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The financialization of housing and the growth of the private rental sector in Ireland, the UK and Spain

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Introduction

The rented sector in many western European countries experienced long term decline during much of the twentieth century. Most analysts agree that this was caused by sustained government intervention in housing systems in the post-war period followed by a more financialized and neoliberal promotion of homeownership from the 1980s. This trajectory culminated in the global housing bubble of the 2000s. There were many unexpected outcomes of that period, not least the global financial crisis and recession from which we are still recovering. But perhaps the most unexpected, and the most paradoxical, is the fact that several decades in which government and market forces coalesced around the promotion of homeownership appear to have undermined access to homeownership and triggered a resurgence of renting.

The significance of this transformation, although it is at an early stage, is difficult to overstate. The 'homeownership society' represented a fundamental set of social, political and economic institutions central to many phenomena of interest to social scientists (Roland, 2008). As well as revolutionising the provision and experience of housing, homeownership played an important role at a variety of levels. It shaped the business model of the property and financial sectors, underpinned the emergence of middle-class cultures and identities and fed into mass consumerism (Roland, 2008; Forrest and Hirayama, 2015). It should come as no surprise, then, that 'generation rent' has proved such a consistent focus of attention and concern for the media, politicians and policy debates over recent years.

The aim of this article is to contribute to the literature that seeks to explain the decline of homeownership and the growth of the private rental sector. There is a small but important body of work addressing this issue which provides valuable insights. Within housing studies, this literature has focused on the UK experience. This article also addresses that experience, but takes a comparative approach by examining the common tendencies and divergent experiences in Spain and Ireland too. Each of these three countries are quintessential homeowner societies. Moreover, from the late 1980s all three countries experienced a sort of convergence around a neoliberalized and financialized version of the 'homeownership society'.

As financialized homeowner societies, the UK, Ireland and Spain were at the forefront of the global property bubble. They experienced exceptional levels of house price increases, credit growth and (in the case of Ireland and Spain) house building. In each case the national financial system became heavily integrated into the housing and property system. As such, they were extremely vulnerable to financial sector turbulence and a housing bust. From 2008, all three have experienced, to a greater or lesser degree, house price decreases, mortgage arrears and 'distressed debt', and disruption within their respective financial systems. Most importantly, for the purpose of the present article, they have also been the countries in which the rise of 'generation rent' has been most prominent in the wake of the financial and housing crisis. Ireland, the UK and Spain thus make possible a useful comparison in terms of identifying common processes which allow us to analyse and explain the decline of homeownership and the rise of renting. However, they are also characterized by variation in terms of their national financial systems and mortgage markets and their national housing policy regimes. These, as we shall see below, prove decisive in understanding the *specific form* taken by the general tendency towards the growth of private renting in each country.

Drawing on evidence from the case study countries, this article argues that in each case the process of financialization, operating at national and local scales, interacted with national policy regimes to eventually undermine homeownership. As such, in order to understand the current growth of the private rental sector we need to first understand how homeownership was undermined, if often invisibly, through the years of the global bubble and in its aftermath. At the heart of this is how credit availability creates what I call an 'affordability gap' which, sooner or later, makes the expansion of homeownership unsustainable. Moreover, excessive credit inevitably leads to credit contraction when boom turns to bust, ensuring that access to homeownership is further undermined once the inevitable crash comes. It is thus the power of credit to *accentuate and intensify housing market cycles* that must be at the heart of how we understand the emergence of 'generation rent'. As mentioned, however, this plays out in different ways in different contexts. What shapes these varying experiences, I argue, is the way in which the national financial system, especially the mortgage market, is integrated into the global financial system, and the ways in which both systems are mediated by national policy regimes. In short, if the global process of financialization increases the overall intensity of capital flows and the volume of available credit, national features of financial systems and housing policy determine how much of that credit will flow into a housing system and in what form.

The paper begins by developing an analytic framework that integrates the key insights from the literatures on financialization (primarily from economic geography and political economy) and from housing studies. The paper then goes on to analyse the 'rise and fall of homeownership' during both the 'boom' and 'bust' periods in Ireland, the UK and Spain.

Financialization and housing system change

Financialization has been defined as "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 households" (Aalbers quoted in Wijburg and Aalbers, 2017: 2). At the most immediate level, the sheer scale of the financial system has increased dramatically since the 1970s, particularly when compared with the so-called real economy (Krippner, 2005). From the point of view of real estate and urban development, the principal impact of this macro-economic process has been the growth of credit availability for real estate development, commercial and investment finance, and housing. Housing and real estate have formed a key avenue through which the expansion of the financial system has taken place, providing an 'outlet' for credit growth (Aalbers, 2016). Research within political economy has highlighted two particularly important examples of this in recent decades, both of which played a central role in the financial crisis. In the US context, Mortgage Backed Securities (and derivative products linked to them) transformed revenue streams form mortgaged households into globally tradeable assets and this played a crucial role in credit growth during the 2000s (Blackburn, 2011). In the Eurozone, the flow of capital between European countries underpinned the expansion of private credit in the peripheral European countries, and the bulk of this was targeted at the real estate sector (O Riain, 2014). In both cases, deregulation and financial liberalisation since the late 1980s and the 1990s facilitated the expansion of cross-border capital flows and the growth of private credit more generally (Kelly, 2014).

