Tools to Tame Financialisation of Housing

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Ideas on Tools to Tame Financialisaton Draw on #Housing 2030

A joint initiative of United Nations Economic Commission for Europe (UNECE), Housing Europe and UN-Habitat

Focuses on solutions to the housing affordability crisis in the UNECE region, highlighting the need for strategic and coordinated policy reform to shape more effective housing systems

Report launched by UN in Geneva, October 2021

#Housing2030: Effective policies for affordable housing in the UNECE region

Fed into *Place and Life in the ECE – A Regional Action Plan 2030 –* policy endorsed by the UNECE

56 countries surveyed, evaluative evidence reviewed, 8 thematic and regional workshops, 12 podcasts

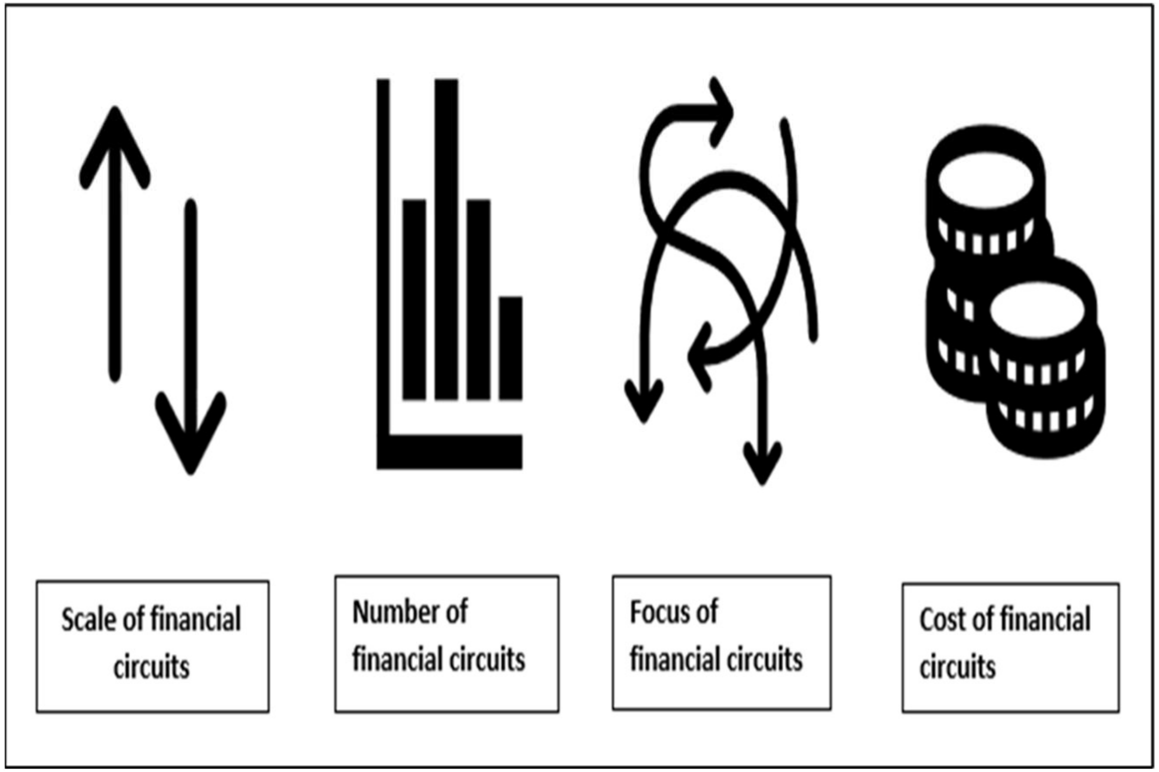
More than 30 policy tools outlined and applied in 70 illustrations of good practice

