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Title: Patient versus impatient capital: the (non-)financialization of real estate developers in the Low Countries

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Abstract

The recent history of real estate developers in the Netherlands and Belgium shows that financialization processes are geographically variegated. Although real estate developers, the intermediary between capital and the local built environment, faced a similar rise of more market-oriented banking, Dutch developers financialized their activities while their Belgian counterparts did not. The Dutch case demonstrates how financialized corporations can make accumulation cycles more extreme, particularly by placing the creation of fictitious capital at the centre of their business strategies. The Belgian case illustrates how patient capital, i.e. multi-generational wealth looking for sustainable growth, can function as a strong barrier to financialization processes, thus moderating the influence of financialized capitalism on the economy.

Keywords: financialization; patient capital; political economy; firm strategy; wealth

JEL Classification: G32 capital and ownership structure, value of firms, R30 general real estate markets, F43 economic growth of open economies

1. Introduction

Today's finance is much more footloose, a process initiated by the breakdown of Bretton Woods in the 1970s, spurred on by waves of financial liberalization and reregulation, and further accelerated by digitalization (Wojcik, 2012; Aglietta, 2000). Also, financial markets and the power of financial actors increased rapidly, reaching historically unprecedented dimensions (Hudson, 2010; Hardie and Howarth, 2013). The theoretical concept of financialization is used to analyse this "increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including

financial institutions), states and households” (Aalbers, n.d.). A rich body of work has demonstrated empirically how financial actors and financial logics increasingly shape practices in multiple domains: housing (Hudson, 2010), corporations (Orhangazi, 2008), the national political economy (Engelen et al., 2010) and the public sector (Hendrikse, 2015). Financialization is labelled as a new era of capitalism: financialized capitalism (Lapavistas, 2009).

However, this literature primarily looks at cases where financialization did occur. This selective focus can make it seem like processes of financialization are universal and ubiquitous across the West. Consequently, important barriers to the process of financialization are under-researched and still poorly understood (Christophers, 2015). In other words, more attention should be paid to “the complex processes of transformation, which sometimes advance and at other times *hamper* the advent of finance capitalism in the advanced political economies” (Van Der Zwan, 2014, p. 120; emphasis by author). Patient capital, both equity and debt providers with a long-term perspective, is one noted barrier that impedes financialization processes (Lehrer and Schmid, 2015; Thatcher and Vlandas, 2016; Deeg and Hardie, 2016) freeing firms “from obsessive concern with short-term market indicators” (Culpepper, 2005, p. 175). Accordingly, patient capital in the form of multi-generational wealth of families puts non-financial considerations – such as social capital and reputation – central within business models (Arregle et al., 2007; Colli, 2013; Salvato and Melin, 2008; Chrisman et al., 2011).

To reveal if the multi-layered and multi-scaled processes of financialization decreases possibilities for patient capital, this paper examines the behaviour of a specific set of economic agents: developers of residential and commercial (office and retail) real estate. The core business of these non-financial corporations is attracting capital to produce the built environment; highly dependent on external capital they are excellent observers of changes within capital provision. But, their actions are also inevitably locally embedded as they produce a spatially fixed commodity. Developers mediate between the financial sphere, for the provision of capital, and the real economy for the construction of physical buildings (Halbert *et al.*, 2014). Changes within their business strategies could reflect wider changes in political economies (Dixon, 2011; Deeg and Jackson, 2006). The rise of financialized capitalism could therefore be reflected through the financialization of corporations, a qualitative shift whereby the adoption of financial logics prioritizes a focus on short-term (financial)

profit maximisation over productive investments and long-term growth (Orhangazi, 2008; Tomaskovic-Devey *et al.*, 2015).

To investigate the resilience of patient capital towards financialization processes, the paper adopts a comparative perspective concentrating on Belgium and the Netherlands, both characterized as small open economies with a highly educated work force, relatively strong economic performance, large banking sectors and the highest net household wealth in the Euro zone (Chang and Jones, 2013). However, whereas in the Netherlands processes of financialization are clearly observable (Engelen, 2015), the Belgian political economy has important barriers to financialization. An explanation of this difference relates to wealth accumulation. While the wealth of Dutch households is managed collectively through a mandatory pension fund system controlled by institutional investors, wealth management in Belgium is an individual project. This has a profound influence on the political economy because individual wealth in the form of family capital, a type of patient capital, is an important barrier to financialization (Celo and Lehrer, 2016; Arregle *et al.*, 2007; Bebchuck and Roe, 1999). On the other hand, institutional investors are an important force for financialization processes and impatience (Sorsa *et al.*, 2016; Van Loon and Aalbers, n.d.).

While the Low Countries experienced a similar rise of market-oriented banking (Chang and Jones, 2013), endemic to the rise of financialized capitalism (Engelen, 2015; Lapavistas, 2009), the recent history of Belgian developers shows the resilience of patient capital towards financialization processes. There, multi-generational wealth looking for sustainable growth stimulated firms to adopt a longer-term focus on profitability including non-financial considerations. In contrast, the case of the Netherlands offers an extreme case of financialization: debt-driven growth and complex financial instruments became crucial for developers aiming at short-term (financial) profit maximization. Put differently, while the strong presence of patient capital within Belgian developers hampered processes of financialization, Dutch developers opened up to a great extent to impatient capital further accelerating processes of financialization within the wider Dutch political economy.

