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Gentrification, suburban decline, and the financialization of multi-family rental housing: The case of Toronto

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ABSTRACT

While traditional forms of gentrification involved the conversion of rental units to owner-occupation, a new rental-tenure form of gentrification has emerged across the globe. This is driven by financialization, reduced tenant protections, and declining social-housing production, and is characterized by the replacement of poorer renters with higher-income tenants. Many poorer renters are in turn being displaced out of the inner city and into older suburban neighbourhoods where aging apartment towers had provided a last bastion of affordable accommodation, but which are now also targeted by large rental housing corporations. These dynamics are increasingly dominated by what we call 'financialized landlords,' including those owned or run by private equity funds, financial asset management corporations, and real estate investment trusts (REITS). Such firms float securities on domestic and international markets and use the proceeds to purchase older rental buildings charging affordable rents, and then apply a range of business strategies to extract value from the buildings, existing tenants and local neighbourhoods, and flow them to investors. This paper documents this process in Toronto, Canada's largest city and a city experiencing both sustained gentrification and advanced suburban restructuring. The financialization of rental housing in Toronto was enabled by neoliberal state policies to withdraw from social housing, deregulate rental protections, and decontrol rents – creating an affordability crisis for tenants and an opportunity for investors to profit. The paper maps out the history and locations of buildings that have been purchased by various financial investment vehicles, and analyzes the various strategies that such firms have adopted. We document two key strategies for extracting value, which we call squeezing, and gentrification-by-upgrading and show how these two strategies are conceptually and spatially linked in speeding up the restructuring of the social geography of the city.

1. Introduction

Since the end of the global financial crisis (GFC), media reports have documented increasingly aggressive activities of a number of new landlords in Toronto. For example, in 2014, tenants across the city in buildings bought by Akelius Canada Limited, a Swedish-based, Bahamas-registered private real estate company, began to notice changes in the way their homes were being managed. Building-wide renovations were initiated, superintendents were fired, vacant units were remodelled, and rent increases pursued (Gallant, 2014a, 2014b; Spurr, 2014). This "repositioning" of apartment buildings has been adopted by other landlords as well, most of whom were new to Toronto's rental housing market, representing a shift from the practices of 'mom-and-pop' landlords who have traditionally dominated apartment ownership in the city.

Such trends are being driven by a new breed of what we call 'financialized landlords,' which include real estate investment trusts (REITs), private equity funds, financial asset management firms, and other investment vehicles. In this paper we explore the financialization of rental housing in Toronto, tracing the entry of these new players into the city's multi-family residential sector in the late 1990s, and the intensification of their activities post-GFC. In addition, we explore the impacts of this shift on tenants and on patterns of spatial inequality in the city. In Toronto, low-rent apartment buildings are a final frontier for gentrification, remaining as last bastions of affordability amidst landscapes of gentrified retail and low-rise housing (Walks and Maaranen, 2008a). The (re)discovery of apartment buildings as a basis for capital accumulation has changed this reality, as these actors apply resources and sophisticated asset management strategies to upgrade, flip, and gentrify entire buildings. In non-gentrifying areas, meanwhile, financialized landlords squeeze revenues from lower-income tenants in aging concrete tower blocks. State policy has enabled this trend through

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legislation to create new vehicles for financial investment in real estate, and through policies to decontrol rents, deregulate tenant protections, and withdraw from social housing provision. These policies have resulted in a landscape of crisis for tenants and of new opportunities for diverse investors.

This paper explores how the financialization of rental housing is re-shaping Toronto's urban rental housing market and in turn restructuring the social space of the city. We begin with a discussion of financialization, and the financialization of rental housing in particular. Next, we explore the context for this, tracing the history of rental housing in Toronto, and how state policy has remade multi-family apartments into a profitable target for financial investors. We then look at the actors re-shaping Toronto's rental housing market, focusing on their motivations, business models, and geographic investment strategies, both before and after the GFC. We shed light on how the differential strategies of financialized landlords facilitate displacement and gentrification in the inner city, while intensifying hardship for tenants as well as concentrating lower-income tenants in the post-war suburbs.

2. The financialization of multi-family rental housing

While much of the focus in the literature, particularly since the GFC, has been on the financialization of owner-occupied housing through mortgage securitization and the like (e.g. Aalbers, 2008, 2016), multi-family rental housing has also increasingly been treated as a financial asset (Fields, 2014; Fields and Uffer, 2016; Teresa, 2015). Financialization refers to structural changes in the operation of capitalism in which finance has come to play an increasingly dominant role in the economy and everyday life, with broad reaching and transformative impacts (Arrighi, 1994; Boyer, 2000; Epstein, 2005; Krippner, 2005; Soederberg, 2014; for a critique, see Christophers, 2016). Financialization represents a shift in the source of profits, in which "profit-making occurs increasingly through financial channels rather than through trade or commodity production" (Krippner, 2005). It is marked by the increasing penetration of financial practices, logics, and strategies into non-financial sectors, including the housing sector. Speaking to its extensive scope, Aalbers (2016, 2) defines financialization 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." In turn, financialization is transforming the way decisions are made in the business world, with the goal to maximize short-term "shareholder value" dominating corporate governance at the expense of competing priorities (Froud et al., 2000; Clarke, 2014).