For example, in Ireland lending for the construction and real estate sector growing from €5.5 billion in 1999 to €96.2 billion in 2007. Outstanding residential loans rose by 281 per cent (from 31.6 to 69.8 per cent of GDP) between 2000 and 2006 and between 60 per cent and 70 per cent of all bank lending went to real estate (Ó Riain, 2014). This was primarily funded through inter-bank lending from European banks; Irish banks' net borrowing from abroad went from 10 per cent of GDP to 60 per cent of GDP between 1999 and 2007 (Ó Riain, 2014). Similarly, in Spain outstanding residential loans expanded by 204 per cent between 2000 and 2006, made possible, once again, by Eurozone integration and access to inter-bank lending, as well as the intensive use of secuirtisation (Norris and Byrne, 2015).

From a housing perspective, research has focused on the role played by mortgage markets in this. In numerous countries, including those under examination here, mortgage markets expanded dramatically during the late 1990s and particularly the 2000s, and this expansion took place primarily via a generalized deterioration of credit standards. This includes higher ‘loan to value’ and ‘loan to income’ ratios and longer maturities (Downey, 2014; Turner, 2017). In some jurisdictions it also took the form of dedicated subprime sectors (as in the US, see Immergluck, 2011) or the adoption of subprime like practices by mainstream lenders (as in Spain, see Palomera, 2014).

The literature on financialization has also provided important insights for understanding the post-crash context. Since 2008, the ‘virtuous cycle’ involving credit growth, house price increases and economic growth rapidly turned into a vicious cycle. The post-crash context has been characterized by a massive ‘debt overhang’ and the proliferation of distressed or non-performing loans linked to real estate, all of which has depressed house prices and constrained new lending (Turner, 2017). In attempting to confront the problem of distressed assets, the financial system has engaged in a process of deleveraging, i.e. selling distressed assets (Beswick et al, 2016). Much of this has been directly driven by governments through ‘bad banks’ and other financial interventions, and the ‘winners’ have been the financial institutions, especially private equity firms, hedge funds and Real Estate Investment Trusts who have been able to buy up cheap real estate in the process (Byrne, 2016b). In terms of housing, mortgage arrears levels grew dramatically after the crisis (Waldron and Redmond, 2014) and in some cases mass evictions and foreclosures have occurred (such as the US and Spain, see García-Lamarca and Kaika, 2016).

Research on the financialization of housing thus emphasizes the fundamental role played by the relationship between housing and credit during the boom and bust. Housing markets make credit growth possible (or, rather, are one of the ways it becomes possible) and credit in turn transforms housing markets. Most notably, *financialization intensifies the cyclical nature of property markets*. Housing markets have long been understood as cyclical (Turner, 2017), but abundant credit tends to compound this cyclicality by turbo-charging demand and thus prices during a housing boom. Likewise, when the crash comes, non-performing loans proliferate and a debt overhang emerges causing credit to contract, which will cause access to mortgage credit and house prices to plummet (Turner, 2017). This intensification of cyclicality is crucial, as argued below, to the decline of homeownership and the rise of ‘generation rent’.

There are, however, limitations to the literature on financialization, particularly with regard to explaining the decline of homeownership and the rise of renting (Kemp, 2015). This is perhaps not surprising given that the literature typically focuses on the role of homeownership and mortgage markets in the process of financialization. There are, however, notable exceptions, such as the work of

Desiree Fields (2015), which highlights the financialization of the private rental sector in the post-crisis context. This research looks at how financial institutions, in particular 'vulture funds' and REITs, are taking advantage of the crisis conditions that have pertained for the last decade to become powerful landlords in numerous countries.

I draw on insights from this research in examining the role of institutional investors in the growth of the private rental sector in the post-crisis context. However, as we shall see in the case of the UK and Ireland at least, the majority of investment in the rental sector, even since 2008, has come from small scale household investors rather than financial institutions. More generally, a wider lens is required to fully account for this growth, one which takes into account the myriad of factors which shape housing system transformation. In this regard, a recent body of literature has emerged in the field of housing studies focusing on the UK experience (Roland and Kadi, 2017; Kemp, 2015; Sprigings, 2013) and, to a lesser extent, on the cross-national experience (Forrest and Hirayama, 2015). This literature is principally concerned with the factors undermining homeownership and, most importantly, the significance of this for housing systems, economies and societies.

Here a wide set of factors have been identified which help to explain how housing systems have changed during the boom and bust, many of which are discussed in greater detail below. These include: the ratio between house price growth and income growth during the bubble (Kemp, 2015), and the consequent affordability issues; the emergence of specialised 'buy to let' mortgage products facilitating landlord investment (Leyshon and French, 2009); the deregulation of the private rental sector (Kemp, 2015); the decline or residualisation of social housing (Sprigings, 2013); restricted access to mortgage credit since 2008 (Ronald and Kadi, 2017; Forrest and Hirayama, 2015); and declining employment, income and job security (Kemp, 2015). This literature thus suggests that understanding 'generation rent' requires a perspective which brings together processes within the financial system (such as changes in mortgage issuing and credit standards), national housing policy (such as deregulation of the rental sector) and housing demand (which is primarily driven by the 'real economy', e.g. employment and income).

