THE DIFFERENTIAL IMPACT OF REAL ESTATE FINANCIALIZATION ON THE POLITICAL ECONOMIES OF GERMANY AND FRANCE

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Nederlandse samenvatting

Het uitbreken van de financiële crisis van 2007-2008 en de nasleep ervan hebben aangetoond dat processen van vastgoedfinancialisering zich wijd hebben verspreid in de ontwikkelde, kapitalistische wereld. Niet alleen in de Verenigde Staten, waar de subprimehypotheekcrisis resulteerde in de ineenstorting van het Amerikaanse financiële systeem, maar ook in diverse landen als het Verenigd Koninkrijk, Ierland en Spanje, hebben processen van financialisering, hier gedefinieerd als de 'toenemende dominantie van financiële middelen, actoren, markten, praktijken en narratieven', de relatieve stabiliteit van de economie ondermijnd. Niettemin is er verrassend weinig onderzoek gedaan naar de mate waarin het toegenomen belang van financiën de vastgoedmarkten van Duitsland en Frankrijk – twee Continentaal Europese economieën in het hart van de Europese Unie – heeft veranderd. Hoe en in welke mate zijn processen van vastgoedfinancialisering waarneembaar in de vastgoedmarkten van Duitsland en Frankrijk? En als de vastgoedmarkten van beide landen 'financialiseren', hoe en waarom zijn de processen van vastgoedfinancialisering dan verschillend in Duitsland en Frankrijk?

Hoewel de verbanden tussen vastgoed en financiën in beide landen inderdaad sterker zijn geworden, laat deel I van dit proefschrift zien dat een dominant patroon van financialisering, geoperationaliseerd als een grotere afhankelijkheid van gefinancierd eigen woningbezit en gesecuritiseerde hypotheken, niet kan worden waargenomen in Duitsland en Frankrijk. Desondanks wijzen de transformaties in de voorheen gesubsidieerde huursector van Duitsland op een alternatief pad van financialisering, aangezien grote woningportefeuilles nu worden beheerd door private-equityfondsen en beursgenoteerde vastgoedondernemingen. Bovendien lijken de praktijken van projectontwikkelaars, evenals de opkomst van een nieuwe klasse van eigenaren van onroerend goed in Frankrijk, te suggereren dat zich hier aan de aanbodzijde van de woningmarkt processen van financialisering voltrekken. Ook wijzen de toegenomen investeringen door institutionele beleggers in de commerciële vastgoedmarkten van Duitsland en Frankrijk erop dat processen van financialisering in toenemende mate plaatsvinden, aangezien beleggers doelbewust hun vastgoed beheren als financiële activa.

De opkomst van een beursgenoteerde vastgoedsector in Duitsland en Frankrijk, evenals de komst van beursgenoteerde vastgoedondernemingen en real estate investment trusts (REIT's), wordt echter beschouwd als het meest treffende voorbeeld van vastgoedfinancialisering in de politieke economieën van Duitsland en Frankrijk. Desondanks hebben beursgenoteerde vastgoedondernemingen in beide landen zich op fundamenteel verschillende markten gericht vanwege verschillende historische en

sociaaleconomische factoren. Daar waar in Duitsland de voorheen gesubsidieerde publieke en private woningsector is gekoppeld aan de aandelenbeurs, wordt in Frankrijk de commerciële vastgoedsector steeds meer gekapitaliseerd door REITs en andere holdingmaatschappijen. Daarom richt Deel II van dit proefschrift zich op de beleggingspraktijken van beursgenoteerde vastgoedfondsen en de manieren waarop deze fondsen bijdragen aan de circulatie van financiële verwachtingen in de stedelijke gebouwde omgeving. Daarbij worden de lokale investeringsstrategieën van drie beursgenoteerde vastgoedbedrijven onderzocht vanuit een sociaaleconomisch perspectief: Immeo Wohnen (onderdeel van het Franse moederbedrijf Foncière des Régions) en Vonovia in Duitsland en Icade in Frankrijk. Geïnformeerd door theoretische en empirische analyses laat dit proefschrift zien dat processen van financialisering zich ook in Duitsland en Frankrijk voltrekken, zij het misschien niet op dezelfde manier als in de Verenigde Staten en andere landen. Ontwikkelingen na de crisis duiden er zelfs op dat een verdieping en verbreding van financialisering te verwachten is in de nabije toekomst.

English summary

The outbreak and aftermath of the Global Financial Crisis of 2007-2008 have shown that processes of real estate financialization have become widespread in the advanced, capitalist world. Not only in the United States, where the subprime mortgage crisis resulted in the collapse of the American financial system, but also in countries as varied as the United Kingdom, Ireland and Spain, processes of financialization, here defined as the 'increasing dominance of financial actors, markets, practices and narratives', have undermined the relative stability of the economy. Nevertheless, surprisingly little research has studied to what extent the increased importance of finance has transformed the real estate markets of Germany and France, two Continental European economies at the heart of the European Union. How and to what extent have processes of real estate financialization become observable in the real estate markets of Germany and France? And if the real estate markets of both countries are 'financializing', then how and why are processes of real estate financialization different in Germany and France?

Although the connections between real estate and finance have indeed become stronger in both countries, Part I of this PhD thesis shows that a dominant pattern of financialization, operationalized as a greater reliance on mortgaged homeownership and mortgage securitization, cannot be observed in Germany and France. Nevertheless, the transformations in the formerly subsidized rental housing sector of Germany indicate an alternative pathway of financialization since large housing portfolios are now managed by private equity funds and listed real estate companies. Furthermore, the practices of private property developers, as well as the emergence of a new class of property owners in France, may suggest that processes of financialization are occurring on the supply-side of housing. Similarly, the increased investments by institutional investors in the commercial real estate markets of Germany and France indicate that financialization processes are increasingly occurring considering that these investors manage their real estate deliberately as a financial asset class.

However, the rise of a listed real estate sector in Germany and France, as well as the advent of listed real estate companies and real estate investment trusts (REITs), is considered as the most striking example of real estate financialization in the political economies of Germany and France. Nevertheless, listed real estate companies in both countries have targeted fundamentally different markets due to various historical and socio-economic factors. Where in Germany the formerly subsidized public and private housing sector has become linked to the stock exchange, in France the commercial real estate sector is increasingly becoming capitalized by REITs and other holding companies. Therefore, Part II of this PhD thesis focuses on the investment practices of listed real

estate funds and the ways in which these funds contribute to the the circulation of financial expectations in the urban built environment. In doing so, the local investment strategies of three listed real estate companies are examined from a socio-economic perspective: Immeo Wohnen (a subsidiary of the French firm Foncière des Régions) and Vonovia in Germany and Icade in France. Informed by theoretical and empirical analyses, this PhD thesis shows that financialization processes are also occurring in Germany and France, albeit perhaps not in the same way as in the United States and other countries. Post-crisis developments in the respective real estate sectors even suggest that a deepening and widening of financialization is to be expected in the near future.

List of Abbreviations

CME	Coordinated Market Economy
CPE	Comparative Political Economy
FdR	Foncière des Régions
GFC	Global Financial Crisis
HLM	Habitation à Loyer Modéré
LME	Liberal Market Economy
LTV	Loan-to-Value
OPCI	Organisme de Placement Collectif Immobilier
REFCOM	Real Estate/Financial Complex
REIT	Real estate investment trust
SCIC	Société Centrale Immobilière de la Caisse des Dépôts et Consignations
SCPI	Sociétés Civiles de Placement en Immobilier
SIIC	Société d'Investissement Immobilier Cotée
TIF	Tax Increment Financing
U.K.	United Kingdom
U.S.	United States
VAT	Value Added Tax
VoC	Varieties of Capitalism
ZAC	Zone d'Aménagement Zone Concerté

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PART I:

INTRODUCTION AND RESEARCH APPROACH

Chapter 1. Introduction

1.1. Introduction

It is generally agreed that the global financial meltdown of 2007-2008 was caused by the unbridled expansion of credit and finance into housing and other forms of real estate (Aalbers, 2016b; Andrews, Sánchez, & Johansson, 2011; Goldstein & Fligstein, 2017; Jordá, Schularick, & Taylor, 2014). It has also been agreed that the American housing market was the epicenter of the global financial crisis (Aalbers, 2008; Martin, 2010; Schwartz, 2009). Yet, because American mortgages in their securitized forms were traded globally and also by European investment banks, the collapse of the American housing system was also felt in Western Europe and other parts of the world (Aalbers, 2015; Hardie & Howarth, 2009; Schwartz & Seabrooke, 2009). Furthermore, the collapse of various European housing systems in the wake of the European debt crisis indicated that the increased and potentially 'toxic' connections between real estate and finance were not a mere 'Anglo-American' phenomenon (Howarth & Quaglia, 2013a; Jessop, 2014; Streeck, 2013). For instance, the house price bubbles in Ireland, Spain and the UK have shown that European real estate has also become more linked to the vagaries of financialized and global capitalism (Hofman & Aalbers, 2017; Palomera, 2014; Waldron & Redmond, 2014).

Nonetheless, surprisingly little research has shown how and to what extent the penetration of finance into real estate has transformed the residential and commercial real estate markets of the so-called Coordinated Market or Continental European political economies of Germany and France. This is a missed opportunity because Continental European capitalism has long been perceived as the counterexample of the Liberal Market or Anglo-Saxon mode of capitalism (Albert, 1991; Amable, 2003; Hall & Soskice, 2001; Shonfield, 1965; Zysman, 1983). However, since the mode of economic organization in France and Germany has become increasingly internationalized and liberalized (Höpner, 2007; Howarth, 2013; O'Sullivan, 2007; Streeck, 2009), it can be expected that the respective residential and commercial real estate markets of both countries have also transformed. As such, a study on the intensified connections between real estate and finance in Germany and France may not only learn us something new about the 'commonalities of capitalism', but also about the variegated patterns of real estate financialization across advanced and capitalist societies (Fernandez & Aalbers, 2016; Peck & Theodore, 2007; Strange, 1997).

Based on the size of mortgage debt, mortgage securitization and cross-border investment flow, real estate economists have often claimed that the real estate markets of

Germany and France display a low degree of financialization in comparison with other countries (Andrews et al., 2011; Tutin & Vorms, 2014; Voigtländer, 2010). However, the idea that the real estate markets of Germany and France have become more extensively linked to global financial dynamics is becoming more mainstream too. Firstly, mortgage debt levels in both countries have increased above their historical average in recent years, and so have house prices in major metropolitan areas of Germany and France (Friggit, 2011; Heeg, 2013; Jordá et al., 2014). Secondly, the unprecedented surge in commercial real estate investments by institutional investors, as for instance the 2003-2007 investment boom has demonstrated, also shows clearly that real estate cycles are becoming more linked to global credit cycles (Guironnet, Attuyer, & Halbert, 2015; Just, 2010b; Nappi-Choulet, 2013a; Rohmert, 2013). These empirical observations, which hitherto remain under-studied in the literature, raise the question to what extent processes of real estate financialization have become observable in the real estate markets of Germany and France? And if the real estate markets of both countries are 'financializing', then how and why are processes of real estate financialization different in Germany and France? And what does real estate financialization learn us more broadly and generally about the ongoing decline of Continental European capitalism as it emerged under the post-war settlements?

In the first part of this PhD thesis, I seek to provide answers to these questions by reconstructing the long-term trajectories of institutional change in the residential and commercial markets of Germany and France (cf. Aalbers & Christophers, 2014; Engelen, Konings, & Fernandez, 2010; Fernandez & Aalbers, 2016). In doing so, the literature on comparative political economy (CPE) and the decline of post-war organized capitalism is an essential starting point for analyzing how and to what extent processes of real estate financialization have become observable in Germany and France (Crouch & Streeck, 1997; Hardie & Howarth, 2013; O'Sullivan, 2007; Streeck, 2009). Contrary to the common belief that the real estate markets of these countries operate outside the domains of financialized capitalism (see e.g. Cusin, 2013; Kofner, 2014; Tutin & Vorms, 2014; Voigtländer, 2010), I show that processes of real estate financialization have also materialized in Continental Europe, however not necessarily in the same way as in other countries. I conclude that the rise of a listed real estate sector and the role of listed funds owning large real estate portfolios is a dominant and more specific form of real estate financialization in Germany and France (Boisnier, 2011; FSIF, 2010; Heeg, 2013; Holm, 2010a).

In the second part of this PhD thesis, I focus on the local investment practices of private equity funds and listed real estate companies in Germany and France. In doing so, I adopt an actor-centered approach to reveal how the increased autonomy of market actors vis-à-vis state authorities has reinforced processes of real estate financialization in

the heartland of Continental Europe (cf. Deeg & Jackson, 2007; Halbert & Attuyer, 2016; Theurillat, Rérat, & Crevoisier, 2014). Although the rise of a listed real estate sector is a common development in Germany and France, I conclude that the spatial-temporal specificities of both markets also show how and why real estate financialization has unfolded differently in both countries. In Germany, listed funds operate almost exclusively in the residential sector and focus mainly on the sale or management of housing portfolios that once belonged to and the state, para-public entities and private companies (Bernt, Colini, & Förste, 2017; Holm, 2010a; Müller, 2012). In France, listed real estate funds operate primarily in the commercial real estate sector and also invest in the urban spatial development of the Greater Paris region (Boisnier, 2011; Enright, 2012; FSIF, 2010). As such, I present the uneven development of listed real estate in Germany and France as another example of the fundamental variegated nature of capitalist development.

In the remainder of this introductory chapter, I first discuss the conceptual approach of this PhD thesis which is developed largely in line with the research project of the 'real estate/financial complex' (REFCOM) (Aalbers, 2013). By linking the literatures on financialization, comparative political economy (CPE), real estate studies and urban studies, I present a conceptual approach for understanding and operationalizing real estate financialization in the context of Continental European capitalism. Subsequently, I present the research questions of this PhD thesis and elaborate on the methodology of process tracing and identifying trajectories of change and pathways of financialization (Bennett & George, 2005; Fernandez & Aalbers, 2016; Hendrikse, 2015). Finally, I present the five empirical chapters of this paper-based manuscript: three national studies on the residential and commercial markets of Germany and France, and two urban studies on the investment practices of listed real estate funds in the Ruhr area of Germany and the Greater Paris region of France.

