

*Urban Development Projects, financial markets, and investors:  
A research note*

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*Saint-Ouen (Paris city-region, France), ZAC des Docks (Docklands Urban Development Project)  
Source: A. Guironnet, February 2014.*

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## INTRODUCTION

The development of large-scale Urban Development Projects has been a salient aspect of the remodeling of the urban fabric of major cities over the past decades. This mushrooming of (re)development initiatives has triggered growing academic inquiry among various disciplines (e.g. geography, political science, sociology, planning), as scholars repeatedly observed (Halbert, 2007; Orueta & Fainstein, 2008; Majoor, 2008). These projects (also known as Mega-Projects because of their large scale) embrace a *continuum* of urban objects and interventions that present four main features (for a full discussion see Guironnet & Halbert, 2014, pp. 4–6 and Appendix):

- (1) *intricate uses*, within the same large objects (e.g. megacomplexes) or neighborhood (e.g. mixed-use masterplan);
- (2) *change of land-use* destination, rights, and markets;
- (3) *various streams of funding*, usually both public and private; and
- (4) *a rescaling of the central State* concomitant with the rise of new urban strategic actors, such as city governments, property developers, consultants, citizens, etc.

Urban Development Projects (UDPs) have thus been at the center stage of research on the politics and policies of urban redevelopment: i) as privileged sites for the observation of the material production of urban spaces, and ii) for their impact on urban governance. Overall, they have been considered as the *locus* of power relationships between public authorities and the private sector, and particularly property firms, and as a *process* whereby these relationships may be redefined. Key contributions to the research literature have debated whether the restructuring of global capitalism could account for this rescaling process by means of neoliberalization understood as the “socio-spatial ordering by and for the market” (Swyngedouw, 2005, p. 61; more on this in section 1.1 below).

However, this deep-seated controversy on the subsuming role of capitalism in urban development (whether as a driving force, or as one amongst other elements of change) has not frontally addressed the current shift to a financialized accumulation regime (Boyer, 2000). This shortcoming is particularly acute in most studies of Urban Development Projects given the emergence of a recent, yet growing, research literature on the *financialization of urban capitalism* (see Rutland, 2010; Lorrain, 2011; Halbert, 2013; Moreno, 2014; Guironnet et al., forthcoming)<sup>1</sup>. Whereas the research literature on UDPs have debated and challenged at length the articulation between urban change and capitalism, it has not factored in the rise of financial markets and investors in the latter. Therefore, their role and impact in UDPs is unevenly – if hardly – documented. In that context, without taking for granted the predominance of the restructuring of capitalism on urbanization, this research note pursues two aims. First, it highlights the progressive shift in the research literature on UDPs towards a rising concern for financial markets and investors. Second, it seeks to provide a tentative research framework that foreground these in the analysis of UDPs as a way to understand the extent to which they have been subject to financialization, and with what outcomes. This issue is translated into three interrelated questions:

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<sup>1</sup> Three major aspects of the academic literature on the financialization of the built environment can be distinguished: i) the *evolution of public financing of urban development*, particularly in the post-1970s US where cities draw on financial markets (e.g. bonds) instead of federal grants to fund urban redevelopment; ii) the *development and innovation in mortgage distribution and securitization*, such as mortgage-backed securities that generated “subprime cities (...) modeled by the flow of capital in and out of neighborhoods” (Aalbers, 2012, p. 5); iii) the *restructuring of property markets via the acquisition by financial investors of large parts of the built environment*, including infrastructures and real estate. For more development and references see Guironnet & Halbert (2014), p. 7.

- (1) How do financial investors enter into UDPs? Have UDPs become a “full-fledged” asset class of its own for financial investors?
- (2) To which extent are UDPs’ governance and outcomes increasingly transformed *by* and/or *for* financial investors?
- (3) How can scholars critically engage with these processes and their effects on UDP?

Since we posit that financial market and investors bear consequences over what gets built, where, and for whom, this framework echoes traditional issues of urban political economy (see Logan & Molotch, 1987; Stone, 1987; Fainstein, 2001).

This research note is based on a comprehensive survey of the academic literature, with a particular focus on three corpuses. First, a wide range of works on *Urban Development Projects* will be discussed, from the original controversy of the mid-2000s to the recent stronger concern for the relationship between urban redevelopment and property markets. Second, the literature on the *evolution of property markets* (especially commercial) will be discussed, both through real estate economics and economic geography, and their recent hybridization in heterodox approaches. Third, *financialization studies* will be included, referring on the one hand to a heterogeneous set of contributions on the relationship between UDPs and financial markets/investors, and on the other one to various political economy works on financial capitalism.

The literature review proceeds in three steps. It starts by tracing the incidental concern for the role of financial markets and investors in UDPs, including in recent analyses according to which these projects are the sites where “land is increasingly treated as a pure financial asset” (**section 1**). By contrast with these contributions which paradoxically deter attention from the financial industry, it then shows how “finance” has been at the core of studies on the double-faced relationship between banking institutions and property developers during the 1980-90s, especially in the United Kingdom (UK) and United States (US) global cities (**section 2**). It illustrates how this topic has been renewed in recent case-studies, given the contemporary broadening of financial circuits from construction finance to property ownership in an increasing number of urban markets – from commercial to residential real estate, and from so-called ‘mature’<sup>2</sup> Western markets to ‘developing’ countries (**section 3**). Eventually, based on the observation of the rising trajectory of financial investors as well as of their selective investment practices, we discuss a threefold research framework geared towards a systemic analysis of the circulation of their expectations into UDPs (**section 4**).

## 1 TOWARDS THE (RE)DISCOVERY OF ‘PRIVATE ACTORS’ IN URBAN DEVELOPMENT PROJECTS

The concern for UDPs in the research literature has particularly risen in the mid-2000s. Beyond the variety of interpretations brought about by this plethora of works, most the results have converged – despite a deep-seated controversy. Overall, the research literature underscores the increasing role of the private sector, with property developers at the forefront. In spite of this results, the role of financial actors has seldom been addressed, and if so only very incidentally (1.1). Lately, the concern for finance and financial actors among research in the planning community on UDPs has mostly emerged from a broader concern on the shift to property-led urban redevelopment policies (1.2). In that policy context,

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<sup>2</sup> By no means normative, our use of the term is borrowed from Keogh and D’Arcy (1994) discussed in De Magalhães (2001), pp. 99-101.

UDPs have been considered as the sites *par excellence* where city governments and firms consider land as a financial asset by pursuing rent-maximization strategies (1.3).

### 1.1 Beyond the controversy on Urban Development Projects: The rise of ‘private actors’ in urban redevelopment

In most works of the mid-2000s, UDPs are considered as emblematic illustrations of a recent restructuring in planning policies and practices: i) the shift from comprehensive planning to strategic projects, as well as ii) the transition from a vertical hierarchy of powers centered around Nation-States to more horizontal and collaborative practices. In sum, the shift from the plan to the project in planning would be indicative of a larger shift in urban policy and politics, as may be summarized in the move *from government to governance* (Le Galès, 1995). This result encompasses the findings of key academic works, which have offered comparative perspectives between major UDPs in the mid-2000s (Moulaert et al., 2003; Salet et al., 2003; Pinson, 2009). Because they all highlight to some extent the pluralization of relevant actors on the urban scene, such as citizens and private firms (with real estate developers at the forefront), the academic controversy is rather on theoretical grounds. On the one hand, neoMarxists have developed critical accounts on the extent and effect of the neoliberalization of city-making through the restructuring of planning policies and practices geared towards attractiveness and competitiveness (Moulaert et al., 2003). They observe that the adjustment of cities to the global restructuring through UDPs would lead to increasing socio-spatial differentiation. On the other hand, neoWeberians have challenged this emphasis on the transformations of capitalism, arguing that it does not subsume observed processes (Pinson, 2009), and that politics do matter in understanding policies (Le Galès, 2006), such as UDPs. Furthermore, several planners have argued that despite the ideological emphasis on public-private partnerships observed in strategic planning discourses, the involvement of the private sector has often times proven problematic (Salet, 2008), while coordination with other public actors remains an equally important, if not predominant, issue (Janssen-Jansen & Salet, 2009).

However, while this theoretical debate has proven important, its underlying controversy has been overestimated as some of its protagonists have acknowledged (Borraz & Galès, 2010); discrepancies have been stressed at the expense of converging results. First, the main *findings* indicate the shift from people (Keynesian welfarism) to places (Post-Fordist entrepreneurialism) (see Harvey, 1989; Brenner, 2004) and the accompanying renewal of political and economic elites who opportunely use UDPs to establish their power through governance networks<sup>3</sup>. Second, the *methodology* shares similarities since UDPs both stand as objects and analyzers of larger phenomena, be it the restructuring of capitalism or repositioning of the State. Last but not least, *criticisms* have been overemphasized. For instance, if it has been argued that UDPs entailed divergence (i.e. rather than the convergence observed by neoMarxists) (Pinson, 2009), strong similarities nevertheless remain in terms of motivations and outcomes (Guéranger, 2010).<sup>4</sup> Furthermore, while planners have raised the issue that the objective of private partnership (the “cognitive process of framing”) is not self-sufficient *per se* to actually involve the private sector (the “framing of collective action”) (Salet, 2008), this had readily been acknowledged by neoMarxists who noted that if this kind of partnership is encouraged by neoliberalization, it often fails and requires filling-in by the public

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<sup>3</sup> It should be noted that this was observed earlier to some extent, for example by Lorrain in the French case: “[City mayors] were already interested in large-scale equipments and delivering housing. They were already attached to the building of flagship public projects. To achieve their ends, they were steering negotiations with several partners. Communication and urban marketing were already in the air in 1971. (...) Mayors exist on the political scene through what they achieve, no longer by what they arrange. As of now, one needs to deliver, show, and tell.” (1994, pp. 13–15)

<sup>4</sup> Thus leaving it to a matter of scale: standardization (or convergence) is observable among cities, but then their UDP content or strategic positioning might differ given their history and local context.

sector.<sup>5</sup> In the perspective of this research note, this controversy demonstrates another striking feature: although many works acknowledge the importance of property markets and actors in UDPs, if only because capital accumulation processes are considered either important or even predominant, works rarely look at the financial actors involved, but for some vague references to the role of financial institutions such as “banks”<sup>6</sup>. Only a limited number of case-studies have touched upon this aspect through a focus on property-led urban redevelopment policies.

