v7 Financialization and the assetization the private rental real estate sectors - the case of Liverpool

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Financialization and assetization of the private rental real estate sector: the case of Liverpool

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Abstract

This research uses key actor interviews to construct a theoretical model with which we examine the impacts of foreign direct investment (FDI) from secrecy jurisdictions into Liverpool’s private rental real estate sector. We found that the key actors in our interviews were informed to different degrees about the role of secrecy jurisdictions and did not differentiate between the different types of FDI. All of the interviewees identified FDI as a major factor influencing urban regeneration trajectories and their impact on communities and the city. Thus, while we sought to focus attention on offshore financial flows, the key actors focussed our attention on the several regeneration projects that have been undertaken in the city. The model encompasses economic, housing, and community dynamics, highlighting the tensions and concerns raised by different actors.

Keywords: Secrecy jurisdictions, private rental sector, assetization, community dynamics, urban regeneration

Introduction

This qualitative research project utilises ten semi-structured interviews to explore the views and interpretations of key actors, (academics, local politicians, and housing policy researchers), regarding the changes in the city’s development resulting from capital inflows from secrecy jurisdictions into the private rental real estate sector in Liverpool. We selected these key actors because we considered them to be knowledgeable and informed in the subject area. By examining the effects of secrecy jurisdiction investment in the private rental sector (PRS), and how it affects urban change, and community dynamics, these interviews contribute to existing literature and enhance our understanding of financialization as a socio-economic process.

Qualitative research methods are employed to address gaps in the literature that often overlook these sociological, political, and cultural aspects that are not captured in standard statistical economic analyses. While qualitative approaches are not widely utilised in economics, there is a growing recognition of their strengths in contributing to economic knowledge (Starr, 2014). This research adopts a critical perspective and emphasises the value of case studies and open-ended interviews (Piore, 2006) to yield empirical and theoretical insights unavailable through quantitative sources alone (Hill and Meagher, 2006).
We view this research as an exploratory first step devoted to theory building that contributes to the ongoing development of theoretical understandings that connects secrecy jurisdictions and the private rental real estate sector. Theories are important because they help to identify gaps or inconsistencies within existing knowledge and offer ways to address them. They provide a basis for examining conflicting findings, exploring new dimensions or perspectives, and integrating diverse research findings into a coherent framework (Kuhn, 2012). In a knowledge area which has largely been under-researched and where there is a paucity of theoretical interventions, our research aims to provide first steps towards the construction of a theory of secrecy jurisdiction FDI and the private rental market that advances knowledge and offers insights into effective strategies, mechanisms, and interventions that can be applied to real-world situations.

The Organization for Economic Cooperation and Development (OECD) defines FDI as, “a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy.” (Assagaf et al, 2023). There is no existing theory of FDI that addresses FDI from secrecy jurisdictions. Instead, all FDI is theorised under the same general formulations that are sharply divergent depending on which school of thought they come from. According to the neoclassical perspective, FDI occurs when a firm invests in a foreign country to take advantage of lower production costs, access new markets, or utilise specific resources or technologies (Froot, 2008). Firms engage in FDI to benefit from factors such as cheaper labour, natural resources, skilled workforce, favourable regulations, or proximity to customers (Froot, 2008). The decision to engage in FDI is driven by profit-seeking behaviour and the desire to expand operations and increase market share. Neoclassical economics argues that FDI brings several potential benefits (Bhagwati, 2004). In contrast, the political economy approach to FDI emphasises the interaction between politics, economics, and power dynamics in shaping FDI patterns and outcomes (Strange, 2014). This approach recognizes that FDI is not solely driven by market forces but is also influenced by political factors and the distribution of power. Political economy scholars argue that FDI is shaped by a variety of political and institutional factors, including government policies, regulations, legal frameworks, political stability, and the negotiation power of different actors involved (Strange, 2014, Dicken, 2007). They highlight that the decisions and actions of governments, multinational corporations (MNCs), and other relevant stakeholders play a crucial role in shaping FDI flows and their impacts on host countries (Dunning and Lundan, 2008).

Both mainstream economics and political economy approaches to FDI can be characterized as top-down theories. Top-down theories typically focus on systemic and macro-level factors, such as aggregate economic indicators, national policies, market forces, and international dynamics. They analyse FDI from a broader perspective,
considering the interactions between various actors and institutions at the macroeconomic level. In our approach we set out to build a bottom-up theory that we believe can offer valuable insights and complement the understanding of FDI by focusing on micro-level dynamics, local actors, and individual-level thinking and behaviour.

The rest of this article is laid out as follows; in part one we set the stage by connecting a comment from one of the key actors to the financialisation thesis that serves as the theoretical foundation stone for this study. The purpose here, is to show how an observation on the provision of two hundred homes in a peripheral geography connects global finance, financial innovation, and secrecy jurisdictions to the PRS. In part two we extend these theoretical foundations to explain the change in the perception of homes from use values to exchange values (Aalbers, 2016. Lefebvre, 1974). This allows us to elaborate on the primary drivers in this process that we attribute to the alternative asset industry and the role of insurance companies, private equity firms and pension funds as assetizers of homes, houses, and the built environment in general. In part three we demonstrate how we apply discourse analysis to our key actor data sets to yield insights on the history of Liverpool that we subsequently use for model building. Part four reports and discusses the insights (and implications) derived from our analysis of the key actor interviews. The focus is on how community dynamics and urban change are affected by FDI, regeneration, and uncertainty (all recurring themes across the key actor interviews). In part five, we combine the insights from the previous sections to develop a theoretical model with three component parts, housing dynamics, community dynamics and financial-economics dynamics. The model is intended to deepen our understanding and to contribute to the building of theory that addresses sociological, political, and cultural gaps in the literature. Part six concludes.