1.2. Financialization and its mechanisms

In the wake of the Great Recession of 2007-2008, the concept of financialization has gained scholarly attention to explain fundamental and ongoing transformations of and in contemporary capitalism (French, Wainwright, & Leyshon, 2011; Pike & Pollard, 2010; van Der Zwan, 2014). From a longue durée perspective, financialization can be seen as a recurring stage in liberal capitalism in which a stable basis for capital accumulation is lacking and capital expansion increasingly occurs beyond the realm of the real economy (Aglietta, 1998; Arrighi, 1994; Boyer, 1986; Harvey, 1982). As such, finance capitalism or financial capitalism, as Van der Zwan (2014: 101) recalls, 'denotes a form of capitalism, in

which finance has become the dominant function in the economy and has extended its influence to other areas of life (e.g. social and political).' However, more practically, the concept of financialization can also refer to the 'increasing dominance of financial actors, markets, practices and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Aalbers, 2017a). This general and broader definition can be used as a heuristic device to describe a shift in gravity of economic activity from industrial production towards finance and financial speculation (Arrighi, 1994; Foster, 2007; Krippner, 2005).

In hindsight, the origins of financialization can be traced back to the crisis of Fordism in the 1970s. During the post-war settlements, capitalism found its counter-balance in the Fordist regime of accumulation which enforced an institutional compromise between capital and labor, resulting in the post-war economic miracle of prolonged growth in the 1950s and the 1960s (Albert, 1991; Shonfield, 1965; Zysman, 1983). However, when post-war economic growth came to a halt, successive crises spread more widely across the capitalist world through the interconnectedness of financial and commodity markets (Streeck, 2014). In response to global inflation of the 1970s, national governments sought to restore growth by increasing public spending and by borrowing credit in emerging international financial markets (Birch & Siemiatycki, 2015; Krippner, 2011). While doing so, national governments anticipated that economic growth would soon resume and that increasing public debt was a 'necessary, albeit undesirable measure' to stimulate the economy (Jacobs & Manzi, 2017: 29).

However, since the post-war growth machinery never really stopped faltering, inflation and public debt became a serious issue to deal with (Stockhammer, 2008). Being confronted with mounting levels of public debt in the 1980s, national governments therefore sought to boost the economy by liberalizing financial markets and stimulating the growth of private debt in the 1990s and the 2000s (Crouch, 2009; Froud, Leaver, & Williams, 2007). The emergence of a alternative growth regime combining flexible labor markets and the expansion of credit to sustain consumption and aggregate demand was politically encouraged in the face of stagnating wages and declining profitability (Engelen, 2008; Stockhammer, 2008; van Der Zwan, 2014). Yet, this cycle of 'buying time', which essentially delayed a crisis of the real economy by stimulating finance-led growth and debt-fuelled consumption, ultimately resulted in the Great Recession of 2007-2008 (Streeck, 2013). As a matter of fact, the piling up of financial obligations of governments, financial and non-financial firms and private households ultimately reached a unsustainable level in which the reliance on debt creation was stretched too far (Lapavitsas & Powell, 2013; Pike & Pollard, 2010; Ward, Van Loon, & Wijburg, 2017). The *subprime* mortgage crisis, which fundamentally undermined the American economy, is a

good example of how the overstretch of financial markets can also result in a serious world recession (Aalbers, 2008; Gotham, 2012; Schwartz, 2009).

The processes and forces driving financialization are multifold and difficult to isolate from one and another. Therefore, the literature is typically dived in three different strands to differentiate between the qualitative dimensions of financialization processes (see e.g. Engelen, 2008; Van der Zwan, 2014 for an overview). Firstly, financialization is often associated with the shift towards a finance-led regime of accumulation characterized by 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005: 174). As industrial output in post-Fordist economies has declined on the one hand, and a new service- and finance-oriented economy has emerged on the other, the share of finance and real estate in the GDP has substantially increased at the expense of manufacturing and other industrial sectors (Hofman & Aalbers, 2017; Stockhammer, 2008). Furthermore, since returns on capital have exceeded returns on labor due to the growth of financial markets (Piketty, 2013), a larger share of globally circulating capital is no longer fixed in production but is rather invested in fictitious commodities such as real estate, stocks and bonds (Turner, 2015; Van Loon & Aalbers, 2017).

Against this background, the financialization literature generally emphasizes that 'non-financial corporations increasingly derive profits from financial activities in the face of declining profitability' (Van der Zwan, 2014). For instance, large industrial corporations and 'national champion firms' such as Pirelli, General Motors and Thyssen-Krupp have responded to declining profitability by shifting their activities to low-wage countries and by actively engaging in financial activities such as real estate development, credit distribution and asset management (Dixon, 2008; Fichtner, 2015; Froud, Haslam, Johal, & Williams, 2000; Kaika & Ruggiero, 2013). Similarly, large banking groups that under the post-war settlements were still considered as modest helpers of the real economy (Sweezy, 1994), have become known for actively engaging in market-based activities, such as investment banking, wholesale trading and asset securitization (Hardie & Howarth, 2013; Sokol, 2013; Streeck, 2009). While shifting away from industrial production and bank-based activities, large corporations and commercial banks have thus undertaken new financial activities to compensate for declining profits in what previously could be considered their 'core' line of business (Krippner, 2011; Orhangazi, 2008; Schwartz, 2009).

Secondly, financialization is often associated with the rise of shareholder value orientation as a guiding principle of corporate behavior (Van der Zwan, 2014). This dimension of financialization, which is closely related to the shift to finance-led accumulation, 'considers how financial markets exert pressures on non-financial corporations, and the managers running them, to adopt business practices promoting

shareholder value (Van der Zwan, 2014: 107). Facing declining profitability in the 1980s, many non-financial corporations sought to improve their corporate performance by becoming listed on the stock exchange and increasing their liquidity and access to capital (Fichtner, 2015; Froud, Leaver, & Williams, 2007; Johal & Leaver, 2007; Streeck, 2013). Therefore, the literature has demonstrated how former insider-controlled corporate governance networks have gradually opened up to the pressures of international capital markets as protections against hostile takeovers were lifted and new cross-national shareholding structures emerged (Hardie & Howarth, 2009; Johal & Leaver, 2007; Streeck, 2009). Similarly, it has documented how private shareholders, asset managers and other institutional actors have played a key role in introducing new modes of corporate governance in the West and beyond (Deeg & Hardie, 2016; Fichtner, 2015; Nappi-Choulet, 2013a; Theurillat, Corpataux, & Crevoisier, 2008) 'Coupon pool capitalism' is used as a metaphor to describe how capital markets change the behaviors of firms and households and how corporate orientations have shifted towards profit maximization on behalf of the shareholder and private investors (Froud, Johal, & Williams, 2002; van Der Zwan, 2014).

Interestingly, the diffusion of shareholder value orientations has not remained limited to the corporate governance of large corporations and multinationals alone. In response to the public budget crisis beginning in the late 1970s, various national governments across the capitalist world have also inserted shareholder value orientations into the public domain through the diffusion and adaptation of new public management doctrines (Aalbers, 2016a; Birch & Siemiatycki, 2015; Jacobs & Manzi, 2017). In this broader context, the literature has shown how various public and para-public entities, including universities, hospitals, schools and water service, have become subject to market rules and private business practices (Christopherson, Martin, & Pollard, 2013; Engelen, Fernandez, & Hendrikse, 2014; Pike & Pollard, 2010). Furthermore, the literature has shown how former state entities, which during subsequent waves of privatization have been sold to market actors, are now effectively managed by financial markets. The examples of sold or outsourced public housing, energy, railroad and infrastructure companies show how public utilities and services have progressively been linked to international capital markets and their investors (Adisson, 2017; Holm, 2010a; Pike, 2017; Torrance, 2009). The gained role of municipal bond markets and the securitization of public debt also reveal how shareholder value orientations are inserted into the public domain through different financial channels (Hendrikse & Sidaway, 2014; Lagna, 2015; Peck & Whiteside, 2016).

Thirdly, financialization can also be related to the increased importance of finance in the everyday life of citizens and households (Ertürk, Froud, Johal, Leaver, & Williams, 2007; Langley, 2007; Montgomerie & Büdenbender, 2015). Due to the flexibilization of

labor and the privatization of social policy and welfare, various households have become more reliant on credit and finance because they require financial leverage to enter the housing market or to compensate for reduced income and welfare protection (Crouch, 2009; Lawrence, 2015; Mertens, 2017). Furthermore, due to financial re-regulation and the grounding of finance into the everyday, a new market has emerged in which consumers, instead of only states and private firms, borrow an increasing amount of credit from financial institutions and banks in order to sustain a consumerist lifestyle (Crouch, 2009; Lawrence, 2015; Mertens, 2017). While households and citizens have thus become more dependent on the performance of financial markets, they simultaneously need to manifest themselves more deliberately as modern investment subjects and manage their financial risks (Langley, 2006, 2007; Watson, 2010). For example, financial literacy and economic responsibility is required of citizens in order to buy appropriate financial services products, whether these concern stocks, bonds or real estate assets (Erturk et al., 2007; Konings, 2009; Stockhammer, 2008). However, since management of financial risks and private wealth is not a skill that not everybody masters, the grounding of finance into the everyday creates winners and losers as not every household gains equally from the volatility of markets (Aalbers, 2012).

The potential downsides of the financialization of the everyday have been discussed extensively in the literature. The subprime mortgage crisis in the US, but also the housing bubbles in Ireland, Spain and the UK, have become key examples of how households and citizens have plunged into mortgage distress and bankruptcy following the collapse of the housing sector (Aalbers, 2012; Palomera, 2014; Wainwright, 2009; Waldron & Redmond, 2017). Critical in this regard is that financial norms of creditworthiness and the disciplinary power of banks also reinforce inequalities in society (Van der Zwan, 2014). For instance, during the prelude to the GFC, various commercial banks in the US and other countries deliberately distributed so-called subprime and off-balance sheet mortgages to low-income families and ethnic minorities. While doing so, financial institutions created high-risk but high-yielding mortgage products that could be sold in the secondary mortgage market and thus satisfied the demand of institutional investors for new liquid assets (Aalbers, 2012; Gotham, 2012; Fields, 2017). Indeed, as Kaika & Ruggieri (2013) have shown, financialization can be characterized as a 'lived' and socially embodied process inasmuch as it mobilizes class dimensions and exposes the lifes of ordinary people to financial risks. This 'lived' dimension only seems to become stronger as an increasing share of national wealth relies on the growth of financial assets and real estate which are unevenly distributed across the population and thus reinforce already existing socio-economic disparities in society (see e.g. Piketty, 2013 & Arundel, 2017 for an analysis of income inequality across capitalist societies).

1.3. The financialization of real estate

Against the background of the global financial crisis and the collapse of the American housing system, a small but growing literature has shown that real estate and housing have become central aspects of financialization (Aalbers, 2017; Fernandez & Aalbers, 2016). On the one hand, real estate has become a crucial collateral for credit loans and increasingly complex financial activities, such as mortgage or credit securitization and the trade of credit derivatives (Engelen, 2015; Gotham, 2012; Kaika & Ruggiero, 2013). On the other hand, the literature on financialization has also shown that real estate is increasingly used as a financial asset class in its own right (Lizieri & Pain, 2014; Van Loon & Aalbers, 2017; Weber, 2015). Since real estate can produce an operative income or create a cash flow, a global chain of investment banks and other institutional investors has become increasingly reliant on real estate investments (Clark, Dixon, & Monk, 2013; French et al., 2011; Theurillat et al., 2008). Furthermore, because real estate ownership provides wider access to asset-base welfare and 'house price Keynesianism' (Crouch, 2009; Watson, 2010), households can potentially offset for reduced income by investing in homes and by profiting from real estate cycles (Arundel, 2017; Kemp, 2015; Ronald, Lennartz, & Kadi, 2017).

Firstly, the literature on the financialization of housing generally focuses on how transformations in mortgage lending and mortgage securitization have resulted in higher house prices and mortgage debt levels in a variety of institutional domains and country settings (Aalbers, 2016b; Ertürk, Froud, Solari, & Williams, 2005; Jordá et al., 2014). In some country cases, of which the US the UK, Ireland and Spain are good examples, the combination of mortgage securitization and expanded mortgage lending resulted in unprecedented property cycles and housing bubbles (Aalbers, 2008; Palomera, 2014; Wainwright, 2009; Waldron & Redmond, 2014). However, also in less 'indebted' countries such as Germany and France, an expansion of housing debt and finance can be observed despite lower degrees of mortgage securitization (Friggit, 2011; Hofer, 2012; Mertens, 2014; Timbeau, 2013). This general tendency towards mortgaged home ownership can be seen as a direct outcome of the wider shift towards finance-led growth, the emergence of shareholder value orientations and the financializaiton of the everyday (Aalbers, 2008; Jordá et al., 2014). However, inasmuch as households can profit from increasing house prices and offset for reduced income (Arundel, 2017; Ronald et al., 2017), they can also lose from falling house prices or from financial risks when they no longer can meet the repayment schedules of their mortgage loans (Hay, 2011; Waldron & Redmond, 2017). 'House price Keynesianism' or 'asset price urbanism' is therefore not necessarily understood as a stable regime of accumulation as it can trigger financial crises when houses lose their value or when households are plunging into mortgage

distress (Byrne, 2016; Watson, 2010; Crouch, 2009). Neither is it understood as a private regime *pur sang* since national governments actively use their fiscal and financial means to promote and stimulate private debt among different kinds of households (Jacobs & Manzi, 2017; Aalbers, 2015).

