

Financialization and the third sector: Innovation in social housing bond markets

Abstract

The recent global financial crisis (GFC) has seen investors turn away from real-estate bonds, given their role in distributing risk during the crisis. However, since 2009, a new type of real-estate bond market has grown in London, enabling social housing groups to issue bonds. This could be viewed as further evidence of the extension of financialization practices into new spaces, beyond those of traditional capital markets and associated intermediaries. In this paper, we examine how financialization has begun to permeate the third sector, reordering the priority of housing associations' values, displacing social value creation with the economic. We highlight how reduced state funding has led social housing providers to become more reliant on capital market intermediaries, and explore how locally orientated social housing associations have become embedded within wider financial networks. While policy makers have viewed financial markets as a panacea to fund social housing developments in an age of austerity, tensions have emerged, requiring localised social housing organisations to become more commercial in their activities, jeopardising their ability to protect vulnerable communities through social value creation.

1. Introduction

By 2008 the US subprime crash had spread to create a global financial crisis (GFC). In contrast to previous crises, the GFC was unique in that it permeated a diverse range of spaces, from global financial markets to households, destabilising financial institutions and tipping debt laden governments into fiscal crises. One distinctive feature of the GFC is rooted in financial engineering, where mortgages were restructured to 'remove' risk through a process known as securitization, which enabled mortgage income to be sold to institutional investors as bonds (Marshall et al. 2011). This practice led to the adoption of financialization processes within residential real-estate, connecting regional mortgages lenders and capital markets, creating risk conduits that would connect global financial centres, governments, households and consumers more closely together, facilitating a wider contagion of the crisis.

Investor appetite for securitised real-estate bonds declined markedly after the GFC (Wainwright 2015), although a new securitization market in the US has recently emerged, bundling single household rental receivables (Fields 2017). In the UK, a new residential bond market also began to grow rapidly: housing association bonds. Subsequently, while UK real-estate through securitization has declined, practices of financialization have been adapted within third sector real-estate. Housing Associations (HAs) have a charitable status and provide reduced cost rental housing for vulnerable or low income households. They received government funding for development, but since the Thatcherite governments of the 1980s, funding was reduced (cf. Aalbers et al. 2015), leading them to obtain commercial loans to meet shortfalls. However, post-GFC austerity accelerated government cuts, while regulation has reduced the availability of long-term bank loans for HAs, forcing them to turn to global capital markets.

Global pension and insurance funds began purchasing regionally embedded HA bonds, effectively privatizing HA development funding. However, established practices of real estate financialization in the context of HAs is not clear cut. While many for-profit organisations experience negative outcomes from financialization (Pike 2006), many HAs have a non-profit status, with social aims to house vulnerable and low income tenants, and to support local communities. It can be argued that these core objectives are diametrically opposed to the politics of financialization. Subsequently, this study seeks to examine how the demand to support investor returns has begun to initiate spatial and organisational change in the third sector.

This paper has 3 aims: First, it seeks to contribute to research on financialization, by investigating third sector finance innovation in HAs. The paper will examine how localised spaces of HAs have become connected to global capital markets and investors through London. Second, we explore the tensions between financialization's return seeking politics, and the charitable missions of HAs, in addition to the risks that can emerge through the development of bond programmes. Third, the paper seeks to uncover how these contradictory politics can be potentially managed, while examining how these challenges are inherently spatial.

The remainder of the paper is as follows: Section 2 examines recent research on financialization, concerning real-estate markets, the public and third sector. This review is used to frame the paper's analysis. The section will also outline the research design, from which the findings are drawn. Section 3 will investigate the emergence of the new bond market which provides HAs with access to investor capital. In this section, we explore how the bond market

grew after the GFC, connecting local HAs to global investors through London, unravelling the geographies of production and the effect of space in designing bonds. Section 4 analyses the tensions between the politics of the third sector and financialization, while exploring new innovations that attempt to manage these issues. The final section concludes the paper.

2. Financialization: new markets and spaces

2.1. Private sector: From equity markets to housing markets

Prior to the GFC, financialization was increasingly successful in reshaping everyday life (cf. Martin 2002), across individual (Langley 2007), household (Finlayson 2009) corporate (Pike 2006; Muellerleile 2006), regional, national and global spaces (Wainwright 2012; French et al. 2011; Krippner 2005), connecting new actors to global circuits of capital (Krippner 2005). Since the GFC, researchers have turned to examine real estate through the lens of financialization, but this has become an increasingly complex task, due to the proliferation of its contested definitions (Engelen 2008; Christophers 2015; Aalbers 2016). French et al. (2009) suggest that there are two particular framings of financialization. First, it is a term that describes the growing power of finance over the economy and society. Second, it can be viewed as a conceptual tool to focus on the processes and role of technologies, metrics and values of financialization in shaping change across space. Even within the second, more critical approach, there are variations as to how financialization is viewed. For example, it can be viewed as the increasing role of financial motives in markets actors and institutions (Epstein 2005), or the increased power and dominance of financial actors markets and narratives, resulting in the reorganisation of firms, households and states (Aalbers 2015). In positioning our paper within these debates, we seek to draw upon French et al's. (2009) second identified sphere, utilising a softer sectorial case study approach, following other recent studies (Langley 2007; Leyshon and French 2009; Wainwright 2012; Froud et al. 2006). This will enable us to focus on the actors involved in HA bond markets, while providing critical insight into the power and processes of financialization that reshape the organizations and spaces of the third sector.

