Introduction

The Accumulation of Capital in the Urban Fabric

Natacha AVELINE-DUBACH[1,2]
[1] *UMR Géographie-cités, CNRS, Aubervilliers, France*
[2] *CNRS@CREATE, Singapore*

The past three decades have seen a phenomenal increase in real estate values in several regions of the world. This began with a remarkable convergence of residential booms during the 1990s in the countries of the Organization for Economic Co-operation and Development (OECD), with the exception of Germany and Japan (Aalbers 2016). The outbreak of the global financial crisis in 2007–2008 seemed to mark the end of this wave of speculative euphoria. Yet, despite the dramatic economic and social cost of the financial crash, real estate markets quickly returned to growth. While some countries suffered the shock of a severe crisis (Ireland, Spain and the Baltic States), the upward momentum resumed in Europe (Tutin 2014) and North America (Lambie-Hanson et al. 2019). Even the Covid-19 pandemic, which harmed economies and reduced employment levels – and whose effects continue to this day – was unable to adversely affect the extraordinarily resilient real estate markets. The result is a growing disconnect between real estate prices and the financial capacity of economic actors, primarily households, to occupy built-up space in major metropolitan areas. According to the International Monetary Fund (IMF's) Global House Price Index, house prices worldwide rose by an average of almost 70% between 2000 and 2020, without the Covid-19 pandemic

Globalization and Dynamics of Urban Production,
coordinated by Natacha AVELINE-DUBACH. © ISTE Ltd 2023.

having significantly affected prices at the time of writing[1]. In many metropolises, the middle classes are having to give up on any plans for home ownership, while rents are absorbing a growing share of their income (Christophers 2021).

This disjunction between real estate prices and the financial capacity of economic agents, which is widespread on several continents, is not new. A first wave of synchronous real estate cycles swept the planet in the 1980s, leading to financial crises everywhere and ending in a long depression in Japan (Renaud 1997; Aveline 2004). The theory of the "speculative bubble" was then used to interpret these episodes of exuberant rise in asset prices[2] (initially financial, then by extension in land and real estate). This theory, which became very fashionable in the 1990s and was widely reported in the media during the global subprime mortgage crisis, is based on the assumption that assets have an intrinsic or "fundamental" value, reflecting local economic performance. In the case of real estate, this value is most often calculated using macroeconomic and demographic variables (municipal/regional GDP, household income, population growth, etc.) or financial parameters (expected future rental flows, interest rates) (Aveline-Dubach 2019). By comparing these estimated values with the actual values of transactions recorded on the market, we obtain the size of the bubble, i.e. the purely speculative part of the price structure. In principle, this anomaly cannot last for long, since markets should theoretically return to equilibrium. Hence, the bubble hypothesis can only be validated after endogenous or exogenous market "restoring forces" have removed the speculative mechanism.

From the outset, heterodox economists challenged the idea that assets have an intrinsic value, transcending the institutional nature of markets and the logic of actors (inter alia Stiglitz 1990; Orléan 1999, 2011). However, the brutality of the decline phases of real estate cycles had lent credence to the idea of a return to an equilibrium and conferred a heuristic significance to the bubble theory. This is no longer the case today; the bubble hypothesis does not explain the surprising resilience of real estate in the face of a sustained price disconnection, even if some have dared to use the oxymoron of "robust bubble" (Timbeau 2013). Moreover, this theory has recently come under fire from urban and housing scholars (geographers, sociologists and political scientists), who consider that it too conveniently masks the responsibility of public action.

---

1. See: https://www.imf.org/external/research/housing/images/globalhousepriceindex_lg.png [Accessed January 18, 2022].

2. An asset is an investment medium. It is a security, property or anything that can be bought, held and then sold to earn a return or gain value. Its main characteristics are profitability, risk and liquidity.