The paper first discusses how patient capital can function as a barrier to the financialization of corporations. Then, it introduces the Netherlands and Belgium as countries that both experienced the rise of market-oriented banking but differ fundamentally on another important element of the rise of financialized capitalism, the

prominence of institutional investors. Section 4 then shows, mostly based on 40 open interviews with actors in real estate, finance, and related state agencies, how Belgian and Dutch developers interacted rather differently with the rise of financialized capitalism since the 1990s.

2. Financialization of corporations: patient capital as barrier

A crucial aspect of the rise of financialized capitalism is that the main providers of capital for corporations, banks for loans (external capital) and shareholders for equity (internal capital), became more powerful and increasingly impatient (Fichtner, 2015; Deeg and Hardie, 2016). Since the 1990s, institutional investors rose as major shareholders transforming corporate decision-making processes around the principle of financial profitability (Van Loon and Aalbers, n.d.; Van Der Zwan, 2014). During the same period, banks in many countries started to loosen their long-term relations with corporations in which patient capital provided the glue for long-term interactions between banks and corporations: a bank “accompanied an industrial enterprise from the cradle to the grave, from establishment to liquidation throughout all the vicissitudes of existence” (Gerschenkron, 1962, p. 14). As banks adopted market-oriented business models attention shifted towards interacting with financial markets, finance itself was turned into an important source of profit (Hardie and Howarth, 2013). Moreover, banks started to develop or increase investment banking activities, making trading in listed and not-listed firms an important part of their business strategies (Wojcik, 2012).

The rise of financialized capitalism thus puts pressure on the provision of patient capital that consistently prefers “long over short-term corporate objectives” (Deeg and Hardie, 2016)**ADDPAGE**. Nevertheless, in particular shareholders with a long-term investment horizon such as sovereign wealth funds (Thatcher and Vlandas, 2016; Deeg and Hardie, 2016) or multigenerational family wealth, can still form a “highly resilient form of patient capital” (Celo and Lehrer, 2016)**ADDPAGE** shielding firms from financialization processes (Fichtner, 2015; Culpepper, 2005; Lehrer and Schmid, 2015). In this respect the multigenerational perspective of family owners makes immaterial components such as reputation, embeddedness in local communities, paternalism towards employers and endurance (almost) as important as financial considerations (Colli, 2013; Chrisman et al., 2011; Celo and Lehrer, 2016). Accordingly, risk averse, long-term planning horizons and social capital

creation are central to familial firms (Arregle et al., 2007; Fichtner, 2015; Salvato and Melin, 2008), embedding them in “Durkheimian” institutions “rooted in traditional social norms of community, solidarity and mutual obligations” (Celo and Lehrer, 2016). **ADDPAGE**. But, family firms are also characterized by opaqueness, hostility to external advice, slow growth and internationalization based on retained earnings as family firms are resistance towards high levels of debt (Chrisman et al., 2011; Colli, 2013).

However, the increased power of financial actors - this paper focuses on impatient institutional investors (Sorsa et al., 2016) and especially market oriented banks (Hardie and Howarth, 2013) - puts pressure on non-financial corporations (including family firms) to change their long-term perspectives into a short-term focus on profitability (Aglietta, 2000; Orhangazi, 2008). This financialization – or becoming impatient (Deeg and Hardie, 2016) - of business models can take place by using stable cash flows or real estate to generate debt, which is in turn used to gear small profits into large (financial) profits (Froud et al., 2006; Kaika and Ruggiero, 2013). Institutional investors, for instance, used Thames Water’s monopoly over water provision and its predictable cash flows to create sophisticated financial instruments for debt refinancing, hence increasing dividend pay-outs (Allen and Pryke, 2013). Leverage is also often used for opportunistic growth via mergers, acquisitions and management buyouts, or for increasing the value of a corporation via share buy-back programmes (Aglietta, 2000; Kaika and Ruggiero, 2013). These thick layers of debt heavily influence profitability and make business models more risky. This paper focuses on debt fuelled growth, but it is important to acknowledge that corporations can also financialize through the adoption of financial instruments (e.g. derivatives) or financial assets (e.g. securitized car loans) (Krippner, 2005; Pryke and Allen, 2000).

In both cases, the short-term focus on (financial) profit maximisation is usually at the expense of productive investments (Orhangazi, 2008). Put differently, boosting a corporation’s “fictitious capital”, i.e., marketable claims “on the production of surplus value and on the perceived value of the underlying asset” (Pani and Holman, 2013, p. 218), starts to prevail over strategies supporting long-term economic performance (Harvey, 2006). In this model, creating a positive image for investors and customers is paramount (Pike and Pollard, 2009). Marketing and apparently good financial results are crucial as Apple’s financialized business model illustrates the “paradox of assembler misery and brand wealth” (Froud et al., 2014, p. 54).

The financialization of firms in this paper is thus conceptualized as a shift towards short-term (financial) profit maximisation usually through increased debt generation, i.e., the impatient side of Deeg and Hardie's (2016) continuum. Whereas impatient capital stimulates corporations via at arms-length relations to achieve short-term financial goals patient capital stimulates corporations via enduring, close relations to achieve long-term goals that include, besides financial goals, also wider socio-emotional wealth goals (Celo and Lehrer, 2016; Stockmans et al., 2010; Chrisman et al., 2011). This conceptualization enables to analyse the extent to which the business strategies of Dutch and Belgian real estate developers have become impatient (i.e., financialized) through three indicators. First, the extent to which debt generation and leveraged growth have become central within the business models of developers. A second indicator is, just like in financialized real estate development, the marketing of projects and calculative practices to improve their fictitious value (Guironnet et al., 2016), the extent to which business strategies start to prioritize the creation of fictitious value over the production of the built environment. Third, as the result of the expanding investment portfolios of institutional investors and increased investment bank activities (Aglietta, 2000; Van Der Zwan, 2014), the increased shareholder ship of impatient, financial actors in real estate developers is a final indicator.