This is important, as earlier studies focussed on how financialization's politics were activated through shareholder value metrics and the disciplining of executive management through voting rights (Froud et al. 2000; Pike 2006). In short, executive remuneration and job security is contingent on their ability to increase value, through stock prices and dividends. While research on the financialization of real-estate has grown considerably (Aalbers and Christophers 2014; Aalbers 2016), studies have not been sufficiently critical in highlighting how financialization functions in the context of bond markets, despite studies of securitization.

Equity value can be enhanced by increasing dividends and share prices (Froud et al. 2000; Wainwright 2012; Muellerleile 2009), but real-estate bonds, such as medium term notes (MTNs) or residential mortgage backed securities (RMBS) tend to offer a fixed, or floating return, where the latter is based on interbank rates, not asset performance. Subsequently, bond investors cannot engage in corporate governance to shape organisational behaviour and performance through voting rights, they can only receive bond income, making them passive in contrast to equity investors. Arguably, a more nuanced approach is required to understand the processes of financialization in real-estate markets.

We suggest that real-estate financialization can be viewed through an alternative ‘bond-based’ approach. As highlighted earlier, bond holders cannot influence the corporate governance of real estate landlords as they do not have shareholder voting rights. However, they are able to influence organisational behaviour in the event of a bond default, but also before bonds are issued. As will be discussed later, potential bondholders can become involved in the design of bonds; as they will only purchase the securities if bonds issuers (landlords) follow certain rules and covenants which prescribe how they must behave (Cook et al. 2014). To achieve this, new metrics and framings are developed (Froud et al. 2000), and changes can be made to issuer’s operational and business plans, which an issuer’s management must not deviate from, otherwise they risk triggering a default. Consequently, the power of institutional investors triggers organisational change through the formalization of risk management plans, prior to bond issuance, implemented through frozen discourses that discipline the bond issuer into maintaining a particular set of behaviours (Miller and Rose 2008; Beunza and Garud 2007; Bowker and Star 1999). In this alternative approach, processes of financialization occur before bonds are issued, where fixed boundaries constrain the issuer’s future behaviour over time. This approach can be used to provide critical insight into how organisations without shareholders, become entangled within the politics of financialization, providing further insight to address the dearth of study into how residential real-estate is integrated within the political economy (Aalbers and Christophers 2015).

2.2. Third sector: From public to social finance

While further research is required to understand the mechanisms behind real-estate financialization, an additional area yet to be thoroughly examined is how the politics of finance have begun to reshape the third sector. Scholars have begun to investigate a roll-back of the state, through public finance initiatives (Froud and Shaoul 2001; Froud 2003; Strickland 2013)

and the direct privatization of public utilities (Aalbers et al. 2015; Ashton et al. 2014; Acerete, et al. 2011; O'Neill 2013), but insight into the growing role of financial services in the third sector are largely absent from studies of financialization and the third sector (Lehner and Nicholls 2014; Moore et al. 2012). The increased role of financial markets in HA activities post-GFC can be viewed as part of a wider narrative of third sector financialization which gained momentum in the early 2000s, as new social finance innovations were introduced within the UK.

In 2000, the Social Investment Taskforce (SITF) was created by the government to cultivate new social finance markets, with the aim of reducing charity and social enterprise grant dependency (Nicholls 2010). The third sector consists of organisations that have primarily charitable and social aims, and can take the legal form of: industrial and provident societies, mutuals, community interest companies and charities, for example. In contrast to the politics of financialization, economic returns are secondary to their charitable aims, which prioritise social value creation (Emerson and Twersky 1996; Nicholls 2008). The SITF was part of a broader attempt of the New Labour government to mainstream the third sector, making organisations independent and sustainable, with capacity for growth while reducing government funding (Alcock 2010; Lyon and Baldock 2014). Although new social finance models have grown successfully in developing economies, innovations in UK social finance were initially slow to progress (Lehner and Nicholls 2014), with markets criticised for being inefficient, fragmented and poorly defined, with a limited ecology of financing institutions and intermediaries to connect the third sector to finance (Lehner and Nicholls 2014; Glänzel and Schuerle 2015).

Following the activities of the SITF, a new Charity Bank (2002), Phoenix fund (2003) and Social Finance Limited (2007) investment bank were established, to provide funding and social venture capital to the sector (Social Investment Taskforce 2010). Social finance innovations included social equity and debt markets, social impact bonds, and an EU Social Impact Accelerator to bring funding to the third sector (Glänzel and Schuerle 2015), and the creation of community development finance institutions, to assist in local regeneration and third sector support (Affleck and Mellor 2006). In addition to this, conventional banks have extended their lending provision to the third sector (Lyon and Baldock 2014).