At a more theoretical level, Forrest and Hirayama (2015) argue that the decline in homeownership and the rise in renting is a consequences of *internal contradictions* within neoliberalized homeownership. In the post-war era the expansion of homeownership was based on significant state intervention in the form of direct state house building, the provision of mortgage finance by state bodies, the subsidisation of mortgage providers (such as Building Societies) and tax reliefs and grants for homeowners (Forrest and Hirayama, 2015; see also Norris, 2016). This was an ‘inclusive political agenda’ (Forrest and Hirayama, 2015: 238) which incorporated a wide section of society into homeownership as part of a post-war political or class compromise. Under neoliberalism, however, state supports for homeownership, particularly the financing thereof, have been withdrawn and the private market has stepped in, a process which is very much bound up with financialization (Forrest and Hirayama, 2015; see also Norris and Byrne, forthcoming). This represents an ‘unapologetically exclusive’ political agenda (Forrest and Hirayama, 2015: 238) under which the ‘relentless logic of commodification has served to undermine a key element of the social cement of contemporary capitalist societies: homeownership’ (Forrest and Hirayama, 2015: 234). Rather than the state supported widening of access to homeownership, neoliberalism results in a concentration of property ownership among wealthier households, who draw on existing housing wealth and may acquire additional properties as landlords (Forrest and Hirayama, 2015; see also Roland and Kadi, 2017).

This article builds on Forrest and Hirayama’s (2015) work. However, while their research focuses on a number of traditional homeowner societies, such as the UK, Japan and Australia, this research focuses on societies particularly impacted by the financial crisis, which, as shown below, sheds new insights. Moreover, rather than focusing on the contradictions of neoliberal homeownership, the evidence and analysis presented below suggests the key role played by credit in both the boom and bust in undermining homeownership and hence the resurgence of renting. It is the role of credit in undermining access to homeownership and driving housing system volatility which, I argue, best explains the rise of ‘generation rent’. This article thus integrates insights from the literature on financialization, with its emphasis on credit, with a housing studies perspective that pays attention to how diverse sets of processes combine to shape housing system transformation. The analytical framework employed here thus focuses on how the global financial system (credit availability), national level financial dynamics (mortgage markets), housing policy and housing demand have interacted over the past two decades.

Financialization, the rise and fall of homeownership and the global property bubble

The Irish bubble and the paradoxical decline of a homeownership society

The Irish housing boom and bust has been analysed in a wide variety of research (e.g. Norris and Coates, 2014; O Riain, 2014). What is most important for our purposes, is to examine how the nature of the Irish housing system as one characterised by homeownership has changed over the last number of decades. In this regard, while the Irish boom did involve a rapid expansion of mortgage credit, it did not represent a sharp turn in the housing system. Rather, it was characterised by the financialization and intensification of a pre-existing emphasis on homeownership (Norris and Byrne, forthcoming). The Irish state has, since its foundation, provided a myriad of interventions to ensure high homeownership rates (Norris, 2016). These included direct public construction for the homeownership sector, grants and tax relief, the public provision of mortgage finance, especially to low and middle-income households, and an expansive tenant purchase programme for social housing residents (Norris, 2016). In the late 1980s most of the direct homeownership supports were withdrawn or substantially reduced during a series of austerity budgets (Norris, 2016). Public provision of mortgage credit, public construction of dwellings and grants and tax reliefs became very minor parts of Irish housing policy (Norris, 2016). Funding for social housing was reduced and the sector became highly residualized (Byrne and Norris, 2018). However, the impact of these changes was masked by the wave of credit from the late-1990s, referred to above, and mortgage issuing by private banks expanded rapidly (McCabe, 2011). As such, homeownership remained relatively stable from its high of 80 per cent in 1991 to 2001. The early period of financialization in Ireland, thus, made possible above all the *continuation* of the already extremely high rate of homeownership in spite of the withdrawal of the key government supports for the sector (Norris, 2016).

As the property bubble reached its peak in the mid-2000s, however, growing homeownership gave way to a resurgence in the rental sector. Census data shows that homeownership declined between 2002 and 2006 - from 79.7 to 77.2 per cent of households. However, the most intense period of change came between 2006 and 2011, when the private rented sector expanded from 11.2 to 18.6 per cent of households and owner occupation from 77.2 per cent to 70.8 per cent (CSO, various years). Housing affordability played an important factor here. Although, as Downey (2014) notes, loan-to-value, loan-to-income and mortgage maturities grew throughout the period, the gulf that opened up between wage growth and house price growth inevitably led to affordability issues. In the third quarter of

1995 the average price of a second-hand house was 4.1 times the average industrial wage. By the second quarter of 2007 second-hand house prices had risen to 11.9 times the average industrial wage (McCabe, 2011). Unlike the US, Ireland did not experience a 'sub-prime' sector of any scale[1]. As such, a growing proportion of low-income households were left behind by the 'homeownership dream' and became a new generation of renters. The 'Celtic tiger' years also saw a rise in the proportion of younger households and significant net immigration, which also added to the growing share of households privately renting.