Several authors in this field had already highlighted the effects of the deregulation of financial markets, mortgage credit and neoliberal urban policies[3] in the formation of real estate cycles (see the pioneering work of Harvey (1985), Aalbers (2008) and Corpataux et al. (2009)). However, the growing driving role of the real estate and mortgage credit markets in the growth dynamics of national economies has more recently led some authors to accuse the public authorities of having constructed a "particular logic of asset inflation" (Adkins et al. 2021, p. 553). Ryan-Collins (2021) emphasizes the major responsibility of central banks in this respect, because while they are mandated to regulate consumer price inflation, they are not committed to controlling asset price inflation. He adds that the quantitative easing policies carried out by central banks to boost growth in Japan, the United States and Europe have only increased tension in asset markets by encouraging massive capital allocation.

How did we get here? This book will provide answers by reporting on the tremendous rise in real estate investment around the world, a phenomenon largely underpinned by the geographic and sectoral expansion of market finance.

To understand how these complex connections between capital (financial or banking) and real estate are established, it is necessary to examine their anchoring in the material setting of the city, or what is commonly called the "urban built environment"[4]. The contributions in this book therefore approach these changes from a multiscale perspective, paying particular attention to the methods of financing and operational implementation of real estate production on a metropolitan scale. Based on a body of empirical work, they show how, largely under the impetus of the central and local state, the growing and multifaceted influences of the logics and practices of market finance in several property subsectors (residential, logistics, port) are taking shape. These developments increase the dependence of a growing number of economic actors on inflated property values, a process that ostensibly contributes to the exacerbation of social inequalities.

However, the institutional construction of asset inflation is not based exclusively on the financialization of urban production and household real estate debt.

---

3. This term has become generic in the work of critical geography on the city. It describes the entrepreneurial strategies pursued by local governments to develop the attractiveness of their territory in the context of increased competition, accompanied by spatial planning policies that accommodate the private sector. Its relevance as a category of analysis is nevertheless debated and its application to the French case has been discussed by several authors (inter alia Morange and Fol 2014; Pinson and Journel 2017).

4. As defined by Beauregard (1994), the built environment includes all buildings, structures and landforms that have been created for human use and satisfaction.

Moreover, the process of financialization is far from being generalized, even if the expansion of financial circuits is taking place on a global scale. The focus of the international literature on the major Western economies, particularly the Anglo-American ones, tends to obscure the great diversity of urban contexts and the political and institutional arrangements that condition the accumulation of capital in the built environment.

Thus, in Northeast Asia, it is not financialization which has propelled real estate prices to global upper limits, but rather large-scale land value capture strategies pursued by local governments or private actors to provide urban infrastructure. On the contrary, some regions are still only moderately targeted by market finance. This is the case in Sub-Saharan Africa, which has been immune to the financial wave until now, but which is now its last frontier.

In order to analyze these multiple forms of capital accumulation in the urban fabric, we have structured this book into two parts. The first part presents a series of contributions which deals with the way in which finance has come to occupy a central place in the processes of urban production in North America and Europe, subjecting the built environment of major cities to the imperatives and movements of global finance market players and exposing finance in turn to the cycles of real estate production. This evolution is related to the rise of the proprietary ideology and situated in the context of sectoral reconfigurations within a globalized economy.

The second part moves away from the major Western countries, which are the original foci of both the financial industry and the conceptual frameworks of urban issues. It briefly outlines the distinctive, but rather convergent regional dynamics of capital accumulation in the metropolitan areas of four major sub-continents: Northeast Asia (Japan, China and Hong Kong), Southeast Asia (Indonesia, the Philippines, Thailand, Cambodia and Vietnam), the Middle East (Egypt, Saudi Arabia, Jordan, Syria and Lebanon) and West Africa (the urban corridor connecting the cities of Abidjan, Accra, Lom, Cotonou, Porto-Novo and Lagos).