Section 2 outlined the strong pressure on real estate developers to financialize; however, as the next section illustrates, the political economies of both countries seem to filter this pressure differently. Accordingly, they seem to offer different possibilities for patient capital to be resilient for the dynamics of financialization processes.

3 Financialization and the Low Countries

This section demonstrates how Dutch corporations are more open towards financialization than Belgian firms, by first describing key elements of both political economies that filter processes of financialization, and subsequently briefly describing the rise of market oriented banking and financialization of non-financial corporations.

add table 1 here

3.1 Political economies “filtering” financialization

As table 1 illustrates the Belgian and Dutch political economies have many elements in common. Both have small economies in terms of foreign investments and international trade: Dutch corporations focus more on trade, export and international expansion while Belgian ones more on investments by foreign corporations. The net wealth of households is one of the highest in Europe, but, households, state agencies and non-financial firms have also one of the highest debt-to-GDP ratios in Europe.

Until the 1980s both countries had comparable models of Fordist economic development, with powerful labour unions and a strong state aiming to distribute wealth equally. The political system was based on pillars – religious or ideological organizations that influenced all spheres of life. Severe economic downturns led to cutbacks in welfare provision and waves of privatization. However, whereas the Netherlands seems to obey European regulation rather willingly, Belgian state agencies only take action when the urge, e.g., state debt is very high. Consequently, in many domains restructuring in Belgium, including austerity-policies, is rather mild. Also, Belgium devolved much more political authority to the regional level. While Wallonia continued to support its decaying traditional industries, Flanders was rather successful in boosting new economies – by reducing labour costs, attracting foreign investments, and investing in high-tech clusters and modern industries. Brussels became a major provider of jobs in the service sector, while remaining the country’s financial centre. Some institutions from the old Fordist regime, such as labour unions and pillarized organization structures still play a prominent role (Oosterlynck, 2010).

In the Netherlands, to the contrary, these institutions have decreased in importance, and the nerve of the decision-making process is still at the national level. Mercantilism, international competition, and the search for collective solutions are deeply embedded within political culture. Although policies and discourses during the post-1980s reform period were “heavily skewed towards the wishes of capital rather than labour” (Bruff, 2011, p. 494), they were adopted relatively smoothly across the different layers of society. Essential in this model of negotiation and compromise are advisory organizations (e.g. SER, CPB) seen as neutral, but, for which economic goals dominate. Henceforth, a market-oriented attitude proved fertile soil in the 1990s

for opening up the political economy to processes of financialization (Engelen *et al.*, 2010). The next section describes how Dutch and Belgian banks transformed their business models in rather similar ways – despite the differences outlined above.

3.2 More market-oriented banking

The creation of one European financial market, combined with national reregulation of banking, privatisation and structural current account surpluses, enabled the adoption of market-based banking business in the Low Countries. Banks grew rapidly – both in assets and in credit provision – internationalized their balance sheets, and became major players on global capital markets. Banking operations were also heavily consolidated, in the Netherlands into three banks (ABN Amro, Rabo and ING) and four in Belgium (bnpparibasfortis, KBC, Belfius [formerly Dexia] and ING) (Chang and Jones, 2013) (see table 1.4).

In the Netherlands, the rise of market-oriented banking is mostly the result of reregulation during the 1990s, which relaxed the borrowing conditions for Dutch households setting in motion a housing boom and continuous demand for new, higher mortgages. Other reregulation allowed the securitisation of mortgages, enabling Dutch banks to take the ever growing pile of mortgages off their balance sheets spurring rapid growth (Engelen, 2015).

In Belgium public credit agencies – *Openbare Krediet Instellingen (OKI)* – played a pivotal role in the management of a large reservoir of household deposits, mostly to provide conservative loans against low rates (Depuydt, 2010). During the privatisation wave of the 1990s OKI's merged, and the deposits – no longer legally separate from portfolio investments – became concentrated in three listed banks. These banks had inter-bank lending at the centre of their ambitious growth models. They used the deposits and current account surpluses as collateral for leveraged growth, becoming important players in the management of international capital streams (Chang and Jones, 2013).

The recent growth and internationalization of the major Dutch and Belgian banks shows striking similarities as “patient capital was swapped for profit maximization” (Chang and Jones, 2013, p. 84). Fees and commissions became more important than interest margins on loans and deposits, and relationships with corporations became more at arm's-length aiming to sell complex, often debt related, financial instruments (see table 1.4). Whereas Dutch banks connected themselves to

global financial markets mostly through securitisation, Belgian banks became mostly connected through inter-bank borrowing. Once global capital halted banks experienced enormous losses, which were partly nationalized.

3.3 Financialization of corporations

Although Belgian and Dutch firms obtain similar capital from equity markets (Hardie and Howarth, 2013, p. 6), the sources are profoundly different. Belgian firms receive patient capital from wealthy Belgian households, whose second largest asset – after net real estate (953 billion euro in 2013) – consists of listed and non-listed equity (433 billion euro). Families use this equity in mostly Belgian corporations to grow their multi-generational wealth in a slow, low-risk manner. They use their controlling stakes to set business strategies around predictable results, cost efficiency and risk minimization. They resist high levels of external capital or financial innovation as it decreases their influence. Outsiders are further kept away by opaque corporate governance that blurs the lines between owners, directors and managers. As a result, corporations remain relatively small and domestically oriented also taking non-financial goals as socio-emotional wealth creation seriously (Molly et al., 2012; Stockmans et al., 2010).

