“New Landlordism”: Vulture Funds Plan to Use the Pandemic to Pillage the Global Economy

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*There’s a new app with a tagline that promises that you, too, can ‘profit like a landlord from just £1 with no effort’.*Proptee, set to launch this year (subject to approval from the UK’s Financial Conduct Authority) allows anyone with, say, five grand to buy shares in a buy-to-let flat in London worth half a million. In return, you receive a slice of its tenants’ monthly rent—here about one percent—with the promise you can cash-out your investment as the value rises.

‘We’re building a stock exchange for properties that lives on your smartphone and combines the high yields and low risk of property investing with the high liquidity of a stock exchange,’ explains 24-year-old cofounder Benedek Toth.

Proptee shows just how far the logic of Wall Street has infiltrated housing across the US and Europe since the Global Financial Crisis, before which most private landlords remained conventional, small-scale operations, with a handful of properties at most. But after the US housing market crashed in 2007, a few Wall Street investment firms cracked the code for how to turn homes into a tradeable asset class worth billions.

A handful of giants led by private equity firm Blackstone were the frontrunners, snapping up single-family houses in US foreclosure auctions and apartments in firesales launched by Europe’s right-wing governments, as EU-imposed austerity measures forced cities like Madrid to sell off social housing for pennies on the dollar.

Scooping up whole suburbs of distressed homes on both sides of the Atlantic, Blackstone became the world’s largest landlord in a matter of years. First, it set up various rental companies—Invitation Homes in the US, or Fidere in Spain—before selling off shares in these companies to other investors or packaging together thousands of tenants’ rental income into obscure financial products.

While Proptee offers you a share of one house’s rent, private equity sold investors the chance to get their hands on thousands of homes’ rent cheques bundled up together. For Blackstone, it paid off, as wealthy backers poured billions into these schemes: the $88.4 billion of investor capital it held at the time of the 2007 crash has today ballooned to $619 billion, and is rising.

The New Landlordism

In 2021, the template these firms drew up is being put to work by every cash-rich copycat, ranging from 'PropTech' apps like Proptee to pension providers Legal & General (who got planning permission for more than 6,000 new-build UK homes during lockdown), new for-profit social landlords like the UK's Sage Housing group (also owned by Blackstone), and even philanthropic institutions like Swedish multinational Akelius.

Raquel Rolnik, the former United Nations' Rapporteur for adequate housing, says the ever-broadening gallery of financial actors and products means the coming fallout for housing and homelessness will be truly global, and further impacts will be 'complex, abstract, and invisible'. By phone from Brazil, she says: 'I think we are living through a new wave of the financialisation of housing.'

Years of historically low—or even negative—interest rates set by the European Central Bank and the US Federal Reserve have allowed investors to borrow cash cheaply, ploughing capital into housing markets, which have offered safe and reliable returns. The imminent post-pandemic recession, in which many investments will offer scant returns, is expected to further intensify this trend.

The last decade offers a grim lesson in what the consequences could look like. The raid by private equity after the 2007 crash meant prospective homeowners' hopes of getting a cheap foot on the ladder vanished, as Wall Street agents outbid young families. In the recovery years after past recessions, first-time buyers rose with the housing market, but from 2010, the entire wealth uplift was captured by financial actors, according to research by Georgia State University.

Yet renters were harder hit, squeezed by their new corporate landlords whose mission it was to maximise investor returns by hiking rents and cutting maintenance costs, becoming both brutal and absent landlords in the process. Former UN housing expert Leilani Farha has ridden to the fore, accusing Blackstone of human rights violations (claims that Blackstone has disputed, at length).

One favourite tactic is 'renoviction': to launch a series of surface-layer modernisations of apartment blocks that allow investors to skirt tenants' protections, evict residents, and gentrify neighbourhoods at speed. The upshot of their investment is renters left in harsher, more precarious tenancies, and an accelerated hollowing-out of working-class communities.

The clearest effect of corporate landlordism is on the worst-off, whose options for finding secure homes have been closed, says Rolnik. 'Look at the rate of evictions and the level of homelessness in the place where those actors are very powerful and exert almost a monopoly [power] on the rental housing sector.'

In one such city, Atlanta, Georgia, which private equity firms targeted after the subprime mortgage crash, an academic study found that big corporate landlords like private equity-backed Invitation Homes and American Homes 4 Rent and were up to three times as likely to evict tenants than 'mom-and-pop' landlords, with some corporate landlords evicting one-third of its tenants in the space of a year.

In spite of competition from new investor models and rival funds, these private equity giants—vulture firms who specialise in profiting from cycles of bust and boom—remain among the most powerful and predatory investors circling this crisis.

Although no one saw Covid coming, private equity had nevertheless prepared for an economic slowdown in 2020, raising nearly $2.5 trillion in 'dry powder' – cash banked from investors but unspent when economies began closing down. This is a near-unfathomable war chest, exceeding the GDP of Italy, with which to pillage the global economy.

The Beds Sector

Wall Street's encroachment into housing, through subprime lending and CDOs, triggered the Global Financial Crisis. However, the lesson learned by its perpetrators was not to retreat but, instead, to go further. The investor orthodoxy now says that during the last recession they were *not aggressive enough*, missing opportunities to buy bottomed-out property by erring during the worst days of the crisis.