Interestingly, a burgeoning literature on the 'geographies of finance' has shown that processes of real estate financialization do not necessarily result in the unbridled growth of mortgage debt and house price inflation (Fernandez & Aalbers, 2016; Schwartz & Seabrooke, 2009). For example, recent studies in the UK, US, Germany and Spain have linked processes of financialization to transformative processes in non-owner-occupied housing segments, such as the subsidized social housing sector and the private rental sector (Bernt et al., 2017; Fields & Uffer, 2016; Kemp, 2015; Soaita et al., 2017). The sale of public and private housing companies to private equity funds and listed real estate companies can be perceived as a dominant form of housing financialization as housing portfolios become managed by financial actors which adopt a patrimonial approach and seek to create shareholder value (Bernt et al., 2017; Beswick et al., 2016; Holm, 2010a). Similarly, the resurgence of the private rental sector in most post-homeownership societies can be associated with processes of financialization as an increasing group of financially conscious private landlords treats its rental homes as objects of investment and profits fully from letting out rental homes to especially younger generations of tenants whose access to home ownership is reduced due to the GFC (Forrest & Hirayama, 2015; Ronald & Kadi, 2016; Ronald et al., 2017). Furthermore, the literature has shown that new profit-oriented investment practices of private property developers also exemplify patterns of financialization on the supply-side of housing production (Pollard, 2010b; Romainville, 2017; Sanfelici & Halbert, 2016). Rather than constructing new homes in geographical areas where demand is the highest, some 'financialized' private property developers tend to concentrate building activity in those areas where profitability is high and where tax breaks can be applied for profitable uses (Boisnier, 2011; Vergriete, 2013).

Secondly, the literature on the financialization of commercial real estate typically focuses on the ways in which the relationships between international flows and office markets in global financial centres have intensified (Lizieri, 2009; Van Loon & Aalbers, 2017; Weber, 2015). In the wake of financial liberalization and the creation of global financial centres in the 1980s, large amounts of investment credit were funneled into the urban built environment, ultimately resulting in the 1980s property boom and the subsequent property crisis of the 1990s (Ball, 2002; Lizieri, 2009; Nappi-Choulet, 2012b). Against this background, the financialization literature has shown how commercial real estate has become increasingly managed as another financial asset class by a chain of globally operating investment banks and other institutional investors (Nappi-Choulet,

2013a; Scharmanski, 2012). Because 'real estate periodically becomes an important outlet for surplus capital and credit capacity in the banking sector' (Wissoker et al., 2014: 2789), crises of over-production and over-investment have become rather rule than exception in the commercial property sector. For instance, the investment boom of 2003-2007 has shown how the combination of favorable economic conditions and limited investment opportunities can result in a somewhat speculative investment cyle in which the investment market and its underlying rental market become increasingly disconnected (Wissoker et al., 2014). Similarly, the post-crisis investment boom shows how the connections between real estate and finance have intensified as institutional investors engage more actively in portfolio trading and lay their hands on an increasing share of the office stock available in global cities (Lizieri & Pain, 2014; Van Loon & Aalbers, 2017; Weber, 2015).

In this broader context, the financialization literature has shown how institutional investors and other financial actors aim at 'profiting without producing' by simply trading in already existing global real estate portfolios and leasing office space to multinational corporations and other signature clients (Fernandez, Hofman, & Aalbers, 2016; Lapavitsas, 2013; Van Loon & Aalbers, 2017). The introduction of new financial innovations, instruments and products such as real estate investment trusts (REITs) and mortgage securitization has made it significantly easier to create 'liquidity out of spatial fixity' and has hence contributed to the acceleration of cross-border capital flow in the commercial property sector (Engelen, Erturk, Froud, Leaver, & Williams, 2010; Gotham, 2006; Lizieri, 2009; Wainwright, 2015). Furthermore, because European integration has reduced barriers to foreign ownership, institutional investors have become more inclined to diversify their investment portfolio across various national and local jurisdictions (Baum, 2002; Lizieri, McAllister, & Ward, 2003). By making use of highly leveraged investment strategies, institutional investors can increase their returns on equity as they can invest in commercial properties which are normally out of their financial reach (Boisnier, 2011; Kofner, 2012; Lizieri, 2009). As a consequence of that, commercial real estate is increasingly treated as an alternative asset class for stocks and bonds that create continuous cash flow and operative income and can function as a safe haven for investments in the global economy (Gotham, 2006; Scharmanski, 2013; Van Loon & Aalbers, 2017). In an extreme case, the property markets of London and New York are used as a 'safe deposit box' for institutional investors and wealth elites that seek to store their wealth in 'towers of capital' (Fernandez et al., 2016; Lizieri, 2009; Wójcik, 2013).

Thirdly, the literature on the financialization of urban development also touches upon the role of real estate and finance as objects of investment. This literature pays particular attention to the role of public and municipal governments in promoting property-led urban growth (Guironnet & Halbert, 2014; Nappi-Choulet, 2006). For

instance, recent studies on tax incremental finance (TIF) and other urban budget programmes have shown how state authorities actively introduce financial and fiscal tools to attract private funding for urban spatial development and real estate production (Guironnet et al., 2015; Theurillat & Crevoisier, 2013; Weber, 2010). However, while such urban funding regimes have resulted in the invitation of private competition, private actors that promote rent-maximization strategies have become important actors in the urban built environment (Moreno, 2014; Rutland, 2010; Weber, 2013). Crucial in this regard is that while private property developers and commercial property investors adopt a patrimonial strategy of managing income-producing real estate assets, they are inclined to maximize shareholder value and to promote the circulation of shareholder value (Gotham, 2016; Lizieri & Pain, 2014). As such, processes of financialization are sometimes at stake with the public orientation of urban spatial development as public and private interests need to be reconciled in the urban-political process (Adisson, 2017; Kaika & Ruggiero, 2013; Savini & Aalbers, 2016).

Since real estate, by its very essence, is locally tied and spatially fixed, the financialization of real estate and urban development cannot be seen outside the urban context (Charney, 2001; Theurillat et al., 2014; Wissoker et al., 2014). From the perspective of state rescaling and urban entrepreneurialism, land and urban spatial development is a crucial economic activity of cities to create jobs, employment and growth (Brenner, 2004; Harvey, 1989; Le Galès, 2011; Swyngedouw, Moulaert, & Rodriguez, 2002). However, in times of financialization, real estate is also mobilized as a 'financial asset' by global corporations and institutional investors for the purpose of wealth storage and capital accumulation (Kaika & Ruggiero, 2013; Moreno, 2014; Savini & Aalbers, 2016). As a consequence of capital switching into the urban built environment (Aalbers, 2008; Haila, 1997; Harvey, 1982), the multiplicity of real estate financialization must hence be linked to the urban process in which financial accumulation takes place (Guironnet et al., 2015; Rutland, 2010; Weber, 2015). As the production of wealth becomes increasingly urban, state authorities and city governments seek to control and manage cross-border capital flow in the national and urban territory by strategically cooperating with financial actors (Brenner et al., 2010; Christophers, 2016; Crouch & Le Galès, 2012). However, because these financial actors bring in the necessary capital for urban spatial development, they are also able to negotiate financial expectations and thus contribute to the financialization of urban development (Guironnet et al., 2015; Peck & Whiteside, 2016).

1.4. Explaining variegated financialization

Much like liberalization and internationalization, real estate financialization is not a singular process which converges along the lines of a neoliberal one-size-fits-all model (Aalbers, 2016b; French et al., 2011; Peck & Theodore, 2007; Pike & Pollard, 2010). Instead, real estate financialization can be perceived as a inherently variegated and path-dependent process which, on the one hand, produces different rhythms and pathways and, on the other hand is also produced differently in already unevenly developed political-economic systems (Fernandez & Aalbers, 2016b; Fields & Uffer, 2016). Financialization, as some scholars have argued convincingly, is not a end stage which can only be reached in so-called 'liberal' or market-based real estate systems, but is a inherently diffuse and cross-national process which rate and degree is uneven and differential (Aalbers, 2017). Therefore, the literature on variegated financialization has developed a research agenda to explain why and how processes of financialization are differently processed in different country and institutional settings (Fernandez & Aalbers, 2016; Kohl, 2017; Schwartz & Seabrooke, 2009). Taking into account multiple factors, this PhD thesis focuses primarily on two explanatory variables for understanding variegation: [a] the uneven development of real estate financialization across different political-economic systems and [b] the agency of state authorities, market actors and civil society in enabling or restraining processes of real estate financialization.

Firstly, this PhD thesis aims to link the debate on real estate financialization to the literature on the 'varieties of capitalism' (VoC) and 'comparative political economy' (CPE) (see e.g. Albert, 1991; Amable, 2003; Crouch & Streeck, 1997; Hall & Soskice, 2001; Shonfield, 1965; Zysman, 1983). The VoC-literature rests upon the general premise that national economic models are constituted by a broader set of complementary and mutually reinforcing institutions such as labor markets, financial systems, innovation and training (Deeg, 2001; Hall & Soskice, 2001; Streeck & Thelen, 2005). Moreover, it presupposes that 'seemingly unrelated institutional domains become historically intertwined as they co-evolve and develop complementarities that bind them together into a 'national model' (Fernandez & Aalbers, 2016: 73). Although different national models of capitalism can be identified (Amable, 2003), the literature draws a general distinction between so-called Liberal Market economies (LMEs) and Coordinated market economies (CMEs) (Hall & Soskice, 2001). In a similar way, the CPE-literature also emphasizes nationally specific, capitalist arrangements in which coordination either occurs through competitive market arrangements or through nonmarket patterns and coalitional dynamics (Shonfield, 1965; Zysman, 1983; Crouch & Streeck, 1997; see also Peck & Theodore, 2007). In this literature, a similar divide between LMEs and CMEs – or

rather between 'Anglo-Saxon' and 'Rhenish' capitalism – can be observed (cf. Albert, 1991).

Inspired by these two literatures, the literature on the 'varieties of residential capitalism' has focused on how different national real estate regimes in interaction with the welfare state and the respective financial systems of countries have emerged. Looking at the size of mortgage-debt-to-GDP ratios, mortgage securitization and housing tenure (home ownership versus rental housing), Schwartz & Seabrooke (2009) have for instance made a distinction between the liberal markets of the United States and United Kingdom, the catholic-familial markets of Spain, Ireland and Italy, the corporatist markets of the Netherlands, Denmark and Germany, and the statist-developmental markets of France, Austria and Japan. Accordingly, Schwarz & Seabrooke (2009) have shown that triggers of real estate financialization can mostly be expected to occur in predominant liberal markets where a culture of home ownership and mortgage lending is more dominant and real estate tends to be perceived and treated as a financial commodity. Yet, in predominant statist-developmental and corporatist real estate regimes such as the ones of France and Germany, the opposite applies: since homeowners are a smaller share of the population and the state holds a strong lever over the housing sector, real estate financialization is less expected to occur (cf. Schwartz & Seabrooke, 2009).

Although these typologies certainly help to understand the institutional pathways of real estate markets, various scholars have argued that this somewhat functionalist differentiation between national models no longer really holds in an age of financialized capitalism (Deeg & Jackson, 2007; Jackson & Deeg, 2012; Streeck, 2009). Rather than studying institutional variety and diversity, these scholars argue that it is better to study the 'commonalities of capitalism' as political economies and their real estate systems have become equally, albeit perhaps unevenly and differently, embedded in the global economy (Hay, 2004; Peck & Theodore, 2007; Strange, 1997). For instance, Jordá et al. (2014) have shown that in *all* advanced, capitalist countries and regardless of their institutional legacy and typology, the size of mortgage debt-to-GDP ratios has increased in the second half of the twentieth century. Furthermore, in various real estate regimes where mortgaged home ownership and mortgage securitization due to various factors have become less widespread (see e.g. Kohl, 2007), alternative pathways of financialization can be identified. For instance, the role of private equity funds and listed real estate companies owning former subsidized public and private housing companies in Germany indicates a strong degree of financialization (Fields & Uffer, 2016; Heeg, 2013), despite the fact that Germany is labeled by Schwartz & Seabrooke (2009) as a corporatist country where the role of international capital markets is supposedely more restrained due to specific state-market and welfare arrangements.

While moving beyond analyses of institutional variability and national typologies, the literature on variegated capitalism thus lays the focus on 'explicating processes and forms of uneven development within, and beyond, late capitalism' (Peck & Theodore, 2007: 763). Against this backdrop, Fernandez & Aalbers (2016) understand real estate regimes as dynamic 'systems in motion' which, while moving in the same direction of financialization, liberalization and internationalization, maintain their essential and historical differences. Alternatively put, Fernandez & Aalbers (2016) understand that real estate financialization, due to its variegated and uneven nature, may occur in different housing regimes inasmuch as these regimes are following a common trajectory towards wider integration in the global financial system (cf. Hay, 2004). However, because triggers of financialization are differently processed in unevenly developed geo-institutional landscapes, the rate and degree of real estate financialization is uneven across time and space and cannot always be explained in terms of institutional variability (Brenner et al., 2010; Lapavitsas & Powell, 2013; Pike & Pollard, 2010). As such, the literature on variegated capitalism rejects the notion of methodological nationalism and puts emphasis on the importance of the uneven development of real estate regimes embedded in multi-scalar and cross-national financial networks.

Secondly, the PhD thesis aims to understand the differential impact of real estate financialization by focusing more specifically on the agency of state authorities, market actors and various public-private entities which need to reconcile state-market contradictions (Froud et al., 2007; Halbert & Attuyer, 2016; Jackson & Deeg, 2012). The literature on the 'politics of financialization' and 'regulated deregulation' has convincingly demonstrated that state authorities have actively facilitated and enabled the penetration of finance into domains of the economy that were previously reserved to collective and political decisionmaking (see e.g. Aalbers, 2016; Lagna, 2015; Nölke, Heires, & Bieling, 2013). However, since national governments can support finance-led growth in the housing sector by stimulating mortgaged home ownership, private landlordism and/or private housing production, the role of the state in constituting the pathways of real estate financialization may vary as government approaches and housing policies differ from country to country (see e.g. Aalbers, 2015; Forrest & Hirayama, 2015; Kemp, 2015; Kohl, 2017; Rolnik, 2013). Furthermore, the intended or unintended consequences of housing policies and financial reforms (cf. Krippner, 2011), as well as their contingent and unforeseen outcomes (cf. Peck & Theodore, 2007), are very important for understanding the qualitative nature of real estate financialization. The German case is - again - is an illustrative example of this. Since the German government needed capital to pay-off public and municipal debt, various housing companies were sold and privatized in the 1990s and the 2000s (Holm, 2010a; Kofner, 2011). Without however fully considering that these housing assets would later be

launched on the stock exchange, the German state essentially enabled real estate financialization to occur without deliberately signing up for it (cf. Bernt et al., 2017). Nevertheless, it must also be mentioned that state activity is the outcome of social struggles and contestations (Fields, 2015). Social movements and civil society may therefore alter, modify or even contest ongoing trends in the housing sector, as for instance the current discussion on the *Neue Gemeinnützigkeit* in Germany indicates (Holm, Horlitz, & Jensen, 2015; see also Diamantis, 2013).