## 1.2 Urban Development Projects as the shift to flexible planning: Delivering property-based urban redevelopment

Although the controversy on UDPs have lost some of its flamboyance, UDPs have kept on spreading on the urban scene, fuelling in the meanwhile an uninterrupted flow of case-study analyses. In the early 2010s, some of them have been more concerned with the link between urban redevelopment and property markets, whereby they have begun to acknowledge the role of financial investors. For instance, in their case-study of the Paddington Basin in the Greater London area, Raco and Henderson (2009) observe how “the priority for policy-makers is to change the image of the area, and, in the short term, turn it into an *investment space*” (*ibid.*, 311, our emphasis). They underline the city government’s attempt to make use of the “longer-term buoyance of London’s property markets” (*ibid.*, 310). On the one hand, they highlight how the Westminster City Council carefully tailored a special planning perimeter excluding NIMBY residents to lure developers and investors. On the other hand, these latter’s requirements for targeting high-end housing and retail clientele was not frontally challenged by the municipality, as long as they paid for an institution aiming to support the creation of local jobs. Consequently, in the light of the results offered by Moulaert et al. (2003), Raco and Henderson (2009) conclude that should there be any change in the outcomes of UDPs, it would be of scale, not of nature, to the extent that “the supposedly ‘new’ regeneration agendas of the 1990s and 2000s have not, in reality, moved significantly away from the property-driven forms of development that characterized urban policy of the 1980” (312). Likewise, in the case of Paris Nord-Est redevelopment project, Savini (2012) has foregrounded the role of private developers and “investors” in urban redevelopment policies. Through *ad-hoc* planning tools, public-private interdependencies are translated into cooperation (*ibid.*, 1890): while real estate developers provide land redevelopment skills and contribute to fiscal resources, they depend upon coalitions of political elites for the unlocking of land through planning, in order to enable, secure, and maximize their investments. These two case-studies lean towards a greater role of private investors and developers in contemporary city-making. This reflects the shift towards property-based planning, which implies that planning increasingly rely on property actors (e.g. developers) and resources (e.g. construction rights, investment) to deliver urban redevelopment.

Two interrelated research focuses explain this shift<sup>7</sup>. On the one hand, research onto *modes of coordination* between public and private actors in UDPs has noted the shift towards partnership with property market actors and the concomittant reconfiguration of public institutions as “enabling” (Karadimitriou et al., 2013, p. 11). In the French case, this is epitomized by current practices of state-sponsored Development Corporations (DCs), which seek to regulate private developers and investors’

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<sup>5</sup> This is the case in most case-studies conducted in Moulaert et al. (2003): Athens (pp. 65-90), Copenhagen (pp. 91-106), Berlin (pp. 107-214), Bilbao (pp. 181-208), and Naples (229-246).

<sup>6</sup> For instance, the most explicit reference may be found in Moulaert et al. (2003), where it is alluded to a « new breed of city builders, the real estate developers in association with banking interests » (16), and speak of UDPs as « real-estate based urban restructuring » (260). Some case-studies (e.g. Vienna Centre Expo 95, pp. 167-180) speak of a « real estate capital » without any mention of whom or what actually enact its interests.

<sup>7</sup> These two accounts are likely the two faces of the same coin, since it can be argued that “public action as regulation” (Morel-Journel & Pinson, 2012) is fuelled by the shift of urban redevelopment in resources (revenues, expertise, etc.) to property markets, and vice-versa.

behaviors instead of carrying in-house land and real estate development (see “public action [as] regulation” in Morel-Journel & Pinson, 2012, p. 193; also Albecker, 2014). On the other hand, some works on the *political economy of land and property development* provided a complementary account by highlighting the shift of economic basis of UDPs from state expenditure (budget) to property markets (construction rights)<sup>8</sup>. For example, in a diachronic case-study of two UDPs in Brussels (Bruxelles-Nord in the 1960s, Bruxelles-Midi in the 1990s) Van Criekingen (2010) argues that the main evolution between the two was not so much about the “politics of rent production” but the adjustment of urban redevelopment process by public actors to structural dependence on real estate markets and actors. While in the 1960s public investments were falling under the State’s budget, in the 1990s the mechanism has considerably changed. The pre-requisite for redevelopment spending (e.g. public spaces, and infrastructures, social housing) has become the ability of an *ad-hoc* public development agency to *capture* sufficient value from the transformation of land. In other words, the extraction of land surplus for and by public authorities would have become a direct mode of financing the “public purpose” of redevelopment (ibid., p. 12). Revenues drawn from property development would thus supersede declining intergovernmental financial support, which has been a key factor in the ability of public powers to steer urban redevelopment and bargain with property actors in Europe (Kantor & Savitch, 1993). Given this trend and the current austerity policy context, European planning may thus bear stronger similarity with the US case (Logan & Molotch, 1987).

### 1.3 Urban Development Projects as sites *par excellence* where land becomes a financial asset

In this perspective, several recent works have considered UDPs as sites where land is now “treated as a financial asset” (for a survey, see Guironnet et al., forthcoming). These works directly or implicitly borrow from Harvey’s conception, which was further refined by Haila (1988), according to which land achieves “its true capitalistic form” when treated “for the rent it might yield” – thus *irrespective of who the landowners are* (2006, p. 346 [1982]). Either because developers and landowners necessitate the benevolent assistance of local authorities – as observed in the redevelopment of La Biccoca’s estate in Milan by the tire-producing company Pirelli (see Kaika & Ruggiero, 2013), or because city governments themselves seek to finance urban redevelopment through the capture of land surpluses (see the analysis of the *Tax Increment Financing*<sup>9</sup> scheme in Chicago (Weber, 2010), or the *Value Capture Financing*<sup>10</sup> adopted in Barcelona’s 22@ flagship project (Charnock et al., 2014; see Figure 1 below). In all cases, this would lead to the widespread circulation of rent-maximization strategies among private but also *public* actors. UDPs would thus both permit and be affected by a process of *financialization* understood as the “pivotal and unifying concept (...) of ‘things’ increasingly being valued on strictly financial grounds” (Christophers, 2010, p. 98). However, in the perspective of this research note, the totalizing logic of capital accumulation

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<sup>8</sup> As pointed out by Lorrain, this may be permitted by wider changes observed in the 1980s. The growing role of integrated large-scale development companies known as *ensembliers urbains* (1992), and the related proliferation of large-scale real estate complexes, especially in megacities (2002), both reflect and contribute to the transformation of public bodies’ planning practices, in relation to the rising financial and technical capabilities – and the related self-proclaimed legitimacy – of private actors.

<sup>9</sup> “TIF is a local economic development policy that allows municipalities to designate a “blighted” area for redevelopment and securitize the expected increase in property taxes from the area to pay for initial and ongoing redevelopment expenditures there (for more details about the mechanics of TIF, see Weber 2003). Once designated, taxpayers in that area pay real estate taxes on the value of their property prior to the creation of the TIF district, as well as on any increase in its value. However, for the life span of the district (which in most states is about 20 years), all taxes on any new value in the district are directed into a fund to pay for public redevelopment expenditures, such as debt service on bonds floated for infrastructure or private acquisition costs.” (Weber, 2010, p. 258)

<sup>10</sup> The VCF is an instrument whereby the Barcelona City Council traded contributions from property developers, in cash or in kind (about 10% to 30% of planned development), in exchange from construction rights. Property developers had also to contribute to an additional tax per sq. m. Public revenues were thus generated to fund social housing, public spaces, and infrastructures. See Charnock et al. (2014), pp. 204-205.

attributed to city governments and any landowner fails to take into account the role of financial markets. This is all the more paradoxical given that they are a predominant feature of the late-stage capitalism. In other words, despite a call for greater scrutiny over land and property processes (Van Criekingen, 2010), the concern for financial investors and markets has remained mostly peripheral, even for works that claim to analyze the financialization of urban development that happen through property-led UDPs. This sharply contrasts with the growing integration of property and financial markets which has long been noted in the case of the UK and US, and especially in global cities.