1.0 Finance led-real estate backed

Key actor FJ is a local councillor that we interviewed by phone on 20/11/2020. He was the only key actor who spoke about conditions in the ward that he represents. He says:

"More broadly, in terms of what the private market’s doing...I think it’s the Qatari seven wealth fund, they are partnered wup with Legal and General and they delivered over 200 built to rent houses on brownfield land...International investors can see that XXXX has a strong market."

His reference to Legal and General’s partnership with Qatar’s sovereign wealth fund (SWF) reflect his understanding of developments in finance and real estate that broadly speak to the financialisation thesis that forms the theoretical foundations for our study. Financialisation refers to the increasing dominance and influence of financial markets and institutions in the economy, as well as the growing importance of financial motives, instruments, and strategies in shaping economic activities - it is a process through which financial markets, actors, and activities take on a more prominent role in the
allocation of resources, the functioning of economies, and the overall organization of society (Krippner, 2007). The process involves the expansion of financial sectors, the rise of financial innovations, and the growing interconnectedness between financial markets and the real economy. It is characterized by a shift towards financial transactions, such as trading stocks, bonds, derivatives, and other financial products, becoming more prevalent and significant compared to traditional forms of economic activity, such as manufacturing and production. It is often associated with an increased focus on short-term financial gains, financial speculation, and the prioritisation of shareholder value and financial performance over other social or economic goals (Lazonick and O’Sullivan, 2000). Financialisation has been linked to various consequences, including increased income and wealth inequality, the concentration of economic power, financial instability and crises, and the erosion of social welfare provision (Epstein, 2005).

Our roots are firmly in the financialisation literature; however, we deviate from commonly held views and emphasise the role of corporate entities in weaving together finance and real estate into a finance led-real estate backed\(^1\) mode of accumulation. Explaining how and why Legal and General set up operations in Liverpool, requires an examination of the corporate forms and dynamics that frames the behaviour of the modern corporation. Thus, our interpretation of the financialisation thesis has a lineage that extends back to Berle and Means (1932), who contend that due to this separation of ownership and control, the interests of managers might diverge from those of shareholders. They highlight potential issues related to managerial discretion, risk-taking, and the use of corporate resources and argue that this separation leads to a divorce of economic from political power, as the managerial class gains considerable influence and control over economic resources without direct accountability to shareholders or society at large\(^2\).

In our interpretation contemporary capitalism is finance driven and real estate backed, we mean by this that today’s capitalism is driven by financial motives and real estate supports these imperatives by acting as security for paper transactions in the financial realm. Real estate securitises the transactions – it functions as the collateral that stands behind and backs the circulation of paper claims on its own resources and endowments.

\(^1\) Adapted from Hoffman and Aalbers 2019 article in which they described the mode of accumulation as finance led-real estate driven. We employ a narrower frame of reference and construe the process based on the financial transactions that it is built where the real commodity stands behind a derivative financial paper claim.

\(^2\) Mason (2017) discusses the concept of managerial capitalism and in his theorisation the main idea is that effective control of large corporations was passed from owners and shareholders to managers, and that managers would pursue objectives of size and growth.
The literature that informs our study is in broad terms of three types, first there is the urban regeneration literature that our field research suggests is a dual or the representation of secrecy jurisdiction FDI at the local level. Second there is the literature devoted to examining the relationships between finance, financial innovation, housing, and the distributional consequences of urban growth (Dymski and Veitch, 1996), and third, there is the literature on secrecy jurisdictions. In conceptual terms urban regeneration provides the geographies and neighbourhoods into which finance capitalism can further integrate and entwine itself with real estate such that real estate is cast in the role of insurer or underwriter for financial transactions.

In Britain and Europe, since the 1980’s, urban regeneration has been increasingly framed within the literature and discourse of public-private sector partnerships. This approach emphasizes collaboration between government entities and private organizations to drive urban development and renewal initiatives. This shift towards collaboration between public and private entities can be observed in various case studies. For instance, Lawless explores the Sheffield Central Area Study, which showcases an example of partnership in an English provincial city (Lawless, 1994). Similarly, Bezmez (2008), examines efforts to regenerate Istanbul’s urban waterfront area of Halic, highlighting the role and power dynamics of the actors involved. In both cases, there is a recognition of the initial top-down approach of public sector actors, followed by limited private sector involvement and mixed responses from local communities.

Rhodes (2009), examines the role and impact of the private sector in urban regeneration and social housing in Ireland. The study reveals the lack of influence by the private sector over key elements of urban regeneration in Ireland and the trade-off between decreasing costs borne by the taxpayer and increasing costs to social housing tenants (Rhodes, 2009). Moreover, it highlights the emergence of special project agents as facilitators in the process. Viola outlines a regeneration strategy that emphasizes the role of the third sector and the PRS in achieving sustainability (Viola, 2017). The study acknowledges the growing demand for PRS in advanced economies and the need to address the concentration of supply in mid-market segments, along with possible explanations for this trend. Examining the case of Puerto Madero in Buenos Aires, Bianchi discusses how a "Dynamic Performance Governance" framework supports policy networks in pursuing sustainable community outcomes through private sector involvement. This case study demonstrates successful urban renewal achieved with significant private sector engagement (Bianchi, 2019).