On the other hand, in the Dutch collective mechanism of wealth accumulation through a mandatory pension system, institutional investors manage the largest assets of Dutch households – 1.2 trillion euro in pension fund savings in 2013. Although nowadays much of these savings are invested abroad, in the 1990s pension funds pressured for important reregulation making it very attractive for impatient foreign investors to invest in internationally oriented Dutch corporations (Engelen et al., 2010; Van Loon and Aalbers, n.d.). Also, patient capital in the form of family capital is much less present in the Netherlands, only 91 billion euro in listed and unlisted equity in 2013. Stimulated by their shareholders, large, internationally oriented Dutch corporations adopted growth strategies that focused on the enlargement of fictitious capital, mostly through capital gains and mergers and acquisitions (Bezemer and Muysken, 2015).

Hence, whereas in Belgium individual wealth accumulation seems to be an important barrier for the financialization of real estate developers by the creation of patient, family capital, Dutch collective wealth accumulation seems to be an important force for financialization by the creation of an impatient, institutional wall of money.

4. The (non-)financialization of real estate developers

Comparable, aggregated quantitative data on long-term changes within the business models of real estate developers in the Low Countries is hard to find. Therefore, this section combines the relevant, available quantitative data with newspaper articles, public documents, and, in particular, 17 interviews in Belgium and 23 interviews in the Netherlands with key players, ranging from CEOs of real estate developers and banks to high level officials from planning departments.

Section 4.1 first shows that the three main aspects of the financialization of developer business strategies – 1) the adoption of leveraged growth; 2) prioritizing the creation of fictitious value over the production of a functioning built environment; and 3) financial actors – mainly as shareholders – pressuring for a refocus on short-termism – were much more visible in business models of Dutch than Belgian developers. Section 4.2 and 4.3 explain these differences by discussing developer practices in each country. Residential development, with mostly households as client/buyer and less risky finance models, and commercial real estate development, often for business as tenant and professional investors as buyer, are rather different practices. Still, analysing them together allows to analyse how processes of financialization differ in magnitude throughout the entire real estate sector. Consequently, it demonstrates how the working of patient capital cuts across disciplines and therefore offers a strong explanation about developments within both political economies.

4.1 (non-)financialization of Dutch and Belgian developers

Since the 1980s Dutch and Belgian cities experienced an internationalization in both the users of commercial real estate (i.e. tenants) and the owners (i.e. property investors). The rise of the service sector and the consumer society, combined with economic growth, pushed demand for retail and office space up (figure 1). The Belgian real estate investment market has remained opaque because, compared to the Netherlands, valuation procedures, information gathering, professional magazines and transparency are of considerably lower standards (Taşan-Kok, 2010). Consequently, it is very hard to gather meaningful, quantitative data on Belgian developers.

Add Figure 1 Estimation for activity developers: new building permits (in square meters)

Note: Because each country uses a different standard, it is difficult to compare data on non-residential real estate production.

As figure 1 and 2 illustrate, before both the burst of the dotcom bubble (2001) and the credit crunch (2007/2008), the influx of capital and unrealistic estimations surrounding future demand led to the overproduction in both countries, especially of office space. Whereas overbuilding in the Netherlands was combined with a strong increase in leverage to commercial developers and, rapid, often leveraged, international expansion, Belgian developers reacted much more conservatively by focussing solely on top locations, switching to other segments of real estate, and expanding into neighbouring countries. Moreover, Belgian developers were keen to transfer risks to investors through complicated contracts. Also, while in the Netherlands financial actors, mostly banks, were strongly presents as owners of Dutch real estate developers before 2008, the data on Brussels suggests that financial actors became more influential only after 2008 (see table 2). Historically Belgian banks have not held considerable real estate development activities. Recently other financial actors, such as the insurance company AG and the financial investor Ackermans & van Haaren, became very active. However, as shown below, their long-term investment perspective did not set in motion financialization.

Add Figure 2 Indicators for loans to real estate developers

Comparing changes in loan provision is challenging. For Belgium only data on loans to all real estate corporations (straight black line in figure 2) and loans to all construction activity (round dots) is available, while for the Netherlands there could be some doubling of the data as it is obtained from different sources. In the Netherlands most credit streamed to developers under very relaxed borrowing conditions, while in Belgium borrowing conditions remained relatively stringent. When the crisis hit, banks in both countries refocused on domestic markets. Whereas Dutch banks substantially scaled down their lending, in Belgium loan provision continued, even creating a “relative credit bonanza” (Hanseeuw, 2014, p. 5). In the Dutch case financial actors influenced the behaviour of real estate developers to a great extent,

not only by becoming one of the larger real estate developers of Europe (e.g., ING Real Estate, Rabo with Bouwfonds and MAB), but also by over-financing developers.

Add table 2 here

With regard to the development of residential real estate there are some crucial differences. As table 1.1 illustrates, the Netherlands had a much stronger population growth. In the Dutch planning system state agencies play a leading role and successfully steered the creation of a compact, rigidly ordered built environment. In Belgium, where landownership is more individual and state agencies less powerful, residential developments are small: individuals usually provide in their own housing. As a result, private households are the largest Belgian developers, and professional developers tend to be relatively small and locally oriented (see table 3). For the Netherlands, it is possible to distinguish between private commissions, rather rare compared to Belgium; housing associations which play a considerable role; and commercial developers, whereby the larger ones are often part of construction firms (BAM, Volker Wessels), institutional investors (AM, Vesteda), or banks (Bouwfonds). As discussed below in more detail, housing associations did adopt complex financial instruments to enhance their short-term (financial) profitability. Moreover, listed construction firms and some financial developers also increased their debt ratio and grew rapidly through takeovers and the creation of large land possessions.