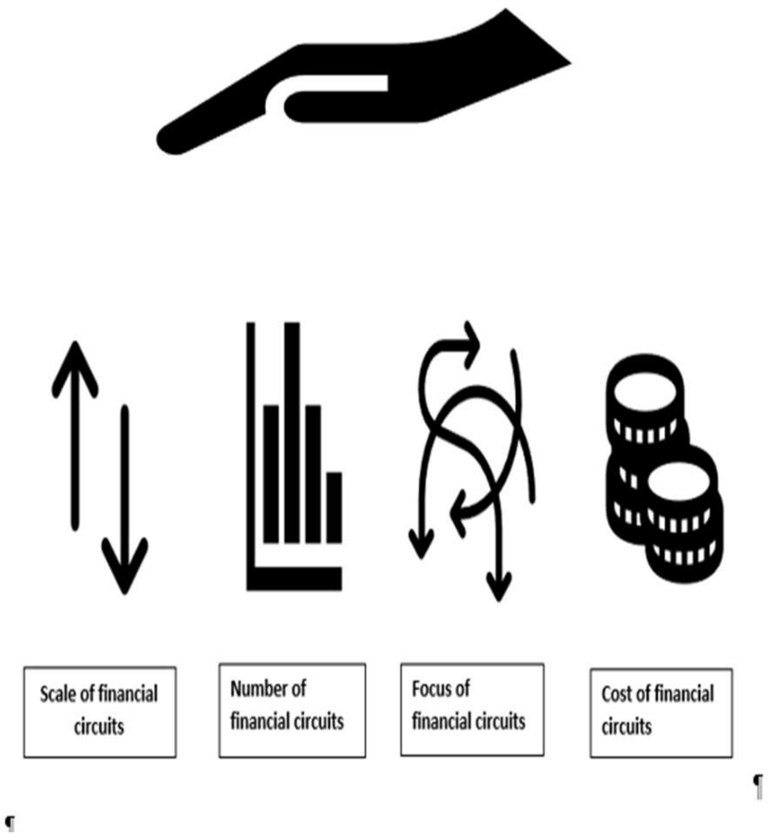
What does Financialisation Mean?

- Increasing scale and flows of capital
- Enabled by government regulation and support
- Housing is the absorber of this 'wall of money'
- Driver of housing unaffordability, inaccessibility and inequality, particularly:
  - in high growth or ‘hedge’ cities
  - among those without wealth/ assets
  - for new/ younger households
  - for low earners and those in precarious employment
  - for migrants

How Does Financialisation Reduce Housing Affordability and Accessibility?

- Increasing flows of capital into housing meet fixed land supply and inelastic housing supply
- New circuits of finance maximize commercial investment in housing and enable speculation
- Non-profit circuits of finance (e.g. building societies) and finance for social and affordable housing reduce or disappear
- Finance for commercial investment and speculation is cheap or 'free'.
- Finance for low-income households is less available and more expensive





How can Governments Tame Financialisation to Improve Housing Affordability and Access?

- Presentation focuses on how policy makers can shape financial circuits to improve housing affordability and access.
- What tools can policy makers use to do this?
- Which levels of governments and organisations are best place to operationalise these tools?
- Which interventions have been most and least effective and why?

Tools to Tame the Scale of Financial Circuits

Macro-prudential regulation

- Modest use compared to pre-1990s
- But came back into fashion following the global financial crisis in 2007.
- Focus on strengthening banks' reserve capital requirements
- limiting mortgage capital

Tools affecting demand for credit	Tools affecting supply of credit
• Loan-to-value ratios • Loan-to-income ratios • Margin requirements • Loan maturities • Affordability test scenarios ('stress testing') • Subsidies for home purchase such as mortgage interest tax relief • Government mortgage guar antees	• Credit ceilings and quotas • Interest rate ceilings • Reserve requirements leverage ratio (exemptions) • Capital (risk-weight) requirements • Portfolio restrictions • Supervisory pressure and moral suasion • Loan-to-deposit ratios • Collateral requirements • Funding for lending and targeted longer-term refinancing operations (TLTRO) • Proportional lending ratios • Central bank asset purchase programmes • State investment banks and specialised public credit intermediaries

Source: Bezemer *et al.* (2018)

