

NEWS

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Cities engaging in the right to housing #3: Fair Finance - Introductory paper

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In this note, Laura Colini and Ivan Tosics introduce the financialisation phenomenon of the housing market and its consequences faced by cities at local level. Read more about it and get prepared for the "Housing Fair Finance" web conference Thursday 19, 10-12.30 CET.

Commodification is the name for the general process by which the economic value of a thing comes to dominate its other uses. (...) the commodification of the housing means that a structure functions as real estate takes precedence over its usefulness as a place to live.^[1]

In a platform dedicated to how students in the US can repay their university loans, there is one entry that encourages readers to invest: "Over the last two centuries, about 90% of the world's [millionaires](#) have been created by [investing in real estate](#) [...] it is best to get started early with real estate so you can put time on your side".^[2]

Housing is treated as an asset for profitable international surplus investment.^[3] The political and economic process that internationalized the housing market has its roots in the late 80 's and 90 's but it is with the subprime crisis of 2008 that the average public became aware of the speculative mechanism global finance that has profited from this sector. The housing market did not simply open another field of investment for capital but created "a peculiar form of value storage" which relates macroeconomics to the individuals and families through financing mechanisms based on pension funds, investment banks, credit institutions and public institutions.^[4] Studies from different disciplines use the terms of financialisation deployed to describe "the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions) states and household".^[5] Main actors are international and local real estate investors as new landlords of corporate housing, financial actors and firms adopting private equity, hedge funds, real estate investment trusts (REITs), pension funds, etc.

There are different strategies at play created for return-enhancing mechanism of buying for selling on, leasing out, and renting. The first seven years before the global financial crisis (GFC) of 2007 were associated with short-term investment strategies of "buying low and selling high".^[6] At that time, although with uneven results over the globe, rents and sales brought in less money than expected. Buy-hold- and sell-plans had to be adjusted accordingly to the extent that various investors had to see their total portfolios.^[7] These portfolios were bought in second phase by REITs and listed real estate funds.

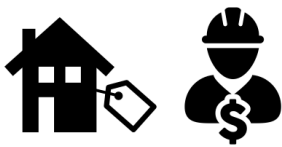
Holiday rental platforms such as Airbnb and Vrbo also cover an important role in the process of commodification of housing, covering more than 80,000 cities all over the world.^[8] Airbnb values \$31 billion and their major

source of yield is private homes rentals. The company's virtually unregulated market in cities, in a short period of time, has peripheralized inhabitants, pushed for evictions ultimately raising rents and making housing less affordable. Some among the most progressive cities governments and social movements in Europe are reclaiming more power to counteract this phenomenon and call for better regulation at EU level.[\[9\]](#)

While the process of financialisation of housing is dependent from intricate international cash flow through invisible or hardly traceable chains, it is strongly anchored to localities, local markets and local governments. Examples of governmental policies that have enabled the rise and spread of the financialisation and speculation include:[\[10\]](#)



Rent control policies that fail to prevent rents from being reset to market rate when tenants move out—vacancy decontrol.



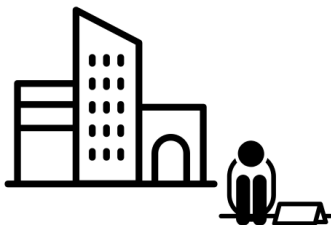
The selling off of public or social housing to private developers.



Using powers of expropriation to assemble land for private development.



Advancing Transit Oriented Development projects with anemic affordable housing requirements.



Providing permits to private market rate housing projects without an analysis of the project's socio-economic impacts and/or without requiring significant inclusionary housing units.



The US Opportunity Zones that provide federal tax credits to speculators investing in low-income communities.

Leilani Fahren, the former [UN Rapporteur on Adequate Housing #MakeTheShift](#) campaign publicly denounced financial institutions and local authorities accountable for poor housing conditions across the world. Her 2018 report recognizes the right to adequate housing as a universal human right and proposes policy recommendations to de-financialize the housing sector. [\[11\]](#) [The Declaration "Cities for Adequate Housing"](#), promoted by a group of major global cities with the support of the United Cities and Local Governments ([UCLG](#)) in 2019, recommends cities to engage with a wide range of actors, at different levels, and to design strategies in line with the right to housing. [\[12\]](#)

Although these recommendations imply that cities are not solely responsible for adequate housing, the conditions for cities to act depend heavily also on other factors, such as national policies on public social housing and welfare. In Sweden free ownership of housing was only possible for single family houses, and private renting is limited. Ownership of flats became possible some 10 years ago but there are only a few hundred cases in the country. The usual form is cooperative, and such flats are usually not allowed to be rented out. Thus, in Sweden

practically one flat is/can be owned by a family – if there would be a second flat, it would be impossible to bring it to the rental housing market.

Not only the nations count on different systems for shaping their housing policies in Europe^[13] but cities as well have in their hands different instruments to influence and control their local markets. Below some measures and projects are described, adopted by cities to de-financialize their housing markets.