Thus, the scarce comparative data available suggests that financial actors increasingly influence the business strategies of commercial, and in the Dutch case also residential, real estate developers. The next two sections will take a closer look at each country, showing how excessive debt generation in the Netherlands made developer business models short-term oriented, while in Belgium long-term perspectives prevail.

Add table 3 here

4.2 The non-financialization of Belgian developers

Where Belgian real estate development depended mostly on supporting urban sprawl, since the late 1990s urban (re)development projects became increasingly important. The majority of new Belgian houses is still developed like in the early

1990s: serried plots of land are bought as cheaply as possible, a geometer draws building plots (*verkaveling*) and then a concept developer tries to get permits for rezoning, often making use of local political contacts. Finally, individuals, in the case of owner-construction, or real estate developers design and build the houses. Residential developers are usually part of a familial construction firm using a large portion of their own capital, often in the form of land possessions, which makes them rather conservative. This attitude is reflected by the focus on well-known regions, familiar building techniques, and profit maximisation by minimizing costs (especially through rational designs and cheaper materials) and by maximizing revenue through “always building the maximum surface that the building permit allows” (interview). This practice is not capital intensive as plots are relatively small, and external capital is mostly obtained for construction, which only starts after most units have been sold.

Financialization is an unlikely outcome in this context. The case of Matexi, the largest residential developer in the country, illustrates a likely case for financialization: it had considerable revenue growth (from 25 million euro in the early 1990s to 250 million euro in the 2010s); the shareholders, the family Vande Vyvere were open to financial innovation; and it owned considerable plots that increased in value (Luysterman, 2010). Matexi was started in 1945 by the three Vande Vyvere brothers, and by the early 1990s grew into a major construction firm. Its business model was a good example of the *verkaveling model* described above, and, for the corporation good relationships with employees and business partners was more important than efficiency and growth. However, with the appointment of Gaëtan Hannecart, husband of Bénédicte Vande Vyvere, as CEO, Matexi set off on a path of professionalization. But, growth is still not the main goal, the focus is on “the realisation of high quality projects at the right locations” (Luysterman, 2010). With the take-over of Wilma Belgium in 2000, Matexi revised its business strategy to also include urban redevelopment projects.

There was strong pressure from Belgian banks, but also from peers, to spur growth by increasing leverage: “I have felt myself pretty dumb when I explained to American friends that we leverage 50 percent. They said, ‘why don’t you optimize? Much higher return on equity!’” (interview). Also, Matexi did not apply for project loans that have the advantage of transferring risks to banks. As the reputation as reliable partner is extremely important, Matexi preferred taking a loss to bad publicity from bankrupt projects.

Since the late 1990, new residential units are increasingly being developed in urban built environments, creating more complexity and increasing the need for professional developers (table 3). This trend coincided with a wave of overproduction in office space, hence, many commercial real estate developers switched to other segments of real estate. During the 1990s, these new commercial real estate developers started to replace family construction firms - who built in central, urban areas in assignment of the end-users and in sizeable volumes - as main producers of offices and retail. These new developers often sold the properties to investors instead of end-users. Also, they built smaller properties in more peripheral areas, usually specializing in a certain segment. Their growth was spurred by the entrance of Swedish investors who had “so much [investment] money and pressure to invest that they bought everything, even when there was no tenant” (interview). In the 2000s another wave of opportunistic Anglo-American investors was again very profitable for Belgian developers as they were able to transfer development risks to these investors. Most production took place in Brussels where developers, closely cooperating with local politicians, ignored local legislation and developed modernistic skyscrapers without taking into account the surrounding built environment (De Beule, 2010). In the words of one of the most productive architects, Jaspers, it is not about design: “It is always about obtaining building permits, that is the job of the architect” (Vermeersch and Van Garsse, 2015).

When the crisis hit, finance to real estate developers decreased but not that dramatically as banks had strict requirements for loan provision such as pre-letting, and an intense screening of the feasibility of the real estate project itself: “even for our best clients we still strictly scan every project” (interview). Profitable interest margins are the sole source of income from these loans. Thus, despite the collapse of the banking sector, the “Belgian brick sparkles as always, thanks to its stability” (BVS, 2013, p. 8).

The recent history of Atenor illustrates general practices also observed at other Belgian commercial developers. Cominière, once the second largest corporation in the Belgian Congo, faced bankruptcy in the early 1990s. With its Brussels headquarters as the only remaining valuable asset, Stéphan Sonnevile, not experienced in real estate, successfully redeveloped this office building, and Cominière became Atenor. With Sonnevile as CEO, Atenor specialized itself in the construction of modern offices in central locations in a booming Brussels market.

During the 2000s Atenor's sold its non-real estate activities, mostly equity in non-listed industrial corporations.

The familial shareholders who own most listed shares of Atenor have a long-term approach based on constant dividends through stable growth. They "are not willing to act recklessly. They are only willing to invest in high quality projects, with foreign architects who design the most sustainable properties on the best locations" (Sonneville, company website). Risk management prevails over boosting the corporation's (fictitious) share value. Atenor was also flexible and adaptable. Once the first signs of saturation in the Brussels office market were observed, it expanded abroad and started with residential projects. Another important element of the business model is going against the grain. In Luxembourg this strategy worked out very well: Atenor purchased a lot of land very cheaply just after the internet bubble collapsed. When the properties were sold, Atenor tripled its profits to almost 45 million in 2008 (Atenor, 2015, p. 0).