Inasmuch as I recognize in this PhD thesis the role of the state and civil society, I also recognize the crucial role of market actors and their capacity of negotiating and triggering processes of real estate financialization. In accordance with the literature on financial intermediaries and actor-centered research (Deeg & Jackson, 2007; Froud, Leaver, & Williams, 2007; Halbert & Attuyer, 2016), I therefore emphasize that market actors possess the faculty to mediate processes of financialization on the local level. Alternatively put, I argue that the uneven and variegated ways in which different kinds of financial intermediaries funnel global capital into the urban built environment have a significant impact on the qualitative nature of real estate financialization (Deeg & Jackson, 2007; Halbert & Attuyer, 2016; Theurillat et al., 2014). For instance, the literature has shown many examples of global investment funds that own and manage a global real estate portfolio and operate seemingly beyond institutional constraints as to increase their profitability (e.g. Büdenbender and Golubchikov, 2017; Clark et al., 2013; Weber, 2015). Furthermore, real estate actors strategically seek to negotiate and exploit 'different institutional conditions and social settlements in various national jurisdictions' (Johal & Leaver, 2007: 364) in order to make profitable investments and to profit fully from different kinds of local and national opportunity structures. As such, the varieties of 'financializing' real estate markets cannot be explained solely by different political-economic and national starting position; they must also be linked to government decisions and the agency of market actors that operate seemingly beyond institutional constraints (Jacobs & Manzi, 2017). Now that international finance and the stock exchange intensify their control over the management and production of urban space and local real estate markets, the agency of market actors becomes more relevant than ever before (cf. Moreno, 2014; Rutland, 2010).

1.5. Operationalising financialization

In the previous section we have discussed the different dimensions of real estate financialization, its qualitative manifestations and uneven and variegated development across different political-economic systems and national or local housing regimes. We

have also discussed how state authorities and market actors can influence the pathways of real estate financialization through their agency and interactions. As a heuristic device, I have thus mobilized the concept of financialization to understand the structural transformations in post-war real estate systems. However, because the concept of financialization is rather fluid and sometimes lacks precision or operational rigidity, its meaning is sometimes stretched too far and becomes therefore contestable (see for a criticism: Christophers, 2015). Therefore, I also present a few operationalizations in this PhD thesis to denote more precisely the qualitative nature of real estate financialization, its specific mechanisms and idealtypical manifestations.

Before operationalizing financialization to make a more precise assessment of its qualitative nature possible, the concept of finance requires more clarification first. Under finance I understand financial institutions and banks that increasingly but not exclusively rely on market-based activities such as investment banking, asset securitization and corporate lending (see Hardie & Howarth, 2013). However, since finance in times of financialization tends to expand beyond its original domain, I also opt for a more holisting understanding of finance. To put it differently, I include in my definition of finance also a wide range of market actors that hold close relationships with financial institutions and banks, such as private equity and hedge funds, institutional investors, asset managers, REITs and other listed real estate companies. Although these market actors are strictly put no 'financial institutions', they perform a wider role in the financial system, either because they have become listed on the stock exchange, or because they operate as holding companies of banks and financial institutions and manage assets on their behalf. Thus, I understand finance as a broader category which not only includes mere financial institutions, but also those market actors which have become involved in the financial system in the role of asset manager or financial intermediary (cf. Halbert & Attuyer, 2016).

Firstly, I argue that real estate financialization can be operationalized as the increased reliance on finance in domains of the real estate sector that under the post-war settlements were reserved to collective and political decisionmaking and public arrangements (cf. Streeck & Theelen, 2005). According to this definition, processes of financialization partially coincide with processes of liberalization as far as decisionmaking processes in the real estate sector are progressively delegated to markets and their financial actors (cf. Jackson & Deeg, 2012). With processes of internationalization, financialization has in common that ongoing trends of market liberalization are partially triggered by the acceleration of cross-border capital flow and the wider embeddedness of local real estate markets in the global economy (see e.g. Lizieri, 2009; Weber, 2015). However, what makes financialization qualitatively different and unique as a process is that it mobilizes and strengthens interdependencies between

capital markets, the real estate sector, the state and civil society in such a way that financial motives become a common driver for all. As such, the increased reliance on finance in the real estate sector must be seen in line with the reworking of post-war real estate markets and the increased involvement of financial institutions and other financial actors in the production and management of housing, as well as its acquisition and funding. Partially, this pattern of greater reliance is encouraged by the state as it has delegated former public allocation tasks to private markets and, consequently, has granted relative autonomy to different kinds of market actors to perform a role in the housing sector (cf. Aalbers, 2015).

Once real estate financialization of this type is occurring, we can expect a few idealtypical manifestations regardless of the institutional environment in which financialization processes take shape. Idealtypically, the shift towards more housing debt and a greater reliance on mortgaged home ownership is something to be expected first. After all, wider access to home ownership across the population is something to be expected in a 'financializing' housing system where the state reduces its direct involvement and promotes the relative autonomy of financial institutions and banks (Jacobs & Manzi, 2017; Aalbers, 2015). Furthermore, the advent of mortgaged home ownership is a strong indicator of the increased role of financial institutions in providing households and citizens access to the housing market and asset-based welfare (see qlso Mosciaro & Aalbers, 2017). However, while I understand real estate financialization more broadly as the expansion and invitation of financial institutions and investment companies in the housing sector at large, I argue that it may take different forms too. For instance, the arrival of corporate landlords and other private investors in the rental housing sector is a clear example of how the management and production of local real estate markets is delegated to financial actors who treat housing as a financial asset (Holm, 2010a; Heeg, 2013). Also, the surge of private landlordism and the relative autonomy of private property developers to exert control over the field of real estate production indicates financialization inasmuch as these specific market actors prioritize the exchange value of housing over the use value (cf. Pollard, 2010).

<u>Secondly</u>, I argue that real estate financialization should also be recognized as an exogenous development triggered by financial institutions and banks exploring new investment opportunities in the real estate sector. Following the growth crisis of the 1980s and the liberalization of the banking sector, finance has in different ways sought to develop new outlet markets for overaccumulated capital and surplus value created in the financial system (Jordá et al., 2014; Lizieri, 2009; Wissoker et al., 2014). Essentially, real estate financialization can thus be operationalized as the expansion of finance into domains of the real estate sector for the sake of self-expansion and real estate-linked forms of financial accumulation. This type of financialization manifests itself indirectly

when financial institutions and banks issue and distribute new mortgage products to be sold and traded in secondary mortgage markets by institutional investors and investment banks (Aalbers, 2008; Wainwright, 2015). However, it can also manifest itself more directly when financial institutions and institutional investors own and hold large real estate assets and engage actively in portfolio trading and asset management (Charney, 2001; Coakley, 1994; Van Loon & Aalbers, 2017). The mechanisms of real estate financialization can be related to the reworking of finance and to the creation of new financial innovations and products that have enabled financial institutions to create 'liquidity out of spatial fixity' (Engelen, Erturk, et al., 2010; Gotham, 2009). Also, the increased reliance from institutional investors on investments in real estate vis-à-vis investments stocks and bonds is an important mechanism (Van Loon & Aalbers, 2017).

Thirdly, I argue that real estate financialization can be operationalized more practically as holding companies and financial investors treating and mobilizing real estate and land increasingly as a financial asset class. According to this definition, financialization refers to the investment practices of real estate investors and developers which prioritize the exchange value of real estate over the use value and hence diffuse financial logics into the urban built environment where real estate value is produced (cf. Savini & Aalbers, 2016; Kaika & Ruggiero, 2013). In so doing, overaccumulated capital created in financial or capital markets is switched into the urban built environment and results in the treatment of land and real estate as a 'just another financial asset class' (Van Loon & Aalbers, 2017). The mechanisms of this form of real estate financialization can be linked to the ascendancy of regimes of shareholder value and the adoption of new modes of profitability. A first idealtypical manifestation of this type of real estate financialization is the emergence of new holding companies, such as REITs and other listed funds, which are legally obliged to maximize shareholder value and manage real estate as objects of investment (Lizieri, 2009). A second idealtypical manifestation is that these holding companies actively seek to distribute shareholder value by 'profiting without producing' through the creation of rentier structures and strategies of expanded reproduction (cf. Lapavitsas, 2013). The latter is an important element of financialization as the rentier structure enables market actors to create an operative income by merely letting out existing portfolios and not adding substantial labor time to the production process.

The three operationalizations of real estate financialization are analytically different but still closely related to each other. Moreover, the boundaries between the different operationalizations are not solid but rather closely intertwined and mutually reinforcing. However, as I have summarized in Table 1, the three operationalizations help me in this PhD thesis to better substantiate and assess processes of financialization at various levels and scales. The first operationalization recognizes financialization as a

endogenous dynamic of the real estate sector triggered by the retreat of the welfare state and the increased role of finance in funding housing acquisitions, management and production. It manifests itself either through the increased role of mortgaged home ownership or through the increased role of financial intermediaries on the supply-side of housing production and management. The second operationalization recognizes financialization as a rather exogenous development in which finance becomes more reliant on real estate as a outlet market for overaccumulated capital and therefore actively seeks to expand into the real estate sector. This can take a indirect form in which mortgages and other types of real estate bonds are traded in secondary markets and sold to institutional investors. Yet, it can also take a more direct form in which large institutional actors own real estate assets and manage them on behalf of financial institutions and households. The third operationalization, then, refers to financialization as a more practical process in which real estate and land is increasingly treated as a financial asset and managed by large institutional actors to provide an income or shareholder value. The rise of REITs and other holding companies, as well as the creation of rentier structures, are important idealtypical manifestations of this type of real estate financialization.

Table 1. Operationalizing Real Estate Financialization

Operationalization of financialization	**Mechanisms**	**Idealtypical Manifestations**
Domains of the real estate sector rely increasingly on finance	The retreat of the welfare state and the reworking of post-war real estate markets; the invitation of private competition and finance in the housing sector	A greater reliance on mortgaged home ownership; the increased involvement of financial and private actors in providing homes to different kinds of households
Finance relies increasingly on domains of the real estate sector	The reworking of post-war financial markets; the global embeddedness of real estate in financial markets	Mortgage securitization and debt-fuelled housing bubbles driven by the quantity of credit; institutional investors owning real estate portfolios
Real estate is increasingly managed as a financial asset	The ascendancy of regimes of shareholder value and the adoption of new modes of profitability; the increased importance of new holding companies that focus on the creation of shareholder value	Increasing real estate ownership among listed real estate companies and other financial actors that are obliged to maximize shareholder value; profiting without producing through the creation of rentier structures

1.6. A comparative study on real estate financialization in Germany and France

To further elaborate upon the differential impact of real estate financialization across countries, this PhD thesis focuses on the differential impact of real estate financialization on the Continental European economies of Germany and France. There are three reasons why these countries have been selected for the study of real estate financialization. Firstly, Germany and France are two countries at the heart of the European Union whose interactions and engagements have been very important in European history (De Saint-Perier, 2013; Howarth & Quaglia, 2013a). As a major driver behind the formation of the European Union, the Franco-German alliance has influenced the European continent significantly and is embodied in the 'Amitié franco-allemande' or the 'Deutsch-Französische Freundschaft.' The insistence of the French President François Mitterrand on letting a reunified Germany join the European project can be considered as an important political maneuver that resulted in the monetary union of today (De Saint-Perier, 2013). This monetary union, wherein especially German banks circulate their overaccumulated capital across the European Union, has proven to be a crucial driver behind real estate financialization in Europe (Streeck, 2013; see also Jessop, 2014). As such, a comparative project on Germany and France also highlights how Europeanization, i.e. monetary integration and the creation of the eurozone, is crucial for understanding institutional change in European societies.

Secondly, Germany and France are traditionally identified as two Coordinated Market economies (CMEs) which in comparison to especially the United Kingdom and the United States seem to display a low degree of real estate financialization in terms of mortgage debt levels, house price volatility, investment patterns and increasing share of finance and real estate as share of the GDP (Kofner, 2014a; Tutin & Vorms, 2014; Voigtländer, 2010). However, because the real estate markets of Germany and France have become more embedded in international financial systems due to liberalization and internationalization, recent research has provided some evidence that both markets are effectively 'financializing' too (cf. Fernandez & Aalbers, 2016). Therefore, a comparison between Germany and France may illustrate how the real estate markets of two Coordinated Market Economies are becoming incorporated in the streams of global capitalism, albeit perhaps in different ways than the markets in the UK and the US. Furthermore, a comparison between Germany and France may also contribute more broadly to the burgeoning literature on variegated capitalism which is concerned with uneven development and the 'geographies of finance' (Fernandez & Aalbers, 2016; Lapavitsas & Powell, 2013; Peck & Theodore, 2007; Pike & Pollard, 2010).

Thirdly, Germany and France are known for their deep and liquid listed real estate sectors which, measured in terms of market capitalization, are considered the first

and second largest markets for listed real estate in Continental Europe (Boisnier, 2011; Holm, 2010a). Once the Brexit is carried out, the listed real estate markets of Germany and France form the 'core' of European real estate, and may continue to do so since international capital markets aim to establish intensified connections between real estate and finance in both countries (Nappi-Choulet, 2013b; Heeg, 2013). Nevertheless, relatively little is known about the investment practices of listed real estate companies and REITs and how these funds change the production of urban space and the urban built environment. Comparative research on Germany and France may therefore contribute to the ongoing discussion on the financialization of real estate by shining light on a research theme which has hitherto remained under-studied in the literature: the increased importance of listed real estate and the role of international capital markets in reshaping the urban built environment (FSIF, 2010; Kofner, 2012). This research theme, which shows how real estate processes are actively mediated and negotiated in the multi-level urban governance structures of Germany and France (Bernt et al., 2017; Fields & Uffer, 2016; Guironnet et al., 2015; Trouillard, 2014), also exemplifies how the urbanization of capital can be considered as a 'lived' process resulting in the restructuring of socio-economic structures and neigbourhoods (cf. Kaika & Ruggieri, 2013).

