East, 9.4 percent in the North West and 9.7 percent in Yorkshire, next to 2.4 percent of jobs in London (Blakeley, 2018). Deindustrialization has therefore had a significant impact on the UK’s regions and the UK is now one of the most regionally unequal countries in Europe (Blakeley, 2018). Deindustrialization has been reflected in differences in real estate values across the country, creating a self-reinforcing cycle of investment
Financialization, real estate and COVID-19 in the UK

13

flowing out of the regions and into London. Between 2006 and 2016, for example, the average household in London saw their property wealth rise by 140 percent, while it fell by 40 percent in the North East and 10 percent in the North West and Yorkshire and the Humber (Office for National Statistics, 2018b). Over the same period, rents in London rose twice as much as they did in Yorkshire and the Humber and three times as much as they did in the North East and the North West. The result has been the emergence of two housing markets—London and the South East and everywhere else.

Financialization during the Covid-19 pandemic

The recovery from the last financial crisis provided an opportunity for investors all over the world to buy up distressed real estate and profit from rising prices facilitated by central banks in the years that followed (Beswick et al., 2016). As a result of QE and the further consolidation of the housing stock in the hands of a small number of investors, private renters suffered while those with existing wealth benefitted from large capital gains. In the United States, asset managers like Blackstone bought up entire communities in the name of profiting from ‘distressed’ real estate (Action Centre on Race and the Economy, 2020). The rise of corporate landlordism has transformed many communities, particularly in states like Ireland where so-called ‘vulture investors’ bought up billions of euros worth of distressed mortgage debt before ‘repossessing underlying property assets to develop, refurbish or sell’ (Byrne, 2015 p.9). Since then, campaigners have been fighting constantly against rising rents and the gentrification of their neighbourhoods; Covid-19 has only witnessed an intensification in this struggle (Action Centre on Race and the Economy, 2020). Today, Blackstone has raised $US10 billion to buy up distressed property throughout Europe in the wake of the economic devastation left by the pandemic (Singh, 2020).

Governments like the UK’s claim to promote a ‘tenure-neutral’ approach to housing policy. In practice, more often than not, this means privileged support for owner-occupiers (Shelter, 2009). The same trend has been evident with the onset of Covid-19. As soon as the pandemic was declared, it became clear that significant support would be needed to prevent the economic crisis associated with the pandemic from deteriorating into a financial crisis as households and businesses defaulted on their loans (Roubini, 2020). Central banks stepped in to provide near-unlimited liquidity for the financial and wider corporate sectors, while homeowners were given a break on mortgage repayments. Initially, private renters were not even mentioned by the government—but the Chancellor eventually agreed that evictions would not be permitted during the pandemic. Not only is it clear that evictions have been taking place anyway, protections for renters are set
to end soon and hundreds of thousands of renters are currently in arrears (Shelter, 2020). Many groups have warned of an impending ‘evictions crisis’ as the government’s evictions ban comes to an end (Hammond, 2020).

One might expect property prices to fall as a result of the contraction in economic activity and rise in unemployment the pandemic is likely to bring about. In the second quarter of 2020, GDP is estimated to have contracted by between 20 and 25 percent, and when the furlough scheme comes to an end, official estimates suggest that unemployment could reach 10 percent (NIESR, 2020; Office for Budgetary Responsibility, 2020). Such levels of unemployment will undoubtedly have an impact on the housing market and could depress prices in many parts of the country over the short term; though in areas like London where there is significant pent-up demand, the impact of COVID-19 is likely to be less significant. But over the long term, the government and the Bank of England seem intent on ensuring that house prices continue to rise as they have risen over the past several decades. UK Chancellor, Rishi Sunak, announced a cut to stamp duty on purchases of homes worth up to £500,000 in his mini-budget in July 2020—a measure that could keep prices in the middle of the market up.

Perhaps, even more significantly, extremely loose monetary policy—which is now likely to continue for the foreseeable future—is likely to prop up house prices for years to come. The Bank of England will, along with central banks around the world, pump billions of dollars into financial markets in exchange for government debt, leaving investors flush with cash and looking for somewhere to invest it. Given that returns are likely to be depressed all over the world, the UK—and particularly London—property looks like a good investment, given the government’s clear commitment to propping up house prices. As investors continue to reach for yield, much of this new money will find its way into London property markets, sustaining prices—particularly for the most valuable properties.