Applying Tools to Tame the Scale of Financial Circuits

Regulations to Increase Bank's Reserve Capital

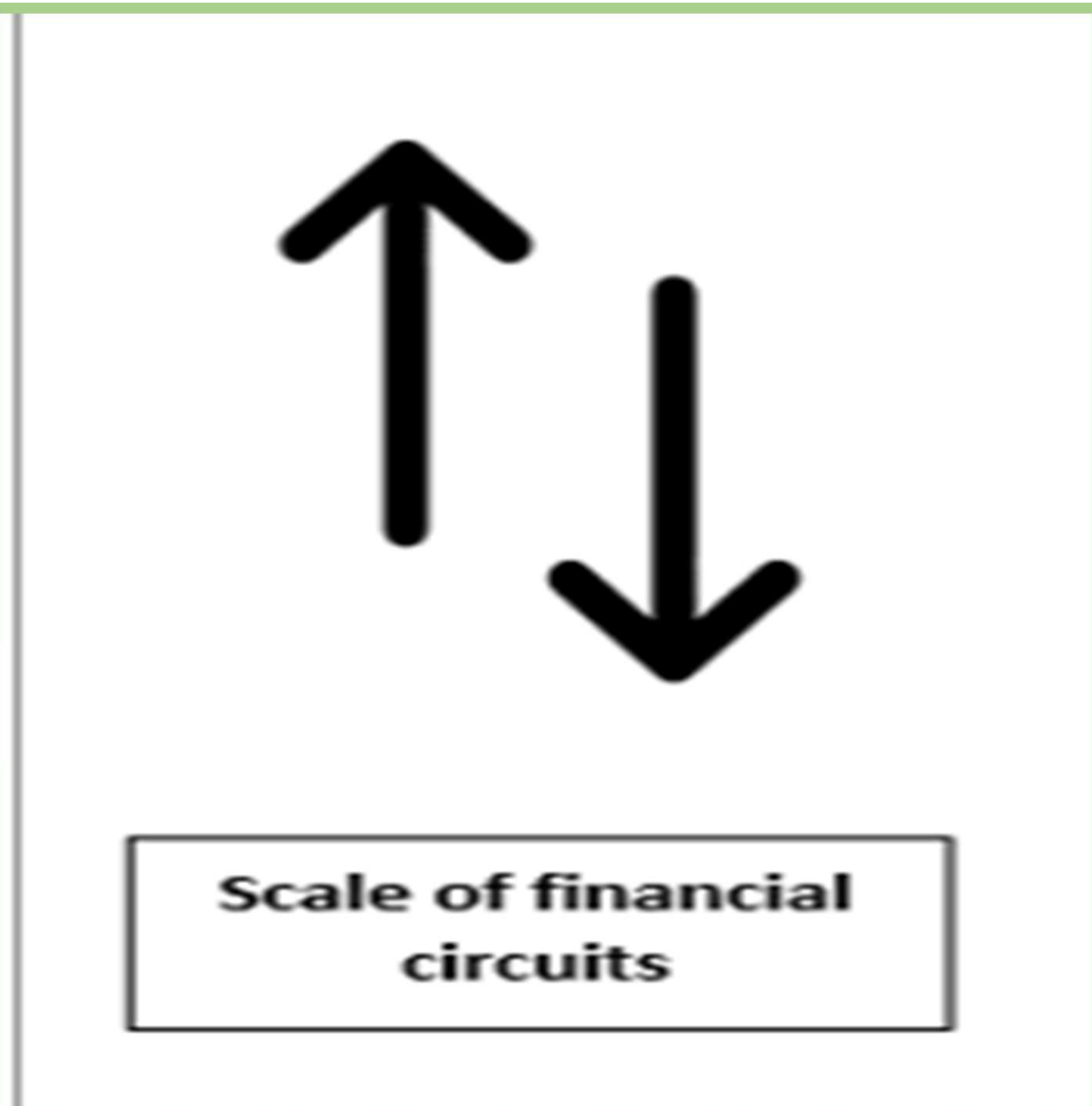
- National Governments
- 'Basel III' round of Basel Committee on Banking Supervision Reforms
- Single supervisory mechanism for Eurozone banks

Strengthened mortgage lending regulation

- Loan to value and loan to income ratios
- Introduced in the last decade in Australia, Canada, Finland, Ireland, Netherlands, New Zealand, Norway, Sweden and the UK.
- Introduced in the 1990s in several high-income Asian countries

But:

- Macroprudential measures focus on strengthening the stability of the financial system
- They are less effective in reducing house price inflation
- They exclude of some households from home purchase
- Their impact is reduced by:
    - countervailing policies, such as mortgage interest tax relief, very low interest rates and
    - temporary or weak application
- Is the focus on bank regulation a case of 'fighting the last war' - what about the impact of new sources of finance?



Tools to Shape the Focus of Financial Circuits

In the past governments commonly used 'credit guidance' to guide banks' lending

Furthermore non profit providers (e.g. building societies, savings and loans banks) were the main providers of mortgages in many countries

Credit guidance was widely removed from the 1980s - assumed markets can allocate capital more efficiently.

Non profit mortgage providers have largely disappeared in the English speaking world (but not everywhere), banks are the main mortgage lenders.