I.1. Market finance’s stranglehold on the city

The book begins with an analytical framework proposed by Thierry Theurillat to explain, using a territorial approach, how the financial industry has made the built environment a driving force in the growth of contemporary capitalisms by creating “a continuum linking land, urban construction, planning and urban governance policies and market finance” aimed at exploiting urban rent. According to this analysis, the creation of rent takes place in the major metropolises of industrialized countries, especially the financial capitals (the “global cities”), which concentrate

the leading functions of the economy and to which local and regional investment systems are centralized. Urban rent is then extracted through the securitization of urban objects, real estate debts and, more recently, municipal debts, all of which are a vehicle for a growing number of global investment circuits seeking to satisfy exclusive criteria of return and risk. The value of these investment vehicles depends on the collective opinions of financial market participants and can deviate considerably from that of the underlying real estate objects. These deterritorialization mechanisms facilitate the mobility and liquidity of capital. The financial industry massively exploits this to invest the ever-increasing savings of the aging populations of industrialized countries, companies and governments, and also to divert liquid assets injected into economies by central banks towards jobs deemed more profitable. The real estate industry plays a pivotal role in the urban anchoring of this capital, especially property developers who act as negotiators with local actors.

In this context, the developer's functions are being transformed. Julie Pollard reports on the empirical variety of figures of this urban operator and emphasizes its eminently relational role at the interface of a dense network of actors who intervene in the different phases of the real estate project. The developer's role as a mediator in the local anchoring of financial capital leads it to internalize the requirements and criteria of investors, thus facilitating the alignment of spatial planning rules with the interests of the financial industry. By diversifying their resources through this access to finance capital, developers are led to carry out organizational restructuring of varying intensities, depending on the country and the sector, and to engage in large-scale urban projects. Faced with the growing importance of environmental standards and policies, they are navigating between a strategy of adaptation under constraint and negotiation–resistance. Some of them are developing differentiation strategies using sustainable development labels and certifications, the strong marketing dimension of which can sometimes amount to *greenwashing*. However, not all of these players are focused on maximizing profit. Julie Pollard mentions the emergence of developers who are genuinely committed to a social objective and ready to reduce their profit margins. Others, who are more conventional, are sometimes forced to do so by local housing policies or make the choice to increase their "symbolic capital" (corporate image) by occasionally delivering affordable projects.

The magnitude of the disconnection between housing prices and household incomes in metropolitan markets cannot leave territorial actors indifferent. Renaud Le Goix sheds light on some of the drivers of this disconnection. He highlights the widely held interpretation of rising prices as being the exclusive result of a shortage of residential supply. This diagnosis is based on the frame of reference of market equilibrium, without consideration for other factors, encouraging public authorities

to liberalize urban planning and construction rules ever more. Such supply-side measures not only do not re-establish "market equilibrium" but tend, on the contrary, to reinforce speculative expectations and, consequently, to support the rise in prices. In fact, the large-scale expansion of real estate or mortgage credit has been a powerful inflationary factor for residential values. The rapid proliferation in household debt has been stimulated by government measures to promote home ownership (public subsidies and tax incentives), as well as by wider access to credit (low rates, extanded debt maturity) as house prices have soared. Le Goix points to the link between the expansion of the proprietary ideology promoted by the state and the dismantling of social welfare in industrialized countries. Households are encouraged to accumulate capital in real estate assets to compensate for the erosion of the welfare state (a process known as "asset-based welfare"). This results in greater social inequalities, as households not only have socially stratified access to credit, but also derive very unequal benefits from their properties depending on their nature and location.

In addition to the residential and tertiary activities traditionally targeted by finance (offices, retail), the latter is also taking over the built spaces of productive sectors that are subject to a profound reshaping of global value chains. This is the case of the logistics sector, whose recent changes are discussed by Nicolas Raimbault and Adeline Heitz. The explosion of e-commerce, recently reinforced by the Covid-19 pandemic, has led to an intense production of logistics buildings in major cities. While the routing of products requires an organization of flows on three different scales within urban areas, the bulk of logistic built-up space in the suburbs is constructed in the form of gigantic warehouses that serve as "parcel factories". This category of property is now largely owned by international firms specializing in logistics asset management, which tend to control the entire real estate value chain from the development of the logistics zone to the rental management of warehouses. Many local authorities are interested in such initiatives since it allows them to carry out their economic development at low cost, but Nicolas Raimbault and Adeline Heitz point out a series of undesirable effects: selection of companies to be located by the real estate industry, extensive soil artificialization, increase in greenhouse gas emissions and longer commuting time of employees.