These various studies highlight the significance of public-private sector partnerships, the role of community and the need for alternative approaches to mortgage finance.

In the literature specifically devoted to examining the relationship between finance, housing, and the distributional consequences of urban growth, Fields addresses the
integration of housing and financial markets, specifically examining the impact of "predatory equity" on affordable housing during the mid-2000s real estate boom (Fields, 2015). For Chicago, Wyly et al. explore the linkages between reinvestment, housing finance, and the reinvention of assisted housing (Wyly et al., 2000). Here, the research focuses on the transformation of Anglo-Saxon mortgage finance, discussing the lengthening of mortgage networks, the involvement of capital markets, and the development of mortgage-backed securitization (MBS) techniques (Wyly et al., 2000). Both discuss the role of community organizations in counteracting negative effects and the transformation of mortgage finance. And both explore the potential for community organizations to develop innovative practices to counter the negative effects of financialized capitalism on affordable housing. In another study exploring the relationship between finance and housing, Langley (2006) draws on Foucault (2013) and actor-network theory to focus (again) on the transformation of Anglo-Saxon mortgage finance. This transformation is understood to entail increased interconnection with the multiple networks of the capital markets; the remaking of suburban subjects as property investors in order to produce and extend mortgage borrowing in a booming housing market; and, in particular, the constitution of MBS techniques through the calculative tools of off-balance sheet accounting, asset management, and credit rating.

Our research has most in common with the work of Goulding et al, 2023, on Manchester, thirty-four miles to the southeast of Liverpool. Both are post-industrial cities in the northwest of England and in our case, we wanted to examine how the financialization of private rental housing played out in an urban setting that was unlike the first-tier cities that most of the urban research in the field concentrates on. In their article they discuss the financialization of the build-to-rent sector in Greater Manchester. It examines the role of transcalar territorial networks, which include various actors and institutions at different scales. The study investigates how these networks influence the financialization of the sector and its impact on housing, rental market dynamics, and urban development. By focussing on the role of local state actors, the “transcalar” nature of financialization and the diversity of the financial actors involved, both of our studies contribute to understanding the relationship between financialization and housing in urban contexts. The differences are twofold; firstly, we emphasise the role of the Alternative Assets (AA) market through its actors, products, and vehicles in a newly emergent, latent tendency towards the assetization of the real estate and the built environment. The second difference is empirical, we concentrate on the PRS and Goulding et al, on the build-to-rent (BTR) sector. The key difference lies in ownership and purpose. The PRS encompasses rental properties

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3 Anglo Saxon refers to the English-speaking countries such as the United States, United Kingdom, Canada, Australia, and New Zealand. The term highlights the cultural and linguistic context.
owned by individual landlords, whereas the BTR sector is associated with institutional investors or developers constructing or acquiring purpose-built rental properties.

We turn now to the literature on secrecy jurisdictions. In general, there are five main strands to the literature on secrecy jurisdiction investment; In the first, the main focus is on exploring the historical origins, growth, and impact of offshore finance centres and tax havens. It examines the tax advantages, financial secrecy, and regulatory environment that attract individuals and businesses to these jurisdictions, as well as the challenges they pose for global tax systems. This literature involves the research outputs of the professional economists of the Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), the other multilateral bodies and the academic work of Hampton and Abbott (1999), and journalistic reporting of Shaxson (2013). In the second, the main focus is on understanding the implications of overseas investment for regional house price divergence, specifically in Britain. It discusses how overseas investment affects demand, concentration in prime areas, displacement of locals, and housing affordability. The emphasis is on addressing these implications through policy measures (Hamnett and Reades, 2019). Thirdly, there is the Global Wealth Chains, Global Value Chains, and Global Inequality Chains literature that discusses how wealth chains involve the flow of wealth and capital across borders (Seabrooke and Wigan, 2017, 2022, McKenzie and Atkinson, 2020), how value chains depict the process of production and distribution across countries (Gereffi et al., 2014., Durand, and Milberg, 2020), and how these chains can perpetuate global inequality (Quentin and Campling, 2018, Campling and Quentin, 2021). This strand of the literature emphasises the need for tax justice, and for efforts to address global inequality through fair trade, inclusive economic policies, and reducing disparities in access to resources. A fourth strand in the literature engages with the lack of transparency and the illicit use of money (i.e., money laundering, kleptocratic transactions, outright tax evasion and other criminal activity), by secrecy jurisdictions. This would include the investigative journalism of the International Consortium of Investigative Journalists (ICIJ), the global action social campaign work of the TJN as well as the academic work of Sharman (2017), Fitzgibbon et al., (2023) and the public information journalism of Bullough (2018). Our work differs in its intent, we aim to build bottom-up theory that can be applied to the sector. In this way our work has an analytical aspect similar to that found in the work of Haberly and Wójcik, (2015), Garcia-Bernado et al. (2017), and McKenzie et al., (2023), that constitutes the fifth strand in the literature that can feed into an analytical model capable of producing generalisable propositions and results.