Caused a 'debt shift' - a change in focus of lending from productive sectors of the economy to housing

How can we redirect finance away from real estate speculation and towards affordable housing?

United Nations Environment Programme (2016) T*he Financial System We Need: Aligning the Financial System with Sustainable Development*

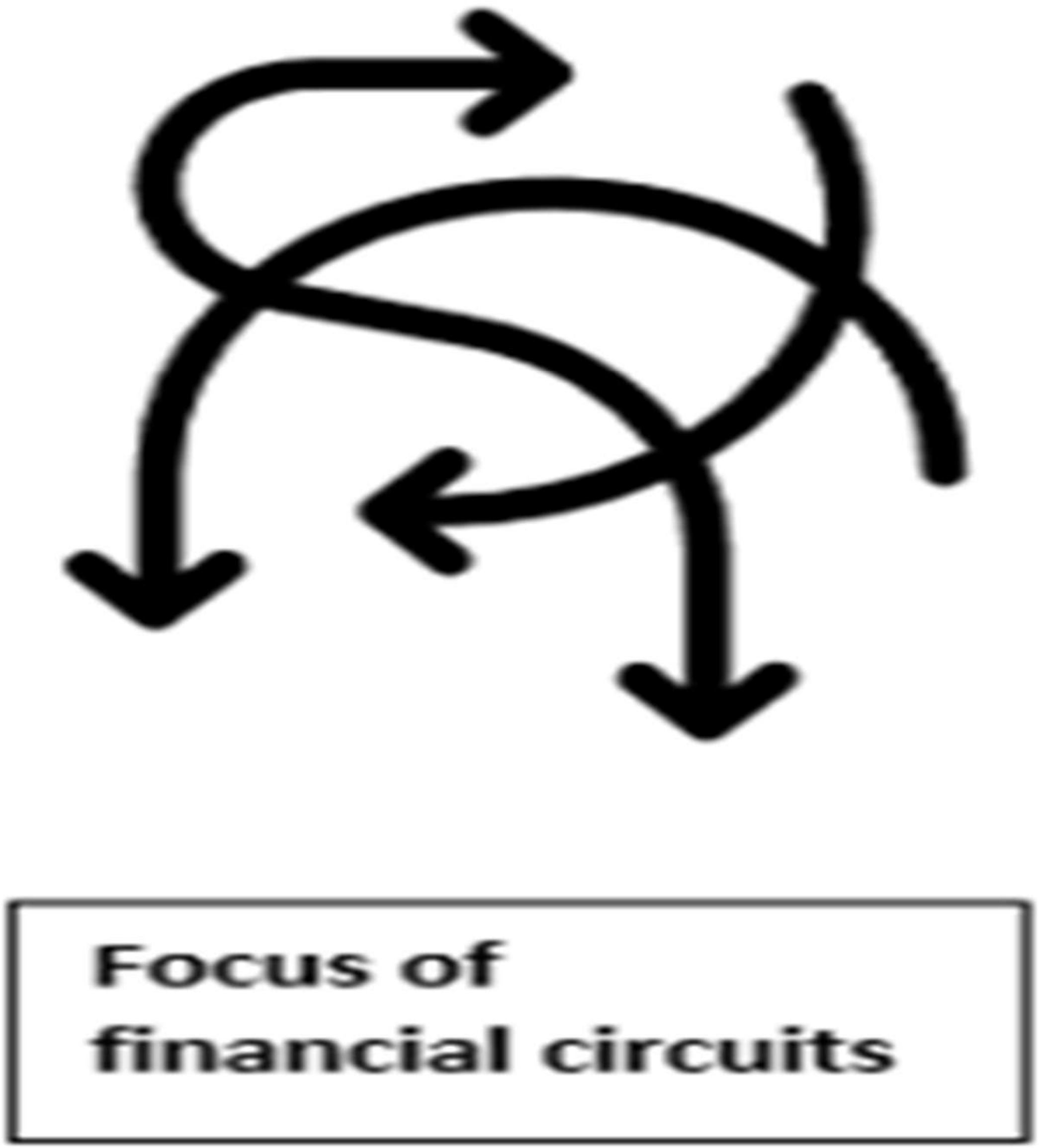
Financial sector reform	**Application to circuits of housing finance**
Enhancing market practice: disclosure, analysis, risk management	Establish reporting frameworks on affordable and sustainable housing for investors in special purpose bonds which can be used to finance this type of housing Adopt criteria for assessing social, sustainable, and affordable housing providers and investment vehicles by credit agencies Integrating housing market stability and climate change risks into central banks' financial stability reviews and similar reports, e.g. Improving granularity of mortgage data in relation macroprudential targets and credible environmental monitoring of investments to avoid 'greenwashing'
Harnessing the public balance sheet for purposeful investment	Ensure that government funding and subsidies for housing and housing procurement processes promote more sustainable and inclusive outcomes.
Redirecting finance through policy requirements and prohibitions, enhanced liability	Ensure public procurement are designed to deliver sustainable and inclusive outcomes and improve societal well-being, economic development, and environmental sustainability Establish priority lending programmes to increase financial access for first time home buyers, not for profit social housing providers and co-operatives. Introduce rules prohibiting speculative investment in affordable housing.
Cultural transformation: capacity building, behaviour, market structure	Devise national compacts and road maps to reform finance for housing Support the development of values-based finance institutions and social impact investing. Establish systems of certification and labelling for socially and environmentally responsible real estate companies.