Demand for social finance comes predominantly from larger, asset intensive social enterprises, such as HAs, with smaller organisations preferring to undertake bricolage funding through informal sources, or operating capital (Sunley and Pinch 2012; Lyon and Baldock 2014). Scholars have indicated how the ecosystem's actors experience conflicting institutional logics over the importance of the social value sought by the third sector, and economic returns demanded by investors (Glänzel and Schuerle 2015). Reconciling these differences has been fraught with difficulty, as third sector organisations often lack business experience, skills and the financial planning capabilities to reassure investors (Glänzel and Schuerle 2015). This is compounded by differences in the communication, language, terminology and attitudes (Pache and Santis 2013) of investors and third sector (Lehner and Nicholls 2014), and the complexity of some transactions. Arguably, the HA sector has experienced these problems, but its bond market is unique in that it is broadly recognised by mainstream pension and insurance investors, and unlike the majority of the third sector, requires substantial volumes of capital, making it a distinct and established market. However, consistent with findings from broader social finance research, the HA bond market's recent growth within the sector is relatively new, creating tensions between social and economic priorities, but also in that the HA bond market's boundaries are still being defined by different stakeholders. As such, new rules, standards and terminologies (cf. Pache and Santis 2013) being unveiled by financial professions, who are seeking to determine 'the rules of the game', but which conflict with the organisational culture and objectives of HAs.

A nascent HA bond market began in 1988, when the Housing Finance Corporation (THFC) was established, predating attempts to create a broader social finance market in the UK, although the use of capital markets and bond issuance did not grow substantially until the late 2000s, as governments reduced funding (Lennartz 2011; Rolnik 2013; THFC 2016) (Table 1). This has seen the widespread adoption of performance management metrics and market-orientated narratives, where HAs have begun to displace social and regulatory frameworks with a private sector agenda, focussing on 'asset management', valuations and risk modelling (Gruis 2002; Kok and Driessen 2012; Manville and Broad 2013) making the sector more compatible with financialization, as seen in the nascent social impact bond market. In this sense, HAs are not reshaping the practices of financialization, but are reshaping their activities to become compatible with existing real estate valuation and risk metrics used in the private sector. Subsequently, further research into the HA sector can contribute to providing further

understandings into how the third sector had become entangled capital market intermediaries and investors.

[Table 1 around here]

The politics and processes of financialization contradict the social purposes of HAs and it is unclear if meeting social objectives is ranked ahead of financial returns for investors (Froud et al. 2002; Finlayson 2009). The negative impacts of financial risks and objectives can undermine housing provision and support for vulnerable or low income tenants (Malpass 2000). For example, Netherlands-based HA Vestia nearly collapsed in 2011, following extensive financial speculation, inadequate supervision and poor understanding of financial products (Aalbers et al. 2015), while the UK, the Cosmopolitan HA required an emergency merger to avoid collapse due to strategic overextension funded by bond markets (Altair 2014). These social objectives run contrary to those of investors raising questions as to how these competing sets of politics may affect HAs, in addition to the spatial implications, in connecting them to global financial markets.

2.3 Research design

This paper primarily uses semi-structured interviews, with secondary sources to contextualise the data within a wider context. The empirical data was collected between 2013 and 2015 and consists of 30 interviews. The interviewees consist of directors, associates, analysts and managers from investment banks, commercial banks, boutique finance houses, policy-makers, industry representatives, investors and HAs, large and small, in addition to management consultants. These respondents work within the UK HA bond market sector in issuing; placing and consuming bonds. Participants were identified through systematic searches of the Internet. For example, reports published by the Homes and Communities Agency (HCA) provided information on HAs. Further searches revealed HA size by turnover and housing unit portfolio, whose websites offered insight into their use of capital markets through available bond prospectus documentation. As the HA bond market is serviced by a small number of financial institutions, snowballing was used to gain access, in addition to searches of financial institutions' websites, to reveal which financial firms are active in the market. This was supplemented by bond fund prospectus and financial sector press searches, to identify investors (e.g. *Financial Times and Social Housing*). Participant names were then located through corporate websites and reports.

The interviews were semi-structured to provide participants with flexibility and to accommodate their experiences and expertise. The questions sought to examine the history and formation of the bond market, but also post-GFC growth, in addition to how innovations occurred and how new stakeholders entered the market. The questions also examined the strategies, practices and difficulties that emerge in reconciling the different politics of various stakeholders. The duration of the interviews ranged between 45 minutes at 2 hours. Each interview was digitally recorded and transcribed. The transcripts were then thematically coded, prior to their analysis. The analysis was also supported by materials and documents suggested by interviewees, including bond documentation and market reports for further triangulation.