Wall Street's '$60 Billion Housing Grab' after 2008, reported by the *New York Times*, is set to be dwarfed by 2021's, with $328 billion in 'dry powder' earmarked to spend on real estate worldwide, according to estimates by financial data provider Preqin. They are still raising further multi-billion-dollar rounds as the crisis deepens.

Any thought that private equity was losing interest in the model it created, amid rising competition, has been dispelled by Blackstone's $550m swoop for a series of US trailer parks, according to Desiree Fields, an academic from University of California, Berkeley, who has studied these firms in Europe and the US.

But there is a time lag between crisis and acquisitions, as investors figure out where the bottom of the market is before paying out for homes, says Fields. 'They are waiting and waiting for the real distress to hit in residential real estate, and we haven't quite seen that yet.'

But we're starting to. Since the lowest depths of the Covid crisis, investment firms Axa and QuadReal Property have spent over £1 billion buying more than 2,500 homes in the UK alone.

A Safe Bet

Commercial properties—including offices, shops, and hotels—have traditionally been staple private equity investments, but have been hammered as cities emptied out during lockdown. But in residential investment, the general gloom hanging over the economy is nonexistent. In both the US and UK, more than 94 percent of apartments remain filled, according to analysts JLL, partly due to state income support.

Investors have splintered their interests across what they now refer to collectively as 'living sectors' or 'the beds sector': snapping up student halls, serviced apartments, and turnkey homes in the surging build-to-rent sector.

Across Europe, residential investment makes up a growing share of real estate investing, according to investment firm CBRE, which predicts its best-ever year in 2021: 'Because of its resilience and robust long-term fundamentals, we expect investment into the beds sector to reach record levels in 2021, and account for a growing proportion of total real estate investment.'

The newer arrival of insurance firms and amateur speculators is down to the fact that homes are no longer seen as risky. Once considered a tricky investment to capitalise—made difficult by laws that protect tenants' rights and the difficulty of managing thousands of renters—today, they're increasingly viewed as a safe haven in a storm.

In fact, investors' biggest headache is the lack of easy ways to snap up homes at scale, forcing them into imaginative new tactics: snatching up new builds in off-market deals, pursuing high-density schemes like co-living to squeeze the maximum rent per square metre, and, wherever possible, converting social housing to high-end condos.

Perhaps most significantly, it has led them to expand their sights outside usual hunting grounds in global cities like London, with Land Registry data showing corporate landlords now appearing in every secondary city, suburb, and commuter town from Blackburn to Banbury.

An accompanying industry of middlemen has sprung up to grease the wheels. In Ireland, where 95 percent of new apartments are sold to institutional investors, specialist buyers call it 'pepper potting': agents buy individual homes on the private market to assemble packages of property for big investors. Similar agents in Amsterdam and Rotterdam recently bought up €200 million in homes, with one telling newspaper *Het Financieele Dagblad* that it was the first time they had seen such a raid.

Hordes of PropTech start-ups are promising to expedite the process. While Blackstone in 2008 was among the first to use big data to identify homes to snap up, today any small-time investor has similar tools, allowing them to build a rental portfolio on an iPhone app.

These include the London-based IMMO, which 'digitally sources, appraises and acquires centrally located properties at scale on behalf of institutional investors', and raised €72m venture capitalist funding last year. Proptee is just one further offshoot, duplicating the commissions-free investing model of the Robinhood app that drove amateur investors' boom-and-bust cycle of bets on US retailer GameStop in January.

Beneath it all, the 'long-term fundamentals' on which this is all rests are, effectively, the secure knowledge that the chronic under-supply of housing will continue, keeping property values and rents high. Where rents have seen short-term falls, as in London currently, it will be smaller landlords feeling the pain, not institutions, whose diversified portfolios and deep cash reserves make it easier to leave apartments empty rather than negotiate lowered rents.

In the UK, as mega-investors have made clear, Brexit was no big problem, and they remain bullish on British property. The only political event that caused a pause was the 2019 General Election – the rare threat that a left-wing government might truly deflate a housing market running hot for decades, and take measures to fix the housing crisis.

That's passed now, and investors can rest assured that the government will not jeopardise their business model. 'I think the election was helpful for clarity,' Blackstone's president Jon Gray told Bloomberg.

Hitting Tenants the Hardest

For all that is different about this crisis from the last, the response from politicians remains one predictable factor, says Rolnik. Conferences already organised by the World Bank and the Inter-American Development Bank promote ways that policymakers can liberalise their rental sectors to welcome investment in global finance, and policy deregulation and new rafts of legal instruments like Real Estate Investment Trusts usually follow soon after. 'We have seen this movie. We have seen this movie several times,' she adds.

The dubious promise made by apps like Proptee is that the speculative tools that have made Wall Street billions can trickle down to others. The new tools of housing financialisation recognise that becoming a member of the rentier class allows investors to thrive, without effort, as the market has risen and fallen, while the majority, who work for a living, face ruin.

Yet owning a fragment of someone else's home is a poor substitute for the stability that comes from having a home of your own, not least in a pandemic. More, even, than GameStop's wild ride, it makes clear that Wall Street's tactics ultimately offer only greater precarity. Even those who might make a buck off this fresh wave of financialisation are now largely locked out of homeownership – in part due to those same techniques.

For tenants, the upshot will be counted in rent-gouging, overcrowding, and homelessness. 'We need absolutely to reform the whole logic of housing being, more than anything, a financial asset,' says Rolnik. 'Cutting out the links between financial actors and housing: it's quite the opposite of what has been done throughout the last crisis.'

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