Applying Tools to Tame the Focus of Financial Circuits

- Higher risk weighting for mortgage lending compared to lending to business and infrastructure under Basel III rules
- European Central Bank's long term refinancing programme which provides Eurozone banks which subsidised refinancing but not for house purchase
- Expansion of non-profit mortgage lending for low income housing. Sparkasse (savings banks) model has spread from German speaking countries to Bulgaria, Croatia, Czechia, Kazakhstan, Hungary, Romania, and Slovakia

But:

- Government and regulator interventions introduced to date are very modest
- Far less radical than the credit guidance in place prior to the 1980s
- Very strong commercial incentives for banks to focus their lending on housing:
    - Credit worthiness of borrowers easy to assess
    - Fewer opportunities for lending into service focused economies compared to industrialised economies
- Measures introduced to refocus financial circuits away from housing have had modest impact



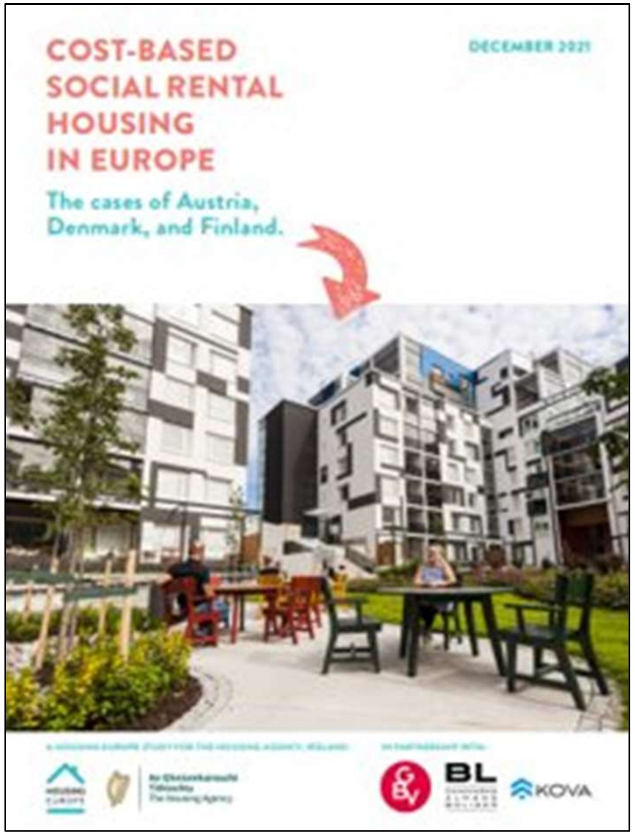
Tools to Tame the Number of Financial Circuits