The money flowing into London’s real estate is likely to accelerate the processes of gentrification that have transformed the nation’s capital over the past several decades (Yee and Dennett, 2020). Communities that have occupied a particular area of the capital for many decades may find it harder to afford increasing rents, forcing many families further out of London and disrupting cultural, social and political networks. Recent battles over landmarks like Brixton’s arches, Elephant and Castle’s shopping centre and Seven Sisters’ Latin Village show both the damage inflicted by gentrification on many communities and their fierce resistance to it (Corporate Watch, 2019; Evans, 2018; Yeung, 2020). Gentrification has had a particularly stark impact on black, Asian and minority ethnic (BAME) communities in the UK (Barrow, 2020). Disproportionately impacted by the economic downturn.
and the virus itself, BAME households are likely to suffer as a result of gentrification even as the crisis ebbs.

In the UK’s regions, where unemployment is already higher than the national average and where Covid-19 is likely to lead to many job losses in sectors such as retail, hospitality and manufacturing, many homeowners may see their wealth fall significantly as house prices decline or stagnate while pent-up domestic and international demand keeps prices high in the capital, exacerbating regional inequality. The disparity in house prices between the most and least well-off regions of the country will also have an impact on regional mobility: those who have purchased houses in the regions will find it increasingly difficult to move to London and other major cities such as Manchester, where house prices have increased much faster (Blanchflower, 2019). While lower house prices in the regions could be seen as good news for young people seeking to get on ‘the housing ladder’, the fact that this fall will be driven by rising unemployment will counteract this potential benefit. Young people tend to be impacted disproportionately by recessions—and those who enter the labour market during the recession experience a permanent ‘scar’ on their lifetime earnings (Cribb et al., 2017). If house prices fall but incomes fall just as much, this will do little to solve the UK’s housing crisis.

The only way to tackle the injustices created by the UK’s financialized housing system is to de-financialize and de-commodify housing. On the first point, the links between the housing market and financial markets must be weakened. As I have argued previously, macroprudential regulation can be used to curb financial flows into housing by imposing limits on residential and commercial mortgage lending during the upswing of the financial cycle (Blakeley, 2018). Given that many economists have argued that central banks are already implicitly targeting asset prices, asset price targets could be formally incorporated into the central banks’ framework and used to prevent—rather than encourage—excessive house price inflation (Watson, 2014; Blakeley, 2018).

On the second point, the government must take steps to provide housing to those who need it at significantly below market rents, limiting the role of the market mechanism in allocating housing. Social housebuilding must increase substantially; the government could provide local authorities with grants to build new, environmentally friendly housing as part of a recovery package to absorb the economic impact of the Covid-19-induced downturn. At the same time, rents in the private sector should be controlled. Rent controls exist in many economies throughout Europe, resulting in a significantly more even balance between owner-occupation and private renting. And during the pandemic, the Chancellor should be providing relief to renters just as he is offering mortgage-holders a payment holiday.
Conclusion

Over the last forty years, UK housing has been transformed from an ordinary consumer good into a valuable financial asset. The right of investors to speculate over property prices has been placed ahead of the right of every human being to a decent home. The financialization of UK real estate has led to significant financial instability, inequality and uneven patterns of development. The already wealthy have benefitted from this system, while the least well off have faced unaffordable rents, which has limited their chance of owning their own homes. With the social rented sector facing significant cuts, homelessness has increased substantially, and the UK is now failing to meet its human rights obligations as enshrined in international law.

The financial crisis did not put an end to financialization. Instead, the state stepped in to prop up house prices in an attempt to re-start the pre-crisis debt-driven boom. The UK economy was left fragile and unequal as a result. When the Covid-19 pandemic hit, millions of people were living in poverty after housing costs—many struggling to pay their rent while servicing problem debts and earning less than minimum wage in insecure jobs. Rather than supporting these people through the crisis, the government has instead chosen to ignore private renters while providing support to owner-occupiers. As the crisis ebbs, loose monetary policy will be used to fuel yet more growth in property prices, particularly at the top end of the market.

The financialization of UK real estate resulted from political choices made by policymakers, and it can be undone in the same way. By insulating housing from financial markets, controlling rents and increasing the stock of social housing, the government could de-financialize and de-commodify the housing system, ensuring that housing is seen as a human right rather than a speculative financial asset. While there are strong economic arguments for this course of action, it is political economy that is likely to stand in the way. The UK’s consumption-driven growth model relies on a kind of privatized Keynesianism that requires high levels of household debt and continuous rises in house prices. Political action and organizing among those communities most affected by the processes of financialization will be needed to facilitate a transition towards a more sustainable economic model.

Acknowledgement

This article includes extracts from a forthcoming report by Grace Blakeley and Shreya Nanda for the Institute for Public Policy Research.
Grace Blakeley is the author of Stolen: How to save the world from financialisation and The Corona Crash: How the pandemic will change capitalism. The following article is based on research conducted while the author was a research fellow at the Institute for Public Policy Research.

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