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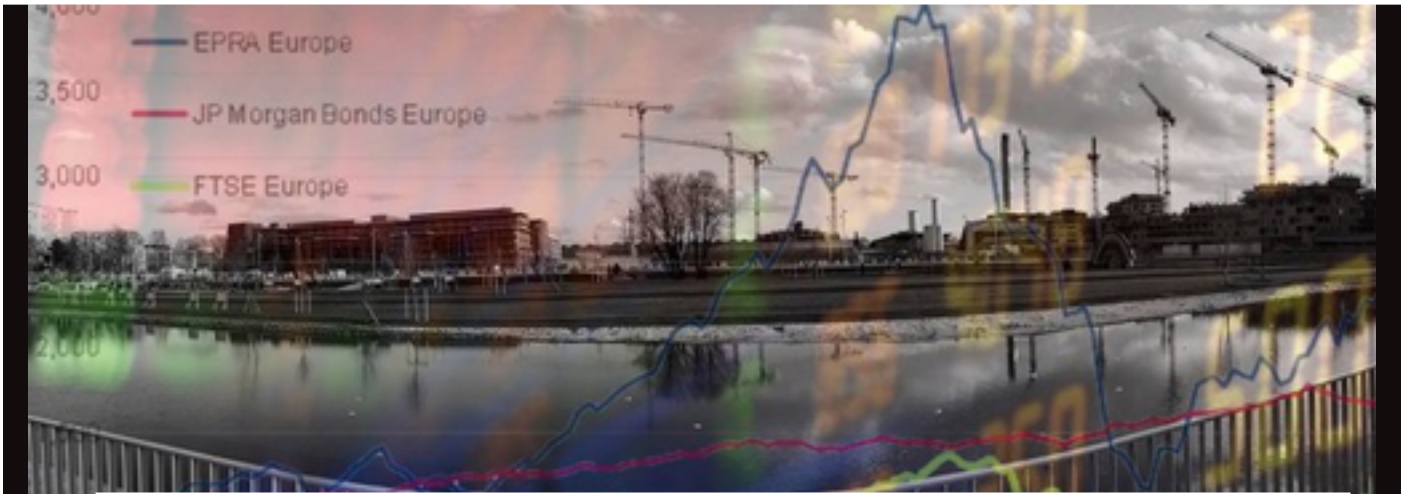

Series

Cities in the Age of Financialization

Martine Drozdz & **Antoine Guironnet** & **Ludovic Halbert** & translated by **James Christopher Mizes** & **Oliver Waine** - *18 June 2021*

LIRE EN FRANÇAIS

Over the past four decades, the financialization of capitalism has transformed economies, societies, and urban space. This series of articles examines the growing involvement of financial actors, instruments, and rationales in the production of the urban built environment; the role of public authorities in this process; and their social, political, and spatial consequences.

finance / housing / financialization / real estate / urban project / urban development / development / urban planning

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Since the global financial crisis of 2007–2008, the financial sector has been the subject of much public debate. [1] Researchers, pundits, and political commentators have called into question the ways in which capital markets have gained a growing importance, and their effects over contemporary economies and societies. To grasp this transformation of capitalism, scholars have used the concept of "financialization" to describe the increased power of financial markets over companies, states, and individuals since the 1970s.

Yet the global financial crisis did not only bring the financial sector to the center of public debate. It also revealed how capital markets have shaped—and continue to shape—urban spaces. In what is today widely recognized as a critical moment, the 2008 meltdown revealed how North American stock brokers had been transforming household mortgages into opaque financial assets, effectively linking the suburbs of North American cities to trading floors across the world.

The global financial crisis did not put an end to financialization, however. Despite the collapse of the subprime market, and the ensuing regulatory reforms (such as the Dodd–Frank Act in the US), the urban built environment still stands as a highly sought-after investment opportunity for the financial industry in many regions of the world. The austerity imposed on public budgets in the aftermath of 2008 pushed local governments towards issuing more debt on capital markets to finance urban services and infrastructures. Similarly, the "wall of money" fueled by postcrisis monetary policies such as quantitative easing—which have been extended throughout the Covid-19 pandemic—have continuously resulted in a boosting of the value of financial and real-estate assets. In short, far from slowing down or stalling the financialization of urban space, the financial crisis revealed the potentially systemic effects of what now appears to be a persistent and ongoing trend.