The relationship between affordability and access to credit was a key issue in the erosion of homeownership. However, there are also 'supply side' factors at play here with regard to investment in the private rented sector, relating in particular to national housing policy and mortgage markets. In the mid-1980s rent controls were discontinued following a court case which found them unconstitutional. The Irish rental sector was virtually unregulated until the introduction of the Residential Tenancies Act in 2004. Even after that date, it can be considered one of the most poorly regulated rental sectors in Western Europe in terms of rent setting and security of tenure. A poorly regulated sector, with little or no limit on rental growth, made for an investment that was both attractive and required little knowledge or institutional capacity for the investor. This meant that ordinary households with cash to spare or equity in their own home or other properties came to see the rental sector as a viable avenue for cashing in on the property bubble.

As in the UK, discussed below, access to credit for such households played a key role in facilitating a new wave of investment in the private rented sector and indeed in sustaining the housing boom. The introduction of Buy-to-Let mortgages in the early 2000s was key to this. The proportion of outstanding mortgages held by homeowners fell by 6.7 between 2004 and 2006, while the proportion held by landlords expanded by 6.3 per cent concurrently (Norris and Coates, 2014). What this suggests is that BTL investors piled into the housing bubble thus driving house prices beyond the reach of first-time-buyers.

[1] This is not to say that there was not a deterioration in credit standards in Ireland, but that mainstream banks in Ireland did not target extremely economically vulnerable populations, such as migrants from the global south, in the same way as Spanish banks did (Norris and Byrne, 2015).

The UK bubble: from homeownership society to generation rent

The UK's housing system experienced a similar set of dynamics to those described in Ireland, although with a less extreme boom/bust cycle. Between 1997 – 2007 UK house prices were among fastest growing in Europe (Kuenzel and Bjornbak, 2008) and average nominal house price tripled between 1998 and 2007 (Kuenzel and Bjornbak, 2008). The house price bubble was also strongly correlated with credit growth and financial deregulation (Whitehead and Williams, 2011).

For much of the latter half of the twentieth century the private rented sector experienced in what appeared to be an irreversible decline (Kemp, 2015). Post-war UK housing policy revolutionized housing through investment in social housing as well as supports for homeownership (Ball, 1983; Malpass, 2005; Roland, 2008). The 1980s was, however, a period of radical change. Most famously, through Thatcher's 'right to buy' policy, the process of residualizing the social housing sector began and homeownership became the tenure of choice in terms of government policy (Kuenzel and Bjornbak, 2008). The rental sector underwent radical deregulation in the form of the 1988 Housing Act which deregulated rent setting and weakened security of tenure by introducing shorter tenancy periods. In practice this has meant tenancy periods of six months or one year are the norm (Kemp, 2015). In consequence, the private rented sector began to grow, if modestly, in the 1990s, from around 9 per cent to 10 per cent of households (Kemp, 2015).

The remarkable house price increases referred to above were primarily driven by increases in mortgage credit. This was a result of significant credit market liberalisation from the 1980s (Kuenzel and Bjornbak, 2008; Sprigings, 2013) as well as higher LTVs and longer maturities in terms of mortgage products. Securitisation also played a role in increasing mortgage credit (Hay, 2009). As in Ireland, despite easier access to mortgage credit, the pace of house price increases inevitably led to an 'affordability gap' which pushed homeownership beyond the reach of many. Real income per household increased by 27 per cent between 1995 – 2007, while real house prices increased by 168 per cent (Kuenzel and Bjorbak, 2008). For FTBs, the ratio of house prices increased from 2.1 in 1995 to 5.4 in 2007 (Kemp, 2015). As Kemp (2015: 611) argues, 'as house prices surged out of the reach of many prospective FTBs, they had little choice but to rent from a private landlord' (Kemp, 2015: 611; see also Sprigings, 2013). In a pattern very similar to our above discussion of the Irish case, homeownership peaked in 2003 at 70.9 per cent of households, and declined to less than 67 per cent by 2010 (Whitehead and Williams, 2011; Corlett and Judge, 2017). Private renting increased by almost a third, from 10 per cent of households to 13 per cent between 1999 and 2007. The number of households renting privately in England increased by an average 1.4 per cent per annum during the 1990s; between 2000 and 2006 it increased to an average of 4.1 per cent per annum (Kemp, 2015).

The reduced role of social housing manifested particularly in the higher proportion of low income families renting privately (Corlett and Judge, 2017). A further factor on the demand side is that rent prices increased more or less in line with inflation throughout these years, in contrast to galloping house price increases (Kuenzel and Bjornbak, 2008). Innovations at the level of finance for landlords played a particularly important role (Sprigings, 2013; Leyshon and French, 2009). In the mid-1990s, specialised Buy to Let mortgages were introduced by credit providers, and these became enormously popular. In 2000, just 1 per cent of all mortgages were BTL. By the mid-2000s that figure stood at 10 per cent and in 2007 it was 12 per cent (Kemp, 2015).