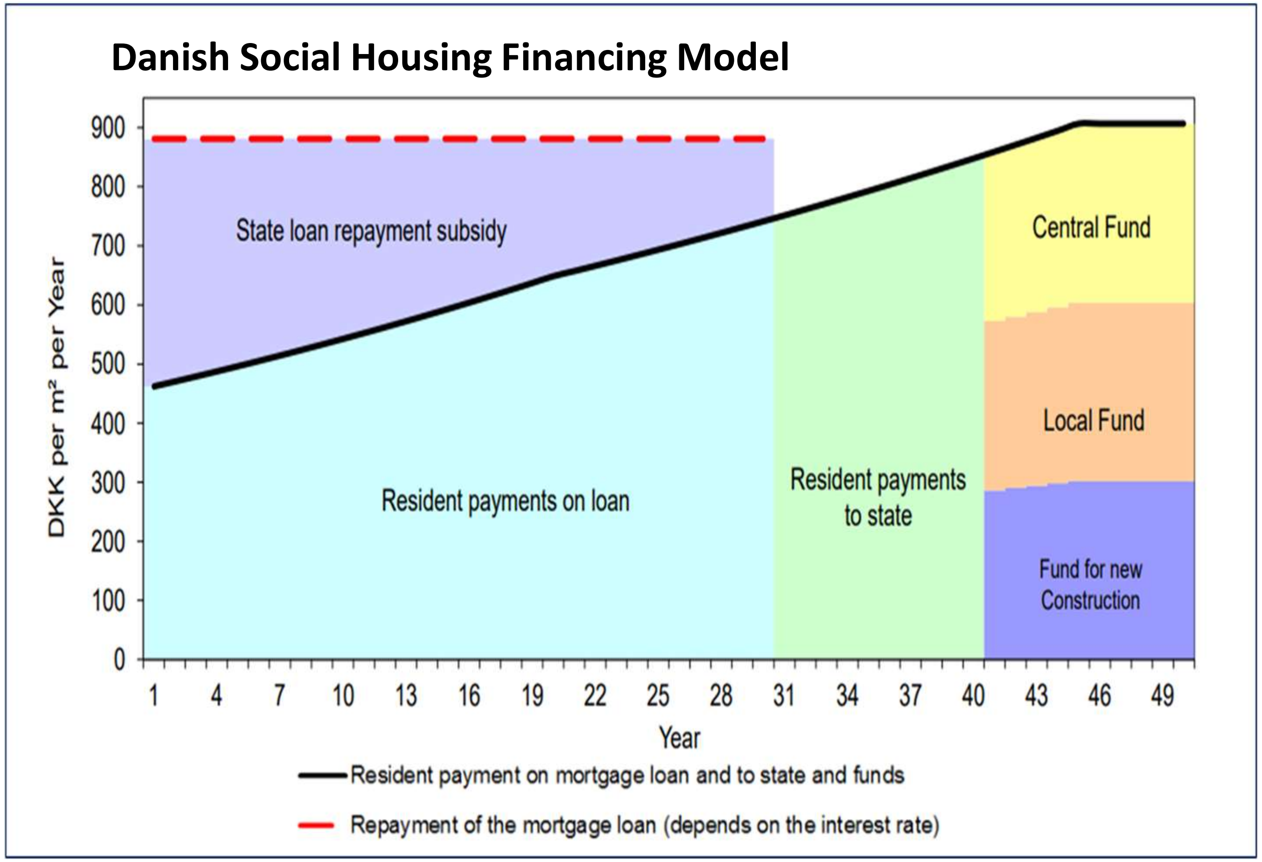
- Supporting the right financial circuits – creating more space for 'purposeful circuits' which support social priorities
- Supporting housing supply not inflating demand
- Disabling circuits of finance that do harm
- Discouraging speculative investment
- Stronger support for and regulation of non-profit finance and housing

Applying Tools to Shape the Number of Financial Circuits - ESG (Environmental. Social, Governance) Investing

- Enormous interest in the potential of ESG investing.
- Most activity is focused on attracting private finance into environmental projects, but interest in social housing investing is growing too.
- EU taxonomy - classification system of “environmentally sustainable economic activities” - will be extended to include social activities, including social housing.
- Bond finance commonly raised for social housing by public investment banks and social landlords
- Far less common is impact investing where recipients of finance must achieve specific social objectives

Applying Tools to Shape the Number of Financial Circuits - Financing Affordable Housing