3. HAs and financialization

In 1979, the Conservative government began the privatisation of public housing (Crook 1986), formalised in the 1980 Housing Act. This was the beginning of a series of important changes for the HA sector (See Table 1 for a summary of events). The 'Big Bang' in 1986 assisted privatisation, as newly liberalised financial institutions were able to finance housing. These changes transformed Britain's political economy of housing (cf. Aalbers and Christophers 2014). Financial liberalization lifted restrictions on mortgage provision, increasing competition and availability, extending homeownership to households who would have previously been denied credit (Wainwright 2012; Malpass 2000). New finance products funded the transfer of state owned assets to individuals, through a series of new schemes, including the 'right to buy' initiative which provided substantial subsidies to tenants to help them buy their home from the council. In addition, HAs and local councils were able to develop shared equity/ownership schemes, to assist households in buying a share of ownership in their rented home, with the aim of creating a property owning democracy (Crook 1986). However, despite property subsidies and access to new finance products, many low income households were unable to afford their own home and were reliant on the rental market (Malpass 2000).

A second wave of privatization provided HAs with a more significant role in the political economy's housing provision (cf. Aalbers 2016). This would radically change the structure, geographies and funding of HAs. The history of HAs is rooted in the 19th century, when they were established by wealthy Victorian philanthropists and religious organisations (see Emsley 1986 and Tickell 1996). Initially, they provided quality housing for the working classes, were small in scale and supported local communities. In the 1990s they began to grow rapidly in

scale as the government began to transfer council housing stock into HA ownership (Malpass 2000). This phase also witnessed mergers of smaller HAs throughout the 1990s and 2000s to provide them with economies of scale and operational efficiencies (Malpass 2000), which began to dilute the community-based identity of some providers. By 2016, housing providers continued to be an important component of UK housing provision with 1774 registered social housing groups, managing over 2,647,000 housing units (HCA 2016).

Consistent with the roll-back of the state and introduction of private finance initiatives (Froud and Shaoul, Froud 2003; Strickland 2013; Ashton, et al. 2014), the government began to view the HA sector as a strategic partner that could increase 'public' housing provision with limited state involvement. Simultaneously, the government sought to reduce the proportion of HA capital development funding per project, with the expectation that HAs could use their substantial assets as security to access private capital from financial markets. This has also been met by additional policy changes that have reduced HA funding, particularly for rental income. For example, the Welfare Reform Act (2012) stimulated the introduction of what became popularly known as 'Bedroom Tax' and Universal Credit (Manville et al. 2016). The Bedroom Tax reduced housing benefits if tenants had unoccupied rooms, reducing benefits and increasing the chance of arrears. This is particularly problematic for tenants in areas where there is an abundance of larger properties, with fewer smaller properties to move to, but also for HAs as some tenants may leave, reducing their rental income. The Universal Credit plan, seeks to cap benefits at £25,000 per household, reducing available benefits to tenants, but also transferring the payment to them directly (Manville et al. 2016). Tenants with low financial literacy and a reduced income may be more likely to struggle to manage their payments, increasing the risk of arrears, and reducing income certainty for HAs. In an attempt to diversify and manage risks, some HAs have begun to develop student housing, private rental properties, private properties for sale, and shared equity schemes (HCA 2011; Bramley 1994). One critique however, is that these projects have sometimes been poorly timed or executed, generating losses for HAs, as they work to diversify income in an environment with reduced government grants and welfare income (Altair 2014).

As will be discussed in the next section, HAs accessed commercial loans from high street banks in the 1990s to support developments, rather than use bond funding, but since the GFC, they have turned to capital markets. Sector debt increased from £28.3Bn to £63.4Bn between 2006-2015 (Figure 1). During this time there has been a corresponding fall in HA capital grants.

Although capital funding increased in absolute terms from £27.6Bn in 2006 to £42.5Bn in 2015 (Table 2), it has declined as a percentage of total assets. During the 1990s, capital grants covered 75% of construction costs, falling to 39% in 2010 and just 14% for the years 2011-2015 (National Federation of ALMOs 2015:11). It is clear that HAs are turning to capital market funding to plug the gap left by the decrease in grant funding, and in turn are using this finance to grow their housing portfolios substantially, to provide additional housing units for social and private rents, adding 635,503 units between 2006 and 2015, a sector stock increase of 31.6% (Table 2). Due to fragmented history of the market, accessing quantitative data on bond issuance is difficult. However, market data compiled by THFC (2016; 32) indicates in the years 2010-11, capital market funding accounted for under £1bn, rising to £1.5bn in 2011-12 and £4.1bn in 2014-15. Table 3 provides information on recent transactions, including the growth in size of bond transactions, but also the recent decrease in yields, highlighting their popularity with investors and perceived low risk.