While studying the endemic restructuring of the post-war real estate markets of Germany and France, I deploy a narrative approach which is informed by the literatures on comparative political economy (CPE), varieties of capitalism (VoC), financialization and variegated capitalism (Crouch & Streeck, 1997; Fernandez & Aalbers, 2016; Hall & Soskice, 2001; Peck & Theodore, 2007; Shonfield, 1965). While doing so, I recall how following the decline of organized capitalism in the 1980s and the 1990s, the real estate markets of Germany and France have gradually – and sometimes abruptly – opened up to internal and external market pressures (cf. Boyer, 1997; Streeck, 1997). Thus, I study whether processes of real estate financialization have become observable in Germany and France and, if so, to what extent they can be perceived as a systematic outcome of the decline of organized capitalism, i.e. the undermining of German and French capitalism as we knew it (see for a similar research design: Streeck, 2009; Hardie & Howarth, 2009). In what follows I briefly elaborate on this case study selection by describing the institutional context in which real estate transformations take place in Germany and France. Then I turn towards the research aims and research questions of this PhD thesis and discuss them.

1.6.1. Institutional context

In the tradition of post-war comparative political economy (CPE) (Albert, 1991; Shonfield, 1965; Zysman, 1983), Germany and France have traditionally been recognized as two major Continental European political economies or exponents of what can be called 'Rhenish' capitalism (see e.g. Amable, 2003; Crouch & Streeck, 1997; Hall & Soskice, 2001). Within this framework, Germany has been regarded as the prototype of an insider controlled, stakeholder oriented political economy in which banks play a central role (Deeg, 2001; Fichtner, 2015; Lütz, 2000). To the contrary, France has been known as a more centrally guided political economy characterized by *dirigiste* state intervention and public policy-making (Boyer, 1997; Hall, 1986; Morin, 2000). Since both post-war political economies relied on an insider-controlled corporate governance model, private firms in both countries were protected against hostile takeovers or foreign interventions (Amable, 2003; Hardie & Howarth, 2009; Zysman, 1983).

Against this background, it is not unsurprising that the post-war real estate markets of Germany and France were widely embedded in the post-war settlements and thus linked to post-war spaces of production (Nappi-Choulet, 1998; Rohmert, 2013). In Germany, the Ordoliberal state sought to reconstruct the post-war housing sector by providing housing subsidies and monetary support to property developers which would then provide affordable public or private rental housing to German workers or middle classes (Tomann, 1990; Voigtländer, 2010). In France, the dirigiste state was more directly involved in the housing sector, especially due to commitment to the production of a large public housing sector in metropolitan areas and their suburbs (Driant, 2010). Due to these specific state-market arrangements, the housing systems of Germany and France have traditionally been known for their stability and resilience, characterized by comparatively low mortgage debt levels, homeownership rates and house price fluctuations (Cusin, 2013; Driant, 2010; Kofner, 2014a; Voigtländer, 2014). To a large extent, the supposed stability of real estate in Germany and France is thus attributed to the lever of the state over the post-war housing sector and the relative limited access to private ownership (Lichtenberger, 1995; Nappi-Choulet, 1998). Furthermore, while most business firms in Germany and France traditionally owned their own real estate and land, commercial leasing was not predominant during the post-war settlements and liquid and volatile commercial investment markets emerged only as late as in the 1960s and the 1970s (Halbert, 2013; Rohmert, 2013).

However, in the wake of economic globalization in the 1980s and the 1990s, the supposed internal organization and national embodiment of the German and French political economy was put under systematic pressure. While business firms and financial institutions discovered new modes of accountability and profitability, they sought to

escape from the strongholds of German corporatism and French state managerialism by expanding into international markets (Engelen, Konings, et al., 2010; Howarth, 2013; Streeck, 2013). In Germany, the decline of post-war organized capitalism was exemplified by the disintegration of the corporate network of cross-shareholding and block holding and the strategic reorientation of German universal banks and business firms in global financial markets (Höpner, 2007; Streeck, 2009; Vitols, 2004). In France, the decline of organized capitalism was symbolized by the shift towards post-dirigisme where the state would increase the exposure of the domestic economy to international finance while simultaneously providing a macro-economic framework of regulations in which this transition could take place (Clift, 2012; Howarth, 2013; Howell, 2009). As early as in 1984, state reforms and the liberalization of financial markets already provided a large degree of autonomy to CEOs and corporate managers in France (Amable, Guillaud, & Palombarini, 2012).

The decline of so-called Continental European capitalism can also be observed on the level of the *urban* political economy. In the wake of state rescaling and decentralization, the central governments of Germany and France shifted responsibilities from the national to the local level in an attempt to restructure the economy and to facilitate urban growth (Fields & Uffer, 2016; Guironnet et al., 2015). In Germany, where the rescaling of statehood occurred in the context of German reunification (Brenner, 2004; Le Galès, 2011), new urban policies focused on increasing the locational competiveness of Germany as a 'investment location' (*Standort Deutschland*) (Brenner, 2000; Lütz, 2000). However, while municipal debt in many German cities was considerably high (Hendrikse & Sidaway, 2014), the advent of city entrepreneurialism in post-unified Germany was dominantly characterized by the sale of state properties and the invitation of private competition (Lütz, 2000; Streeck, 2009). In France, state rescaling was not merely about promoting competiveness, but also on increasing the relative autonomy of city governments and smaller municipalities vis-à-vis the national government seated in Paris (Pinson & Le Galès, 2005; Savini, 2012). As such, a multi-level urban governance regime was established which provided more autonomy to local mayors and chief executives local governments and manage the urban process (Beal & Pinson, 2014; Pinson & Morel Journel, 2016). Because city governments rely extensively on private funding for the funding of large-scale urban redevelopment projects, public-private partnerships are quite the norm in France (Enright, 2012; Guironnet et al., 2015).

Against this background of institutional change, it can be expected that the post-war real estate systems of Germany and France, which are so evidently embedded in national and urban political economy, have changed profoundly too. However, relatively little research has been carried out to detect in what ways the systematic decline of organized capitalism in Germany and France has altered the institutional

foundation of the post-war real estate systems of both countries. Firstly, the comparative political economy literature has rather focused on the dialectical relations between firms, banks and the state and has hence under-studied the increased importance of real estate systems (cf. Aalbers & Christophers, 2014). Alternatively put, the role of real estate, how it is managed and funded, but also how it becomes a major outlet market for overaccumulated capital created in the financial system, is a research theme only recently being picked up by comparative political economists (cf. Fernandez & Aalbers, 2016). Secondly, real estate cycles in the comparative political economy literature have typically been treated as subject to the business cycle of production and industrial enterprises (see for a similar argument: Lizieri et al., 2003). Due to this 'productivist bias', the intensified connections between real estate and finance making up for a institutional complex driving the economy, remains heterodox to political-economic studies (see e.g. Engelen et al, 2010).

Nevertheless, some points of reference can be found in the literature and thus provide a useful roadmap for analyzing real estate transformations in Germany and France. Despite the relative limited access to mortgaged home ownership, the French housing market experienced an unprecedented housing between in the mid 2000s, after the privatized banking sector released partially state-authorized mortgage credit into the housing economy (Cusin, 2013; Tutin & Vorms, 2014). In Germany, where such a housing cycle was dampened down due to the shock of German reunification, a similar trend can be observed in the aftermath of the GFC as house prices in metropolitan areas and medium-sized cities are increased beyond their historical average (Heeg, 2013; Just, 2010a; Scharmanski, 2012). Furthermore, the arrival of private equity funds and listed real estate companies in Germany and France also indicates that real estate has become extensively linked to international capital markets (Boisnier, 2011; Fields & Uffer, 2016; Holm, 2010a; Nappi-Choulet, 2013b). However, in the German case, most of these investment funds have almost exclusively entered the housing market where housing privatization created a new liquid market for overaccumulated capital (but see Bernt et al, 2017; Holm, 2015; Heeg, 2013). In the case of France, REITs and other listed funds on the contrary tend to operate in the commercial real estate sector (see e.g. Guironnet et al, 2015; Pollard, 2011).

In order to understand these major developments, I first engage with the ongoing discussions regarding the housing pathways of homeowner and rental societies (see e.g. Kohl, 2017; Schwartz & Seabrooke, 2013; Lowe, 2011). Indeed, Germany and France have historically been identified as rental societies and have not experienced a strong housing boom in the early 21st century (see e.g. Kofner, 2014; Tutin & Vorms, 2014). However, it is still possible that an alternative trajectory of housing financialization has emerged which has rather transformed the public or private rental sector or the supply-side of housing

production (cf. Fernandez & Aalbers, 2016). Second, I engage with comparative political economy approaches in order to understand the linkages between the real estate sector of Germany and France and other sectors of the economy (cf. Streeck & Theelen, 2005). In Germany, the gradual dismantling of what was once *Deutschland AG* has for instance resulted in the opening up of the housing sector to international capital and has hence changed the ways in which the housing market functions (Heeg, 2013; Fields and Uffer, 2016). In France, the increased role of the stock exchange in providing liquidity to non-financial firms has also transformed the property sector where many property companies have adopted new capital structures in the wake of the 1990's property crisis (Dixon, 2008; Hardie & Howarth, 2009). In part, the introduction of the tax regime for French REITs can also be seen as a reorganization of France's financial system since many French banks transferred heightened risks associated with international capital markets to new holding structures, such as REITs and other investment trusts (Nappi-Choulet, 2013b; Frétigny, 2015).

Third, I seek to understand the transformations of the real estate systems more directly in line with the respective growth models of Germany and France (cf. Baccaro & Pontusson, 2016; Streeck, 2016). Although a credit-led growth model was never adopted in Germany and France (Crouch, 2009; Hardie & Howarth, 2009), Germany's export-led growth model has *indirectly* reinforced financialization triggers because the country's large trade surplus could not be reinvested in industrial production and exports alone (Streeck, 2009; Jessop, 2013). Moreover, increasing evidence has shown that an increasing share of German capital is now being funnelled into the domestic real estate sector in order to provide a new outlet for capital accumulation (Mertens, 2017; Scharmanski, 2012). In France's hybrid growth model, where financial and large non-financial firms have expanded abroad in an attempt to offset for reduced profitability in the domestic economy (Johal & Leaver, 2007; Dixon, 2008), a similar pattern can be observed. Following the privatization and liberalization of the former public banking sector in the late 1980s and early 1990s, French commercial banks have increasingly capitalized the property sector and have commercialized financial services to households, private investors and property developers (Pollard, 2011; Tutin & Vorms, 2014). Furthermore, in an attempt to reduce public debt levels and public expenditure to the housing sector, the French government has encouraged private debt expansion with different kinds of public subsidies and fiscal advantages (Driant, 2010; Vergriete 2013). As such, a secular tendency towards finance-led growth can be observed both in Germany and France (Hardie & Howarth, 2009).

How can we interpret these developments and trends in Germany and France? To what extent are processes of real estate financialization observable? And how does it relate to the ongoing liberalization of German and French capitalism as we knew it? In

line with the wider research project of the 'real estate/financial complex' (REFCOM), I have deliberately decided to answer these research questions by deploying a comparative research design (Bryman, 2012; Yin, 2003). Firstly, since a single case study on real estate financialization may help to understand why and how developments of financialization may unfold in a specific country or settlement, a comparative case study also helps to explain why such developments are different from other cases and helps to understand the underlying structure of change better (Burawoy, 1998). Secondly, a comparison between two countries may also help to draw more general conclusions about the nature of capitalist development and real estate financialization itself (Streeck & Theelen, 2005). However, since a comparative research design also requires 'comparison', its potential disadvantage is that uncomparable features will be put into the background (Yin, 2003). If some of the cases therefore lack detail or empirical reflection, I justify that as an inevitable outcome of my research design. Overall, I however believe that most of the elements I wanted to discuss have been explained thoroughly throughout the chapters. Thirdly, I have taken into account that due to Europeanization and financial globalization country comparisons in themselves have become increasingly difficult to conduct because major financial dynamics occur both *across* space and *in* space (cf. Peck & Theodore, 2007). I have dealt with this issue of 'methodological nationalism' by addressing the importance of multi-scalarity and by showing that the respective real estate regimes of Germany and France are, albeit in different ways and to different degrees, embedded in cross-scalar networks.

1.6.2. Research aims and questions

In the previous sections, I have discussed the major research themes and aims of this PhD thesis. In so doing, I have also narrowed down its research scope and presented a few research aims which are used to formulate more precise research questions for this PhD thesis. I will now briefly summarize these three research aims and the respective research questions.

The first aim of this PhD thesis is to understand whether processes of real estate financialization have become observable in Germany and France and, if so, to what extent and with what degree. The key objective is not to operationalize financialization in quantitative terms of 'less' or 'more.' Rather, the aim of this PhD thesis is to assess the qualitative nature of real estate financialization in Germany and France by using the operationalizations presented on page 27. Moreover, I aim in this PhD thesis to identify institutional pathways of change by studying the interdependence of real estate, finance and the state from a historical and political-economic perspective. In so doing, I first aim

to reveal and identify the variegated and uneven pathways of financialization in the residential and commercial markets of Germany and France. Secondly, I want to show to what extent processes of real estate financialization in Germany and France are different from financialization processes in other countries. As such, the following first research question can be formulated: .

[1] To what extent are processes of financialization observable in the residential and commercial markets of Germany and France?

The second aim of this PhD thesis is to explain more specifically how and why patterns of real estate financialization are different in Germany and France. On the one hand, the differences are attributed to the uneven ways in which triggers of real estate financialization are absorbed and processed in the specific political-economic contexts of Germany and France. On the other hand, however, I aim to explain variegated financialization in Germany and France by adopting an actor-centered approach and by focusing specifically on the agency of state authorities and market actors. For instance, since state authorities in Germany stimulated the privatization of the housing sector in order to pay-off public and municipal debt, a large number of former subsidized public rental homes were acquired by private equity funds and became later tradable on the stock exchange (cf. Bernt et al, 2017). In France, on the contrary, the rise of a listed real estate sector was encouraged by the state in response to the property crisis of the 1990s and the arrival of foreign investors in the commercial property sector (cf. Nappi-Choulet, 2013b). Similarly, it can be expected that the ways in which REITs and listed real estate companies operate in the urban built environment also have a differential impact on the pathways of real estate financialization in Germany and France. Therefore, the following second research question can be formulated:

[2] How and why are processes of financialization in Germany and France different?