Notwithstanding the different literatures and approaches, we frame our case study around the idea of the securitizing and assetizing capabilities of the alternative assets market and its revolutionary effects in the transformation of contemporary housing systems.
2.0 Alternative assets

Since the 2008 – 2009 Great Financial Crisis (GFC), AA as an asset class has experienced significant growth. According to Prequin⁴, the industry’s assets under management (AUM) grew from $3.1 trillion in 2008 to more than $10.2 trillion in 2019 (Prequin.com). This represents a more than threefold increase over a decade. The growth is expected to continue, with predictions that by 2025, total AUM are projected to reach $17.2 trillion (Prequin.com). In the literature the growth of the sector has been driven by factors such as the decline in interest rates, the search for higher returns in a low-yield environment, and competition among industry entities to offer innovative financial products (Mohan, 2008. Lysandrou and Shabani, 2018).

Major investment firms and financial corporations, under the stewardship of AA managers, have identified real estate as a novel asset class and a prominent recent feature of their operations is large-scale investment strategies that involve the acquisition of single-family rental houses for inclusion in their investment portfolios (Hochstenbach & Ronald, 2020). We suggest that investors, pension funds, the AA managers, and real estate service companies act as agents of assetization within the real estate sector. Assetization refers to the transformation of tangible assets, such as real estate, into financial instruments that can be traded on financial markets (Birch and Muniesa, 2020; Birch and Ward, 2022, 2023). Securitization refers to the process of transforming illiquid assets, such as loans or mortgages, into tradable securities (McKenzie, 2011). This process involves pooling together a group of similar assets and turning them into a financial instrument that can be bought and sold on the market. By securitizing these assets, issuers can raise funds by selling the securities to investors. The cash flows generated by the underlying assets serve as collateral for the securities, providing investors with a return on their investment. In our interpretation assetization and securitization are closely related processes that involve transforming illiquid assets into tradable securities. Both terms refer to the concept of creating financial instruments from underlying assets to make them marketable and enable investors to buy and sell them (Bryan and Rafferty, 2006). This transformation has been made possible through the introduction of innovative financial products and structures, including real estate investment trusts (REIT) and MBS. These instruments allow investors to enjoy the benefits of property ownership without the direct responsibilities associated with it as in Berle and Means (1932).

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⁴ Prequin, a privately owned enterprise based in London, specialises in the provision of financial data and insights pertaining to the alternative assets market.
The implications of these processes are significant. Real estate, which was traditionally seen as a tangible asset generating long-term returns through rental income and property value appreciation, is now considered a tertiary asset similar to stocks and bonds (Lizieri and Ward, 2012). The development of REITs and other securitization methods has simplified the process of investing in real estate. This, coupled with the growing demand for short-term returns and liquidity in investment markets, has further contributed to the growth of assetization (Lizieri and Ward, 2012).

Going back to our interviews, JF (speaking about the ward he represents) frames the problemata for this research, he ends his reflection on the Liverpool model of urban renewal with,

“...it saddens me that homeownership isn't affordable for these people and that they're looking to rent.

We take up this critical issue of affordability in our discussion section later in the article.

3.0 Discourse analysis – Liverpool’s history

Our research focuses on the Liverpool Metropolitan area - Knowsley, Sefton, St Helens, the Wirral, and the city of Liverpool. With a population of 1.4 million people, it ranks as the fifth most populous region in England (ONS UK, 2018). Historically, the region has experienced high levels of inequality and deprivation compared to other areas in England. A key factor that significantly improved the economic prospects of the region was its designation as a deprived EU 'Objective 1' area by the European Union in the mid-1990s (Mulhearn and Franco, 2018). This designation resulted in substantial funding that supported various transformative projects, including improvements to the waterfront, airport, and rail infrastructure. Additionally, Liverpool’s successful bid to be the European Capital of Culture in 2008 further contributed to enhancing private sector perceptions of Merseyside (Garcia et al., 2010, cited in Mulhearn and Franco, 2018). Consequently, Merseyside's economic progress has been remarkable, with GDP levels reaching the EU average (Garcia et al., 2010). Thus, EU sponsored rejuvenation has created favourable conditions for capital investment, attracting investors interested in exploiting future growth in rental yields and asset-value appreciation (Eldred, 2012). Liverpool now offers highly competitive real estate returns compared to other regions in England and Wales. These conditions strongly suggest the existence of a state-sponsored form of rent gap, where investment is encouraged due to the expectation of future returns.

The rent gap is a term coined by the geographer Neil Smith to describe the disparity between the actual rent being paid for a property and the potential higher rent that could be charged if the property were to be upgraded, redeveloped, or located in a more desirable area. The rent gap occurs when there is underutilization or underinvestment in a particular property or neighbourhood (Smith, 1979, 1982). Given Liverpool’s longer
and more recent history we take up the issue of rent gaps in Liverpool in the next section.

In this section we demonstrate how we apply the method of discourse analysis to our interview data. Discourse analysis involves analysing language use to uncover underlying meanings, power dynamics, and social constructions (Foucault 2012, Fairclough 2013). For illustrative purposes we focus on the language used by JP and KJ (two of the key actors), to describe the community dynamics in Liverpool over its history.

According to JP (Academic working at one of Liverpool’s universities, 18/11/2020, Zoom):

"Liverpool has for 80 years had more housing than people so the pressures around gentrification… And in Liverpool you could buy a house like that for 250 or 300,000 - basically half the price it would cost in Leicester and that’s because there isn’t a great deal of pressure on that level of middle-class home in Liverpool."