In considering this trend, the articles brought together in this series aim to contribute to the scholarship on how the urban built environment is financed (Harvey 1982; Topalov 1987). They focus on global capital markets and analyze their political, economic, and social implications in and for cities. By covering a wide scope of topics and spaces, they provide a sharper understanding of the diversity of instruments involved in the financalization of urban space, as well as their outcomes on the materiality of cities, societies, and urban governance.

City powers and capital markets

The production and management of urban space requires large volumes of public and private investment over long-term periods. Banking and financial institutions control an increasingly significant flow of capital through money creation and the distribution of loans, and the allocation of equity under their management.

Since the 1970s, the financial sector has undergone a sweeping transformation related to the growing importance of capital, actors, techniques and representations from market finance, all similarly aimed at accumulation through creating, exchanging, and managing assets bundled in portfolios. To access this new concentration of collective wealth and fund utilities or housing, many local governments and public institutions have anticipated and adjusted to the requirements of asset managers. While some urban officials may believe in the broader virtues of private finance, many also make this appeal to capital markets for a much more mundane and pragmatic reason: to finance the provision of public services given austerity-limited budgets.

Such financialization affects urban space and society in two ways: first, it transforms the built environment as various elements—land and buildings, major infrastructures—are now traded as assets on global capital markets; second, the increasing influence of capital markets in financing urban investment has accorded its institutions a new role in urban governance. For instance, housing and commercial real-estate operators (property developers, real-estate firms, public housing authorities) and infrastructure operators (transportation, energy, water) now finance their activities using capital markets. And although the United States remains the largest issuer of municipal bonds in the world and the cradle of tax-increment financing (TIF), local governments elsewhere are also borrowing from capital markets (via bonds or structured loans) and crafting similar instruments. As a result, investors, asset managers, and credit-risk agencies hold significant sway in deciding what projects are financed, where such projects are built, for whom, and how and when project debts are repaid.

An unprecedented financialization?

The role of capital markets in the financing of the built environment is anything but new: these markets have financed railways, canals, and major public-works projects since the 19th century, and it was precisely these massive infrastructure projects which developed, stabilized, and increased the capitalization of early stock exchanges (Abourhame and Jabary-Salamanca 2016). However, the contemporary financialization of city-making differs in three important respects.

At the macro level, it is characterized by the importance of national regulatory reforms which have, since the mid-1980s, sought to liberalize capital movements from one market to another. This was often coupled with new domestic policies—including in the form of tax incentives—aimed at channeling part of this investment into real estate and public infrastructure (Aalbers *et al.* 2020).

Second, it differs with respect to the central role of institutional investors (pension funds, insurance companies, mutual funds, sovereign wealth funds, hedge funds, private-equity funds) in collecting savings from households, companies, and governments and, above all, the role of asset managers in allocating these investments to urban markets. [**2**] Félix Adisson and Natacha Aveline-Dubach, for example, illustrate the key role played by these increasingly important actors in their case studies of how governments in Italy and Hong Kong—whether under the constraint of austerity or to reinforce their domestic financial sector—have privatized public property and convenience stores by selling them off on capital markets. As such, these cases are exemplary of the increasing power of capital markets in the sale and management of formerly public goods. Marie Bigorgne and Thibault Le Corre offer a similar case study in France, where the government attempted to enlist institutional investors in financing, in this particular instance, the construction of affordable housing for middle-class households in metropolitan areas.

Third, contemporary financialization is based on a set of legal and financial innovations enabling the transformation of land-ownership rights into tradable financial assets. Land titles have long been alienable and tradable commodities whose monetary value has been determined by highly localized property markets. They are now increasingly circulated at a global scale and valued according to their potential to generate future revenue streams discounted at the cost of capital. This blurs the distinction with other assets as land titles become comparable to any other investment products traded on financial markets.