The third aim of this PhD thesis is to make a broader conceptual contribution by linking processes of real estate financialization in Germany and France to the ongoing discussions on variegated financialization and variegated capitalism. As said before, the ongoing liberalization of the political economies of Germany and France has sometimes been understood as the 'steady expansion of market relations in areas that under the postwar settlement of democratic capitalism were reserved to collective political decisionmaking' (Streeck & Theelen, 2005: 30). In this broader context, real estate financialization can be understood as a process which partially coincides with this wider dynamic and which is structurally related to the decline of post-war organized

capitalism (Streeck, 2009). However, since real estate financialization is not necessarily a steady process and can also trigger more abrupt, transformative effects, it can also be expected that this process adds new qualitative dimensions to the ongoing liberalization of real estate markets. Furthermore, while it may indicate that capitalist variety can rather be understood in terms of uneven development, it may also tell us new things about the variegated nature of capitalism and its development. Based on this research aim the following sub-question can thus be presented:

[3] What can real estate financialization tell us more broadly about the variegated nature of capitalism and its development?

1.7. Methodology

1.7.1. Common trajectories and long-term institutional change

As part of the wider research group of the 'real estate/financial complex' (REFCOM), this PhD thesis focuses on the connections and interdependence between finance and real estate at various scales of the political economies of Germany and France (Aalbers, 2013). In this respect, this research refers to the 'real estate/financial complex', akin the military/industrial complex, to explain the intensified connections between states, finance and real estate markets. Rather than perceiving REFCOM as a 'financial superstructure that sits on top of the world economy and its national units' (Sweezy, 1994), this PhD thesis uses REFCOM as a heuristic device or metaphor to explore the supposed interdependence of real estate, finance, the state and civil society. Because real estate markets are unique and different, this research differentiates between the residential and the commercial market which respond to different logics and market dynamics (see also Guironnet & Halbert, 2014; Theurillat et al., 2014).

As discussed before, this PhD thesis pays particular attention to the discovery and identification of common trajectories and pathways of evolution and change (cf. Fernandez & Aalbers, 2016; Lapavitsas & Powell, 2013; Ward et al., 2017). In doing so, this PhD thesis relies extensively on a research methodology known as 'process tracing' (George & Bennett, 2005). Far more than a single research method, process tracing allows for the identification of relevant key moments and pathways that underpin and structure transformative effects through the usage of multiple research strategies (Bryman, 2012; see also Hendrikse & Sidaway, 2014). Because this PhD thesis focuses on the decline of organized capitalism in Continental Europe, it focuses specifically on the following three critical stages of capitalist development: the Modern/Fordist period of the post-war

settlements; the Flexible neoliberal or Post-Fordist period that was established in the 1980s and eventually resulted into the GFC as the combination of flexible labor and finance-led growth was overstretched; and the Late neoliberal/post-crisis period that is currently occurring and can be considered as a reconfiguration of the previous period with new means (Aalbers, 2015). However, since this periodization is only a heuristic tool to identify potential 'critical junctures' in the passage from one period to another, process tracing was a necessary research method to precisely reconstruct the trajectories of real estate markets in Germany and France, and to link them to broader societal trends (Hendrikse & Sidaway, 2013).

The first step of my research methodology involved the collection and consultation of relevant academic and non-academic literature for the study of real estate financialization in Continental Europe. At the beginning of my PhD project, I have relied extensively on German and French academic sources, research papers, policy documents and business reports for understanding the major dynamics and trends in German and French real estate. Without the consultation of these documents, I could not have identified the general dynamics in the real estate systems of Germany and France. However, for the collection of additional secondary data, two extensive fieldwork stages in Germany and France were required. From November 2014 until January 2015 I was a visiting scholar at the Goethe University in Frankfurt am Main and from September 2014 until December 2015 at Sciences Po in Paris. On location, I had the opportunity to expand my conceptual and 'tacit' knowledge through engaging in debates and discussions with local researchers and other academic experts.

The second step of my research methodology involved the testing of my initial research findings through the conduction of semi-structured and in-depth interviews with professional elites in the real estate and financial sector of Germany and France. Elite interviewing was a crucial research strategy for identifying major patterns in the real estate systems of both countries. Firstly, interviews enabled me to nuance and refine popular claims in newspapers and policy documents and to expand my 'tacit' knowledge beyond document analysis and textbook documentation (Bryman, 2012). Secondly, interviews were indispensable in getting access to market-specific information which was not always documented in the existing academic or non-academic literature. Thirdly, interviews also helped me to make crucial research decisions and to 'kill my darlings', i.e. to focus on fewer but more comprehensible research themes relevant to this PhD thesis.

During my elite interviews, I used semi-structured questions and topic lists to get essential information from my interviewees. On average the interviews took between one hour and an hour and-a-half and were held in German and French to make the interviewees feel more comfortable. With the exception of a few interviews conducted in

a more informal setting of a restaurant or a café, I have taped all of my interviews with an electronic device and have analyzed the tapes at least two times. For the study of the housing systems in Germany and France, I mainly interviewed senior analysts of public and investment banks and consultancy firms. This helped me to reflect on the national characteristics of the real estate markets, such as the credit system, housing finance and household patterns. For my analysis on the commercial markets, I have mostly conducted in-depth interviews with general managers and CEOs of investment funds and consultancy firms. Since I virtually had no knowledge on commercial real estate, I consider the latter essential for my training in what one of my interviewees called the 'real estate game.' At multiple stages of my PhD project, I have conducted a total of 30 interviews in Germany and France with various real estate professionals, general managers, state authorities, tenant associations, civil society organizations, researchers and senior analysts. The Appendix including a list of all my interviewees is available upon request.

In getting access to potential interviewees, I have made frequent use of snowballing techniques and cold calling (Bryman, 2012). However, I was most successful in connecting to real estate professional at network events and real estate fairs. Before my fieldwork stage in Germany, I participated at the Expo Real 2014, a large real estate fair that is organized annually in Munich. At a lecture series, I approached several CEOs and general managers of real estate firms and banks and exchanged my business card with them in order to make an appointment at a later stage. As I lacked such an opportunity in France, it was less easy to get access to the real estate sector of Paris. Luckily, I was already 'trained' in the basics of commercial real estate in Germany and was able to have more focused interviews in France. As such, I justify that for my studies in Germany (14 interviews) and France (6 interviews) the number of interviewees was not even. Although some interviewees were more open about their professional experiences than others, interviewees did generally not refrain from disclosing information. This was mostly due to the fact that I asked semi-structured questions which were not directly concerned with the specific companies of my interviewees but rather with the real estate industry at large. Without being very conscious about it, I thus allowed my interviewees to 'gossip' about other market actors and to ascribe 'bad' practices in the real estate industry to other market actors. Yet, sometimes it was difficult to distinguish professional knowledge from professional opinions. For instance, many bankers or real estate investors would consider practices such as mortgage securitization or listed real estate as principally unproblematic and hence did not reflect critically on the role of the financial sector in the latest GFC. Therefore, I sometimes had to criticially examine 'fact and value' during my interviews at this stage of the analysis.

The third step of my research methodology involved the consultation of quantitative data sources to further substantiate on my research findings or to provide empirical support for my major research claims. Quantitative data was essential for showing long-term trends in the real estate markets of Germany and France (cf. Fernandez, 2017). Firstly, bar charts and line graphs can visually represent and capture dominant trends and historical evolutions that do not always come to surface in qualitative analysis. Secondly, descriptive statistics and quantitative analysis can help to detect and observe particular patterns in real estate markets that one could otherwise overlook without focusing on the numbers. In most cases, access to research data was provided by my interviewees. In the case of Germany, housing data was provided by Bulwiengesa AG and the European Mortgage Federation. In France, I got access to important housing statistics from the Compte du Logement and the Fédération Promoteurs Immobiliers de France. Regarding commercial real estate, the research departments of CBRE Research provided me with important datasets on commercial real estate transactions in Germany and France.

1.7.2. Focusing on listed funds and market actors

One of the preliminary findings of my PhD research was that the rise of a listed real estate sector and the role of listed funds owning large real estate portfolios can be considered as a dominant pattern of financialization in both Germany and France. As a matter of fact, the management of residential or commercial real estate by REITs and listed funds denotes a strong pattern of real estate financialization as properties are mainly held or acquired as objects of investment (Fields & Uffer, 2016; Rutland, 2010; Waldron, 2017). To further elaborate on this pattern, I decided to study the local investment practices of real estate investment trusts (REITs) and other listed real estate companies as well as the urban implications of these strategies. Furthermore, because listed funds in Germany and France operate respectively in the residential and the commercial sector (Holm, 2010a; Nappi-Choulet, 2013a), I also aim to understand why and how the stock exchange had penetrated into different markets.

For selecting appropriate urban case studies, I have combined more logical and more opportunistic selection criteria. In Germany, I could focus on the investment practices of the four largest listed funds that operate on the national level and have quasi-monopolized the market: Vonovia, Deutsche Wohnen, LEG and Immeo Wohnen. The decision to focus on Immeo Wohnen was made because this company is owned and managed by Foncière des Régions (FdR), a French REIT whose expansion into the German residential market was part of a wider strategy of global diversification (see e.g.

Boisnier, 2011; Kofner, 2012). Firstly, I selected this case because it underpins an interesting cross-national pattern in this PhD thesis: since the residential market of France was blocked for institutional investors in the 1990s, FdR, a commercial property investor that used to own social housing portfolios itself, moved into the German markets to invest in housing (Boisnier, 2011; Kofner, 2012). Secondly, I chose this case because it generally highlights the increased participation of foreign investors in the German market (Rohmert, 2013; Scharmanski, 2012).

The decision to focus on Vonovia was based on the fact that it is the largest listed real estate company of Germany with a notorious past. Because Vonovia was preceded by Deutsche Annington, a private equity fund that was partially owned by the British Terra Firma firm, the company had build up a reputation as a 'grasshopper' (*Heuschrecken*) that destroys the harvest, without sowing because it was a prime example of a private equity fund that increased rents while simultaneously neglecting maintenance (Holm, 2010b). However, after its IPO in 2015, the company reinvented itself as a corporate landlord specialized in mid-priced housing that simultaneously wanted to improve its corporate image. Initially, I wanted to avoid studying Vonovia because I expected that it would be difficult to get access to the largest real estate company of Germany with a bad reputation. However, a alderman of the city of Essen convinced me to investigate this case and gave me access to potential interviewees in and around his city. As such, the decision to study Vonovia was partially based on this experience and on fieldwork access that suddenly presented itself.

In France, where the listed real estate sector is is dominantly but not exclusively run by the 10 largest REITs of the country (FSIF, 2010; IEIF, 2014a), I had to use different selection criteria. Since many property companies in France shifted from residential to commercial real estate in the 1990s and the 2000s (Cour des Comptes, 2014), I wanted to focus on a company which was previously engaged as a social housing developer. Secondly, I wanted to focus on how REITs in France also invest in the urban spatial development of the Greater Paris region (Enright, 2012; Gilli, 2014). Taking these two criteria into account, it soon became clear that Icade, formerly known as the SCIC (Société Centrale Immobilière de la Caisse des Dépôts), was the best example to study. Firstly, because Icade used to be a social housing developer of the Caisse des Dépôts, a quasi-public bank that funded the production of high-rise social housing estates in the *grands ensembles* of Paris (Pollard, 2007), the case clearly highlights the shift in holding from residential to commercial real estate (Cour des Comptes, 2014). Secondly, as some of my interviewees had already pointed out, Icade was a major investor in the Greater Paris region owning and developing a large business park in the city of Aubervilliers (see also Plaine Commune, 2016; Savini, 2012).

During my first fieldwork stage, two of my interviewees already informed me about Icade as a unique case study. As such, I had already collected relevant newspaper articles and policy reports about the urban development projects of Icade when I was still in Paris (Cour des Comptes, 2014). Also, I had visited and explored the site of its major business park in Aubervilliers: Le Millénaire. However, while working on the case, I wanted to verify my observations and planned two extra interviews with a general manager and asset manager of the planning department of Icade in 2017. These interviews were essential in helping me to finish my chapter on Icade. In the case of Foncière des Régions and Vonovia, interviews were necessary because I had virtually no knowledge on the investment practices of listed funds in Germany. As such, 14 interviews were conducted in 2016 and 2017 in Essen and Mülheim with city aldermen, local politicians, urban planners, tenant associations and the companies themselves. In the case of Icade, I could rely on my sources and the two additional interviews.

Although it was generally not so difficult to get access to interviewees, I sometimes struggled with what can be called the 'empirical fallacy' (Bryman, 2012). Some of my German interviewees in Essen and Mülheim had biased opinions because they were too much 'embedded' in the field and in some cases shared information with me that seemed to be at stake with information I had obtained from other interviewees. Therefore, I had to verify the interview answers from some of my respondents thoroughly to avoid the fact-value problem (Bryman, 2012). Similarly, I had to verify information shared to me by the spokesmen of Vonovia and Immeo Wohnen (Foncière des Régions) critically. Since this companies have an interest in presenting themselves as 'good' firms with a responsible corporate profile, I sometimes had to deconstruct their narratives to really understand their business models.

In France, I had some difficulties in positioning myself in the academic debate on whether the French urban political economy is a 'hybrid' between market control and government control (Boyer, 1997; Howarth, 2013; Schmidt, 2003), or, as O'Sullivan (2007: 433) states, 'a distinct form of capitalism in which managers exercise considerable discretion.' After my interviews with general managers of Icade, as I will explain in Chapter 7, it also became difficult for me to reflect on the contradiction of Icade as a commercial real estate developers in Aubervilliers which unites public and private characteristics (Caisse des Dépôts versus the stock exchange). Questions regarding the public or private nature of Icade I could finally solve by using the work of Frétigny (2015) and by showing the contradicting elements that Icade aims to reconcile in its urban project in Aubervilliers. Another difficulty I encountered in France was that most of the academic literature has been written by non-French academics. As it was sometimes difficult to collaborate with French scholars because I was an outsider in Paris, I may have missed some French sources because I did not have access to them or because they were not shared to me.