Figure 1 – Barcelona 22@ District as of 2012



Source: Pla Estratègic Metropolità de Barcelona, Item #49, <http://www.pemb.cat/en/?projecte=22barcelona-the-innovation-district-2>, Accessed December 2014

## 2 THE PROPERTY/FINANCE NEXUS IN URBAN DEVELOPMENT PROJECTS: THE CASE OF US/UK GLOBAL CITIES IN THE 1980S-1990S

If the issue of the role of financial markets is left unaddressed (yet unevenly) in the research literature on Urban Development Projects, including for those works that consider the role of property markets, it has nevertheless been at the core of a set of studies on the 1980-1990s property boom/burst in the UK, and to some extent in the U.S. (see *Environment & Planning* 1994, vol. 26, nos. 2 and 5; Fainstein, 2001). This academic concern has emerged in relation with the emergence and implementation of a “property-led” urban regeneration policy (2.1) whereby conservative governments put property markets at the core of the modernization of the economic fabric of the UK and the US. Within this context, financial markets and actors have played a double-faced role in UDPs, both as a booming sector stimulating the consumption of additional floor space, and as a key provider of capital through the banking system (2.2). This process was mostly addressed through case-studies of UDPs in global studies such as New York and London, the Canary Wharf project being the epitome of the role of finance in urban development (2.3).

### 2.1 Property-led urban regeneration policy: background and rationale



While “property-led” is today loosely used to underscore the role of property markets in delivering urban (re)development, it was termed as such in reference to the policy agenda of the UK conservative government in the 1980s, whose “primary thrust (...) was to achieve urban regeneration through attracting and assisting investment by the private sector in property development” (Healey et al., 1992, p. 277)<sup>11</sup>. In turn, urban regeneration was supposed to bring about economic development, and particularly help the British economy to engage its conversion to a service economy, in which financial services held the lion’s share<sup>12</sup>. If the private developers and investors were thus considered as key partners, public institutions remained equally important<sup>13</sup> beyond the ideological and rhetorical *vermis* of state retrenchment<sup>14</sup>, through central government institutions such as the Department of Environment (DoE), quasi-government institutions such as Urban Development Corporations (UDCs), and *ad-hoc* planning tools like Enterprise Zones (EZ). As summarized by Healey,

“Urban policy gave vigorous encouragement to the expansion of the finance-driven service-sector economy. (...) The private sector was presented as the key agent in activating this revival, and was expected to lead the revival effort. (...) The lead sector of the economy was seen as the service sector, rather than industry, with the property developer and investor as a key agent. (...) This new economic base was in turn linked to the expansion of new social classes, generating new forms of residential market demand, particularly for executive homes, and inner-city 'yuppy' housing. The effects of all this were intended to trickle down to reach all classes in due course. (...) Private-sector developers and investors were expected to finance and undertake development. It was anticipated that development companies would take up the challenge, *funded by investment from financial institutions*. The public-sector contribution was in theory to be limited to land-assembly and land-clearance costs (...)” (1994, pp. 187–188. Our emphasis)

Epitomizing this particular stream of literature, this excerpt hints that if financial actors had weight in property-led UDPs, it is less for their investments as final buyers of properties than because of the funding provided to the development sector by banks (i.e. construction finance)

## 2.2 The two faces of finance in 1980s-1990s Urban Development Projects

Many authors have agreed on the significant role of the financial sector in urban regeneration, and especially in UDPs (see Merrifield, 1993; Healey, 1994; Pryke, 1994; Fainstein, 2001). In her seminal analysis of *City Builders*, Fainstein (2001) has claimed that property development in New York and London “belonged to the '80s financial boom as a *cause, effect, and symbol*” (p. 28, our emphasis).

On the one hand, the significant growth of the Financial and Business Services (FBS) sector acted as a thrust in property development as a *demand for new office space*, especially in the securities industry. Put

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<sup>11</sup> For a debate on the pros and cons, see *inter alia* Turok (1992) and Jones (1996).

<sup>12</sup> Admittedly, this had also a significant political purpose for the Tory government, which sought to undermine the industrial basis, i.e. blue-collar constituency, of Labour city councils (Merrifield, 1993, p. 1253; Healey, 1994, p. 187).

<sup>13</sup> “Rather than providing a market-orientated development framework for city land and property markets, or realizing government rhetoric of 'rolling back the state' and letting the private sector move in, the public sector was reorganized and cajoled into mimicking the private sector. The specific role-model for the public sector was the entrepreneurial deal-maker, innovating, investing speculatively and taking risks at the level of projects.” (Healey et al., 1992, p. 287)

<sup>14</sup> In practice, Healey et al. (1992) have even contested the rupture, emphasizing the continuous key role of the public sector which kept on its “traditional tasks (...), namely: the coordination of development activity; land assembly; testing out new ideas; providing subsidy; and risk minimization.” (p. 285), but nonetheless admit the concentration of public intervention in few areas through UDPs, as opposed to the more balanced geography associated to spatial Keynesianism (see Harvey, 1989; Brenner, 2004).

otherwise, it is through its development as an economic sector, i.e. a consumer of office space centralized in few global cities (Sassen, 1991), that the financial sector supported urban redevelopment projects. This occurred as a result of the “deregulation” of financial markets and services, or, rather its neoliberal *re*-regulation aiming to remove cross-national and cross-market boundaries. For instance, in the case of London, the coupling of the 1986 ‘Big Bang’ and electronic revolution in securities trading is believed to have contributed to a surge in the demand for brand new office space (Coakley, 1994; Pryke, 1994). Technological innovation (e.g. electronic quotation) and the removal of market boundaries triggered new technical needs in building construction, be it in terms of connectivity or floor space layout, such as new trading floors dedicated to over-the-counter (OTC) trading<sup>15</sup>.

On the other hand, the property boom was fuelled by the *banking industry* which heavily financed property *development* with loans. This contribution was encouraged by the Thatcherite central government which relaxed access to credit as part of the (neo)liberal agenda (Merrifield, 1993, p. 1248). Observers emphasized the role of foreign banking capital, and particularly U.S., Japanese, and Swedish banks (Merrifield, 1993, p. 1250; Healey, 1994, pp. 178, 185–186), whose loan distribution conditions were said to be less constrained by regulations as opposed to domestic institutions. This property market cycle was thus characterized by *banking intermediation* as a source of easy access to debt funding. Put otherwise, and by difference to emphasis in the current literature (see sections 4 and after), *banking* institutions were apparently more involved in the property boom (through their lending activity) than institutional investors (e.g. pension funds, insurance firms)<sup>16</sup>. Both analysis based on *national* property markets (Healey et al., 1992, pp. 45–61) and individual case-studies of global cities such as London (Coakley, 1994, p. 701) or formerly industrial regions (Healey, 1994, p. 196) corroborated this.

This does not mean however that institutional investors were absent, but rather that their role was seen by scholars as less substantial than that of banking institutions. For instance, Massey and Catalano had emphasized the role of financial institutions such as pension funds and insurance firms as significant landowners since the post-1945 era, and more importantly throughout the 1960s, through direct ownership, especially on commercial real estate markets in city centers (1978, pp. 114–138). Likewise, Ball has noted that “large-scale institutions (especially pension funds and insurance companies) in many countries have become substantial owners of office property. Their desire for safe investment returns encourages them to be *office-rent receivers*. Their intervention helps to determine the yields on office ownership and also affects the office-development cycle. Yields on alternative non-property investments influence institutions’ interest in investing in property and, hence, the relative returns from doing so” (1986, p. 455. Our emphasis). However, it seems that *given market conditions* of financial and property markets in the 1980s-1990s, the role of banks was more important than institutional investors. The combination of low inflation and new investment opportunities (e.g. equity markets of overseas firms) opened up by Thatcherite regulatory liberalization would have contributed to downplay the interest of financial institutions for UK property markets (Coakley, 1994).

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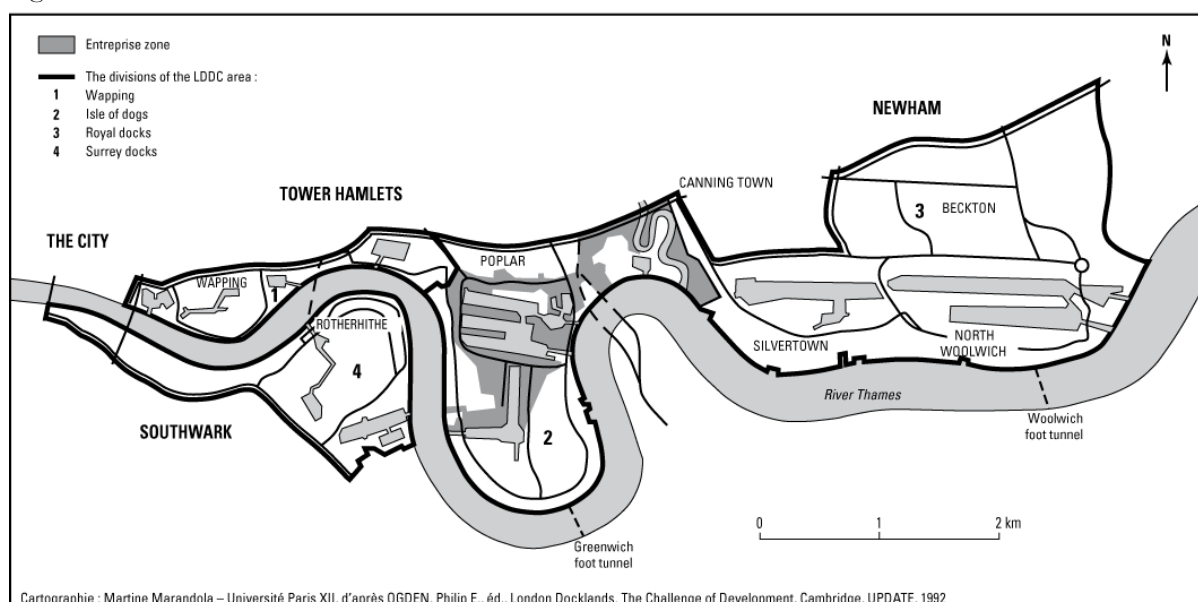
<sup>15</sup> Interestingly enough, Coakley underlines that “the Big Bang provisions contained no specific proposals or stipulations for securities trading arrangement. What resulted within a mere six months of Big Bang was a radically new trading structure which made the old Stock Exchange floor redundant” (1994, p. 704). Changes in user-demands did not, however, radically altered the need for spatial proximity (Pryke, 1994); so that the traditional City CBD, although affected with technological obsolescence, was not overthrown by new locations such as Canary Wharf (see also footnote 18 below).