Public authorities play a central role in ensuring the legal and financial arrangements necessary to transform promises of future revenue into foreseeable income streams. But they may also have a more direct involvement in cases where they are themselves contractual parties in such financial arrangements (e.g. public–private partnerships or private finance initiatives), and thus involved in the calculation and delivery of asset income. In their forensic analysis of such contracts that have led to the privatization of road and parking infrastructure in Chicago, **Phil Ashton, Marc Doussard and**

Rachel Weber reveal the extent to which they include conditions that are intended to guarantee certain levels of profitability to financial actors, at the expense of users and public authorities: for example, extending the duration of contracts to 99 years, unlimited toll increases, and noncompetition clauses that restrict governments from providing similar public services.

An increasing financialization

Far from having put an end to the financialization of cities, the global financial crisis of 2008 and its political responses have often renewed and generalized this process. In his study of the aftermath of bankruptcy of Dexia Bank, the most important provider of credit to local authorities in France, Edoardo Ferlazzo shows how the financial innovations of the 1990s have become commonplace, establishing a sustained "financialized credit relationship" between local authorities and capital markets.

Many parts of the urban built environment are financialized today. Commercial real estate (office buildings, shopping malls and other retail stores, logistics platforms) remains an important market, even if strongly affected by the Covid-19 pandemic and lockdown policies across the world. Beyond subprime loans, rental housing (including social housing, serviced apartments and hotels, and senior and student housing) is concerned as well, and is now being promoted as a "resilient" asset class in the face of the pandemic. Last but not least, urban infrastructures and facilities (road, water, energy, education) have also been a popular investment opportunity. In short, all the stages of city-making are potentially implicated in financialization: the decontamination and redevelopment of heavily polluted and formerly industrialized land; the construction of new buildings and infrastructures; and the rental and management of existing structures. All of them are opportunities for investors to directly extract land and real-estate rent (through rental income, property sales, interest rates, etc.) and/or to cash in on the trade of financial titles.

This process is not specific to highly financialized, Anglo-American contexts. It also affects cities across Europe, the Global South, and the Global East. And yet this widespread extension of the financialization of cities takes spatially differentiated forms. To illustrate such differentiation, **Llerena Guiu Searle** takes contemporary India as a case study of how local political coalitions and the diversity of national regulatory frameworks render financialization "complex and improvisational". Rather than posing financialization as a globally unitary or ineluctable process, Searle's portrait renders finance geographically distinct and therefore potentially open to resistance, adaptation, and failure. In Brazil, **Laisa Stroher**'s analysis of the creation and failure of new instrument for urban redevelopment and densification financed by capital markets clearly reveals how this global process is far from linear.

A highly selective process

Today, cities have an immense need for new capital inflows to address pressing urban problems like long-term abandonment and climate-change adaptation, but some are facing austerity agendas and policies resulting in the disengagement of public authorities. In this context, capital markets may appear as a resource for the production and management of urban space. Capital markets thus present themselves as an opportunity for cities, that financial intermediaries, real-estate and planning experts, and elected officials are seizing—but with strings attached.

Not all places are implicated in the same way, however. Depending on their political and economic trajectories as well as their expertise, and the extent to which financial actors anticipate capital gains, geographically specific risks, and potential economies of scale, cities are unevenly included in global capital markets. For example, while large cities can easily access these markets, this is not the case for smaller local authorities that have significant funding needs but are not as attractive to potential investors. And cities with declining populations and dwindling revenue bases will be at a significant disadvantage in relation to their large, booming, capital-city counterparts. Edoardo Ferlazzo's paper on the creation of a credit agency by and for the largest French local authorities illustrates this unequal struggle between places to access capital markets.

More generally, financialization influences what projects are actually built in cities, which uses are allowed in these new urban spaces, and what kinds of users they are meant to serve. This translates into a standardized urban fabric, alongside a massive increase in the size of new developments, as shown in Antoine Guironnet's comparison of large-scale urban redevelopment projects in the inner suburbs of Paris and Lyon. Through the circulation of their criteria and representations towards other city-making actors, financial investors and their intermediaries have oriented the postindustrial redevelopment of these spaces at the expense of preexisting land uses that run counter to their risk-adjusted return-accumulation strategy. In Hong Kong, the privatization of what used to be owned by the largest public housing authority and its management by a new financial landlord has had similar results, with the disappearance of convenience stores located near to social-housing estates.