1.8. Structure of the thesis

Before introducing the individual chapters of this PhD thesis, I should mention that Chapters 2,3, 4 and 6 have been accepted by or published in peer-reviewed academic journals. At the moment, Chapter 7 is still under review after resubmission to the journal. Since I present this PhD thesis in the form of a 'paper-based manuscript', these chapters are written as academic articles. Therefore, the chapters sometimes raise individual research questions or themes that were suggested by editors and peer reviewers or that make it more useful to present a more central argument in the paper. However, because the chapters follow a similar structure and are thematically related, I believe that this will not be an issue regarding the coherence and unity of the PhD thesis. Some of the chapters have also been co-written with my supervisor and co-supervisor. Their experience in publishing and academic writing helped me to understand how academic articles need to be produced and presented. The intellectual and empirical work presented in this PhD thesis however remains my own, which is why I am the first author of these papers. The PhD thesis is organized and structured in Part II, Part III and Part IV. Part II, which includes Chapters 2, 3 and 4, deals with the national case studies of the real estate markets in Germany and France. Part III, which includes Chapters 5, 6 and 7, is concerned with the urban case studies and revolves around the investment practices of listed real estate companies. In Part IV the major conclusions of this PhD thesis are presented.

In Chapter 2, I present a case study on the housing market of Germany. Arguing that the apparent stability of the German housing sector conceals more systemic change at the heart of the German political economy, I show that Germany, as one of the few countries in Europe that did not experience a housing boom during the mid 2000s, is still 'financializing' in many ways. Firstly, I show that although previous attempts of mortgage expansion through the window of German reunification had failed, the ongoing and post-crisis housing boom in German cities indicates that the housing market is now 'normalizing' after the shock of German reunification and catching up with trends elsewhere. Secondly, I show that after the sale of various former subsidized public and private housing companies in the 1990s and the 2000s, large and former subsidized public or private housing portfolios are now under management of private equity funds and listed real estate companies. This new ownership structure, as I will argue in Chapter 2, can be perceived as an alternative pathway of real estate financialization.

In Chapter 3, I present a case study on the housing market of France. Although France experienced an unprecedented housing boom between the mid 1990s and mid 2000s, there is consensus in the academic literature that the French housing system is not

financialized because mortgage debt levels are still comparatively low and because house prices did not decline after the crisis. Nonetheless, I indicate that the French housing system is more indebted than commonly understood and also displays a few symptoms that could be associated with processes of financialization. Firstly, because commercial banks provide state-authorized credit loans to households and private landlords, mortgage expansion in France unfolded in a more controlled and balanced way and can both be observed on the demand side and supply side of housing. Secondly, private property developers – that often construct in buy-to-let housing on behalf of private landlords - tend to focus on housing production in the most profitable regions of the country where profitability rates and tax return are the highest. As such, the French housing system can still be linked to processes of financialization, despite the fact that the mortgage market has not become over-leveraged and that the ongoing French housing boom did hitherto not come to a halt or burst.

In Chapter 4, I compare the institutional trajectories of change of the commercial real estate markets of France and Germany using a historical perspective. Centering these markets in post-war Continental European capitalism, I argue that both markets have been fundamentally opened up by international flows of capital in the 1990s and the 2000s. However, the particular patterns of financialization and internationalization are different in both countries. On the one hand, because the commercial sector in Germany is still owned and managed by the non-listed real estate sector with close ties to the German banking sector, the inflow of private equity funds in the mid 2000s has not changed much in the real estate sector and the role of banks continues to be important. That is to say, non-listed and bank-related investment funds have remained key actors in the polycentric commercial market of Germany. In France, where arrival of private equity funds in the mid 1990s fundamentally changed the 'rules of the game', the national government introduced a new tax regime of SIIC (*société d'investissement immobilier cotée*) in response to the 1990s property crisis and foreign competition. Allowing locally listed property companies to raise international capital and to use it as a lever for domestic market operations, a shift from a predominantly non-listed real estate sector to a listed real estate sector has taken place in the mid 2000s and after the GFC.

After I have briefly summarized the major findings of the national case studies in the concluding section of Part I, I focus in Part II on the investment practices of listed real estate companies in Germany and France. In Chapter 6, I explore the investment practices of Immeo Wohnen (a subsidiary of Foncière des Régions) and Vonovia in Mülheim an der Ruhr and Essen. I show that, although Immeo initially wanted to manifest itself as a long-term and 'patient' investor, it sold most of its remaining housing units in the Mülheim after its post-crisis decision to relocate its major investment operations to more profitable metropolitan areas, such as Berlin, Hamburg and Leipzig.

Although Vonovia adopts a broadly similar strategy as Immeo, it has also committed itself to neighborhood development in the Elting neighborhood of Essen. Teaming up with the City of Essen and other stakeholders in a public-private partnership, Vonovia invests in the modernization of individual housing units and improvement of the neighborhood level. The key objective of the company and the city of Essen is to improve the living standards in this under-maintained but quite central neighborhood and to raise rents by finding loopholes in German rental regulations.

In Chapter 7, I first present an analysis on the rise of the listed real estate sector in France. Then I argue that the introduction of the tax regime of SIIC was a proactive strategy of the post-dirigiste government to enable locally listed funds to raise capital on the French stock exchange and to invest it into the urban built environment of the Greater Paris region. In the empirical sections, I focus on the investment operations of Icade in Aubervilliers. The development of the business park of Le Millénaire reveals an interesting paradox of 'regulated deregulation.' On the one hand, Icade is legally obliged to maximize shareholder returns and to adopt a patrimonial strategy that promotes rent-maximization in Aubervilliers. However, within the context of the *Grand Paris* project, Icade on the other hand contributes to the structural remaking of Paris as a 'national champion city' and thus performs a 'public role'. This public-private partnership is not a 'hybrid' between market and government control. Rather, it shows how private vehicles such as Icade perform a crucial function in providing external funding to the urban spatial development of *Grand Paris*.

In the Concluding section of Part IV I briefly summarize the major research finds of this PhD thesis and also discuss my assessment of the qualitative manifestations of real estate financialization in Germany and France. Furthermore, I answer the three research questions presented in this Introductory chapter and discuss the individual Chapters thematically. While analytically showing that real estate financialization is variegated and uneven in Germany and France, I turn towards a discussion on capitalist development and variegated financialization. Now that in hindsight the post-war period of prolonged economic growth appears to be exceptional in the history of capitalism, I conclude that future research should theorize and conceptualize possible new modes of accumulation, either by focusing more specifically on questions concerning the regulation and governance of finance, or by focusing on more sustainable forms of real estate production and corporate governance. However, while doing so, I also conclude that it needs to move towards a more holistic understanding of income as not only wage-based, but also asset-based.

PART II:

NATIONAL CASES

Chapter 2. The alternative financialization of the German housing market

Wijburg, G. & Aalbers, M.B. (2017) The alternative financialization of the German housing market, *Housing Studies*, 32:7, 968-989.

ABSTRACT

While many European countries experienced a global housing boom in the early/mid 2000s, house prices and mortgage debt in Germany stagnated. Therefore, the German housing system is considered to be operating outside financialized capitalism. Despite Germany's apparent stability, we argue that an alternative trajectory of financialization in the German housing market can be observed. This trajectory has followed three stages or 'waves'. The first wave started around the time of German unification and is characterized by the failed attempt of West German banks to marketise and liberalise German housing finance. The second wave started in the late 1990s and is characterized by the 'financialized privatization' of many public housing associations and the speculative investments of private equity firms and hedge funds. The third wave started during the global financial crisis and is characterized by booming housing prices and the market entry of listed real estate companies.

Key words: Germany, financialization, privatization, political economy, private equity and hedge funds, listed real estate firms

2.1. Introduction

There is a widely held opinion among German economists and political scientists that long-term stability is an essential feature of the German housing system (e.g. Just, 2010; Kofner, 2014a; Voigtländer, 2014). Characterized by a predominant private rental sector, conservative mortgage banks and a low homeownership rate (Lowe, 2011; Schneider & Wagner, 2015), the German housing system is often perceived as the corporatist, non-financialized and somewhat 'boring' counter-example of the more liberal and financialized US housing market (Kofner, 2014b; Kohl, 2014; Schwartz & Seabrooke, 2009). While many European countries saw an unprecedented increase in housing prices during the early and mid 2000s, housing prices and mortgage debt in Germany stagnated or declined (Andrews *et al*, 2011; Detzer *et al*, 2013). In other words, it is sometimes believed that the market has remained largely unaffected by the dynamics associated with financialized capitalism. While in many European countries housing markets became increasingly connected to global financial markets and exposed to financial risks (Aalbers, 2016b), the specific composition and characteristics of the German housing market seemed to have offered some protection against the caprices of global finance.

However, in the past few years house prices have been rising rapidly in Germany (Heeg, 2013; Deutsche Bundesbank, 2013). In the context of the ongoing Euro crisis, domestic and foreign investors perceive German real estate as a safe haven for their investments (Scharmanski, 2012; Waltersbacher *et al*, 2013). Many financial agents and private investors are increasing their market activities and are pushing the house prices up to unprecedented levels (Diamantis, 2013; Müller, 2012). Although at first there appeared to be no sign of an 'excessive' increase in household debt (Hofer, 2012), real estate transactions of German households are increasing (BBSR, 2014; Deutsche Bundesbank, 2013). In this light, the German housing system reflects a contradiction. On the one hand, the German housing market was one of the few markets in Western Europe that was not severely affected by the global housing boom of the early 2000s. On the other hand, recent developments suggest that the role of finance in the German housing system is changing, but not in the same way as in other countries. How can we understand the present, somewhat contradictory, dynamics in the German housing market? Is it still accurate to consider the German housing market as relatively unaffected by processes of financialization?

The literature on financialization describes how since the mid 1970s and in the context of the crisis of Fordism and the demise of the Bretton Woods system a dramatic rise of finance fundamentally restructured advanced, contemporary capitalism (Foster, 2007; French *et al*, 2011; Krippner, 2011). Following the ascent of mortgaged

homeownership and liquid mortgage markets in Western Europe and the United States (Aalbers, 2012; Crouch, 2009; Jordá *et al*, 2014; Streeck, 2013), financialization has also transformed the way housing markets function. However, the literature has generally focused on housing markets that were heavily exposed to the global financial crisis, including those in Spain (e.g. Coq-Huelva, 2013; García, 2010), Ireland (e.g. Fraser *et al*, 2013; Waldron, 2016), the United Kingdom (e.g. Martin, 2011; Wainwright, 2009) and the United States (e.g. Aalbers, 2008; Gotham, 2009). Moreover, the financialization literature generally struggles with defining how processes of financialization are processed in other local and national contexts (Engelen *et al*, 2010; Lapavitsas & Powell, 2013; Pike & Pollard, 2010). While in some countries the dramatic rise of finance has clearly resulted in over-leveraged and debt-fuelled housing markets, in other countries the expansion of banks, finance and mortgages has not fully materialized or has followed a different pathway (see e.g. Christophers, 2013; Cusin, 2013; Fernandez & Aalbers, 2016).

We here define financialization as "the 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, 2017b). Regarding housing, financialization is often operationalized in terms of increasing mortgage debt and the rise in the securitization of mortgage debt, driven by a transformation of mortgage lending and resulting in higher house prices and higher levels of personal debt. In addition, authors have focused on rising homeownership rates, credit scoring of prospective borrowers and finally the relation between subprime lending, overindebtness and foreclosures (for an overview, see Aalbers, 2017a). These operationalizations implicitly exclude the possibility that rental housing can be financialized as well. We here focus on the increasing dominance of financial actors and practices in the German rental housing market, resulting in a structural transformation of this market, its landlords and its tenants—thereby contributing to the recently developing literature on the financialization of social and rental housing in Germany, the Netherlands, Singapore, the UK and the US (Aalbers, 2016; Aalbers *et al*, 2017; Bernt *et al*, 2017; Chua, 2015; Fields, 2015; Fields & Uffer, 2016; Heeg, 2013; Uffer, 2011; Wainwright & Manville, 2017).

Responding to the call to identify geographies of financialization (Engelen *et al*, 2010; Pike & Pollard, 2010), we aim to understand the particular pathway of the German housing system in an age of financialized capitalism. In doing so, we make two contributions. Firstly, we break out of the dominant discourse in the literature that the German housing market is less financialized than other European housing markets by suggesting that financialization in the German housing market has followed an alternative trajectory. Financialization is not a singular, teleological process that unfolds in the same way everywhere, but is rather variegated across time and space and triggers

alternative trajectories of change (Aalbers, 2017a; Pike & Pollard, 2010; Streeck, 2009; cf. Peck & Theodore, 2007). Although the German housing system remained relatively stable during the crisis years, the supposed non-financialization of the German housing system becomes increasingly difficult to support in line with the recent developments. Secondly, we argue that in the wake of the Global Financial Crisis (GFC), the German housing market, while maintaining its essential and historical differences, is increasingly moving in the same direction of other European housing markets, i.e., is becoming more financialized (Fernandez & Aalbers, 2016).

This paper is based on the study of various primary sources, including newspaper articles, policy documents, market reviews and other publications on the developments of the German housing sector. Inspired by Hackworth & Smith (2001)'s 'waves of gentrification', this paper uses the heuristic of 'waves of financialization' to understand the evolving nature of the German housing system. Looking back, we can identify three stages or waves of financial expansion. The first wave occurred between the mid 1980s and late 1990s when Western German banks sought to expand their mortgage activities, first in Western Germany, and when the opportunity arose, also in Reunified Germany. However, this wave of financial expansion, which did not result in a financialization of the housing market, was slowed down by the shock of unification and the collapse of the German housing market (Mertens, 2014; Uffer, 2011). The second wave of 'financialized privatization' (Aalbers, 2016) started in 1999 and ended around 2009 when large parts of the former social housing sector were sold to private equity firms and hedge funds (Holm, 2010b; Voigtländer, 2007). Financialization, thus, did not occur through mortgages or mortgage securitization in the owner-occupied market, but rather through the direct involvement of financial agents in the rental housing markets. This wave was slowed down by the GFC when the business models and resale strategies of these funds were challenged. The third wave of financialization started in the aftermath of the GFC and is characterised by a housing boom in German cities and the market entry of a small number of very large real estate companies that are listed on the stock exchange. Together, the second and third waves give shape to a distinct, or alternative, path of the financialization of the German housing market.