<sup>16</sup> For the sake of completeness, the available literature does not permit a comprehensive understanding regarding the extent to which the loans provided by the banking institutions were either drawing from the traditional savings-and-loans circuit (stricto sensu classical *banking intermediation*) or from the emergence of securitization techniques applied to debt (widely used nowadays in the form of commercial mortgage-backed securities, CMBS) which do not rely on households’ bank deposits but on funds raised on financial markets (i.e. *financial intermediation* which can be organized, *inter alia*, by investment banks. See section 5.1 below).

A particular nexus between property and the financial industry was thus set in motion, based on a mutually self-reinforcing process: “growth in the real-estate industry itself stimulated bank expansion, since almost all construction loans emanated from the banking sector” (Fainstein, 2001, p. 31). This was perhaps most potent in the case of global cities which were at the center of academic interest on the topic. In the case of London’s City, Pryke observed that “investors (including the banks), many of whom rented office space in the Square Mile, were provided with a chance to play a self-feeding fruit machine which almost guaranteed a payout, in some form, from spiraling fictitious exchange values.” (Pryke, 1994, p. 260; see also Merrifield, 1993, p. 1251). London’s Docklands urban regeneration scheme, and particularly in the case of the Canary Wharf project, epitomizes such a double-faced role of the financial sector in urban development, both as a *user* and *funder* through loan provision.

### 2.3 An illustration: The case of Canary Wharf

Figure 2 – London’s Docklands



Source: Michon (2008), p. 121

Canary Wharf has been at the forefront of academic inquiry, sparking numerous case-studies (see inter alia Merrifield, 1993; Fainstein, 2001; Michon, 2008). Like New York’s Battery Park City, the project has been considered as an epitome of the “symbiotic relationship” between finance and property (Fainstein, 2001). Located in the Isle of Dogs (see Figure 2 above), it was part of a larger urban regeneration initiative for the London Docklands, which had been put forward in 1974 by a joint committee including members of the Greater London Council, boroughs, and DoE, and reoriented by the Tory government in the 1979-1980. After the initial 1974 proposal to maintain industrial activity and develop social housing onsite, the Docklands project aimed at implementing a new business center, especially for FBS firms. The 1986 Big Bang had sparked a surge in the demand for new office accommodation (see 3.2 above), thus contributing to the potential for property development outside of the traditional City area<sup>17</sup>. The redevelopment project was supposed to showcase the Thatcherite property-

<sup>17</sup> The City Corporation was however quick to respond to the potential threat of financial firms’ relocation by relaxing its 1984 planning regulation to allow for higher building density (Coakley, 1994, pp. 243–4). Some have thus argued that the territorial competition between the City and Canary Wharf was overestimated, the two sites being complementary to the extent that the former had limited land availability, and the latter functionally depended on the former (see Kaika, 2010, p. 465).

led development agenda through its implementation by the quasi-governmental London Docklands Development Corporation (LDDC), whose “style was entrepreneurial, and its staff (...) focused on implementation rather than planning” (Ibid., p. 177). As part of the property-led agenda, the LDDC was supposed to turn land over to property developers, whose interest was to be sparked through marketing campaigns (“Wall Street on Water”), and their practical involvement to be stimulated through tax and planning reliefs, such as EZ areas (see Figure 2 above)<sup>18</sup>. Key to the Canary Wharf project – both its failure and success – was the involvement of the Canadian developer Olympia & York (O&Y), which had arrived in 1987 after the failure of the initial scheme (Merrifield, 1993, p. 1255). O&Y’s initial proposal to the LDDC included high standing commercial and housing real estate as well as a substantial financial commitment to developing a new transport infrastructure<sup>19</sup>. The outcomes have been extensively discussed (for an overview see Fainstein, 2001, pp. 192–196); the scheme has come under great criticism as the epitome of privatization, from the strategic definition of the project to the restrictive use of public space (Michon, 2008).

Figure 3 – Canary Wharf as of January 2014



Source: G. Duerden, <https://www.flickr.com/photos/northernqit/12293825586/in/photostream/>, accessed November 2014, Creative Commons License. (Re-edited by the authors).

On the one hand, O&Y’s scheme relied on financial engineering (e.g. short-term commercial paper, currency hedges, debt swaps Fainstein, 2001, p. 163), including syndicated loans underwritten by several foreign banks such as Crédit Suisse First Boston, Morgan Stanley, HBSC<sup>20</sup>. On the other hand, O&Y sought to replicate the success of New York’s Battery Park City (also known as “World Financial

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<sup>18</sup> Michon explains that “Public bodies stayed at the forefront of the urban regeneration process, first and foremost in terms of financial aspects. The LDDC’s operating scheme was to use its equity (£60M per year initially, more than £300M in 1990) to attract private investors. The rationale was to ‘prime the pump’. Public monies should catalyse private investment, notably by preparing land, and work on the investors’ perception of the area. The Thatcherite administration is convinced that positive outcomes will then occur as a result of the ‘trickle down’ effect”. (2008, p. 121. Our translation).

<sup>19</sup> Which will be jeopardized by O&Y’s financial difficulties and eventually undertaken by its successor.

<sup>20</sup> This might implicitly hint that such a large-scale project was already tied to financial markets and investors, rather than to traditional banking intermediation (loans based on households’ deposits).

Center”) where leases with major FBS firms such as Merrill Lynch, American Express, Dow Jones, etc. had been secured at the cost of buying out their existing lease (Ibid., pp. 164-167, 185). This strategy did not lead to the same outcomes in the case of Canary Wharf. Only foreign banks that had a stake in the syndicated loans have agreed to occupy the premises (while also acquiring % of the buildings’ landownership) for a lack of interest among British firms which eventually stayed in the City. Later, while the property bubble burst jeopardized the whole project, last-resort leases were signed by (reluctant) public sector tenants (Ibid., p. 188) and “most buildings were purpose-built for committed tenants” (Ibid., p. 191). Studies on the integration between finance and property markets have therefore emphasized the speculative<sup>21</sup> behavior of banks, whose assumptions about the scheme’s feasibility and success were overconfident, and accordingly doomed to fail when the property bubble burst in 1987.

However, notwithstanding the Canary Wharf scheme, there remains only piecemeal evidence of the double-faced integration between the financial sector and property markets in UDPs. In the case of the Tyne-Wear conurbation, a formerly industrial northeastern region in England, Healey (1994) has shown the failure of stimulating the interest of institutional investors<sup>22</sup>. Following the existing literature, this twofold finance/UDP relationship appears to have been limited in time and scope, confined to global cities (New York, London), and to the 1980s-90s property cycle<sup>23</sup>. However, financial innovations in securitization such as the development of commercial mortgage-backed securities (Ashton, 2009; Aalbers, 2012; Bryan & Rafferty, 2014) may have revived this aspect by means of stimulating the financial industry and availability of capital. For instance, Rutland (2010) has suggested that the redevelopment of Halifax (Canada)’s CBD was tied to the securitization-related boom in the financial industry before the 2008 Global Financial Crisis. In Halifax, the widespread availability of mortgage-backed securities triggered competition among lenders willing to finance new property development. This resulted in risky development ventures of commercial buildings in the downtown area, based on a the prospect of a supposedly boosted occupational demand (e.g. by new financial services) which the city government aimed to accommodate by means of planning streamlining and containment of citizen participation to the process. This insertion of financial markets into the development industry through the provision of debt to developer is however only one element of a much broader, and arguably more fundamental, transformation as suggests the rising, and sometimes dominant role of financial actors as property owners in an increasing number of property markets.

### **3 THE RISE OF FINANCIAL INVESTORS IN URBAN DEVELOPMENT PROJECTS THROUGH PROPERTY OWNERSHIP**

Despite the seminal contributions of the 1990s literature on the Canary Wharf case, the issue of the relationship between financial markets and UDPs has reemerged only recently, when research on UDPs

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<sup>21</sup> With more (Merrifield, 1993) or less (Fainstein, 2001) moral connotation. Our use of the term reflect Fainstein’s, who notes “Two types of developers operated during the 1980s boom: conservative builders, who predicted their return based on rent rolls and did not build without tenant commitments; and speculators, who not only optimistically forecasted fully rented buildings even without preleasing, but based their financial projects on expectations of major appreciation in the value of structures” (2001, p. 215)

<sup>22</sup> Notably because “the conception of [property-led] urban policy was grounded in the conditions of the London property market, with its distinctive and globalised links between finance capital and property investment (Fainstein, 1993; Pryke, 1991). Yet this policy was pursued vigorously across the country as a way of regenerating the economies of Britain’s older industrial regions (Healey et al., 1992) (p.181).