As in Ireland, then, a two-pronged dynamic led to the shift from homeownership expansion to decline, arriving around the middle of the property bubble. On the one hand, house price increases brought about an affordability gap that halted the expansion of owner occupancy. On the other hand, rapid capital gains, a very poorly regulated rental sector, and the availability of specific finance products for landlords (BTL mortgages), meant that the demand for rental property created by the affordability gap could be met by a remarkable increase in small scale landlord investment. In both instances, landlord investment helped to sustain price increases in the years immediately preceding the crash, thus reinforcing the affordability gap.

The Spanish bubble: securitisation, subprimisation and the prolongation of the homeowner society

The Spanish housing bubble was remarkably similar to the Irish case described above (Norris and Byrne, 2015). There are, however, a number of differences, particularly with regard to housing policy and mortgage markets, which proved to have a decisive impact. The consequence of these differences is that, rather than at the peak of the boom, as in the Irish and UK cases, the 'tipping point' within the Spanish housing system occurred much later. Homeownership grew right up until the end of the bubble and it is only from the wreckage of that bubble that we have seen a remarkable growth of the private rented sector.

As in both of the other case studies, the Spanish rental sector had been in steady decline since the end of the Second World War. During the 1960s and 1970s, the state subsidized developers, allowing prices to be reduced significantly below the market rate. In addition, while private banks were largely absent from providing mortgages to the working class until the late-1980s, the Spanish Mortgage Bank, a public institution, fulfilled this role (Palomera, 2014). From the 1990s, Spain moved away from the direct financing of construction and mortgage loans and towards tax incentive and tax relief based measures to stimulate supply and demand. By 2003, it was estimated that tax deductions for property purchase and other supports represented between 20 per cent and 50 per cent of the total price paid by households (Palomera, 2014). Homeowner supports thus remained an important factor in Spanish housing policy to a much greater extent than in Ireland.

The rental sector's decline was also driven by very restrictive legislation dating back to the Urban Rent Law of 1946, which introduced rent freezes and indefinite leases, both of which undermined investment in the sector (Palomera, 2014; Pareja-Eastaway and Sánchez-Martínez, 2011). Although both of these measures were rescinded in the Boyer Decree of 1985, subsequent legislation introduced in 1994 established five year standard tenancy periods and pegged rent increases to the Consumer Price Index (Pareja-Eastaway and Sánchez-Martínez, 2011). In the wake of the financial crisis, the sector has been further deregulated (discussed below), but throughout the bubble period of the 2000s Spain's rental sector was comparatively better regulated than either the UK or Ireland. This regulatory environment made investment, particularly by non-professional, small-scale landlords, less attractive.

Taken together, these factors led to an exceptionally high homeownership rate of 80.7 per cent in 2001. However, unlike both Ireland and the UK, homeownership expanded throughout the property boom of the following 6 years. By 2007, on the eve of the financial crisis, 87 per cent of Spanish households were homeowners and just 7.6 per cent lived in the private rented sector (Palomera, 2014). The expansion of homeownership was certainly not based on increased housing affordability. Spanish house prices tripled between 1995 and 2007 and at the height of the property boom (2002-2006) house prices increased by 30 per cent annually. In 1997 the average house price was equivalent to four times the average annual gross salary, by 2007 it was nine times (Pareja-Eastaway and Sánchez-Martínez, 2017). Rather, deteriorating credit standards ensured an ever growing number of households could access homeownership. Outstanding residential loans expanded by 204 per cent in Spain between 2000 and 2006. In 2009, Spain was the country with the highest ratio of long-term household mortgage debt to disposable income in the world (García-Lamarca and Kaika, 2016). There are two interrelated factors which help us understand the specificity of the Spanish experience.

First of all, while credit standards deteriorated in all of the countries discussed in this chapter, in Spain there is a much clearer trend towards the 'subprimisation' of the housing market (García-Lamarca and Kaika, 2016). Unlike the US, this did not primarily take the form of a dedicated subprime industry, but rather the catastrophic decline in credit standards among mainstream mortgage providers (López and Rodríguez, 2011). The average maturity of mortgages increased from 10 to 28 years between 1990 and 2007 and the number of mortgages issued to lower-income groups rose as did mortgages issued to non-European migrants, particularly in the last phase of the boom (López and Rodríguez, 2011). During the most intense phase of the property bubble, between 2003 and 2007, approximately one million migrants from the global south were granted mortgages (Palomera, 2014). Research has documented the common use of 120 per cent mortgages, as well as spurious 'cross-guaranteeing' of mortgages (Palomera, 2014; García-Lamarca and Kaika, 2016).

Second of all, securitisation played a much more significant role in funding the Spanish mortgage bubble. Spanish securitisations account for almost half of all securitisations in the euro area (López and Rodríguez, 2011). They expanded by 65 per cent per annum during the 2000s and Spain's share of Eurozone mortgage covered bonds more than doubled between 2003 and 2007 (ECB, 2009). As is well known, given the process of securitization disperses credit risk away from the original mortgage provider (Blackburn, 2011), this is likely to have played a part in the suprimisation of the Spanish housing market.