[Figure 1; Table 2 and 3 around here]

3.1 HA finance: back to the future?

In the 1980s, the nascent HA bond market ecosystem comprised of new and existing capital market intermediaries (Folkman et al. 2007) and institutional investors (Clark and Monk 2014). The first, an organisation called THFC, was established in 1987 by the National Housing Federation, a representative body for HAs, and a regulatory body: The Housing Corporation. THFC was known as an aggregator platform that would issue bonds to institutional investors, and supply loans to participating HAs, with investor returns paid from rental income. THFC acted as a new capital market intermediary (Folkman et al. 2007), connecting HAs to institutional investors, facilitating financialization in a new sphere (French et al. 2011; Engelen et al, 2014), although this particular bond market was slow to develop. However, unlike the development of third sector financialization in the 2000s, assisted by the formation of funding institutions, the HA sector's relationship with finance began much earlier.

As with any new market, investors seek high yields due to uncertainty, while due diligence processes required them to check on the finances and business models of each participating HA – a cumbersome process. For HAs, international debt capital markets were unfamiliar, making the process less desirable, but it did not take long for competing financial institutions

to enter the market of HA finance. Following the 'Big Bang', London's financial services sector had access to interbank money markets with low interest rates, which witnessed the entrance of high-street banks (Table 4) who began to recycle cash into 25-30 year long term loans:

"And the interest fell away during the '90's, then the banks started looking at this and saying "This looks a bit like a residential mortgage, and we understand that its property based, 25 year term finance" so the banks started piling in... So late '90's/early 2000's the banks are providing more finance into the sector" (R15 regulator)

[Table 4 around here]

High-street banks viewed HAs as a market straddling residential mortgages and commercial loans, and through incremental financial innovation and bricolage (Engelen et al. 2010) they came to dominate social housing finance. High-street banks were keen to enhance shareholder returns in a competitive, deregulated financial services market (Marshall et al 2011), although their mechanism of funding was unsustainable, facilitated by low LIBOR rates. In order to increase returns, banks began to sell interest rate swaps, derivatives and other services to capture profits from low cost loans, placing high-street banks with substantial exposures to HA real estate, which coincided with the GFC:

"...banks were blatantly mis-pricing the loans they were making to the housing associations on the basis that however tight the pricing to Libor, they could then make significant additional amounts of money out of fixing derivatives on the loans, and other general services provided to housing associations...That left us with a position in 2007 where five banks in particular had around about, now I'm trying to think back here to find the specific figures, £45 – 47 billion of lending, the capital markets were by that stage a marginal provider" (R20 financial services)

The GFC created considerable problems for high-street banks as LIBOR rates increased and liquidity evaporated. Capital adequacy regulation viewed long commercial loans unfavourably, especially when governments began to stress-test banks, so they became keen to get HAs to refinance their debt. In some cases, lenders searched loan contracts to look for breaches of

contract, to try and increase interest rates or force HA refinancing. As such, the collapse in liquidity from the GFC closed loan finance for HAs, which created a new funding gap:

“The [funding] gap as far as the supported sector is concerned is huge. But the huge funding requirement from the sector; they are looking at probably about continuing to raise £5 billion or so a year...And this fledgling market we are working on is only going to grow” (R22 financial services)

Subsequently, HAs turned to capital market intermediaries (Table 4) to close the gap between state funding and demand for new housing, beginning the financialization of third sector assets (cf. Engelen et al.2014; Aalbers et al. 2015). Some larger HAs had already issued their own bonds directly to institutional markets in the 1990s. For example, L&Q issued a £130 million bond in 1998, providing investors with a semi-annual coupon of 7.93%, with BNP Paribas in London as the arranger.¹ These ‘own label’ bonds, in addition to THFC bonds ensured that capital market intermediaries and investors retained knowledge of the nascent market, which enabled it to grow, following the GFC. While the market for residential securitization and property bonds had all but vanished in Europe (Wainwright 2015; Aalbers 2015) the niche HA bond market began to develop rapidly, connecting socially-orientated HAs directly to capital markets, exposing HAs to new pressures and expectations (cf. Engelen et al. 2014; Marshall et al. 2011; Pike 2006).

3.2 Placing local assets in global markets: geographies of production and spatial implications

HA bond issues require the cultivation of new networks that connect local housing assets and revenue streams to a global investor base (cf. Marshall et al. 2011; Wainwright 2015). In order to access markets, smaller, or first time bond issuers, will often enrol the support of specialist consultants to calculate the costs of potential government welfare changes and tenant arrears on their business models, and the impact of bond repayment schedules to establish the most appropriate form of financing, whether it is to use an aggregator, private placement, ‘own label’ issue, or drawdown facility. Larger, experienced HAs will often complete this task themselves. The HA will then contact a specialist financial services provider, established high-street bank or investment bank that will arrange the financial transaction, the development of bond ratings

¹ <http://www.lqgroup.org.uk/services-for-residents/about-landq/performance-and-finance/investor-relations/>

and legal documentation (See Table 2). The arranging banks will then work to establish pricing and investor demand, before HA executives begin to promote the deal.