<sup>23</sup> This may be a result of the specificities of the property cycle (see the discussion in section 2.3). Despite the marginal contribution of financial investors at the time, Coakley predicted their significant role in the coming years (1994, pp. 705–707)

has factored in changing ownership patterns in property markets, and acknowledged the growing role of financial investors, especially on commercial (i.e. non-residential) real estate markets. The contribution of these investors to urban regeneration through *property markets* has been noted by orthodox real estate economics through surveys of portfolio diversification strategies (3.1). Their findings reflect wider processes observed in economic geography and real estate economics, in particular the globalization and financialization of property markets whereby the scale and scope of financial investments have been expanded, both between asset classes (stocks, sovereign bonds, and so-called ‘alternative investments’ including real estate) and countries (3.2). In that light, a handful of critical case-studies have recently emphasized, to varying degrees, the impact of financial investors on UDPs (3.3).

### 3.1 Property investors in urban regeneration: A survey of orthodox approaches

Orthodox real estate studies have surveyed how investors in search for portfolio diversification consider ‘local development’ as a new market opportunity: whether through investment in real estate (buildings, retail, or rehabilitation) or in local businesses/SMEs. They converge in highlighting the Internal Rate of Return (IRR) as a key decision-making variable for financial investors. On the one hand, under the “geography of finance” (Clark 2005) umbrella, several business case-studies were conducted on portfolio diversification strategies of large U.S. pension funds (Hagerman et al. 2005; Hebb 2005; 2006; 2007; Hebb and Sharma 2014). They conclude that strict investment policy and rationale based on risk-adjusted returns are key drivers for success in so-called “untapped markets”. On the other hand, others have examined the financing of urban regeneration by property investors through surveys and focus groups oriented towards best practices (Adair et al. 2000; Trache and Green 2002; Nappi-Choulet 2006). While also acknowledging IRR as a pre-requisite, they have emphasized the role of public actors in providing infrastructures, land, and tax abatements.

### 3.2 The globalization and financialization of property markets

These empirical observations echo wider trends in the restructuring of property markets and industry, especially commercial (i.e. non-residential<sup>24</sup>), that have been put into perspective by real estate economists and geographers for the past decades: “the development of financial instruments that represent fixed real estate repositions the latter in various systems of circulation, including global ones. In so doing the meaning of capital fixity is partly transformed and the fixed capital also becomes a site for circulation” (Sassen, 2002, p. 4)

First, property markets and actors, especially in so-called “mature” markets, have become more globalized (Keogh and D’Arcy 1994 discussed in De Magalhães 2001, 99–101). This *internationalization* results in the ‘scaling up’ of investment markets to supra-national (e.g. Europe, Asia) or transnational (e.g. cross-Atlantic) regions. This reflects how key actors have expanded beyond their national boundaries, starting with *end-user firms* such as MNCs. Contrary to residential markets, *property brokers* for commercial real estate and other *service providers* (such as IPD) have expanded globally too, through organic growth and/or a series of takeovers between U.S. and UK firms (De Magalhães 2001; Ball 2007), notably to provide services to MNCs and transnational *investors*. Regarding these financial investors, the internationalization of office ownership (i.e. held by investors) in International Financial Centers (IFCs) has been considered as one of the key trends in property markets (Lizieri 2009). Additionally, this increasingly includes the “peripheries of capitalism” such as Eastern and Central Europe where the

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<sup>24</sup> Although the same investment firm may also be involved in housing markets, or manage (distinctive) investment funds for commercial and residential properties. See Uffer (2011) on the case of Berlin’s housing provision and Fields (2014) on New York.

change in property investment techniques resulted from the arrival of new actors and the adjustment of traditional local actors (Taşan-Kok 2004), or in ‘emerging’ countries (David and Halbert 2014a; Halbert and Rouanet 2014; Searle 2014).

Second, the *financialization* of property markets and actors has been documented: property is considered as an investment asset by financial investment companies that abide to strategies of portfolio diversification based on risk-adjusted returns (see section 6 below). Accordingly, attention paid to (perceived) risk has become a central element in guiding property market (i.e. through risk-adjustment) as well as its analysis by the literature (Nappi-Choulet 2006; Dörny and Michael 2012). It should be noted, however, that neither the globalization, nor the financialization of the (commercial) real estate markets and industry have undermined their very *situatedness* in space and time (e.g. see Wood, 2004)<sup>25</sup>. Nevertheless if buildings remain locally embedded, these co-constitutive processes have put them within the reach of transcalar financial investors (see David and Halbert, 2014a; David and Halbert, 2014b; and Halbert and Rouanet 2014 for examples on Mexico and India).

Although they provide various examples of these wider processes through empirical case-studies, and hence contribute to raise the awareness regarding the commitment of financial investors to local development, orthodox approaches suffers from substantial limits. First, most of these works do not consider the importance of local landscapes and actors that actually contribute to shape what is perceived as investment opportunities by investment managers (Wilson, 1991): they only provide ‘supply-side’ accounts of the picture. Second, the outcomes of investment strategies and practices are not considered in terms of their material, socio-spatial, and political consequences. This omission seems to imply that there are no ‘strings attached’ to the type of capital used, despite so much attention given to indicators such as IRR and risk-adjusted returns. On the opposite, heterodox accounts of real estate economics-*cum*-geography highlight the existence of strong biases, or selectivities, in financial investment patterns (more on this in 6.3. below). Last but not least, whereas these selectivities underscore the very *political dimension* of the financing of urban redevelopment by financial markets, this aspect is mostly absent, if not deliberately evacuated.<sup>26</sup>

### 3.3 Recent developments towards critical analysis of the role of financial investors in UDPs

In that respect, more critical studies on the role of financial investors in UDPs *through property ownership* has gradually emerged, although appearing diverse and fragmented in terms of a shared research agenda and/or a theoretical framework.

In the case of the northern Paris city-region, Malézieux (2003) has observed that the emerging business center Landy-France (27 ha, 117,000 sq.m. of office floor space; see Figure 4 below) resulted from the conjunction of public authorities and property developers, as long as their respective interests went along. He remarked that the latter was organized as an industry (a “*filière*”) in which financial and foreign capital had a substantial weight (e.g. Awon Group, AXA, Deutsch Immobilien Fonds AG, ING, Generali, etc.). These early observations were followed by the case-study of a complex commercial project in the French regional metropolis of Montpellier (Arab, 2004). Through a focus primarily set on

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<sup>25</sup> Hence, we acknowledge with others that national specificities may exist (e.g. on the difference between French and British/Deutsch investment decision making, Roberts and Henneberry 2007).

<sup>26</sup> Such is the case of the “geography of finance” case-studies, in which authors argue for the containment of politics through strict investment policy based on professional (i.e. risk-adjusted) criteria and identification by Board members of market opportunities, as well as precedence of IRR over social benefits which are mere extra-bonuses (i.e. trickle down) but *should not* be the primary objectives, and, last of all, insulation of Board members from political pressure.

the co-production practices at work in project-based planning, it sheds light on the ability of a quasi-public DC in charge of a multi-purpose complex (i.e. commercial property including both retail and leisure) to define and carry out its development by selectively taking into account retail market *investment* standards. On the one hand, the DC has been able to keep at bay some of these standards which were deemed to be inappropriate for a project that was aiming for unconventional features. This was based on strong mayoral support which enabled the development agency to pull off the project for a two year-long timespan in order to let it further deepen its planning concept, including by taking examples from other international projects. On the other hand, and at the same time, because of the aim to keep the project attractive in the eyes of investors, the DC has been integrating some market expectations. In this light, Arab observes how the development agency has conceived, and later, steered the project on the basis of the yield expected by investors. Anticipation of market requirements and standards led to adjust the density, leisure/retail mix, and type of lessees.

Figure 4 – Business properties in ZAC Landy-France (background: left, Paris; right, La Défense CBD)



Source: Plaine Commune Développement, <http://www.semplaine.fr/realisation/zac-landy-pleyel-saint-denis/>, accessed December 2014.