The modus operandi of Belgian real estate developers demonstrates how patient capital, in the form of family capital, acted as an important barrier to changing the developer business models towards short-termism. As families strive for moderate, low-risk growth of their multi-generational wealth and want to stay in control, they are very averse to high levels of external capital. As a result of their long history, they have a vivid memory of important historic events, such as the real estate crisis in the late 1970s. Patient capital fits well with Belgian real estate, with its long turnover times, it matches "the mental duration of capital with the mental duration of real estate projects" (interview). To remain in control, families are averse to mergers and acquisitions, maintaining a landscape of many small, locally oriented real estate developers, and thus hindering financial innovation.

Business models remain relatively simple including straightforward strategies as trying to sell land cheap and to start developing once markets rise again. Local political ties and reputation management are paramount, as "trust" makes for a smoother business process. Still, non-financialization does not mean a stronger focus on the quality of the production process and end product. Developers still seek to increase profits through traditional methods, like cutting construction costs. Profit maximization seems to be more fundamental than designing sustainable properties that satisfy the needs of individuals and society.

4.3 The financialization of Dutch developers

After the Second World War the Netherlands faced a dire real estate shortage. The answer was mass construction of real estate whereby the central state provided generous funding to large scale developers (mostly owned by municipalities, housing associations and private/institutional investors) for building large scale, mixed income housing projects in close cooperation with local planning authorities.

A Dutch wave of privatization in the 1990s set in motion the merging of many municipal developers with housing associations that became semi-public owners of large real estate portfolios and were operating in an opaque institutional setting. The booming housing market made housing associations asset rich. As table 3 illustrates, much of this societal capital was used to expand their real estate development activities ranging from luxurious housing to projects improving liveability. Despite having cheap and easy access to loans from state banks through a state guaranteed system, many housing associations bought derivatives related to their real estate development activities. Some used derivatives conservatively, but, the largest housing association Vestia first used derivatives to gear financial profitability, and, later to gamble on global capital markets, losing at least three billion euro (Aalbers et al., n.d.). Thus, whereas in the 1980s the societal capital of housing associations was, through stringent state-regulation, “ring-fenced” (Allen and Pryke, 2013) from predatory finance, now finance captured some housing associations.

Construction firms had already adopted real estate development during the 1990s (see table 2) as the higher profit margins, in particular when leveraged, boosted their financial results. To secure future development projects and to profit from increasing land values, construction firms bought large tracks of land, but, problems arose in 2008 when construction activity and land values decreased. The largest developing construction firm, BAM, had to write off 594 million euro between 2009 and 2012 of its market valued assets, mostly land. Project losses were smaller, as construction only starts after a considerable portion of the units are sold, and all larger developing construction firms survived the crisis.

Institutional investors have always been both major investors and developers of Dutch residential real estate. In the 1980s the pension fund for public servants, ABP, was by far the largest developer of affordable housing, generating a stable, but low, rate of return. As institutional investors adopt a pure financial investment perspective, their development activities are shaped by financial models and

calculations. ABP is now primarily interested in those areas where luxurious housing can generate the highest and most volatile rates of return (Van Loon and Aalbers, n.d.).

Since the 1990s, Dutch banks became increasingly more active in residential development. The example of Bouwfonds/MAB, originally owned by municipalities and taken over by ABN in 2005, is illustrative. ABN transformed this domestic developer of affordable housing into a large international developer of residential projects and also prestigious commercial projects (after the takeover of MAB). However, after 2007 many projects proved to be too optimistic and, after writing off most of the fictitious project values, the new owner Rabo decided to exclusively proceed with residential development activities (Van Loon and De Graaf, 2015). In general, developers owned by Dutch banks followed opportunistic strategies: international expansion, usually through leveraged growth, was often more important than actual real estate demand.

During the 1990s a new model of real estate development arose in the Netherlands, with municipalities playing a pivotal role: they granted zoning/building permits and earned profits from leveraged land speculation, hence creating “over-optimistic over-zoning” (Janssen-Jansen *et al.*, 2012, p. 2). A substantial part of these profits was used to subsidize non-profitable investments such as affordable housing, but a significant share – 3.2 billion euro between 2004 and 2008 – was embraced by aldermen to build prestige projects (e.g. city halls, theatres), as land profits is the only source of income that municipalities can spend freely (ASRE and PBL, 2013). Developers were known to seduce municipalities in order to create larger, more prestigious plans: “it’s like flirting with a women: you have to overwhelm them, you have to show off” (interview). Once seduced, developers were clever enough to transfer most of the development risks to municipalities.

This over-optimistic planning model was furthered by the wide availability of money, both from investors (i.e. home buyers, institutional/private investors) and from banks. As part of their growth seeking strategy, the banks’ real estate finance departments were forced to increase production (see figure 2), even when heads of department doubted the sustainability: “I preferred an exit from financing new offices, but, to realise your growth targets you had to finance offices” (interview). Consequently, borrowing conditions were relaxed to new lows: “if you proposed a new project for above 2,5 million SNS would give you a loan directly, showing a

building permit was not required” (interview). Loan-to-value ratios of 100% were common, and there was no control on how the borrowed money was spent: “Development was not driven by demand, it was driven by capital” (interview).