Over the past few decades, housing markets have increasingly become entangled with finance, linking the fates of homeowners and renters to volatile financial markets (Aalbers, 2016; Rolnik, 2013). Housing has always been a unique commodity, in which the contradiction between its "use value" as a home, and its "exchange value" as a saleable commodity, can lead to tensions in housing markets, policies, and day-to-day experiences of homeowners, landlords, and tenants. With financialization, these tensions are intensified, with housing treated as a purely financial asset at the expense of the people who view it as shelter. Haila (2016) associates financialization with a new "land regime" in which all land is treated as an "asset and object of speculative investment," assessed exclusively in terms of its potential yield – making it more vulnerable to speculation and financial cycles (33). According to Rolnik (2013, 1059), housing has represented a new frontier for finance capital in recent decades, with its value turning on the "possibility of creating more value." This depends on ever-faster transaction velocity to generate value appreciation. To this end, securitization, which takes opaque, illiquid, and unique assets – like housing and real estate – and repackages them into "standardized, transparent, and interest-bearing securities for resale" listed on public exchanges or proffered in securities markets (Gotham, 2009, 357) – has become a key technology of financialization. This process enables the creation of "liquidity out of spatial fixity" (Gotham, 2009) providing new opportunities for global finance capital to penetrate formerly untapped sectors and communities, to integrate these with financial markets, and to extract vast profits. Notably, a number of scholars (Aalbers, 2016; Wyly et al., 2006, 2009; Wyly and Ponder, 2011) have found that financialization stimulated more predatory forms of lending and investment, and has disproportionately harmed vulnerable people, including women, the elderly, and members of racialized communities.

While literature on the financialization of housing has focused largely on homeownership, scholars point to the financialization of multi-family rental housing in places such as New York City (Fields, 2014; Teresa, 2015; Wyly et al., 2010), London (Beswick et al., 2016), and Berlin (Fields and Uffer, 2016). This involves the acquisition of multi-family properties by private equity funds, REITS, hedge funds, institutional investors (pension and sovereign wealth funds), and the like. In New York City, Fields (2014) found that private equity funds aggressively began to target rent stabilized multi-family housing in the mid-2000s, buying up 10% of the city's total supply (about 100,000 units) between 2005 and 2009. Sudden interest in this sector was driven by the availability of cheap financing, strong local demand for rental housing, and rent control deregulation in the 1990s enabling "vacancy decontrol", in which landlords can dramatically increase rents upon unit turnover. This shift transformed patterns of ownership of rental housing in New York, according to Teresa (2015, 2), "from a previous generation of local, independent landlords to short-term private equity owners". Rather than being owned by a landlord or housing company, ownership of apartments is increasingly spread among a diffuse array of investors (in relation to their share of securities), who share in the income stream generated by monthly rents. These types of landlords, according to Haila, are focused exclusively on investor yield, "accelerating land use changes and displacing those users who cannot afford to pay higher rents" (2016, 212). Among housing advocates, this style of investment has been termed "predatory equity" (Fields, 2014), since yield is often achieved via practices that harm residents, such as cutting costs or initiating displacement.

Financial players adopt a range of strategies to profit from multi-family housing, depending on geographies of market conditions. Fields and Uffer (2016) found that in strong markets facing gentrification pressures, private equity firms have opted to upgrade properties: renovating, raising rents, and often flipping buildings. In weaker markets, profits came from effectively leveraging credit to take advantage of low interest rates and to focus on lower-rent segments of the market (Fields and Uffer, 2016). Teresa (2015, 9) found that in non-gentrifying parts of New York's outlying boroughs, private equity firms opted to strategically under-maintain and raise rents in buildings occupied by low-income and immigrant populations, who – given their limited housing options – are often forced to absorb rent increases and accept reduced service. In all cases, there have been reports of negative impacts on tenants, who face an assortment of rental increases, reduced maintenance and accelerated neglect, disruptive renovations, harassment, eviction, and displacement (Teresa, 2015; Fields and Uffer, 2016).

This nascent literature implicates financialization in the restructuring of the social geography of the city. The process has been associated with heightened gentrification pressures, and the creation of exclusive enclaves for an emergent financial class, alongside increased displacement and housing insecurity for working and marginalized groups (Lees et al., 2008; Rolnik, 2013). In New York City, for instance, low-income renters displaced from gentrifying areas were found to be more likely to re-locate to poorer neighbourhoods and "the more distant zones of the outer boroughs" (Wyly et al., 2010, 2614) where rents remained more affordable. In understanding how financialization reshapes the social geography of the city, the roles of financialized landlords and their varied strategies have received little attention, and it is not yet clear