HA bonds are purchased by institutional investors, such as insurance and pension providers. (Clark and Monk 2015). While the bond yields are low, they are rated as having a low risk, since the revenue streams are heavily underpinned by housing benefit from the government (Table 4). The 25-30 year long maturity of the bonds also matches the liabilities of annuity funds, which explains why many of the early purchasers were British insurers, located in London and Edinburgh. However, the market has recently attracted global investors as larger issues are listed on bond market indexes, which requires the managers of index tracking funds to acquire the bonds, attracting larger Canadian and US investors:

“When you reach £250 million of issuance on a bond, especially a rated bond, it goes on the index...then a number of other insurance companies have to buy it essentially, because they track these indices... all of a sudden the market opens up to a good 20/25 [investors], and you see Canadian pension funds coming in as well; they like the product; they understand property and the social consequences. Who else buys this? You’ll see some of the big funds nowadays as well, seriously coming over after the big deals from the States... this is actually a very attractive product as a Double A, Single A level, as most of these investors can’t buy below investment grade”
(R21 financial services)

While HA bonds are consumed globally, the underlying assets, revenue and risk are strongly influenced by local housing and labour markets, in addition to the wider economy. Subsequently, space is important to arranging banks and investors in determining the risk and pricing of bonds (Marshall et al. 2011; Wainwright 2012). Housing stock types and HA location can have a particular effect in determining risk profiles. For example, a recent change to welfare policy through the ‘Bedroom Tax’ has forced tenants on low incomes to lose part of their housing benefit for vacant rooms in their properties, increasing their risk of arrears:

“There certainly is perhaps a divide in some areas of this in terms of north and south because it’s averse to the dreaded bedroom tax. Well in the northern parts of the country there is quite a lot of under-occupation;

what's been built over the last 40 years is mostly family homes...there could be under-occupation of one or two rooms, so people have been receiving benefits and they are having been asked to pay, and they will find it a struggle" (R22 financial services)

The geographical risk inherent in local markets and the business models of HAs is also taken into account in valuing real-estate assets. Technically, in a bond default, housing assets could be repossessed by bondholders, although this scenario is considered unlikely, but provides reassurance to investors.² Investors and arrangers indicated that in the past this has also affected the risk and pricing of bond purchases, with HAs located outside of London paying a comparatively higher bond yield as their housing, if repossessed, would fetch a lower price if sold to private developers (cf. Wainwright 2012).

The location of HAs can also influence the complexity of their business models, which can also influence bondholder risk and pricing. Due to the higher operational and development costs of being based in London, HAs are often larger and more likely to be participate in more speculative activities such as building properties for private sale and rent, to cross-subsidize their social activities. While investors perceive greater security in London-based bonds, owing to high real-estate values, speculative operations can be viewed negatively, increasing funding costs, as highlighted below:

"I think there still is, from the markets, a London/South East bias. People are very comfortable with the valuations and demand characteristics in London, and you get more and more uncertain as you move further into the regions, Scotland being its own question... For the larger associations, we do get control with them. I think greater exposure too. And again, particularly in London with the other additional things they might do that the markets dislike, have been with their shared ownership" (R25 asset manager)

² There have been limited failures of housing associations. Following the example of the Cosmopolitan Housing Association (see Altair 2014), it is likely the government would attempt to find another housing association, or a group of associations, to take control of the property and manage the assets and tenants. This would protect both investors and tenants. Due to political risks, it is unlikely that the government, or an investor, would seek to evict social housing tenants, although in an extreme scenario, this would be legally possible.

Paradoxically, diversification to cross-subsidise social housing, while creating social value by participating in shared ownership, can be viewed negatively by investors and arrangers, as this introduces more risk by moving away from stable revenue streams provided by social welfare benefits, which is perceived to be low risk.

4. Managing contradictory private-public politics across local and global space

As discussed earlier, one shortcoming of research on financialization is the limited insight into how non-equity investors can influence organisations. In the context of the third sector, bond investors do not have the voting rights enjoyed by shareholders (Froud et al 2000; Pike 2006; Muellerleile 2009). However, the implementation of bond covenants calculative frames and performance metrics by capital intermediaries (Froud et al. 2006; Miller and Rose 2008; Beunza and Garud 2007) enable them to shape business plans, to limit future drastic changes to their operations. It must be emphasized that this power is soft, as investors cannot force issuers to change their activities, but they can indicate what future activities they would view negatively, which could dissuade them purchasing bonds for that issue, but also in the future. The combination of metrics and soft power disciplines HAs and in doing so can restrict their activities and undermine their social aims (Emerson and Twersky 1996; Nicholls 2008):

“Someone asked me the correct question quite early on in the deal about “What is the right level of surplus we should be making, given our social purpose?” and that’s a really difficult question...The types of things that the rating agencies and the investors are looking for are things like margin performance or operating surplus, operating margins, etc. Now fundamentally those are all geared to be more profitable...So on the one hand they would like all those things to improve, but how do you get more profitable? Well there’s a number of ways, one of them is you spend less on repairs, that’s probably the easiest one; obviously less staff. So there are tensions there, but as I was saying earlier, you have almost got the reverse to that, which is we don’t really want you getting into anything other than social housing, so I know you’d like to do all that build for sale stuff, but that makes us a bit nervous” (R7 housing association)