Vienna

[Vienna](#) (AT) represents a unique example of long-standing public housing policies but is yet not immune to speculation in the housing sector. In the “Housing for All conference” (Dec 2018) Josef Ostermayer, Director of Sozialbau AG stated, “Vienna saw a growing interest of international investors for land suitable for housing which led to the increase of prices. Within a few months Vienna reacted: a new regulation limits the access of investors to real estate which is potentially interesting for affordable housing”.^[1] The Vienna Provincial Government adopted an amendment to the Vienna Building Law (Bauordnung). It stipulates that buildings in areas zoned “geförderter Wohnbau” must predominantly (> 50% but will be raised to 2/3) meet the criteria of § 5 Z 1 Wiener Wohnbauförderungs- und Wohnhaussanierungsgesetzes (WWFSG 1989). This means that the purchase price for the land may not exceed € 188/m² gross floor area, the flats cannot be sold for 40 years and the rent may not be higher than 4,87 €/m² (net) leasable area. The law went into effect in January 2019 and made land speculation in Vienna practically impossible.

^[1] Notes by Ivan Tosics on the „Housing for all conference“ Vienna, December, 2018.

Berlin

Berlin^[1] is ran by a coalition rot-rot-grün, a traditional party-coalition (SPD, Die Linke, The Greens) open to dialogue with social movements and citizens’ initiatives. After the reunification, Berlin sold 220,000 formerly state-owned housing units, including 64 000 in 2004 alone. Berlin also counts on a series of instruments active both at national and local level to regulate the real estate market, such as the rental caps known as the Mietpreisbremse (housing rental price mitigation) and the Milieuschutzgebiet (‘protected area’: a regulation to protect from expulsion). This includes restrictions on what property owners are allowed to do (e.g. upgrades and modernizations) to increase the value of their buildings in designated areas under pressure of gentrification. The law requires that owners submit an application for official approval for the work they intend to carry out, which can be refused if the authorities determine that the improvements will have a negative socio-economic impact in the area under protection.

Have they succeeded in actually breaking the gentrification spiral? The [Mietpreisbremse](#) specifically is under much discussion, considering the average rent increase continues to grow.

The Milieuschutzsatzung is a contested tool. The [Institute of German Business](#), Cologne [recently claimed](#) that “the instrument of the Milieuschutzsatzung represents a massive intervention in property rights. This benefits tenants who have an apartment with low housing costs. However, all apartment seekers who are unable to find adequate housing due to excess demand are disadvantaged. The resulting insider-outsider constellation raises enormous social issues “.

One powerful tool, which can be used nationwide, but seldom used by cities, is the Vorkaufsrecht, the right of first purchase. It has its roots in the ancient Greek and Roman “*lus protimiseos*” (also “*pactum praelationis*”) agreements for selling/purchasing goods. Simplifying, historically if land in a village was to be sold, the first offer had to be made to the members of the village community.

In contemporary Germany, the Vorkaufsrecht is the community’s right to buy up residential property about to be sold to preserve the social mix of a protected neighborhood deemed worthy of Milieuschutz by law. Today, if a homeowner in a protected area sold their property, the district has two months to make an offer and enter into a contract.

From 2015 to September 2018, [Berlin’s districts exercised the right of first purchase](#) for 664 apartments in favor of a third party, generally a state-owned housing associations.

These measures, however, are not yet curbing the predatory real estate market, and this is why in 2018 an activists’ initiative, [Initiative Mietenvolkentscheid](#), was launched to collect 20,000 signatures needed to ask for a public referendum to ban landowners from selling to large real estate groups. This would [enable forced expropriations of properties](#) to be used for public housing. The scope is to bar companies, such as Deutsche Wohnen, which owns

more than 3 000 apartments in Berlin alone. Estimates forecast the recovery of some 200 000 housing units.

[1] Colini, L. (2019). How to accomplish the “right to housing”? « URBACT The blog.
<https://www.blog.urbact.eu/2019/04/right-to-housing/>;

McGath (2019), Expropriate the mega-landlords: how we’re going radical in Berlin to solve the housing crisis, online article (<https://medium.com/@tamcgath/expropriate-the-mega-landlords-how-were-going-radical-in-berlin-to-solve-the-housing-crisis-5a951652e14a>);

Roy, A., Rolnik, R., et al., (2020). Methodologies for Housing Justice Resource Guide.
<https://escholarship.org/uc/item/41g6f5cj>

Barcelona

Barcelona[1] is run by a leftist coalition where Barcelona en Comú (activists-based municipalist platform) occupies most seats in the city council, with [Mayor Colau](#) active in the [PAH](#) (the Platform of People Affected by Mortgages), that came about as a response to the housing crisis in 2010. Barcelona, which had in 2017 1.5% of social rental housing, has launched a [Right to Housing Plan 2016-2025](#) with a broad and promising agenda.

Its two main lines of action in the field of anti-speculation include the acquisition of housing units from the private housing market by the city and a mechanism to facilitate bilateral agreements with homeowners.