Recently more attention has been paid to the interplay between financial investors and major actors of UDPs, with an emphasis on property developers as key intermediaries. A first step in that direction was provided by the case-study of two commercial real estate projects in Switzerland (Theurillat & Crevoisier, 2013, 2014). Seeking to study “actually existing sustainabilities” (Krueger & Agyeman, 2005 in Theurillat, 2011), Theurillat and Crevoisier have observed the negotiations between local authorities, developers, and investors surrounding the development of complex real estate objects (i.e. a shopping and leisure complex in Zurich and a mall-cum stadium in Neuchâtel, both in Switzerland). In both cases they highlight how real estate developers are at the center of the stage: on the one hand, negotiating with local authorities and other local stakeholders (including environmentalist associations); while on the other,



looking for investors to acquire their buildings. Thus, property developers negotiate *with* local officials *on behalf* of investors. As they put it,

“It would appear that the relations between the actors who raised the sustainability issues, the economic actors and finally the financial investors form a sequence of bilateral relations, even though no multilateral discussion, debates or negotiations took place. The *Fahrtenmodell* was built up step by step around the central actor — Karl Steiner, the developer — during the project development phase, and around the investor — Crédit Suisse — during the construction phase, and its creation owed a great deal to compartmentalization between actors and to distinct time sequences.” (2013, 18)

In order to do so, developers make use of their position and skills as gatekeepers able to organize the “commutation of capital” (Halbert and Rutherford 2010) through the translation or articulation of capital markets, real estate, and planning:

“The various professions that shall be called those of specialized intermediation such as the promoters, the building companies and the real estate companies (real estate services, brokers, agencies providing comparable information about various real estate markets) play a key role in the financial calculations and in obtaining capital on the part of financial investors (purchase of existing objects or the development thereof) since they have the necessary knowledge of the local markets (GUY and HENNEBERRY, 2002; TORRANCE, 2009). Consequently, and second, to characterize one’s view of the financialization of the city, these professions had to adapt to the demands of their ‘new’ financial clientele.” (Theurillat and Crevoisier 2014, 5)

These results have been corroborated and expanded by Guironnet et al. (forthcoming)<sup>27</sup> through the in-depth study of a 100 ha redevelopment initiative through a single UDP in the *Docks de Saint-Ouen*, in the northern Paris city-region (see also Halbert et al. 2014, section VII; Figures 5 and 6 below). The research material demonstrates the impact of financial investors on the redevelopment plan. For instance, a developer insisted that being in touch with investors to get to know their “philosophy” was as critical as networking with local officials and land developers to source land deals. Because property developers anticipate their investment clientele’s requirements in terms of type of properties (size, floor space and layout, green labels, etc.), location, and type of tenants, they have entered in bargaining with the municipality and its appointed DC, whose agenda was repeatedly challenged over several issues. The confrontation with the municipality’s agenda reveal frictions with the aim of creating a mixed-use and sustainable environment, be it in terms of diversified economic activity (size, sectors), reduction of car use through alternative parking systems based on mutualization, or multifunctional buildings and blocks. For example, the main property holding involved in the project and its appointed planner pleaded for the regrouping of office properties near the subway, whereas from the outset the urban fabric was to be mixed-use at every scale, including individual blocks. The actual clear-cut concentration of offices along a single street in accordance to market principles echoes the investment industry’s belief that asset liquidity stems from geographical concentration (i.e. that such buildings could easily be turned into cash and sold to other investors). Similarly, property developers were reluctant towards the inclusion of street-level retail shops beneath office floors as opposed to the redevelopment plan’s objective of creating a vibrant atmosphere through mixed-used buildings, here again in order to abide to investors’ expectations.

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<sup>27</sup> The article is part of a special issue in *Urban Studies* on “Financialization and the Production of Urban Space” co-edited by Ludovic Halbert and Katia Attuyer.

Figure 5 – Aerial view of projected buildings in Docks de Saint-Ouen (background: Paris).



Source: Sequano / Franck Badaire Photographie, <http://timelapse3.chronophotographie.com/index.php/welcome/>, Accessed December 2014. (Re-edited by authors).

Figure 6 – Docks de Saint-Ouen as of December 2014



Source: Franck Badaire Photographie, <http://timelapse3.chronophotographie.com/index.php/liste/index/1518/>, Accessed December 2014

These various examples testify as to how the alignment of property developers towards their financial clientele has impacted redevelopment objectives and the municipal agenda. In an early call Guy et al. (2002) urged local policymakers not to blindly turn to institutional investors to finance urban

regeneration, but also to consider “independent and locally based forms of property investment and development” (1194) whose culture might afford what the locality want, as opposed to the standardization praised by the financial industry (Edwards, 1985, p. 212. See below).

#### 4 FACTORING IN THE SHIFT OF PROPERTY AS TRADABLE-INCOME YIELDING ASSETS (TIYA): A RESEARCH AGENDA

These few case-studies provide a first step towards an understanding of the renewed role of financial institutions in UDPs, i.e. from the provision of construction finance to developers through banking intermediation towards property ownership by financial investors of elements of the urban built environment, and more particularly commercial real estate. The existing research literature has yet to develop more systematic and critical accounts to understand the extent to which this implies a rescaling of power relationships in UDPs, and how this affects their outcomes. In that light, building upon Leyshon and Thrift (2007), we put forward the notion of ‘tradable income-yielding assets’ to emphasize the shift in property markets, from owner-occupied buildings to rental, which reflects the ascending trajectory of financial investors associated with *financial reintermediation* in late-stage capitalism (4.1). As a result of the evolution of business strategies and public policies, these financial investors have come to consider property as an *asset class* such as stocks or sovereign bonds, and UDPs as vehicles that facilitate their investments strategies (4.2). Considering financial investors and their market finance practices in this light allows to understand their impact on city-making through a three-pronged analysis that casts light on how their selective expectations over what gets built, where, and for whom, circulate amongst key actors of UDPs, such as city governments and land planners/developers (4.3).

##### 4.1 *Reintermediation* in late capitalism and the restructuring of property markets

There is a need to reconsider the relationship between the built environment and financial markets following the restructuring of property markets as pools of *tradable income-yielding assets* (TIYA). If developers may still rely on financial markets to support their overall growth strategy at company level (e.g. through the listing on the stock exchange or by opening their capital to private equity investors) or to obtain construction finance<sup>28</sup> (e.g. loans and bonds), greater focus needs to be set on the role of financial investors as *final buyers* of developed real estate. By referring to *income-yielding* (Leyshon & Thrift, 2007), we aim to foreground the role of financial investors: they arguably have a key nodal position in contemporary capitalism. Their rise is associated with the process of *financial reintermediation*, which is increasingly acknowledged by the research literature on financialization, from cultural economy (Erturk et al., 2008) to Marxian theory (Lapavitsas, 2013; Moreno, 2014). Instead of the *disintermediation* anticipated by some as a result of intense financial restructuring since the 1980s (e.g. Chesnais, 2004), the ongoing shift in the nature and provision of capital is currently characterized by financial *reintermediation*: fund and investment managers pump up finance capital directly from capital owners (institutional investors, households, firms, etc.) on one side, and re-inject it as equity, amply leveraged with debt, into various asset classes, including real estate markets<sup>29</sup>. Further, the term *income-yielding* reflects the “constant searching out, or the construction of, new asset streams, usually through a process of aggregation (...) an

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<sup>28</sup> This does not mean that financial institutions, including banks, are no longer key in providing construction finance to developers, through the widespread diffusion of securitization techniques such as CMBS.

<sup>29</sup> Traditional intermediaries such as banks have had to “reinvent themselves” throughout this *reintermediation* process (Erturk and Solari 2007). For instance, various banks have jumped onto the bandwagon of Real Estate Investment Banking through dedicated in-house subsidiaries: BNP Paribas, Crédit Agricole and Société Générale (Amundi Immobilier), Deutsche Bank (RREEF), ING.

impulse to identify almost anything that might provide a stable source of income” (Leyshon & Thrift, 2007, p. 98) that these financial intermediaries achieve (see also Bryan & Rafferty, 2014 on “derivation”).

#### 4.2 The development of real estate as a TIYA in perspective

In the TIYA model, property landlords are thus financial investors; while occupying firms become tenants. The former includes a wide range of financial institutions, such as: pension and mutual funds, insurance firms, real estate investment trusts (REITs), investment banks, and other third-party portfolio management firms. Altogether, these financial investors consider real estate as an *asset class* similarly to infrastructure (see Lorrain, 2008; Torrance, 2008; O’Neill, 2009), and compared to stock or sovereign bonds. Put otherwise, property is considered as a financial asset (or “quasi-financial”, see Coakley, 1994 for a discussion).

- (1) These financial investors are firms and professionals in real estate markets that manage leveraged equity *on behalf of* stakeholders (securities on stock market) or of individual and institutional investors (non-listed vehicles).<sup>30</sup>
- (2) This mandate is articulated in portfolio management theory and market finance practices based on the risk-return rationale. It consists of the translation and diffusion of market finance theories, strategies, and practices, to real estate markets (and vice-versa, see Guironnet et al.)<sup>31</sup>. Within this framework, the course of an “asset” in a given investment portfolio is split between three main stages: investment (acquisition), management, and disposal (arbitrage).
- (3) This is based on a task division between different responsibilities and professions, including *inter alia*: fund management (e.g. relation with fund clientele, fund structuring on legal and financial grounds, fundraising), investment management (e.g. provision of deal cash flow, structuring of business plan for a given asset, defense of business plan before the investment committee), asset management (rental, financial, and legal handling of portfolio).<sup>32</sup>

Overall, the TIYA model consists of the optimization of financial performance, i.e. (active) value creation as opposed to (passive) mundane management (Tannenbaum 2009, 33).<sup>33</sup> This is achieved by working on the two components that make up the return on the capital locked in buildings, i.e. a recurrent rental income stream (hence income-yielding) and capital appreciation generated by sale (hence tradable). The return is calculated through *income-based* methods (capitalization rate, discounted cash flow). Investment strategies are devised and ranked by the level of risk-adjusted returns targeted; typically these include: ‘core’ (5-10% return), ‘value added’ (10-15%), and ‘opportunistic’ (+15%).<sup>34</sup>

The development of this industry and *income-yielding* model has its roots in three co-constitutive processes.

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<sup>30</sup> In other words and for matters of disambiguation: while the term “Financial investors” could be applied in a broad sense to a wide range of intermediary investors within a *continuum* linking a primary investor (a household for example) to a building, we are here considering the *final* financial investor, i.e. the last chain unit which effectively owns a property title (of a building, an index, a security).