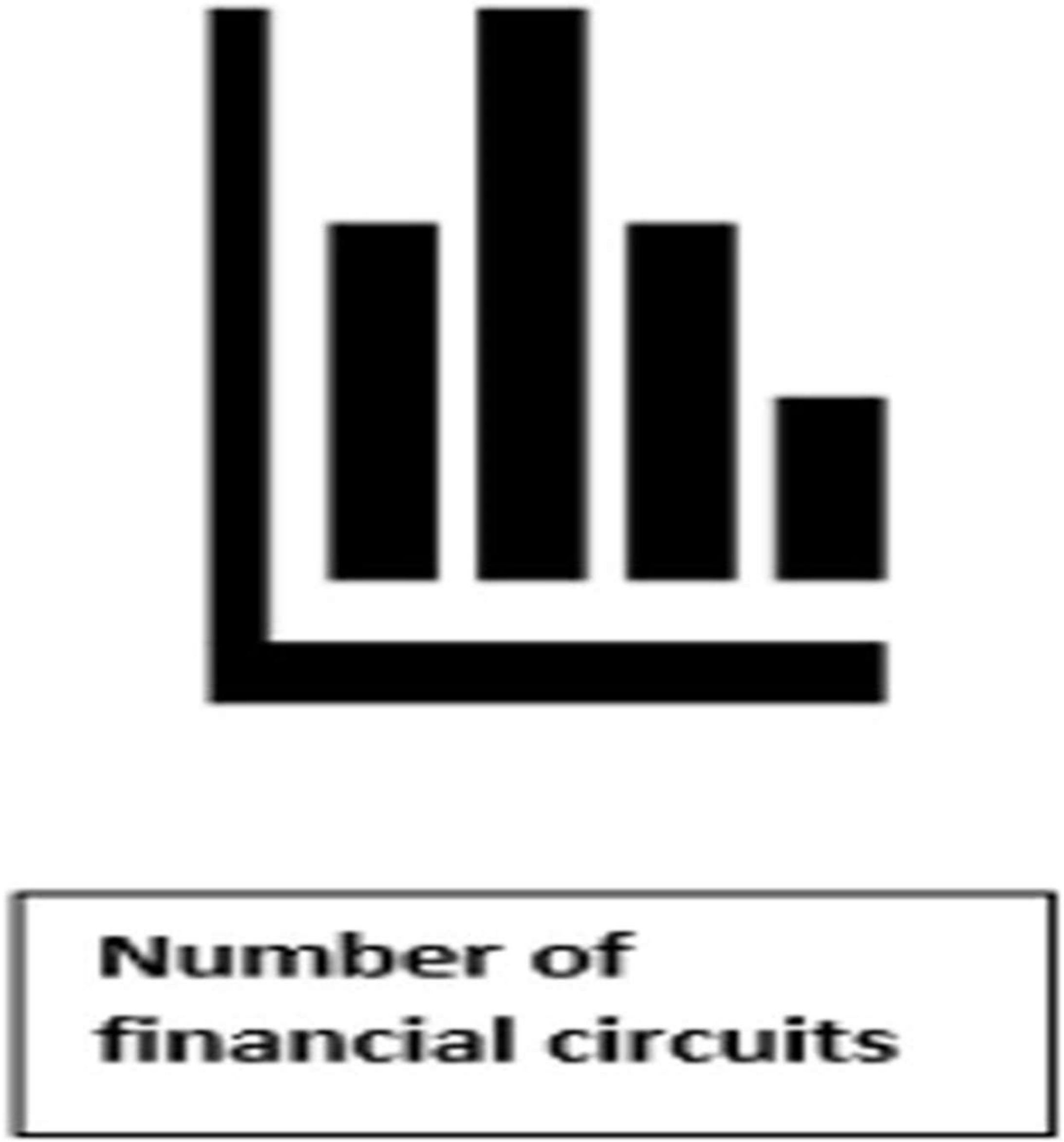


Applying Tools to Tame the Number of Financial Circuits - Regulating Real Estate Platforms

- Crommelin et al's, (2018) review of responses taken by eleven cities identified three approaches:
- Permissive regimes which enable short-term letting (e.g., London, Phoenix, Melbourne, and Sydney).
- Notification systems (e.g., Amsterdam and Paris) which regulate and restrict the short-term letting.
- Prohibitive regimes which prevent short-term letting (e.g., Barcelona, Berlin, New York, and Hong Kong).

But:

- Very limited and ineffective intervention to disable harmful circuits of finance
- Fewer non profit circuits of finance exist now than in the past
- In most European countries government capital spending on social housing is much lower now than in the past.
- Revolving funds for social housing are often undermined by privatisation – sales of dwellings to tenants and private investors
- Potential for greenwashing/ socialwashing in ESG investing.
- Could private finance undermine social housing landlords' social mission?