New risks for populations and spaces

Besides these selectivities that act as filters between places and people, financialization entails further risks, with potentially detrimental effects on cities. The financialization of real estate, for example, is likely to increase inequalities. It redistributes wealth from tenants to titleholders (corporations, wealthy households) in the form of dividends, capital gains or interests and to financial intermediaries such as asset- and wealth-management companies through fees.

Financialization also risks weakening public control over, and accountability for, urban development. The growing use of capital markets to finance urban policies places asset managers in a privileged position with some local authorities. This raises questions about the outcomes of this new form of urban governance: what conditions must local authorities meet in order to partner with capital markets? How do urban policies help to guarantee returns and contain risks, and with what social and political consequences?

As urban-development policies become increasingly integrated into global capital markets, they will also become increasingly exposed to the risk of boom-and-bust episodes. The long series of real-estate crises over the past 40 years has revealed how vulnerable urban residents are to such crises, and how local authorities have struggled to carry out their own urban-development policies in their aftermath.

In the end, because what is at stake is the "right to the city" (Lefebvre 1996), financialization is the object of contestations at many scales. International institutions like the United Nations are beginning to advance their own critiques of financialization and its effects on access to affordable housing, as the *Push* documentary reports. Yet it is local organizations and victims of the process who are advancing the most visible and consequential challenges to the financialization of cities. These new urban movements take various forms: mutual-assistance programs for people defaulting on their mortgages in Spain (García-Lamarca 2017); rent strikes in Hamilton, Ontario, against real-estate investment trusts (REITs; Power and Risager 2019); and legal action in Marseille, France, against "upmarket" urban-development projects (Borja *et al.* 2010).

These movements are at the forefront of direct action aimed at contesting the increasing power and reach of capital markets in cities, which requires new legal and financial expertise. As **Ben Teresa** shows, tenants' associations in New York City, for example, successfully brought legal action against their financial landlords whose predatory management resulted in a drastic deterioration in the maintenance and quality of their buildings. These associations eventually won a considerable victory, but only after a long and exhaustive independent reassessment of the financial accounting practices of their landlords. In this sense, collective struggles against financialization require a diversity of tactics well beyond familiar forms of street protest. The technical nature of financial issues and the resources needed to organize independent assessments of this kind raise a more general question for the future of scholarship and activism: how to increase the exercise of democratic control over financialization.

Articles in this series:

- Sale of the Century: Chicago's Infrastructure Deals and the Privatization State, Philip Ashton, Marc Doussard and Rachel Weber
- Fragile Financialization: The Struggle for Power and Control in Indian Real-Estate Investment, Llerena Guiu Searle
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- Quand la finance déloge les habitants des métropoles, Antoine Guironnet

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To cite this article:

Martine Drozdz & Antoine Guironnet & Ludovic Halbert & translated by James Christopher Mizes & Oliver Waine, "Cities in the Age of Financialization", *Metropolitics*, 18 June 2021. URL : https://metropolitics.org/Cities-in-the-Age-of-Financialization.html

[1] This series benefited from the support of the "Urban Production and Markets" research group of the Urban Futures Laboratory of Excellence (LabEx). Website: https://www.futurs-urbains.fr/en/labexs-cross-cutting-groups/groupes-transversaux/cross-cutting-group-urban-production-and-markets.

[2] Rural, agricultural, and other natural spaces are facing a similar process as financial institutions seek new assets to expand the scope of the financial titles traded on capital markets.

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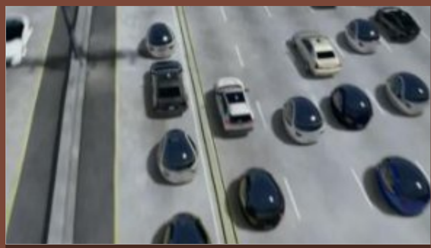

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