<sup>31</sup> Although this process of diffusion may be subject to discrepancies in space and time. For instance it seems to have occurred earlier in the UK market (1950s-70s), whereas in France it took place mostly during the mid-1990s.

<sup>32</sup> It is worth noting that investors may be, in some instances, also engaged in development activities, for instance through a subsidiary firm (e.g. Tishman Speyer, Hines, French REITs like Gecina and Icade, and third-party investment management firms such as AXA REIM).

<sup>33</sup> In interviews with professionals, ‘mundane management’ is often referred too as ‘prudent person’ strategy in which so-called ‘traditional’ landlords such as insurance firms used real estate assets as a hedge against inflation.

<sup>34</sup> Strategies actually span among a continuum instead of being within strict boundaries (Halbert et al. 2014, 20) and their definition may vary from one investment firm to another.

- (1) *Transformation of business models*: Commercial real estate has been increasingly considered as a store-value for firms, which have then sought to monetize it by shelving it off from their books. This has led to various strategies, including the opco-propco model (Christophers 2010) and sale-and-leaseback or ‘asset-light’ models devised to outsource real estate (Halbert 2013a). These have often been articulated as part and parcel of focusing corporate resources on firms’ ‘core business’, in strong compliance with practices implementing the shareholder value theory (on the shareholder value theory, see Lazonick & O’Sullivan, 2000; Fligstein, 2001, pp. 147–190; Zorn et al., 2005),
- (2) *Professionalization of buy-to-let real estate business*: A cohort of firms and professionals has specialized in real estate portfolio outsourcing and management (see Nappi-Choulet, 2009), assuming day-to-day tasks from rent collection to arbitrage.
- (3) *Evolution in economic policies*: Central States have been key orchestrators of the TIYA shift, corroborating Ball’s theoretical argument that “state intervention is a necessary condition for most structures of building provision” (1986, p. 461; see also Haila, 1988, p. 96 on the role of national legislation supporting the treatment of “land as a financial asset”). Put otherwise, it has been part of the wider “policy project” that financialization is (Christopherson et al., 2013, pp. 352–3).

In that respect, governments had an active role in the creation of new investment vehicles as illustrates the diffusion of REITs schemes throughout numerous countries (see Sotelo and McGreal 2013 on Europe). By doing so, States have increased the liquidity of real estate (see Gotham 2006 on U.S. REITs), seeking to retain domestic savings and attract foreign capital. The integration of financial and property markets through public policy is actively pursued as a means to reinforce the former by offering tangible opportunities to portfolio diversification. For example, in the case of the Gulf Cooperation Council states (United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar and Bahrain), Buckley and Hanieh (2014) thus suggest that “the regulatory liberalization of real estate (...) must also be understood as a strategy of financial sector re-engineering” (p. 156). In that respect, “megaprojects have provided a key mechanism for Gulf states to fuel growth and diversification in the financial circuit” (p. 170).

#### 4.3 Putting TIYA in motion: A three-pronged research agenda

Urban Development Projects heavily rely on private investors which are hoped by the public promoters to bring fresh monies to support the capital-intensive production of *new* properties. In addition, UDPs often rely upon commercial real estate (office, retail...), as observed by its share in the total area of built space. Indeed, UDP promoters use properties as vehicles for economic development through property-led strategies (see 3.1 above), expecting to attract new firms – and hopefully to create jobs – thanks to private property investment supporting the development of new commercial space. Furthermore, commercial real estate may provide the financial viability of redevelopment schemes by generating immediate revenues through construction right sales – and in the longer term by enhancing the tax base. These projects that have mushroomed in major cities over the past decades appear to suit very much the ‘income-yielding’ scheme given their features:

- (1) *Flagship effect*: Investors can benefit from the ‘flagship effect’ of UDPs, whose commercial buildings may generally be designed by signature architects while attracting premium firms considered as ‘anchor tenants’, with the support of public authorities.
- (2) *Counter-obsolescence*: UDPs offer brand-new properties which will counteract the obsolescence of assets for a given portfolio. This effect is likely to be reinforced by a rising concern for ‘sustainability’ as so-called green buildings are increasingly becoming the market norm for newly

developed properties. In that case, UDP are timely opportunities for investors to comply with the national legislation (e.g. on France see Attuyer et al., 2012), but also to keep up with the evolutions in market norms defined by and for international financial investors.

- (3) *Location*: Today's UDPs are generally based on the provision of transport infrastructure, be it by their proximity to existing major hubs or the creation of these anew. Obviously, this substantially contributes to the improvement of the 'location, location, location' factor as the saying goes in the real estate business.

By positing UDPs as an attempt to transform land-use by leveraging resources (including capital) exchanged on commercial property markets, it becomes crucial to factor in our understanding the "meteoric rise of property as an investment" (Ball 1986), i.e. as an asset class (Coakley, 1994). Through this ongoing restructuring, property markets have provided TIYAs for financial investors in search for portfolio diversification. Therefore, this questions the *processes* through which investors strategies, requirements, and representations are circulated towards and among the key actors of urban redevelopment in UDPs such as city government and planners, land developers, property developers, consultants, etc. The underlying central hypothesis is that financial investors do impact what gets built, where, and for whom. In that regard, the heterodox geography of finance-*cum*-property provides fruitful observations on their spatial and social selectivities. First, the homogeneity or *standardization* of buildings<sup>35</sup> and lessees has been noted, especially in the UK case (Edwards, 1985, p. 212; Guy et al., 2002). Second, financial investors consider mostly tier-one metropolises and thus contribute to reinforce uneven geography (for the UK, see Martin & Minns, 1995; Lizieri, 2009; for France, see Crouzet, 2003; Halbert, Attuyer, et al., 2014; for an overall discussion, see Halbert, Henneberry, et al., 2014). Discussing this spatial selectivity, Lizieri (2009) has observed that the geographical concentration of financial property investment in IFCs was based on the belief in greater liquidity and cost-effective property management (given higher buildings value and scale), which "create a rationale for investing in IFC office market. That rationale may be not, of course, firmly based on rigorous empirical analysis; the importance is that it is *believed*" (p. 181. Our emphasis). Henneberry and Roberts (2008) unpack this spatial bias by highlighting how investors rely on mimic benchmarking techniques (such as the Investment Property Databank index) which contribute to adopting converging investment decisions (also known as "herd instinct"). Henneberry and Mouzakis (2014) further associate the spatial concentration of commercial property investment into South-East England to the role of "pure familiarity" which leads London-based investment managers to actually misprice other regional markets. Expanding on these results, Halbert et al. (2014, pp. 234–325) have analyzed the expectations and practices of financial investors in France, in terms of inter- and intra-urban spaces, buildings (type, size, location, and uses), and tenants; they underscore the workings of a "*milieu*" (in the sense of the territorial economy approach) to explain the observed selective investment decisions of such investors. Expanding on these results, Halbert et al. (2014, pp. 234–325) have analyzed the expectations and practices of financial investors in France, in terms of inter- and intra-urban spaces, buildings (type, size, location, and uses), and tenants.

Bearing these results in mind, we suggest that scholars need to question how these expectations circulate among and within UDPs through three processes (for a full development see Guironnet & Halbert, 2014).

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<sup>35</sup> The standardization observed on buy-to-let markets may also apply to owner-occupiers because of matters of resale liquidity. This might happen when there is no investor at a given time to accommodate for the real estate needs of a given firm. Recent examples in the Paris city-regions, where several large MNCs have contracted (as acquirers) with developers the building of large corporate campuses in the periphery when there was a lack of liquidity, and now seek to outsource to a consortium as part of a sale-and-leaseback scheme (*businessimmo.com*, 17/10/2013).

- (1) *The production of market representations* on which local planners and developers rely to implement UDPs.

International property consultants, who both devise cognitive categories and fill them with data collected by their valuation and transaction departments, frame these representations. This work of *translucidity*<sup>36</sup> giving existence to commercial real estate markets is key for redevelopment project actors. Given that these property consultancy firms mostly cater to investors and end-users of TIYA markets, they provide standardized market representations skewed towards transactions that reflect these very markets. Consequently, UDPs that rely on market data and views provided by such a limited number of property consultancy firms are likely to be adjusted to representations that take into account investors' expectations, at the expense of other market segments such as small-scale transactions, small-size markets, or non-standard products left aside by financial investors (not to mention owner-occupied markets).

- (2) *The tailoring of buildings that qualify as 'tradable income-yielding assets'* by property developers.

Given the outsourcing of commercial real estate by corporate landowners, developers target financial investors as a preferred clientele. Accordingly, they have grown alert to their expectations in terms of buildings location, characteristics, and tenants – and seek to anticipate them. Such expectations proceed from the association *by* investors *to* a given risk-adjusted return. Put otherwise, when erecting properties, developers seek to provide tradable income-yielding assets whose viability (for investors) notably rests on a stringent sorting between potential tenants, depending on how their business model and maturity offer stability and convenient appraisal for an investor. On behalf of their investment clientele, developers thus select would-be tenants on the basis of *what is believed* to offer the best risk-adjusted returns<sup>37</sup>, i.e. 'blue-chip' end-users such as MNCs. A similar process is observed with buildings' location (e.g. distance to public transportation, density of surrounding offices) and technical features (e.g. floor size, ceiling height, adaptability and flexibility, integration with the surrounding urban fabric, green labels) which are expected by financial investors (on technical features see Henneberry, 1988). As a result, properties are characterized by standardization, as it was anticipated as early as the mid-1980s where institutional investors had acquired a greater role in property markets: "we can thus see a tendency for buildings to approach the form of pure commodities, homogenous with clearly understood categories. Taken to its logical extreme, this would mean an investor could telephone from New York and buy 'prime London offices' with as little need for further information as when buying gold or government stock" (Edwards, 1985, p. 212).