Tools to Tame the Cost of Financial Circuits

- Finance is often cheaper for investors than for households and social housing providers
  - Encourages speculation and investment in expensive housing
  - Reduces affordability and availability of affordable housing
- Tax policy can play help to even out these imbalances
- However, tax policy subsidies often benefit higher income households and increasingly, investors
- Tax expenditures on housing are a major cost to governments
- Government subsidies such as interest subsidies, guarantees and grants can reduce the cost of social housing finance,
- Demand side mechanisms to reduce the cost of housing for households such as rent complements can be inflationary and thereby counterproductive

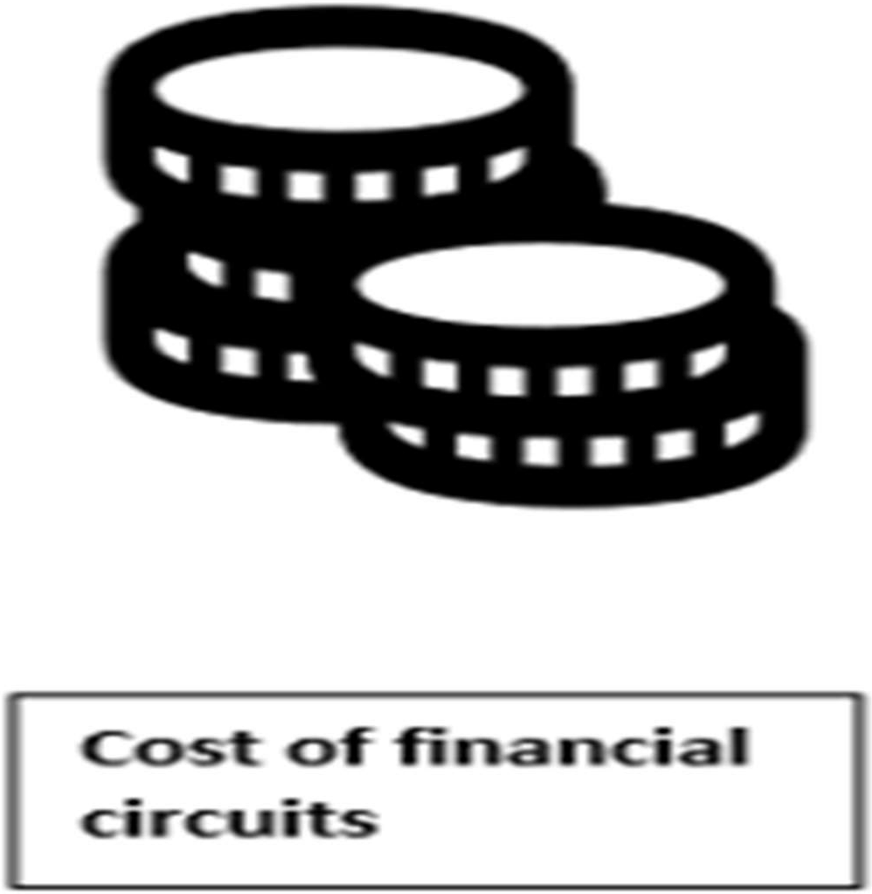
Applying Tools to Shape the Cost of Financial Circuits - using tax to support fairer outcomes

- Social housing landlords are usually non profit making an therefore tax exempt
- Low Income Housing Tax Credits in the USA
- France and Vancouver's taxes on empty homes
- New Zealand's Bright Line policy
- Netherlands aims to prevent speculative investment, requires owners to occupy in specific area and segments
- Reduction or withdrawal or mortgage interest tax relief (MITR) In the UK, Belgium, Ireland, and Australia.
- MITR has been reduced more modestly in Estonia, the Netherlands, Finland, and Slovakia

https://www.rotterdam.nl/wonen-leven/opkoopbescherming/

But:

- Many proposals to reform taxation of housing have been made but limited action has been taken in practice
- Policy action focuses overwhelmingly on the taxation of households – very limited action on the taxation of institutional investors
- Action taken is often at city or regional level, very little policy action at national and international government level.
- Demand side subsidies for housing have expanded significantly over decades, while supply side subsidies for social and affordable housing have contracted,



Thank you for listening!

If you are interested in learning more check out the Housing 2030 website.

Here you can read about examples of good practice and read the UN published report – *#Housing2030: Effective policies for affordable housing in the UNECE region*

And you can listen to out podcast series sten to out podcast series Tools to tame Financialization throughout 2022

Our read our open access article entitled ‘Tools to Tame Financialisation of Housing’ published in the journal New Political Economy in 2022