This narration emphasises the oversupply of housing for the past 80 years. The surplus keeps prices low for middle-class homes compared to other cities like Leicester. The mention of gentrification suggests that the affordability of housing in Liverpool has limited the pressures and effects of gentrification, at least on the middle-class housing market. The comparison between the prices of houses in Liverpool and Leicester indicates that Liverpool offers more affordable options for middle-class homes, which may attract people from other areas.

In another reflection on the history of the city, JP states:

"Liverpool is built on trade, we are a port city so we kinda get globalisations… Liverpool’s been over the last 15 years like lots of cities we’ve had population growth built on students coming into the city, and on um migration particularly from central and eastern Europe so there’s not really any resistance to some of that. I guess it’s worked out differently to how we thought it would be."

Here he is emphasising that Liverpool, being a port city with a history and close involvement with the triangular trade of mercantile capitalism understands the concept of globalization. With this background he suggests that Liverpool is naturally receptive to new demographic communities. In other words, it is in the character of the city to welcome new residents from other parts of the world.

KJ (Ex-local councillor, Zoom, 19/10/2020) in her narration reflects on the community dynamics in the Liverpool of the 1970’s and 1980s.

"If they didn’t support one another they weren’t going to be supported at all. Those houses over time were replaced by modern two-story dwellings, mostly,
but some high-rise. And then over time the high-rise became uninhabitable, and they were replaced with modern two-story brick dwellings and conversional sorts, two bedrooms, garden, front, back that sorta thing. Nothing special but strong communities who stayed.”

KJ suggests that in Liverpool, there was a sense of mutual support and community among residents. Over time, older houses were replaced with new ones with varying designs. These new houses were described as, “nothing special,” but the communities that formed within them remained strong and resilient. The quote highlights the importance of community and the ability of residents to adapt and support each other in the face of changing housing conditions.

KJ offers another historical reflection, this time on the Radical Tories of the 1970’s and 1980s. She says:

"But by then we had Margaret Thatcher bring in the right-to-buy. So, let’s say out of a row, they were generally semi-detached or short runs of terraced, so you’d get maybe 4 in a terrace, so 2 middle dwellings and 2 semi-detached at the end and then you’d get a series of those short runs. This is in terms of the general layout of the estate, so maybe out of 15 or 20 dwellings you’d get one which was bought under right to buy but by somebody who really had no experience in the cost of maintaining a home.”

Here KJ discusses the impact of Margaret Thatcher’s "right-to-buy" policy on the housing situation in Liverpool. The policy allowed residents to buy their council-owned homes, and as a result, some of these houses were purchased by individuals who may not have had the experience or means to adequately maintain a home. This suggests that the influx of inexperienced homeowners may have had implications for the condition and upkeep of these properties.

The picture that emerges from these narratives is one in which the city’s history preconditions attitudes to FDI in two main and contradictory ways; first, residents may view FDI positively as it can be seen as a continuation of the economic progress that began with the EU ‘Objective 1’ funding. FDI therefore could bring additional capital into the city, potentially leading to further development and job creation. Alternately, given Liverpool’s longer history of high inequality and deprivation, residents might also be concerned about whether the benefits of FDI would be distributed equitably across the community or whether they would primarily benefit already advantaged groups.

In this section, our aim has been to showcase the implementation of discourse analysis methodology on our qualitative dataset, as well as elucidate the approach we employ to extract key insights from our interactions with the key actors. We specifically focussed on the contextual understanding derived from our conversations pertaining to the city's
history, which we will use as a building block in the construction of our theoretical model.

4.0 Key actor Interviews - findings and discussion

We started our investigation by conducting a textual analysis using Hey GPT to identify the recurring themes across the interviews. The AI returned housing, regeneration, community and social infrastructure, gentrification, and future unsustainability.

JP (Academic working at one of Liverpool’s universities, Zoom, 18/11/2020) frames the economic dynamics of our discussion, he says:

“In Liverpool one of the things that you can acquire quite cheaply is land so it's not already existing property, it's the speculative holdings of land and then the big game is to attract some sovereign wealth fund or other to come and put a couple of billion pounds in to build apartments and try to attract.”

This narrative reiterates the idea that land in Liverpool can be acquired at a low cost, emphasising the potential for speculative land holdings. It suggests that some individuals or entities are acquiring land without an immediate plan or development in mind. He tells us that there is available land for purchase or development in the city, presenting opportunities for investors and/or developers and in his reading, this would mean an emphasis on high-value development projects and attracting external capital.

RX, (Far left party non representative politician, in person, undated) was the most critical of the damage done by FDI flows into the city’s real estate. He pointed us to a newspaper article in the Liverpool Echo that claimed that much of the new dockside development was linked to organised crime. He argued that organised crime in Liverpool has ‘long tentacles,’ and cited a recent death of a crime boss in Liverpool where tributes came from as far away as Birmingham and Belfast as evidence. He also cited a local campaign on housing issues, where an “old lady” was to be evicted from her home so that it could be rented to students. According to RX, the majority of investment is concentrated in Kensington which he describes as a “uni area” and where tenants were evicted in order to house students.

The most uncritical key actor was PM (Senior academic administrator at a university in Liverpool, Phone, 20/10/2020).

“My line on this is we need investment because when we didn’t have investment the city suffered terribly, it wasn’t good for anybody, It wasn’t good for poor people, it wasn’t good for rich people.”