The organization of freight flows also depends on the points where territories are connected to international trade, as is the case with ports that occupy vast tracts of land in coastal and river cities. Like the operators of mass transit systems and airport infrastructures (Maulat and Pedro Forthcoming), port authorities have become active managers of their land holdings, making increasing use of financial techniques and standards. Jean Debrie addresses the spatio-temporal fragmentation of port land holdings following the dislocation of the city–port relationship. Relying on a

diversity of case studies, Debrie shows that the "terminalization" of ports (relocation of port activities away from urban cores) has enabled the real estate development of urban harbor fronts, transforming them into central places bearing new forms of urbanity. By working on the systematic requalification or "docklandization" of these brownfields, port infrastructure managers have become key actors in urban redevelopment. Like their railway counterparts, they are now the major providers of urban land through which the accumulation of capital in real estate is taking place with varying degrees of intensity depending on local political and economic arrangements.

I.2. Diversity of modes of capital accumulation in real estate

While the United States and then Europe were the initial centers of financialization of urban production, Asia has become the major growth pole. However, the diversity of capitalisms and the different stages of development in the region are an obstacle to the ubiquitous penetration of finance. China has refused to connect its real estate markets to global investment channels, preferring to develop its own investment vehicles so as not to weaken the state's capacity for regulatory action (Aveline-Dubach 2019; Theurillat 2022; Wu 2021). On the contrary, India is considered unsafe and difficult to connect to global financial circuits (Halbert and Rouanet 2014). In fact, only Japan and Singapore have a level of financialization of real estate comparable to that of the major Western economies (Haila 2015; Aveline-Dubach 2020).

However, Japan shares with China and Hong Kong an experience of massive capital accumulation in real estate that has materialized in strong residential price inflation. Natacha Aveline-Dubach attributes this to strategies of meta-capture of land value (*macro-value capture*) common to these countries/regions. Unlike the logic of urban rent extraction for the sole benefit of financial investors mentioned by Theurillat, the strategy of land value capture (LVC) practiced in this region, of which macro-value capture is an extreme form, aims to recoup from the beneficiaries (predominantly the landowners) all or part of the value (the urban rent) generated by the construction of infrastructure or public facilities via real estate projects. This provides a strong incentive to multiply property development projects by attracting the savings of economic actors, primarily households, through housing investment. These practices are underpinned by the so-called "developmental state" approach, a common feature of the countries in the region (White 1988), whereby the state concentrates its financial efforts on industrial development while making property development a major pillar of its growth model. Macro-value capture was well suited to growing cities, but it has generated an over-accumulation of national

savings in the built environment – notably in the form of a dangerous residential vacancy – that risks weighing heavily on economies subject to rapid ageing processes.

Neighboring countries in Southeast Asia are also experiencing intense capital accumulation in real estate, albeit within different configurations of state–economy relations. Gabriel Fauveaud identifies common characteristics in the dynamics of real estate investment in the region, beyond the conventional dichotomy between "crony capitalisms" and planned economies in transition. Fauveaud explains this relative convergence by a double regionalization of real estate investment, first intra-Asia and then intra-Southeast Asia. In this region, where land ownership used to be largely in the public domain, the World Bank played a leading role in implementing reforms to commodify land and formalize property rights. These transnational investment initiatives have also fostered the emergence of national real estate conglomerates, sometimes in an oligopolistic situation due to collusion between political and economic elites. Large developers are playing a pivotal role in the growing entrenchment of market finance in the region's urban megaprojects, where condominiums for a wealthy regional customer base are driving up prices in the residential markets. The financial centers of Hong Kong and Singapore, in particular, are hubs for such real estate investments. Singapore is also notable for the "export" of its urban model and its significant investment of sovereign wealth in regional real estate. Fauveaud points to China's recent rise in power since the launch of the Belt and Road Initiative, with multiform investments from Chinese companies and households contributing to the rise in property prices.