The first measure means the acquisition of private properties accompanied by homes rehabilitation under the management of the Municipal Institute of Housing and Rehabilitation ([IMHAB](#)).

The second measure enables bilateral agreements established through the [Rental Housing Pool](#) directly with the city, allowing the use of the property with affordable rent, in exchange of incentives to the private owners (such as guarantees of rental payment, renovation subsidies), as well as support and advice to go through the procedures. It also allows for a cession programme, where the landlord temporarily transfers the right to use their property to a third party, such as [Habitat 3](#) which is a foundation of the third social sector of the Catalan region dedicated to social housing, in exchange to incentives for the private owner.

These steps allow using public subsidies for rehabilitation and public guarantees in exchange for temporary affordability.

[1] Colini, L. (2019). How to accomplish the “right to housing”? « URBACT The blog.
<https://www.blog.urbact.eu/2019/04/right-to-housing/>

Ghent

Ghent is suffering from a lack of affordable, qualitative housing for people with low income. In Ghent, 15.5% or 39.761 of the inhabitants live in poverty. Concerning housing, the alternatives for citizens with low income are limited. The affordable market segment for these people is shrinking quickly. They are stuck in houses that are unsafe, of poor quality, non-energy-efficient and not adapted to people’s physical needs. ‘Caught’ in bad living conditions, these people are called ‘captive residents’. 10.000 households in Ghent are captive residents, which corresponds to 6.000 houses.

The UIA-funded project [ICCARUS](#) project, adopted by the municipality of Ghent is to renovate 100 houses of captive residents. For each renovation, a starting capital of €30.000 is provided. Before, during and after the renovation process, captive residents will be unburdened and supported technically, financially, administratively and socially.

Ghent will use an innovative financial instrument to make a renovation possible for this low-income target group. By using a revolving fund, the public finance is not only used for a limited group but can be used over and over again to fight this main urban challenge. This project will create, shape and optimize this financial policy instrument.

Mataró

There is a dramatic shortage of affordable housing in the city of Mataró, and rents have risen by 27% since 2016. The city's social housing sector is incommensurate to demand. It comprises just 265 units while 1,400 households are currently on the waiting list. This situation poses problems for the well-being of many residents, as well as the city's future and its capacity to provide opportunities for those who live there. Meanwhile, there are some 3,500 "flats without people" – properties sitting empty because their owners do not have the resources to renovate them or are afraid of tenants not paying their rents. "Yes We Rent!", UIA project, will generate an accessible housing stock targeting medium income households using properties that have been left empty and off the market. By offering a guaranteed rent, and financial and organizational support to renovate properties, the project will incentivize risk averse owners to rent to the affordable housing scheme at below market prices. It will also keep part of the benefits in order to consolidate and grow its offering. Additionally, "Yes We Rent!" tests an organizational model of a multi-stakeholder coop, which can be publicly funded and controlled, while drawing on the empowerment and self-management potential of cooperatives. Tenants will be trained and incentivized to engage in self-help, empowerment, joint development of housing related services and recruitment of new flats.

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[4] Rolnik, R., 2019. Urban Warfare. Verso Trade: 17

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[10] Roy, A., Rolnik, R., et al., (2020). Methodologies for Housing Justice Resource Guide. <https://escholarship.org/uc/item/41g6f5cj>

[11] Recommendations extracted from: Farha, L. (n.d.). OHCHR | Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context. Retrieved 17 November 2020, from <https://www.ohchr.org/en/issues/housing/pages/housingindex.aspx>.

- "1. Develop new initiatives in order to bridge the worlds of corporate and government finance, housing planning and human rights;
2. Enable States and local governments to introduce a full range of taxation, regulatory and planning measures in order to re-establish housing as a social good;
3. Ensure that Trade and Investment Treaties recognize the paramountcy of human rights, and fully empower States to regulate private investment;
4. Develop business and human rights guidelines on a priority basis, and specifically, for financial actors operating in the housing system;
5. Review all laws and policies related to foreclosure, indebtedness and housing, to ensure consistency with the right to adequate housing;
6. Ensure that courts, tribunals and human rights institutions interpret and apply domestic laws and policies related to housing and housing finance with the right to adequate housing;
7. Devote more attention to the issue of financialization and clarify the obligations of States in relation to the financialization of housing."

[12] The declaration is structured around 5 demands:

1. More powers to better regulate the real estate market
2. More funds to improve public housing stocks
3. More tools to co-produce public-private community driven alternative housing
4. Urban planning combining adequate housing with quality, inclusive and sustainable neighbourhoods
5. Municipalist cooperation in residential strategies.

[13] Refer to studies on national housing policies of the EU/UA affordable housing partnership <https://ec.europa.eu/futurium/en>

And the most recent <https://www.die-wohnraumoffensive.de/aktivitaeten/veranstaltungen/konferenz-zur-eu-wohnungspolitik/>

Affordable housing

See on UIA website