As in the case of the UK and Ireland, an affordability gap was created as income to house price ratios increased throughout the early 2000s. Unlike those countries, however, Spain covered over this affordability gap in a more dramatic fashion. It was also more difficult for landlords to enter the market and the rental sector represented a less attractive investment than the other countries discussed here In all three cases, although particularly dramatic in Spain, the expansion of credit availability in the face of a growing affordability gap was entirely unsustainable and led to a series of post-crisis dynamics which further undermined homeownership, to which we can now turn.

The impact of the global financial crisis in Ireland, the UK and Spain

<u>Spain after the crisis: the collapse of homeownership and the delayed resurgence of renting</u>

The fact that the decline of homeownership in Spain was delayed until after the crisis has made it all the more dramatic. Indeed, while debates around declining homeownership have raised many concerns in both Ireland and the UK, in Spain it has reached tragic proportions. Spain's extended homeownership boom led to a massive wave of foreclosures and evictions due to mortgage arrears. Although estimates vary, well over 500,000 homes have been foreclosed upon (Gracía-Lamarca and Kaika, 2016). This has not only 'decanted' many former homeowners into the rental sector, but has further stoked demand for rental housing by generating negative associations with the risks of homeownership (García-Lamarca, forthcoming), especially for low and middle income households (Pareja-Eastaway and Sánchez-Martínez, 2011). This has coincided with, and in large part resulted from, the rise in unemployment and decline in incomes experienced throughout the crisis and indeed until today (García-Lamarca, forthcoming).

Changes at the level of housing policy have also played an important role in the post-crisis growth of the Spanish private rented sector. The rental sector has undergone significant deregulation through the Urban Letting Act of 2013. The tenancy period has been reduced from five to three years. Rent increases are no longer limited by the CPI, or any other index. Instead rent setting is 'negotiated' between tenants and landlords as a simple market exchange. The period after which a tenant can be evicted due to rent arrears has been substantially shortened ('express evictions') and, in a particularly punitive move, a register of 'rent defaulters' has been created (see Observatori DESC, 2013). Taken together, these represent a new departure for the Spanish rental sector, which now affords few protections to tenants and is much more favourable for investors.

Housing policy change has made investment more attractive. Combined with this the growth in rent, particularly since 2014, and the decline in property values, have led to high yields with regard to investment in the rental sector. This is a novel phenomenon in the Spanish context where yields have been historically low, and have only recently become attractive when benchmarked, for example, against government bonds (Pareja-Eastaway and Sánchez-Martínez, 2011). Investors have been quick to take advantage of this new set of circumstances. Importantly, this wave of investment has led by a new set of institutional investors, in particular REITs (known by the abbreviation SOCIMI in Spanish). For example, Blackstone, which is the world's largest private equity firm, has set up a Spanish REIT focused on rental housing. Despite being just a few years old, it owned 17,000 units in Spain at end 2017. Investment in the rental sector by financial institutions has also been driven by the process of deleveraging: as public and private financial institutions have sought to offload distressed property assets, international investors (often referred to as 'vulture funds'), have acquired vast swathes of housing at reduced prices (Byrne, 2016b; Beswick et al, 2016b).

The combined effect of these factors has seen a remarkable and unprecedented turn around in the tenure balance within Spain. The number of rented dwellings has increased by 51.1 per cent in a decade (2001-2011) (Pareja-Eastaway and Sánchez-Martínez, 2017). In terms of tenure change, the proportion of households in homeownership fell to 77.8% by 2016, and those renting privately rose to 13.8%[2].

Ireland after the crisis: the continued rise of the rental sector

The years since the crisis have solidified the set of dynamics which undermined homeownership and fuelled further growth in the rental sector in Ireland. As noted, the proportion of households renting privately has grown from 8.1 per cent in 1991 to 18.8 per cent in 2016. The vast majority of this growth occurred during the years associated with the peak of the boom and the crash; between 2006 and 2011 proportion of households renting rose from 11 per cent to 18.8 per cent. In Dublin this change has been even more pronounced as today almost one in four households are renting.

Mortgage arrears and repossession have been an important part of Ireland's post-crisis housing system. Despite the fact that credit standards did not deteriorate to the same extent as in Spain, they certainly did deteriorate, as mentioned above. The credit bonanza, combined with the rise of unemployment, declining incomes and an average decline in house prices of almost 50 per cent, inevitably led to very high levels of mortgages arrears: 14 per cent of homeowner mortgages were in arrears in March 2015 (Central Bank, various years). The outworking of this has been very different in Ireland when compared to Spain, however. To date the government has relied on forbearance to deal with this problem and repossession rates have been low compared to Spain (or another comparable country, the United States) (Waldron & Redmond, 2014).

The more immediate effect, however, has been that banks have focused on deleveraging and new mortgage issuing has declined rapidly. Difficulties in accessing mortgage credit have been further compounded by financial stability measures. The Irish Central Bank introduced new macro-prudential lending rules in 2015. These cap LTV ratios at 80 per cent for existing homeowners and 90 per cent for first time buyers. They also cap Loan to Income ratios at 3.5 times gross income.