In the Middle East, we find certain features similar to those of Southeast Asia, as shown in Myriam Ababsa's contribution. To explain this, we can cite the generalized movement of commodification of large public land holdings driven by international donors (IMF and World Bank), the privatization of urban production and spatial planning resulting from symbiotic relationships between governments and real estate players, and the contribution of regional sovereign wealth funds to the financing of urban megaprojects. However, Ababsa highlights a more advanced process of financialization in this region. The four major regional sovereign wealth funds (from the UAE, Kuwait and Saudi Arabia) and the private equity funds owned by ruling family clans are pursuing the same objective of extracting urban rent by taking advantage of the low prices of public land and the state's infrastructure investment in new cities and other flagship projects. Here, it is not real estate returns that are targeted (a large part of the buildings being vacant), but the prospects of capital gain on land whose holding has a cost close to zero. The middle classes are excluded from these projects, and more modest households are being massively

evicted from the formal private rental sector by the deregulation of below-market lease contracts.

West Africa is still little coveted by financial investors, but Armelle Choplin reveals, as in the Middle East, upstream strategies for positioning foreign investors on land intended for large urban projects. These projects are located in the centers of major cities along the urban corridor of more than 1,000 km linking Abidjan to Lagos, and are highly publicized and reserved for local elites and members of African diasporas. However, they are not yet developed, or are even still in the pipeline. Financial investors benefit from advantageous conditions for land acquisitions or long-term leases because governments, which aim at a "Dubaization" of their capital, manage to expropriate the informal occupants at low cost. The allegedly "affordable" housing promoted by the World Bank is also being targeted by foreign actors, some of whom are considering making it investable by global financial players through the establishment of future investment channels. However, a large part of housing construction is carried out by the households themselves, operating in an incremental way according to their financial capacities on the outskirts of cities. Armelle Choplin describes in detail these self-construction processes that make the concrete block the major resource, the "poor man's lingot". Savings are certainly placed first in the land, but it is the concrete that gives value to the house. This is not only because it makes the home less vulnerable to rain and eviction, but also because it gives its owner a "right to the city". These self-construction processes that capitalize on the building material, contrary to any financial logic, invite us to rethink the definition of value to better take into account the well-being of the *homo urbanus*.

I.3. What are the consequences for contemporary capitalisms?

In this book's conclusion, Olivier Crevoisier and Natacha Aveline-Dubach note the rising prominence of real estate in the growth dynamics of contemporary capitalisms, echoing Aalbers' (2017) hypothesis that a new regime of capital accumulation of 'financial-real estate' is emerging. They situate its origin in the bursting of the 'dot-com bubble' of the years 2000-2002, following which real estate imposed itself as a strategic asset to restore investors' confidence in the face of the stock market crash. Crevoisier and Aveline-Dubach highlight the role of the ageing population and the erosion of social protection in increasing demand for real estate investment. This transition to a new mode of accumulation is marked by a shift from *commodities* to *subscription fees*: those who wish to take advantage of the opportunities and resources offered by the city, especially the "Global City", must pay fees in the form of overpriced real estate or rents, as is the case for digital

platforms. This goes hand in hand with a reversal of the logic of real estate investment, which no longer simply anticipates the need generated by economic growth but seeks to induce it by providing an urban infrastructure for targeted activities and populations. States bear a heavy responsibility for this dangerous development, and it is up to them to implement adequate policies to foster the creation of more inclusive physical and social environments.

I.4. References

Aalbers, M.B. (2008). The financialization of home and the mortgage market crisis. *Competition & Change*, 12(2), 148–166.

Aalbers, M.B. (2016). *The Financialization of Housing: A Political Economy Approach*. Routledge, London.

Adkins, L., Cooper, M., Konings, M. (2021). Class in the 21st century: Asset inflation and the new logic of inequality. *Environment and Planning A: Economy and Space*, 53(3), 548–572.