Interviewees indicated how investors were not keen on complex business models which deviate from social housing due to the higher risk, despite the opportunities to grow returns,

invest in community programmes, and provide housing for key workers - meeting social objectives (cf. Nicholls 2008). The metrics developed by bond rating agencies and used by investors can also be problematic in that they do not accommodate the diverse and strategic activities of HAs. Interview 5 below, outlines how attempts to become more sustainable and efficient, which should reduce risk to investors and enhance performance, contradicts the standards and metrics:

“...the other thing that you get with a credit rating is you can have a scenario where the rating actually cuts against your strategic objectives. So for example, one of the objectives we’ve got, is to rationalize our stock base and get out of areas that are not strategically important to us anymore. But what the credit rating agencies do is they actually measure your activity, not the purpose behind it...therefore they will look at your asset disposals and say “Oooh, you are shedding a lot of assets. You are getting a lot of money through assets disposals, therefore you are a higher risk organization” and “By the way, we’ve dropped your credit rating.” “(R5 housing association)

Organisational change, even for legitimate strategic purposes, can trigger bond market downgrades, which increases the cost of future bond issues, removing future cash that could be deployed in creating more social and affordable housing, or supporting communities. Subsequently, we argue that HAs are acceding to established practices of financialization, altering their operations to fit metrics developed by external financial intermediaries, in exchange for funding, as opposed to reshaping the established practices of private real-estate financialization.

Recent changes to welfare payments including the ‘Bedroom Tax’, incoming Universal Credit and direct payments have created new potential risks to timely rent payments, reducing available revenue, which could trigger a bond default. Despite initial concerns by stakeholders in the HA sector, new innovations to reassure investors that this risk is being managed have been successful, limiting the difficulties for tenants struggling to pay their rent, while providing additional training and support:

“...the whole welfare reform has in fact led to a beneficial impact on our cash flow, because we have put a lot more effort into collecting the rents. So we have spent quite a lot of money on automating processes, bringing

in things like text messaging, so the people get an automatic text...We have also invested in benefit advisors, so we find that quite a lot of people are getting more benefits than they were before because we have put the effort into helping them optimise their income. We have also spent money on employment and training programmes, which are helping tenants get employment, because once you are working, the caps and everything else become less relevant” (R2 housing association)

However, these innovations have not always been positive for tenants, and in some cases HAs have begun to undermine their own social objectives in providing housing for low income households. These associations have begun to undertake close analyses of their tenant portfolio, investigating what proportion of tenants are supported living, working families on low incomes, and the unemployed. In this sense, the operation of these organisations and the activities of their stakeholders have become increasingly aligned with the objectives of investors (Pike 2006). In order to reduce the likelihoods of future arrears and defaults, some organisations are actively managing new applications to reject households deemed high risk, moving towards practices employed in the private rental sector, with those on lower incomes facing the downsides of financialization’s politics (French et al. 2011):

“There is evidence that there are changes both in allocations and then practice towards arrears in the tenancies. So we are increasingly seeing housing associations not accepting nominations, as I say, the Council nominates a household to go into housing association property, if they’re on benefits the housing associations increasingly are trying to reject the nomination. We are seeing safeguards against bedroom tax, working tenants who are paying their rent in themselves, being told that they can’t take properties where they would be under occupying and liable for the bedroom tax if they did lose their job” (R16 stakeholder)

The adoption of sharper commercial practices has emerged from the growth of HAs through mergers and diversification, making them more complex, especially in their use of financial markets. This has led to a transition towards a more corporate culture, focusing on finance-led growth, returns and organisational performance, which many public sector and third sector organisations currently face (O’Neill 2013; Froud 2013; Engelen et al. 2014). As

illustrated below, the financialization's politics have begun to demote the importance of social objectives in supporting local communities in some organisations:

“I mean big housing associations, sadly they've lost their focus on the social bit, I would argue...I am thinking of Association X in London. I forget the name of the people that did that but they seemed to have completely dismantled a local community by shifting them all over London and uprooted them, just to build some new cutting edge state of the art social housing and new private build next to a train station. That will be snapped up by bankers” (R6 housing association)

While the introduction of real estate financialization practices has enabled HAs to bridge a funding gap left by the withdrawal of state funding, it has also introduced new politics to the sector to protect investor returns as the objectives and performance metrics of the sector have been recoded (Beunza and Garud 2007; Engelen et al. 2010; Manville and Broad 2013). While accessing international capital markets has been successful for meeting finance needs, it is clear that the sector faces new pressures that have seen larger HAs begin to drift from their social objectives. Subsequently, some organisations are focussing on protecting their reputations in the eyes of investors through performance management metrics and standards, constraining their ability to create organisations that can assist local communities.