[2] Source: Housing Statistics in the European Union

The difficulties in accessing credit discussed above would not have had such a dramatic impact on access to homeownership were it not for the rapid pace of house price increases in recent years. Since 2014 the Irish economy has experienced what is characterized, somewhat dubiously, as a recovery. Yet while GDP growth and employment growth have been strong, at least when compared to other western European economies, these have been very much outpaced by house prices, which have recovered nearly all the value lost during the recession and are close to hitting the levels last seen at the peak of the boom. Since 2013, prices have increased by 50 per cent, and are expected to continue increasing over the next number of years (McQuinn, 2017). Average weekly earnings increased by just 2 per cent between 2012 and 2017 (Nugent, 2018). High prices particularly disadvantage would-be first-time-buyers who have no existing housing wealth to draw on (McCartney, 2016; see also Nugent, 2018).

Housing policy, as in the case of Spain, has also played a clear role in the growth of the rental sector. The social housing sector, rather than acting in a counter-cyclical fashion to stabilise the impact of the difficulties in the private housing market, has instead compounded these difficulties (Norris and Byrne, 2018). Funding for social housing fell by 88 per cent between 2008 and 2014) and output fell from 7,588 units in 2008 to just 642 units in 2014 (Byrne and Norris, 2015). The move away from direct funding of social housing has been accompanied by an increasing emphasis on the subsidisation of tenants in the private rental sector. The most prominent scheme, known as 'rent supplement', housed just under 60,000 households in 2006. In 2011, in the wake of the crash, this had increased to almost 97,000[3]. This, of course, represents an enormous demand subsidy in the rental sector and thus a key part in the growth of tenancies and in investment in the sector.

There are also a number of tendencies in terms of investment dynamics that have driven the growth of the private rented sector in Ireland over the last number of years. Rapidly rising rent levels have led to attractive yields. In the Irish context, average rents have increased by approximately 60 per cent since 2012 (Nugent, 2018) and double digit growth has been the norm for several years (Lyons, 2018). Gross yields remain higher than 5 per cent across the nation (Savills Ireland, 2017). These yields are particularly attractive when we compare them to comparable forms of investment or saving. Deposit rates in banks are at historic lows, as are returns on government bond schemes.

[3] Source: Authors' calculations based on data from the Department of Housing, Planning and Local Government (Various Years); Department of Social Protection (Various years).

Investment in the private rented sector in the wake of the crisis has come from two principal sources: small scale 'buy to let' landlords and institutional investors. Prior to 2008, investment by small scale landlords was driven to a large extent by BTL mortgages. This type of landlord finance has declined dramatically since then, however. The BTL mortgage sector was particularly badly hit after the crash, with arrears levels even higher than in the residential mortgage sector[4]. In addition, the Central Bank macroprudential measures, mentioned above, are stricter for BTL mortgages than for family homes, capping LTVs at 70 per cent. Instead, the proportion of landlords purchasing with cash appears to have increased rapidly (Savills Ireland, 2017).

Turning now to institutional investment in the private rented sector, a much more novel set of factors can be identified. As in Spain, private equity firms and REITs[5], as well as international property companies, have undertaken a massive programme of investment since 2014, focusing on the acquisition of distressed property assets (Waldron, 2017; Byrne 2016a; 2016b). These have been acquired through the deleveraging processes of financial and government institutions, both of which have offloaded a huge volume of non-performing loans linked to real estate from 2013 (Byrne, 2016b).

The UK after the crisis: generation rent

As Ronald and Kadi (2017:6) note, 'the GFC appears a catalyst rather than a break on investment in private rental property' in the UK context. This has been reflected in the continuing growth of the absolute number and proportion of households renting and the continued decline of homeownership, leading some UK commentators to argue that we are witnessing a transition to a 'post-homeownership' society (Ronald and Kadi, 2017; see also Sprigings, 2013)[6]. The 'apex' of homeownership in the UK was around 2003, at which point 71 per cent of households were homeowners. By 2014, this had declined to just 63 per cent. Meanwhile, by 2017 a remarkable 18 per cent of households were renting privately (Ronald and Kadi, 2017; Corlett and Judge, 2017). Research in the UK shows that this change has particularly effected younger households, who are

[4] In 2017, almost a decade into the crisis, 18 cent of Buy-to-Let mortgages were still in arrears. https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears/residential-mortgage-arrears-and-repossessions-statistics-december-2017.pdf?sfvrsn=4

[5] The Irish government legislated for the establishment of REITs in 2013 (Waldron, 2018)

[6] Although opinions vary. Michael Ball (2011), for instance, argues that it is too early to extrapolate long term trends from the development of recent years.

today half as likely to be homeowners by the age of 30 as those born in the post-war ‘baby boomer’ generation (Corlett and Judge, 2017).

Lending practices in the UK have changed significantly, making access to mortgage credit much more difficult for first time buyers (Forrest and Hirayama, 2015; Kemp, 2015). In 2007 14.1% of mortgage lending involved LTVs of 90%, in 2017 that figure had fallen to 3.9%. Similarly, while interest-only lending represented 32.5% of the market in 2007, it stood at just 1.2% in 2017 (Savills, 2017). Meanwhile, house prices have recovered, and indeed, surpassed their boom-time values while wage and income growth has been modest (Kemp, 2015; Sprigings, 2013).