Aveline, N. (2004). Property markets in Tokyo and the management of the last boom-bust cycle. In *Property Markets and Land Policies in Northeast Asia: The Case of Five Cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong*, Aveline, N. and Li, L.-H. (eds). Maison Franco-Japonaise/Center for Real Estate and Urban Economics HKU, Hong Kong.

Aveline-Dubach, N. (2019). China's housing booms: A challenge to bubble theory. In *Theories and Models of Urbanization*, Batty, M. and Pumain, D. (eds). Springer, Cham.

Aveline-Dubach, N. (2020). The financialization of real estate in megacities and its variegated trajectories in East Asia. In *Handbook of Megacities and Megacity-Regions*, Sorensen, A. and Labbé, D. (eds). Edward Elgar Publishing, Cheltenham.

Beauregard, R.A. (1994). Capital switching and the built environment: United States, 1970–89. *Environment and Planning A*, 26(5), 715–732.

Christophers, B. (2021). A tale of two inequalities: Housing-wealth inequality and tenure inequality. *Environment and Planning A: Economy and Space*, 53(3), 573–594.

Corpataux, J., Crevoisier, O., Theurillat, T. (2009). The expansion of the finance industry and its impact on the economy: A territorial approach based on Swiss pension funds. *Economic Geography*, 85(3), 313–334.

Haila, A. (2015). *Urban Land Rent: Singapore as a Property State*. Wiley-Blackwell, Hoboken.

Halbert, L. and Rouanet, H. (2014). Filtering risk away: Global finance capital, transcalar territorial networks and the (un) making of city-regions: An analysis of business property development in Bangalore, India. *Regional Studies*, 48(3), 471–484.

Harvey, D. (1985). *The Urbanization of Capital*. Basil Blackwell, Oxford.

Konings, M., Adkins, L., Rogers, D. (2021). The institutional logic of property inflation. *Environment and Planning A: Economy and Space*, 53(3), 448–456.

Kuznets, P.W. (1988). An East Asian model of economic development: Japan, Taiwan, and South Korea. *Economic Development and Cultural Change*, 36(3), 11–43.

Lambie-Hanson, L., Li, W., Slonkosky, M. (2019). Institutional investors and the US housing recovery. Working paper, Federal Reserve Bank of Philadelphia, WP 19-45. DOI: 10.21799/frbp.wp.2019.45.

Maulat, J. and Pedro, M. (Forthcoming). De nœud de réseau à actif immobilier : l'évolution des modèles économiques des lieux de transport. In *Les transports et leurs lieux*, Frétigny, J.-B. (ed.). ISTE Éditions, London.

Orléan, A. (1999). *Le pouvoir de la finance*. Odile Jacob, Neuilly-sur-Seine.

Orléan, A. (2011). *L'empire de la valeur, refonder l'économie*. Le Seuil, Paris.

Pinson, G. and Journel, C.M. (2017). *Debating the Neoliberal City*. Taylor & Francis, London.

Renaud, B. (1997). The 1985 to 1994 global real estate cycle: An overview. *Journal of Real Estate Literature*, 5(1), 13–44.

Ryan-Collins, J. (2021). Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes. *Environment and Planning A: Economy and Space*, 53(3), 480–502.

Stiglitz, J.E. (1990). Symposium on bubbles. *Journal of Economic Perspectives*, 4(2), 13–18.

Theurillat, T. (2022). Urban growth, from manufacturing to consumption and financialization: The case of China's contemporary urban development. *Regional Studies*, 56(8), 1–15.

Timbeau, X. (2013). Les bulles "robustes". *Revue de l'OFCE*, 2, 277–313.

Tutin, C. (2014). Statuts d'occupation, endettement des ménages et exubérance des marchés du logement. In *Colloque Annuel ASRDLF 2014*.

White, G. (1988). *Developmental States in East Asia*. Springer, Cham.

Wu, F. (2021). The long shadow of the state: Financializing the Chinese city. *Urban Geography*, 0(0), 1–22.