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5 Hey GPT is an artificial Intelligence (AI) large language model developed by OpenAI called GPT-3 (Generative Pre-trained Transformer 3)

6 University area.
RX and PM's interviews evidence divergent opinions, that effectively encompass a wide range of perspectives among key actors. Other interviews fall within these boundaries.

Community dynamics refer to interactions, relationships, and behaviour within communities, impacting social cohesion, cultural diversity, and overall well-being (Jacobs, 2016; Putnam, 2000). Urban change involves transformations in physical infrastructure, land use, demographics, social structures, and cultural patterns, driven by technological advancements, economic trends, government policies, and environmental conditions (Hölscher and Frantzeskaki, 2021). Additionally, community dynamics can influence urban change and vice versa (Sassen, 2001).

Community dynamics are taken up by WD (Professor in the social sciences at a university in Liverpool, Phone, 28/10/2020). He observes:

"The type of investment we have been discussing is a kind of value extraction, it’s not really going to help Liverpool in the long term...I don’t think the local economy is particularly well structured to make demands of investors to make sure they make a contribution to the city. And that’s one of the problems...One of the largest revenue generators in the city is also foreign-owned Liverpool Football Club ... an American company, and the things people are most committed to are owned by owners also extracting money from the city. I think that is a bit of an irony."

He emphasises the imbalance between the short-term gains for investors and the lasting benefits for the local economy and community. He believes that the local economy is not well-structured enough to ensure that investors are required to make meaningful contributions to the city.

WD’s narrative is supported by JP (Academic working at one of Liverpool’s universities, Zoom 18/11/2020) who says:

"The actual nature of the agreement heavily favours the developers; however, it looks like some crumbs fall from the table."

Taken together these statements indicate that a stronger framework is needed to promote responsible investment practices aligned with the city’s long-term goals. The ownership of key assets, like Liverpool Football Club, by an American company raises concerns about its impact on the community. The suggestion is that cherished aspects are not fully contributing to the city’s well-being due to external ownership. The statements underline the need to balance investment attraction with community benefits and sustainable urban change.

The interview with TM (Commission on Reconstructing public housing, in person, undated) provides insights into the community and urban dynamics related to
regeneration, inward investment, housing, and the impacts of economic trends. According to TM:

“The regeneration trajectory has been completely focused on inward investment, people go courting that kind of money, the result is often a high tower on a little bit of land, and we have seen a massive expansion of private renting. It comes in all shades - Some of it is offshore dodgy money, some of it is onshore dodgy money, often taking place through housing market renewal. We have seen a doubling of rents in some cases, 700+, higher cost but same product, private rented forever. Certainly, the city was on its knees, we got into the habit of seeing all development as good development, but that attitude persisted beyond it needing to.”

For TM, inward investment means prioritising high-rise buildings on small plots of land. He sees regeneration as promoting an expansion in private renting with questionable and untrustworthy sources of investment. The end product in his view is higher (at times much higher) costs for the same product. The short story in TM’s narrative is that it is important to reevaluate and question the impact of all development.

PM (Senior academic administrator, Phone 20/11/2020) expressed the following viewpoint:

“What I have said is it's kinda important - the quality of the development is what really matters, we mustn't overdevelop, we mustn't touristify, we mustn't make a ghetto for you know private property where poorer people, normal families can't live..."

PM highlights key aspects of community and urban dynamics in relation to development and inclusivity. The emphasis is on quality development, considering social, environmental, and cultural aspects. In PM’s reading, the most important aspect of the process is the avoidance of exclusionary private property dominance so that balanced and affordable housing could be built into the PRS.

BG (Local councillor sitting on housing and local government boards, Phone, 10/11/2020).

"I just think this issue is about the need for um both good quality of affordable housing and high-end housing. In Liverpool we need more and more high-end housing otherwise we will simply be going into a circle of decline. We need a virtuous upwards circle and that needs some good quality high-end housing to keep people in the city, to spend their money and pay taxes in the city."
According to BG, diverse housing markets serving different income levels fosters a sustainable urban environment. Insufficient high-end housing supply poses a risk of decline and attracting higher income residents contributes to economic vitality and stability. services and infrastructure.

SN (Local councillor, Zoom, 26/10/2020), offers the following viewpoint on gentrification:

"It’s less been about gentrification and more about developing land in areas where there was little economic activity and there wasn’t a lot going on previously... We’ve not had issues with regeneration, I guess the issue is how much we’ve been able to link that development into creating some of those social priorities... the intentions being there, what’s the reality been like and how far you can influence where people are going to invest? And how they’re going to invest."

From SN's perspective, Liverpool's development prioritises revitalizing low-economic areas, rather than gentrification. This signals deliberate efforts to stimulate economic growth and transform neglected areas while considering social priorities. In other words, there is a deliberate policy of creating rent gaps in order to attract private investment. However, questions arise about how effectively development addresses social needs and generates positive impacts.