In contrast, for landlord investors the post-crisis context has been favourable. On the investment side, rent increases and reduced house prices led to growing yields on rental property in the wake of the financial crisis (Sprigings, 2013). Between January 2011 and May 2018, private rental prices in Great Britain increased by 15.8%[7]. Unlike Ireland, BTL mortgages have financed a large proportion of investment since the crash. This sector was impacted by the crash, falling from almost £45bn in 2007 to less than £10 billion in 2009 (Kemp, 2015). However it recovered relatively quickly, and in 2013 it was around £20bn (Kemp, 2015). Mortgage arrears in the BTL sector have also been much less significant than in the Irish case, peaking in 2009 at just over 3 per cent (Ball, 2011). Nevertheless, recent policy changes in relation to the tax treatment of landlords may curtail landlord investment, and seems already to have impacted on BTL mortgage issuing which declined in 2016 (Savills, 2017). We may therefor witness an intensification of the trend towards increased cash buyers which has already been in evidence since the crash. There has also been increased activity among institutional and overseas investors, although the exact scale of this is not known (Kemp, 2015).

The continuing decline of social housing has also played a role and, like in Ireland, the growing role of subsidized private rental accommodation (Corlett and Judge, 2017). This has been a long-term process, with rent allowances doubling in cash terms between 2003 and 2013 and 40 per cent of state housing benefit payments now going to the private rental sector (Roland and Kadi, 2017), thus fuelling demand.

[7] The figure when we exclude London is 12.4%. Source: Office of National Statistics. Available here: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/may2018

Conclusion: financialization, housing market cycles and the rise of generation rent

Throughout this article we have seen how the financialization of homeownership contains within it the somewhat paradoxical seeds of its own demise. At the heart of this, is the way in which financialization accentuates the cyclicality of housing systems. Abundant credit heightens the 'up' phase of housing cycles, pushing house prices beyond wages and income and thus creating a growing affordability gap. In the 'down' phase of the cycle, house prices decline just as rapidly as they rose, but financialization creates a debt overhang which causes credit to 'crunch' and mortgage markets to freeze up (Turner, 2017). As such, declining house prices do not ensure easier access to homeownership once boom turns to bust, but rather further entrench the dynamics which exclude potential FTBs. The bust phase of a financialized housing cycle is characterized by some combination of credit contraction, foreclosures and mortgage arrears, high levels of personal debt and negative equity, deleveraging, the tightening of credit standards by banks, the imposition of macroprudential regulation of lending standards by public bodies, and changed business strategies and credit allocation in terms of private banks. All of these ae particularly unfavourable to potential FTBs. Thus, during both the boom and bust phase the financialization of housing market cycles generates processes which tend to undermine access to homeownership.

Given our interest in cyclicality here, it is worth noting the absence of counter-cyclical measures in the countries discussed here, especially Ireland and Spain. Spain has never had significant social housing sector and Ireland's social housing sector has been steadily residualized since the 1980s. The absence of non-market housing tenure, the supply of which is controlled by government, exacerbated cyclical dynamics both in terms of house price volatility and the post-crash housing finance and housing supply contraction (Byrne and Norris, 2018). In contrast, Denmark and Austria are examples of countries which used social housing in a counter-cyclical fashion to navigate the global property bubble (Byrne and Norris, 2017; Norris and Byrne, 2018). This is a reminder that the dynamics of financialization discussed here also interact with wider neoliberal policies (Forrest and Hirayama, 2015).

It should also be noted that during the 'up' phase of the cycle, credit can push house prices far beyond affordability limits through two distinct avenues. The first is through the extension of financialization to small-scale landlords via specialised mortgage products, as we have seen in Ireland and the UK, ensuring house prices continue to grow even as a growing number of FTBs cannot enter the market[8]. Second, financialization can push households beyond the affordability limit through subprimisation, i.e. a catastrophic deterioration in credit standards incorporating virtually all households within the homeownership sector. The first of these avenues causes homeownership to decline prior to the bust and for this tendency to be compounded thereafter. The second delays the decline of homeownership until after the crash.

The differences in the experience of financialization in our case study countries can thus be elucidated by examining the interaction between national processes and systems and the more global dynamics of financialization. In particular, national mortgage markets and housing policy mediate the impact of credit expansion at a global or transnational level. In terms of mortgage markets, the level of subprimisation of mortgages and the availability of landlord finance are the two key issues. In terms of housing policy, the extent of supports for homeownership, regulation of the rental sector and residualisation of social housing are crucial.

This article has sought to argue for the important role played by credit and financialization in understanding the 'generation rent' phenomenon as a contribution to this emerging research field. However, further research is of course required to explore further each of the countries discussed here and to compare the experiences of those countries with other cases. Moreover, we still no relatively little about the impact of a growing rental sector on many key areas, including economic inequality, ontological security, social reproduction, political and social cohesion and so forth. This is thus an important emerging research area of great interest to social scientists in a wide range of fields.

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[8] It is worth noting that it appears unlikely that institutional investors could play this role in a financialized housing market cycle as such investors are more interested in yields than in capital growth (and the former typically shrink as house prices peak) and are also shrewder investors unlikely to be caught out by the 'irrational exuberance' of the peak phase of the cycle to the same extent as small scale landlords.

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