- (3) *The larger evolution of planning practices* paving the way for the dissemination of financial investors' requirements among key actors of UDPs.

Property developers have acquired a greater role in these projects, not only at the development stage but also in early planning steps to which they contribute as key strategic partners. First, because of the shift in the coordination mechanisms in the production of the built environment, often times encapsulated in the ascent of *urban governance* (Le Galès, 1995) which indicates more pluralistic, horizontal, and public-private relationships in urban politics (see 1.1 above). Second, thanks to their ability to engage in landownership but also given the decreasing ability of public authorities to engage in costly landbanking. As landowners, property developers are thus involved in key stages of UDPs where they can negotiate with public

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<sup>36</sup> For a general use of the term, see Clark & O'Connor (1998) and its application to the Indian property markets, Halbert & Rouanet (2014).

<sup>37</sup> This 'best' not necessarily being the 'highest', as institutional economists have shown (Henneberry & Mouzakis, 2014; Henneberry & Roberts, 2008).

authorities, whereby the expectations of financial investors are more likely to be factored in. Put otherwise, redevelopment projects are partly negotiated on behalf of commercial property investors by developers. Furthermore, this mediated situation is supplemented by the emergence of strategies that directly address property investors as key partners. Whether because the provision of business properties is considered as a lever for local development or source of revenues to balance off the financial sheet of costly urban redevelopment, some local public authorities have put together dedicated resources to reach to investors. This trend is most noticeable in property fairs such as the MIPIM (*Marché International des Professionnels de l'Immobilier*), where the biggest increase in attendees for the past ten years has concerned local authorities (Halbert, Bouché, & Yver, 2012). Additionally, some local authorities have turned the MIPIM-influenced rationale (i.e. “to exist on the property investment map”) into ordinary development policies, in which property development – and, foremost, in UDP areas – is meant to meet financial investors requirements.

## CONCLUSION

Financial markets/investors and Urban Development Projects have too often been considered apart, whereas they increasingly go hand in hand. In spite of a growing literature on the financialization of urban capitalism, the issue has been unevenly considered by the existing research literature. While the mid-2000s heated controversy on UDPs has left financial markets’ role unaddressed, it has timidly emerged incidentally alongside the analysis of the shift to property-led planning and urban redevelopment policies. However, whereas this development has led scholars to speak of a general diffusion of financial (read: rent-maximizing) behaviors among landowners, including city governments, the concern for financial investors has been incidental. This sharply contrasts with the double-faced relationship between finance and property at the core of UDPs in the 1980s-1990s noted by seminal studies on UK and US global cities. In a context where the integration between finance and property has shifted from banking intermediation in construction finance to *income-yielding* financial reintermediation whereby real estate is compared to bonds and stocks, this research tradition has been recently revived as a handful of case-studies have begun to unveil how these investors affect negotiation process and outcomes of UDPs.

In that light, a crucial issue is to understand how, and to which extent, UDPs are increasingly shaped *for* financial investors. We suggest that one way to explore this issue is to look at the processes whereby these investors’ strategies, expectations, and representations are circulated towards and among other key actors of UDPs, such as city governments, planners, and property developers. By foregrounding the rise of financial investors and their role as intermediaries aiming to generate risk-adjusted returns through *tradable income-yielding assets*, this research note sketches three mechanisms which may contribute to align UDPs on financial investors’ requirements. It also suggests that UDPs do not constitute a separate investment asset class of its own, but rather that this alignment mostly proceeds through the integration between financial and property ownership markets.

Further research is needed to extend (and confront) this result to more *integrated schemes*, such as Private Finance Initiatives (also known as Public-Private Partnerships, PPPs) which can sometimes be used to deliver new towns or megacomplexes. To the extent that PFIs/PPPs include financial investors and their market finance techniques (see Deffontaines, 2013), it could be asked if and how their expectations affect these schemes’ outcomes through project finance; that is, not only as owners of real estate, but as shareholders of Special Purpose Vehicles that provide urban development from land assembling to property management. Likewise, research on how financial investors affect urban development may extend to the study of their relationship with property developers *at the company level*.



This would imply to shift the focus back to the role of financial markets as providers of finance for construction activity or corporate strategy (e.g. external growth through merging and acquisitions). This issue has received little attention (see Pryke, 1994 on property companies in the London's City; Fainstein, 2001 on O&Y; Olds, 2001 on Honk-Kong-based Concord Ltd. in the Pacific-Rim UDP, Vancouver, Canada) until recently, when the role of financial investors in financing property developers has come under greater scrutiny given its acuteness in emerging countries (see David & Halbert, 2014 on Mexico; Socoloff, 2014 on Argentina; Rouanet & Halbert, forthcoming on India; San Felici, forthcoming on Brazil). Research may use the concept of the "shareholder value" (see Lazonick & O'Sullivan, 2000; Zorn et al., 2005; Froud et al., 2006) to understand the extent to which investors and analysts impact the property developers' corporate organization, strategies, and practices, including in the case of Urban Development Projects<sup>38</sup>. Altogether with our call to factor in the rise of financial investors through the circulation of their TIYA-related expectations, these two avenues for research may therefore contribute to a more acute and comprehensive understanding of how financial intermediaries and shareholders increasingly steer urban development.

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<sup>38</sup> For example, in France, after a first generation of *ensembliers urbains* in which the largest construction firms attempted to engage in land development (see Lorrain, 1992; Menez, 2006 for a case-study), we are currently observing a second generation in which major property development firms seek a similar integrated strategy to secure construction rights for in-house property development units (e.g. Nexity, Icade, Bouygues-Sodearif, Eiffage). They are thus offering turnkey large-scale UDPs to cash-strapped city governments through an intervention at the various stages of the value chain (from land development and planning to property investment and management). It results in negotiations with city governments and planners well beyond traditional issues such as construction rights (see Guironnet et al., forthcoming, for a case-study; Baraud-Serfaty, 2014 for an overview). These companies are floated on the stock exchange and also occasionally draw on financial markets through bonds: it is therefore an interesting case to observe the extent to which these strategies are negotiated with their shareholders and sector analysts.

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**APPENDIX**

*Table 1 – Definitions of Urban Development Projects or Mega-Projects in selected works (quotations)*

<i>Sources</i>	<i>Characteristics (in-text quotations)</i>	<i>Examples included</i>
K. Olds (2001, 6)	<ul style="list-style-type: none"> <li>- developed with a myriad of capital sources that change over time;</li> <li>- modeled on each other;</li> <li>- developed and planned by architects, financiers, engineers, and planners who have experience of working and/or knowledge of previous or ongoing mega-projects in other cities around the world;</li> <li>- developed with both explicit and implicit internationalization strategies in mind;</li> <li>- marketed to overseas firms and high income individuals for subsequent lease or purchase and;</li> <li>- designed to symbolize a global urban ‘utopia’ for the twenty first century</li> </ul>	<p>London’s Docklands, Paris’ La Défense</p> <p>Case-studies: Vancouver Pacific Place, Shanghai’s Finance Center</p>
F. D. Orueta & S. Fainstein (2008, 760–1)	<ul style="list-style-type: none"> <li>- in locations which, as a consequence of urban restructuring, have lost their previous uses but have potential to be once again profitable within the post-Fordist urban economy;</li> <li>- generally developed within the context of public-private partnerships;</li> <li>- frequently mixed-use;</li> <li>- cater to the needs of office-based businesses and tourism and leisure services;</li> <li>- introduction of new methods of financing, with greater collaboration between the public and private sectors</li> </ul>	<p>Regeneration of waterfronts; recovery of old manufacture and warehouse zones; construction of new transport infrastructure or the extension of existing ones; renovation of historic city districts, usually to meet the special consumer demands of middle- and upper-class sectors (Zukin, 1998; Lourés, 2001).</p>
U. Lehrer & J. Ladley (2008, 799)	<ul style="list-style-type: none"> <li>- from 1980s to today;</li> <li>- initiated by State and private sector;</li> <li>- very costly;</li> <li>- financed by PPP/state investment facilities private sector investment;</li> <li>- focus on flexibility and diversity – many uses, many building types;</li> <li>- physical appearances as complexes/districts;</li> <li>- characterization of public benefits: The appearance of democratizing public space through large-scale improvements intended primarily to catalyze, and thus ensure a return on, private investment;</li> <li>- resistance is low and criticism relatively absent.</li> </ul>	<p>Case-study: Toronto Waterfront</p>

*Table 2 – Typology of urban development objects, including UDPs*

<i>Object</i>	<i>Unit</i>	<i>Characteristics</i>	<i>Examples</i>
operation	land plot	property estate	office tower, council estate, etc.
integrated project*	large land plot or block	complex object (size, deal structuring, functions)	stadium, retail and entertainment complexes, malls, etc.
urban project*	contiguous redevelopment area: several blocks or large-scale plot ( <i>macrolot</i> ), neighborhood,	global redevelopment plan	business centre, new mixed-use neighborhood, etc.

\* denotes what is considered as Urban Development Projects in this research note