JY (Policy intelligence officer – Liverpool city region, in person, undated) raises an ideological question related to policy capture in Liverpool. She states,

“There is a heavy dose of MIPIM now – lots of sharing the latest models about how to get it built and finances, where to access the money, looking for parcels of financing for economic development, matching deprived places with streams of finance. There is an element of forms of trickledown understanding in this, but it is so discredited [in the city]”

Le marché international des professionnels de l’immobilier (MIPIM). is an annual trade fair that brings together the world’s largest gatherings of property professionals, investors, and developers, where they come together to network, discuss industry trends, and showcase real estate projects. The first such gathering was held in 1990, its timing coincided with the emergence and rise of neoliberal policies, both events taking place just before Liverpool was granted EU Objective 1 status in 1994. Taken together, we suggest that these events represent part of a generalised global shift towards the public policy ideas of Hayek and others from Mont Pelerin Society (Mirowski and
Our argument is that neoliberalism has played a major role in the emergence and growth of MIPIM and the subsequent development of the global real estate industry. Neoliberalism is an economic and political ideology that emphasises free markets, deregulation, privatisation, and limited government intervention. These policies encouraged the liberalisation of capital markets, removal of trade barriers, and the promotion of investment flows across borders. This ideological framework supported the expansion of international property markets, as investors sought opportunities to maximise returns on investment and developers sought to attract global capital. In this context, MIPIM has acted as the key ideological standard bearer for neo-liberal ideas in global real estate. The results are new forms of urban governance, new forms of public-private partnerships, and new collaborations between developers, investors, and local governments. Its success rests on its ability to convince stakeholders that the general conditions of profitability that it wished to foster in real estate were practical, common-sense arrangements that were not contestable. Thus, in MIPIM’s worldview, professional and calculative practices were all to be accepted as normal, practical, natural, and therefore superior to other social constructions of the real estate industry.

She continues:

“Liverpool Vision and Mayoral Combined Authority and LEP are key geographies – they all seek to tout for international investment, there are Chinese banners everywhere – particularly in the super deprived areas but the citizens feel alienated, angry and ignored in all of this.”

Liverpool Vision drives regeneration and investment in the city, collaborating with the Mayoral Combined Authority and stakeholders. JY notes their role in attracting international investment, particularly from China, to revitalize deprived areas. However, she acknowledges the risk of citizen alienation and frustration. She emphasises inclusive decision-making and ensuring community-wide benefits.

We introduced the article with FJ’s citing Legal and General and Qatar investing in home building in his ward. We return to him for a summary narrative on what has been taking place in the PRS. This narrative succinctly expresses the prevailing sentiment of all of the key actors who to a greater or lesser extent expressed unease as to whether the existing model was appropriate for the city and whether or not it served the city’s housing needs.

FJ offers the following viewpoint.

7 The Mont Pelerin Society was founded in 1947 by Friedrich Hayek and other notable economists and intellectuals. The society was established with the aim of promoting classical liberal and free-market ideas as a response to what they saw as the growing influence of collectivism and government intervention in the economy.
"International investors can see that XXXX has a strong market but... not that I have anything against the Qatari's... but it saddens me that homeownership isn't affordable for these people and that looking to rent because they can't get on the housing ladder even though are housing is quite cheap. I don't know if that's relevant to what we're looking for.”

FJ is proud of the fact that the Qatari SWF had invested in his area, but at the same time he is uncertain and questioned whether it was the type of investment suited to the needs of the community. We found this to be a recurring theme among the key actors.

5.0 Theoretical system dynamics

We found that the local councillors and the senior academic administrator prioritised attracting external investment into the city. For the most part they did not differentiate between FDI from overseas and FDI from secrecy jurisdictions. Based on the patterns of thought, the attitudes, and perceptions that we could discern, there is a strong suggestion that this stance is erected on a belief system that such investment would first bring jobs and employment to the city which in turn would lead to economic growth. Second, for this group FDI meant investment in urban regeneration. Regeneration initiatives were presented as a means to revive and rejuvenate urban areas that have experienced decline or neglect. Regeneration also meant an increase in the range and number of amenities that would improve the quality of life for the ordinary Liverpudlian. In our interpretation, the city’s strategy (as told by the councillors) is based on attracting investments from various sources (including secret jurisdictions), that allows Liverpool to position itself as an attractive destination for global capital, thereby enhancing its reputation as a business-friendly location.

The group of key actor academics and policy researchers were more nuanced in their views. In general, their narratives indicate a world view that prioritises economic development and building apartments as a means of progress. However, we found a fair degree of scepticism over the direction of travel. This group questioned and were critical of the city’s model of development citing disaffection among residents, and a disconnection between the interest of the city and the needs of its residents.

We explain the divergence in thought through a Gramscian lens (see Hoare, 1999). Gramsci’s idea of the organic intellectual suggests that individuals in society represent the interests of specific groups and construct narratives to rationalise those interests. We believe that some interviewees aligned themselves with certain ideologies that shaped their interpretations of the changes in the PRS and the role of secrecy jurisdictions. This is clear in the case of RX, who by his membership of a far-left party has aligned himself with the more critical political economy tradition of Karl Marx. Of course, there are other explanatory factors - the councillors in contrast have placed their faith in foreign investment that they believe offers them the best chance of
delivering services and amenities to their constituents. Thus, the interests and incentives of each group can also influence their perspectives. While academics might be driven by the pursuit of knowledge, local politicians may be motivated by electoral considerations and the desire to serve their constituents. Housing policy researchers could have a more technical and practical approach. Differences in methodological approaches employed by academics, policy researchers, and local politicians can also contribute to the divergence of ideas. In our assessment it is the local councillors and the senior academic administrator, that so far are the most influential in persuading other stakeholders that the existing MPIM guided PRS arrangements are common sense arrangements. Thus, the commonly held view is that regeneration is a harbinger of progress and modernisation.