5. Conclusion

Following the GFC, there has been a marked increase of research into financialization and real-estate. However, two important shortcomings have emerged within the literature. First, the financialization of the third sector and HAs (Engelen et al. 2014; Aalbers et al. 2015) have been overlooked. Second, scholars examining financialization in real-estate have underestimated the complexity of the processes that (re)shape real-estate owners such as institutional landlords and their activities, through bond programmes. In addressing these two research gaps, we argue that the politics of financialization discipline organisations involved in the funding and provision of housing, through capital market participation. In doing so, we have sought to provide deeper insight into how HAs have become deeply entwined in capital markets, and how they have undergone organisational change, developing new plans and processes to enable them to access bond markets, which have had some positive, and less positive, impacts on HAs and their tenants.

We examined how HA financing falls under the broader umbrella of third sector financialization, although we note that while HA bond financing participants face the same difficulties in reconciling politics, expectations and terminologies with investors, as do other social enterprises (Pache and Santis 2013), the market is more distinct and widely recognised by investors. Unlike social enterprises who often utilise bricolage to facilitate projects³ (Sunley and Pinch 2012), HAs require substantial volumes of capital to operate. It can be argued that HAs have a greater need to access capital market funding, and in turn reorganise to meet financier demands. In this sense, the sector can be used as a case to explore how social enterprises could face challenges to their missions and culture, if adopting wider access to social finance. In the paper, we uncovered how the social objectives of the third sector have been challenged by the power of financialization, capital market intermediaries and asset managers, through metrics, policies and expectations. This leads us to argue that practices of financialization are forcing HAs to change their organisation and strategies, rather than the politics of financialization, changing to accommodate HAs. As such, the paper provides new insight into how financialization has begun to permeate the third sector, and the processes through which it can do so, building upon the current literature (cf. French et al. 2011; Aalbers and Christophers 2014).

In addition, our paper also draws attention to the spatial implications of HAs and financialization. Our study demonstrates how regional labour markets and demand for accommodation, tenure and land price can shape the activities of HAs, but also how local dynamics can shape the risk perceptions of investors, affecting the cost of social housing funding. As such, it can be more expensive for smaller HAs outside of London to obtain funding to (re)develop their housing assets. The paper also disentangles the geographies of capital market intermediaries and investors that constitute the market which enables the financialization of HAs (cf. Lennartz 2011; Folkman et al. 2007), through a mixture of London based high-street banks, boutique financial companies and investment banks, through to Edinburgh-based asset managers and increasingly North American investors, extending the networks of investors, who are able to discreetly influence the business plans and strategies of HAs, to protect their investments and to secure their returns. Interestingly, the paper revealed how investors have been seeking alternative real-estate investment opportunities,

³ Bricolage refers to the use of alternative resources and improvisation strategies to enable projects in the third sector. Resources could include fundraising, crowd sourcing, the use of volunteer labour, borrowing or requesting the donation of assets or changing expenditure behaviours to harness internal resources like cash flow, rather than turn to formal bank or capital market funding (see Sunley and Pinch 2012).

that offer low risk and steady returns which can replace substantially reduced securitization markets (Wainwright 2015; Fields 2017).

The paper raises broader questions about the impact of financialization's practices and its modification of new management techniques, metrics and knowledges (Engelen et al. 2010; Beunza and Garud 2007), which reshape the activities of the third sector through a more commercial lens, challenging the supremacy of social over economic value creation for HAs. While an emergent HA bond market has filled a funding gap developed by the roll-back of state investment, it is likely that the government would be able to raise cheaper funding for the HA sector by directly issuing treasury bonds. This shift to an off-balance funding approach for the government, facilitated through financialization processes, has created new opportunities for capital market intermediaries in developing individual HA bond programmes, but has increased funding costs, resources that could be used to support vulnerable communities, while more questionable practices which have emerged can have a direct negative effect on vulnerable households (cf. Emerson and Twersky 1996; Nicholls 2008). The outcomes for different stakeholders are mixed: the government has reduced its funding costs; capital intermediaries earn fees, while risk is transferred to asset managers and vulnerable households, where the former are able to absorb risk (Folkman et al. 2007), but the latter cannot, exposing vulnerable households to risks of eviction, waiting lists and rent increases. Despite these pressures, HAs have made some headway in trying to mitigate the negative outcomes for households. For example, they have invested in financial education, arrears management, job training and assisting tenants to apply for eligible benefits to make tenants more resilient to reduced benefits and arrears policies.

We argue that further research is needed to explore how practices of financialization are reshaping the third sector, practices that are challenging the historical, social objectives of these organisations. While earlier studies of financialization have been applied to the private sector (Muellerleile 2009; Langley 2007; Pike 2006), which is more closely aligned with the politics of financialization, the permeation of high-finance into HAs, which prioritise social value creation have arguably had a substantial impact on the strategic orientation, values and practices of these organisations. This has required the translation of market knowledges, cultural change and financial performance metrics (Manville and Broad 2013; Miller and Rose 2008; Engelen et al. 2010), which remain understudied in the third sector context. Economic geographers and social scientists need to turn and seriously examine the permeation of

financialization's practices into the third sector, to examine the new spaces and institutions which it is beginning to reshape.

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