Debt was also used for international expansion. Financial real estate developers such as ING Real Estate, Bouwfonds MAB, and Multi became major European actors. However, the foundation of the system – ever increasing real estate values providing sound collateral for excessive lending – proved fragile once Lehman Brothers fell in 2008. Figure 2 illustrates that, in 2008, banks stopped new lending to commercial developers, and decreasing real estate values devaluated the collateral. Highly leveraged developers went bankrupt, leaving hundreds of millions in debt and setting in motion the nationalization of the fourth largest Dutch bank, SNS Reaal. Also, banks started to scale or shut down their development activities, evaporating billions in fictitious value. In addition, decreasing land values created 3.3 billion euro in losses between 2009 and 2013 for municipalities leading to several municipal bankruptcies. Surviving developers now work with other sources such as forward funding by the end user or investor. Therefore, trust between actors has become quintessential, thus increasing project complexity, making new projects much smaller and focused on urban redevelopments (Mackaaij and Nozeman, 2014).

Although an extreme case, the recent history of Multi is illustrative for both the internationalization and financialization of Dutch real estate developers. Started by Van Veggel in 1982, Multi expanded into Portugal in the late 1990s when the brother of one of the major shareholders informed them about the booming Portuguese economy. More sophisticated studies and analyses, combined with the growing appetite of Dutch institutional investors, provided the basis for further international expansion. In 2006 Multi is bought by a real estate investment fund of Morgan Stanley, which followed an opportunistic business model to boost profits with relaxed pre-letting requirements, exclusive developments for the fund of Morgan Stanley REF V, and a three-year, 950 million euro loan from eleven banks. This loan could be used as equity and thus as collateral for new loans on projects, creating “an eternal multiplier for infinite money production” (interview). The loan is based on the expectation that rising capital values of realized projects will allow the generation of new loans that can be used to repay the original loan. The loan was negotiated during the peak of bullish European real estate markets and loose finance. Shortly later, a couple of the banks faced dire financial conditions, and Multi struggled to

realise the expected value-increases on completed projects in the then depressed real estate markets. Consequently, between 2008 and 2010, it accumulated losses totalling 400 million euro.

In 2010, the loan was renegotiated, but, the eleven banks now had rather different visions. Crucially, a new clause allowing the resell of loans and transforming the loans into claims on equity was added. After the refinancing, Multi continued its business and was repaying the debt. In 2012 Blackstone started to buy up loans and started to build up voting power that it used to frustrate Multi's activities to motivate the other banks to sell their loans including the claims on equity. In late 2013 Blackstone obtained ownership of three to five billion in real estate projects by buying loans with a value of 850 million for about 500 million euro. Multi is now used by Blackstone as an entity to build a large European retail real estate fund. It has become a financial development investor.

In the Netherlands, impatient capital pressured different types of developers to refocus their activities around short-term (financial) profit maximization. For some, in particular housing associations but also financial developers such as Vesteda, this was illustrated by the adoption of complex financial products, such as derivatives and CMBS. Leverage, happily provided by growth seeking banks, was adopted even by municipalities to buy land or fuel foreign growth, usually through mergers or acquisitions, thus creating large, internationally oriented developers. But, also households and investors increased leverage to buy real estate further inflating the bubbles of fictitious capital (Harvey, 2006; Haiven, 2011). As the buyers of real estate were strongly focused on exchange value, the demands of end users became increasingly irrelevant, now producing "spread sheets transformed into concrete" (interview).

Strategies were often structured by one or two ambitious entrepreneurs, or heavily influenced by the growth motives of its financial owner. In both occasions, impatience led to opportunism and sophisticated but risky strategies. As many actors were relatively new to real estate development, a collective memory of the popped bubbles in the past was missing. Once the bubble bust the winners of impatient real estate development became the losers, and resorted to begging the state to save them through nationalization and state aid, transferring the cost of their bad performing real estate loans and projects to the public.

5. Conclusion

In this paper, the financialization of real estate developers is seen as a qualitative transformation whereby the adoption of impatient debt and/or equity makes short-term (financial) profit maximization the leading focus.

Where patient capital in Belgium was resilient to financialization pressures all three formulated indicators of financialization were clearly observable in the business models of Dutch residential and commercial real estate developers. First, within all different types of developers complex financial instruments or leveraged growth came to dominate many business strategies. Second, institutional investors already owned developers in the 1980s, but during the 1990s also the large Dutch banks considerably increased their real estate development activities and used their development corporations to spur growth. Third, this welcoming of impatient capital created an enormous fictitious bubble, with real estate debt generation as an important engine for economic growth (Engelen, 2015). This vision was based on the idea that “you can boost economic growth through real estate development. However, real estate follows economic growth: when real estate is not used it has no value whatsoever” (interview). Consequently, while all actors thought that future revenues would allow the debtors to repay, in reality, once the volatile, highly leveraged real estate markets fell many developers went bankrupt not able to repay the outstanding debts. Their over-leveraged business models heavily amplify the up and downs of global capital markets, thus increasing extremes within domestic accumulation cycles (Harvey, 2006). Put differently, real estate actors’ willingness to take up both impatient debt and equity from large, internationalizing Dutch banks directly tied the Dutch real estate market to global, financialized capitalism.