In theorising the interviews, the regeneration trajectory serves as the central theme, while investment sources, regeneration outcomes, social impact, market dynamics, and attitudes and perceptions interact to shape the overall discourse and outcomes of the process. The key actor interviews help us to organise our theoretical model with a focus on three interconnected components: economic dynamics, housing dynamics, and community dynamics. The economic dynamics component contains two divergent tendencies; first the inflow of capital from secrecy jurisdictions is modelled as a form of value extraction that may not benefit Liverpool in the long term, and simultaneously as a catalyst that motivates economic growth and development of the city. At any one time the tendency which dominates is largely determined by the balance of power held by the other two components of the system.

With regard to the housing dynamics, the chief feature of the regeneration trajectory is the courting of inward investment. The investment promotes the expansion of private renting, driven by both domestic and offshore money, and its contribution to rent gaps. At the extreme the system is characterised by generalised speculative investments and substandard housing conditions that result in lower rental values compared to the potential of the properties. The community dynamics include the alienation and anger, perceptions of neglect, and the disconnectedness of the residents resulting from a lack of balance and quality and an overemphasis on high-end housing that neglects the need for affordable housing options. Thus, our model is built around the tensions and concerns raised by different actors and how they see the development process.

As to the motor that drives the system that we have defined as a finance led – real estate backed mode of production, the large insurers investing in AA can be analysed around the same set of dynamics above. Under economic dynamics large insurers investing in AA, such as real estate, bring significant capital into the Liverpool PRS. On the one hand, this can stimulate economic growth, job creation, and drive local development projects. On the other hand, it suggests a consolidation of ownership and therefore, potential rent increases that can contribute to displacement and community disruption in certain neighbourhoods. This may result in social and cultural changes as
tenants are priced out of their communities. Concentration of ownership also suggests a diminution of competition and an increasing influence over rental pricing and market dynamics. Oppositely, the entry of institutional investors can affect rental market dynamics by increasing competition for properties, leading to higher rental prices in certain areas. In general, institutional investors are primarily driven by financial returns on their investments. This profit-driven approach can complicate efforts to achieve a more balanced and equitable economic environment. Market volatility and systemic risk are also brought into focus. While these entities are typically equipped to manage and mitigate risks, their involvement in alternative real estate asset markets can contribute to market volatility. Economic downturns or disruptions in the financial sector can therefore have effects on the housing market, potentially affecting both landlords and tenants.

As with all models our model is subject to limitations; to address these limitations the model could be extended to consider three additional factors:

i. Power dynamics and political influences play a significant role in shaping PRS outcomes. Analysing the interests and motivations of key stakeholders, such as the overseas investors (like the Qatari SWF mentioned by FJ), property developers, and institutional investors, can shed light on how their agendas impact decision-making processes. This would bring the social justice and equity implications more into focus.

ii. The causal and feedback relationships between high-rise developments, state created rent gaps, gentrification (Lees, 1994, 2007, 2014) are important in determining outcomes and are largely underexplored in this exploratory research. The model should therefore be extended to take this into account.

iii. Crucially the model could be extended to consider the issue of transparency and accountability. By critically assessing whether the sources of investment are subject to scrutiny and regulation and examining the mechanisms in place to ensure accountability a comprehensive analysis of the nexus between secret jurisdiction FDI and the regeneration process can be achieved.

Taking these factors into account will provide a more holistic understanding of the interrelationship between the variables and enable a more informed evaluation of their social, economic, and political implications.

6.0 Conclusion

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8 The entry of large institutional investors may also pose challenges for smaller landlords who may struggle to compete with the financial resources and scale of these institutional investors.
This research has sought to investigate the impact of inward investment from secrecy jurisdictions into Liverpool’s PRS. In so doing we have highlighted the importance of secrecy jurisdictions in global capital flows and the important role that the AA market and the global financial system plays in the process of assetizing housing. In the context of Liverpool, we suggest that key financial actors, through their use of REITs, plays a significant role in the assetization of the local PRS. This underscores how the assetization process has transformed how we perceive and utilise real estate as an investment asset.

Our analysis revealed varying levels of knowledge among the key actors interviewed regarding the role of secrecy jurisdictions. Key actors did not differentiate between the different types of FDI, all three groups identified it as a major factor influencing urban regeneration trajectories and their impact on communities in the city. Thus, while we sought to focus attention on offshore financial flows, the key actors focussed our attention on the regeneration projects that have been undertaken in the city. In other words, in the key actors’ narratives, regeneration emerged as a dual or was synonymous with FDI of all types.

As articulated by the key actors, secrecy jurisdiction FDI (and FDI in general) plays the key role in determining the regeneration trajectory in the city. A heavy focus on attracting inward investment serves as the central theme shaping the discourse. At the extreme ends along a continuum of possible outcomes, we find on the one hand, that the dynamics are such that the construction of high-rise buildings on limited land, leads to an expansion of the private rental market and significantly increased rental prices. At the other end of the continuum, we find a substantial contribution to GDP and employment.

Our study highlights the multifaceted impact of secrecy jurisdiction FDI on the city of Liverpool, shedding light on the interplay between economic growth, housing market dynamics, and social implications. It represents a necessary first step towards an analytical model with generalisable results that we can use to deepen understanding, explain, and predict the impacts of secrecy jurisdiction FDI on the evolving urban dynamics of a financialized and assetized PRS in cities like Liverpool.

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