On the other hand, the dominance of patient capital, in the form of risk-averse family capital aiming to grow sustainably, maintained a different business model for Belgian developers, making it possible to resist financialization, despite facing the similar bank pressures as in the Netherlands. Although Belgian developers did start using more sophisticated financial instruments, such as bonds, financial sector actors and ideas did not capture their business models. As regulation is increasingly regionalized, local customs, local knowledge and in particular local networks become crucial for understanding the developers’ actions. To remain in control, familial shareholders resisted rapid growth through acquisitions and/or high indebtedness. Instead, Belgian developers opted for debt and equity constructions that guarantee a

long-term focus on profitability including non-financial considerations such as socio-emotional wealth elements (Celo and Lehrer, 2016; Deeg and Hardie, 2016). Their actions seem to have moderated domestic accumulation cycles by moderating influences during the rise of financialized capitalism, suggesting that high levels of patient capital can also contribute to shielding domestic economic sectors from financialization processes. Other important elements of this protection within the Belgian political economy seem to be the regionalization of public policy, the strong position of labour unions in Belgium, weak state agencies that lack power to reform, opaque governance structures and the lax implementation of European legislation. Within the Belgian political economy real estate is conceptualized as individual investment that needs protection; financializing it to spur economic growth at the national level is not a priority. Still, the workings of these non-financialized firms should not be romanticised – profit maximization remains central in their operations, often at the cost of the wishes of end-users and built environment quality.

In conclusion, the practices of developers indicate how a financialized Dutch political economy accelerates cycles of accumulation with extreme mania and more devastating periods of devaluation while in Belgium patient capital is a strong barrier against financialized capitalism's volatility. Therefore, real estate development seems to be a crucial sector to study financialization as its capital intensity and connection to the global capital market heavily influences domestic waves of accumulation. Still, much remains unknown about how these findings translate to other layers of political economies, for instance, banks in both countries "financialized" in similar ways. Also, a more fine-grained analysis at the level of the individual firm or subsector (i.e. offices, retail, residential, etc.) including a wider geographical scope is needed to develop more nuanced insights into the process of financialization and the working of patient capital as barrier. Such comparative studies are also crucial for analysing how the rise of financialized capitalism influences national political economies.

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Figure 1 Estimation for activity developers: new building permits (in square meters)

Note: Because each country uses a different standard, it is difficult to compare data on non-residential real estate production.

Source: CBS (2015), Statistics Belgium (2015)

Figure 2 Indicators for loans to real estate developers

Sources: NBB (2015), CBS (2015), Property NL (2007-2015)

Table 1 Some characteristics of the Belgian and Dutch political economy

	year	Belgium	Netherlands	source
1.1 Macro economic indicators				
Gross domestic product (GDP)/capita	1995	\$22.862	\$22.899	OECD
Gross domestic product (GDP)/capita	2013	\$41.866	\$46.174	OECD
Population	2012	11.128.200	16.755.000	Eurostat
percentage urban regions	2012	83%	84%	OECD
population growth	55-'12	25%	56%	Eurostat
1.2 Household's Main Assets				
Homeownership (%)	1995	76%	59%	Eurostat
Homeownership (%)	2011	72%	67%	Eurostat
largest financial asset (in billion)	2013	€ 434	€ 1.161	DNB, NBB
Net household wealth/capita	2014	€ 84.771	€ 78.063	Allianz (2015),
*(respectively shares and pension fund savings)				
1.3 Debt				
Debt-to GDP ratio: household's mortgage	1998	27%	55%	EMF
Debt-to GDP ratio: household's mortgage	2014	47%	95%	DNB, CBS, NM
Debt-to GDP ratio: non-financial corporate	2014	136%	127%	Mackienzy
Debt-to GDP ratio: government	2014	135%	83%	Mackienzy
1.4 financial sector				
bank concentration (% 3 largest banks of total assets)	2011	86%	81%	Worldbank

bank assets increase	2000-7	39%	48%	Hardie and H (2013)
bank assets to GDP	2014	296%	382%	NNB, DNB
Non-interest income as percentage of gross income	1990	18%	24%	OECD
Non-interest income as percentage of gross income	2007	53%	54%	OECD

Table 2.1 Estimated relative market share of commercial real estate developers, the Netherlands

	2001	2007	2014
construction firm	26%	28%	23%
finance	39%	39%	17%
developer	32%	24%	38%
developer investor	3%	9%	22%

Source: top 49 developers of the annual top101 list published by Property NL (available since 2001)

Table 2.2 Building permits for the (re)development of offices in Brussels (5 year average)

	97-'01	03-'07	09-'13
Belgian state agencies/European Union	16%	5%	12%
Banks and insurers	37%	34%	39%
Corporations and individuals	47%	61%	50%

Source: Gewestelijke Overheidsdienst Brussel and Brussel Stedelijke Ontwikkeling (available since 1997)

* As data on ownership of commercial Belgian real estate developers is not available this table gives a, very rough, indication for

who is involved in (re)development activities of offices in Brussels (i.e. by far the largest market for commercial real estate in Belgium)

** Table 2.2 uses a five year average as the permission of permits, in contrast to the ownership of Dutch developers, fluctuates a lot.

Table 3 Indication for relative market share of residential real estate developers: comissioners of new construction projects

<i>Belgium</i>				
	1995	2001	2007	2014
corporations	22%	32%	37%	42%
private commisions	73%	62%	59%	49%
State agencies and social housing providers	6%	6%	3%	9%
<i>The Netherlands</i>				
	1995	2001	2007	2014
Construction firms, institutional investors, banks, developers	47%	65%	61%	70%
private commissions	16%	16%	10%	12%
State agencies and social housing providers	37%	18%	29%	18%

Source: Statistics Belgium (2015), CBS (2015)