The structure of this paper is as follows. In the next section we discuss the supposed non-financialization of the German housing market and introduce our alternative framework of analysis that is inspired by a political economy approach (cf. Aalbers & Christophers, 2014). In the subsequent section we discuss the 'three waves of financial expansion', characterized as a historical sequence of qualitatively different, yet interrelated and partially coinciding, modes of financial expansion in the German housing market. We conclude that further research is required to understand how processes of financialization in Germany are processed on a regional and urban level and

how these processes may undermine the stability of Germany's federal political economy.

2.2. The non-financialization of the German housing market?

Although a large part of Germany's housing stock was already built during the late-nineteenth century (Kohl, 2016), the construction of new, affordable housing units has typically been considered as an integral part of West Germany's post-war 'social market economy' (Albert, 1991; Shonfield, 1965; Tomann, 1990). After the Second World War around 4.5 million new housing units were needed to provide sufficient and affordable housing in West-German cities that were bombed down by the Allied Forces (Voigtländer, 2010). Confronted with a permanent housing shortage, the government of the Federal Republic of Germany responded by generously supporting private activity of developers and housing associations with fiscal subsidies and monetary support (Dorn, 1997). A considerable amount of capital was made available for the reconstruction of the private rental sector that was regulated with rental ceilings to keep housing prices affordable (Kofner, 2014b; Tomann, 1990). At the same time, public budgets supported the revival of the social housing sector that was organized around the principle of the 'common interest' (*Wohngemeinnützigkeit*). Provided that housing associations served a public goal and kept rental levels affordable, tax breaks and housing subsidies would enable them to expand their housing stock (Fields & Uffer, 2016).

Under the state socialism of post-war East Germany, the construction, management and financing of housing was largely state-run and part of a planned economy (Glock & Häußermann, 2004). Yet, following German unification the institutions of West Germany were transferred to former East Germany. Since the economic and political integration, in comparative terms, can be better characterised as a 'friendly takeover' rather than a merger, German scholars have generally focused on West German housing institutions to describe developments throughout the German housing sector (Detzer *et al*., 2013; Michelsen & Weiß, 2010). Looking at the overall composition of the German housing stock, the German housing market is well-known as a 'nation of renters' (Kemeny, 1982). In 2006 around 23% of the total German housing stock was owned by large commercial and public housing companies that rent out their units privately or publicly; 37% of the housing stock in Germany was owned by smaller individual landlords (Kirchner, 2007); and around 40% of the German housing stock was owner-occupied (Detzer *et al*., 2013). During the post-war years, the German homeownership rate has moved forward in fits and spurts and has increased from around 27% in the 1950s to 40% in the 1980s, until it recently reached 53% in 2013 (Heeg,

2013; Mertens, 2014). In comparison with other countries, the German homeownership rate remains relatively low.

To understand the foundations of the German housing system we take a closer look at the specific characteristics of housing finance in Germany. Firstly, a considerable part of mortgage loans in Germany are provided by public and cooperative banks (*Sparkassen* and *Volksbanken*) at relatively conservative conditions and without strong interference of capital markets (Kofner, 2014a). Offering fixed-interest rates, requiring high down-payments and aligning the size of mortgage loans to the liquidation/foreclosure value (*Liquidationswert*) rather than to the current market value of a house, these banks have traditionally not promoted easy access to credit (Voigtländer, 2014). Secondly, mortgage banks in West Germany have traditionally focused on providing loans to housing associations and private developers of large tenement buildings. A considerable part of the German mortgage market, therefore, has been focused on refinancing collective mortgage loans through covered bonds (*Pfandbriefe*) and other financial assets that remain on the balance sheets of mortgage banks and are actively managed (Kohl, 2015). Reforms in the 2000s have opened up the covered bond market to commercial banks (Mertens, 2017). Mortgage securitization of residential loans has remained fairly undeveloped in Germany, despite attempts to reform the market (Becker & Breidenbach, 2006) and some first experiments with securitization during the investment boom of the 2000s (Kofner, 2012; Rohmert, 2013)

The supposed non-financialization of the German housing market finds its empirical legitimacy in the fact that the country, as one of the few in Western Europe, has not experienced a growth of mortgage credit and of housing prices between the mid 1990s and the outbreak of the GFC (Just, 2010a; Voigtländer, 2010). While prices in Spain, Ireland, the United Kingdom, but also in the Netherlands, France and Sweden increased rapidly, the housing prices in Germany stagnated and even fell in some years (Aalbers, 2016; Andrews *et al*., 2011; Detzer et al., 2013). Figure 1 shows the rise in house prices for selected European countries. While most of these countries experienced an increase of nominal house prices of more than 200% between 1995 and 2013, house prices in Germany remained roughly at their 1995 levels. Figure 2 shows a similar trend for the level of mortgage debt as a percentage of GDP. While mortgage debt increased tremendously in most countries, the German mortgage debt grew modestly in the late 1990s, only to shrink again to its 1995 level in the first decade of the twenty-first century. As a result, the average German family has less mortgage debt than families in many other West-European countries.

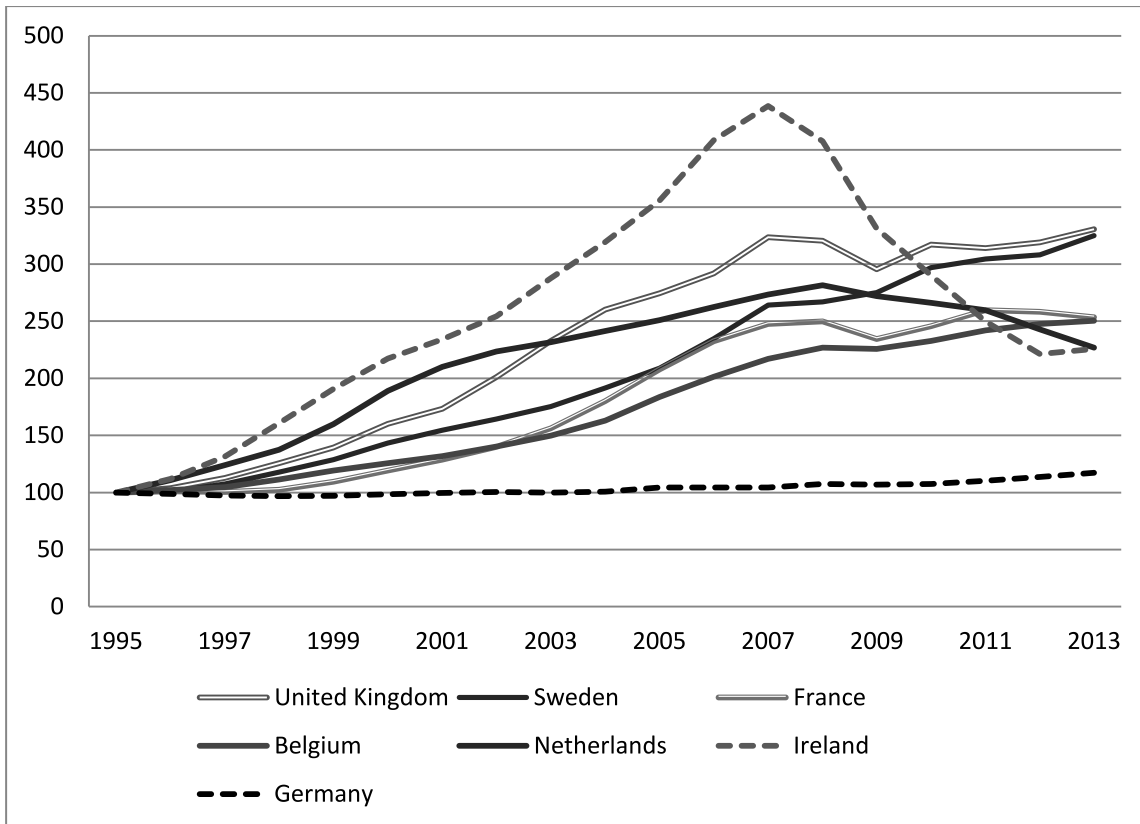

Figure 1. Indexed house prices, 1995-2013

Source: Bank of International Settlements, 2014

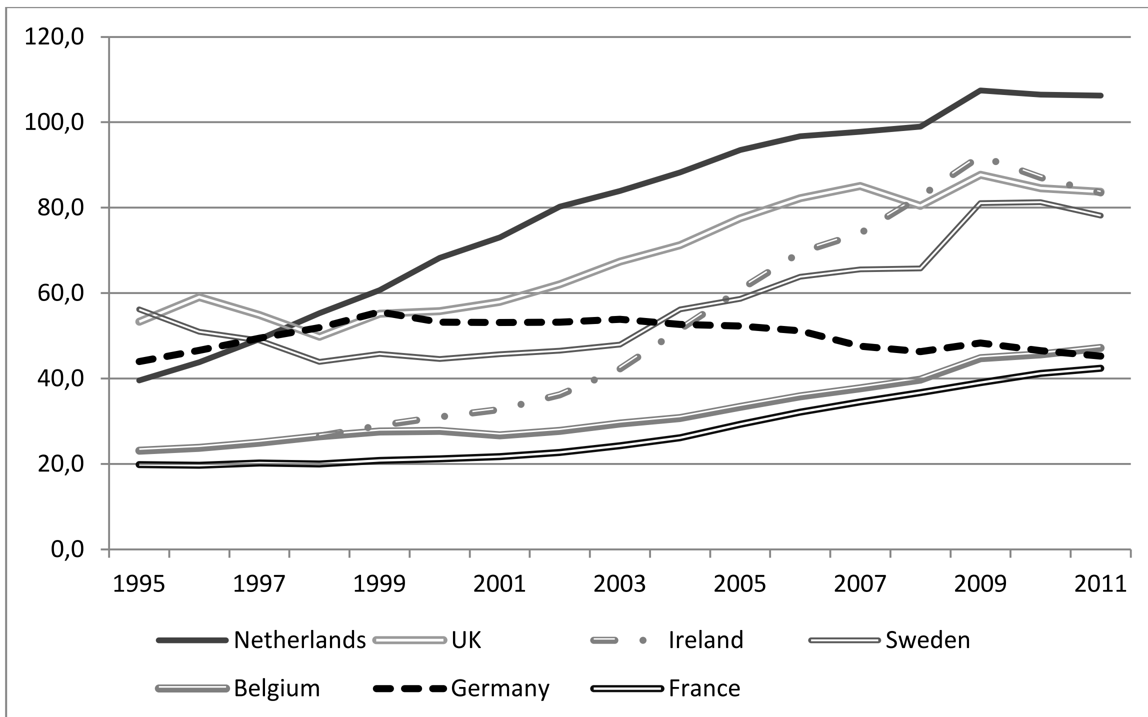

Figure 2. Mortgage debt as a share of GDP, 1995-2011

Source: European Mortgage Federation, 2014.

Looking at these figures, one could argue that the German housing market, due to its historical legacy and institutional design, has remained relatively stable during the GFC and has not been structurally exposed to an over-leveraged and over-indebted financial system. Nevertheless, it would be a fallacy to claim that the German housing system, as it emerged after the Second World War, has prevailed its historical structure without becoming more integrated in global financial markets. This depiction of the German housing market fails to take into account that in the wake of the decline of organized capitalism in Germany (Höpner, 2007; Kirchner, 2007) new market tendencies towards liberalization and privatization slowly and gradually dismantled Germany's overall post-war housing regime (Mertens, 2014; Streeck & Thelen, 2005; Tomann, 1990), and in particular its social housing segment (Aalbers & Holm, 2008). The privatization of social housing and the subsequent arrival of private equity funds and listed real estate companies in Germany suggests that global financial actors are much deeper embedded in the German housing market than is commonly understood.

Another major issue is that the supporters of the thesis of housing stability in Germany often base their analysis on the national average of house price developments, without fully taking into account regional differences in the country (Kofner, 2014a; Voigtländer, 2014). As a federal country with a polycentric urban structure that was long divided between West and East, regional housing price differences in Germany cannot be neglected (Detzer *et al*, 2013; Glock & Häußermann, 2004; Kirchner, 2007). As Figure 3 illustrates, the sixteen German *Länder* (regions) display divergent patterns of housing tenure which has undoubtedly affected local demand for mortgage credit and other sources that influence house price developments (BBSR, 2014).

The shock of German reunification also had an important impact on the regional evolution of house prices (Detzer *et al*, 2013). While the German regions in the former East had some difficulties 'catching-up' with the dominant economic trends in the West, there remains a strong divide between West and East. Uneven house price developments in strong growth regions in the West and stagnant or moderately growing regions in the former East have only recently diminished (Deutsche Bundesbank, 2002). To illustrate this, Table 1 displays the evolution of house prices of the sixteen German regions between 1990 and 2015.[1] Although the indexed house prices do not display the absolute price level differences of the German regions, we can nevertheless use the indexes to detect divergent regional patterns in Germany. Here we can first discern that house price developments in the former Eastern regions of Sachsen, Berlin, Thüringen and Brandenburg are less strong than in the other German regions. In other words, the West-

[1] The weighted index consists of various variables, including the prices for single-family houses and owner-occupied apartments and the rental prices of newly constructed and already existing rented dwellings.

East-divide is still persistent in Germany. Interestingly, the deindustrialised Western German region of North Rhine-Westphalia, which was once the heartland of German industrialisation and post-war growth, also lags behind in terms of house price evolutions (Krämer *et al* , 2015). The regions of Saxony-Anhalt, Hesse, Baden-Württemberg, Bremen and Mecklenberg-Vorpommern, Lower Saxony and Saarland display moderate growth levels. In the case of Hesse, where Germany's financial centre of Frankfurt am Main is located, this is somewhat surprising but this may be because house prices here were already at a relatively high level in 1990. In Bavaria and Hamburg, that contain the most prosperous German cities of Munich and Hamburg, house price increases are the strongest and far above the national average. Furthermore, national and regional averages conceal the uneven distribution of housing wealth between metropolitan regions, mid-sized cities and countryside, a topic we will revisit in the concluding section.

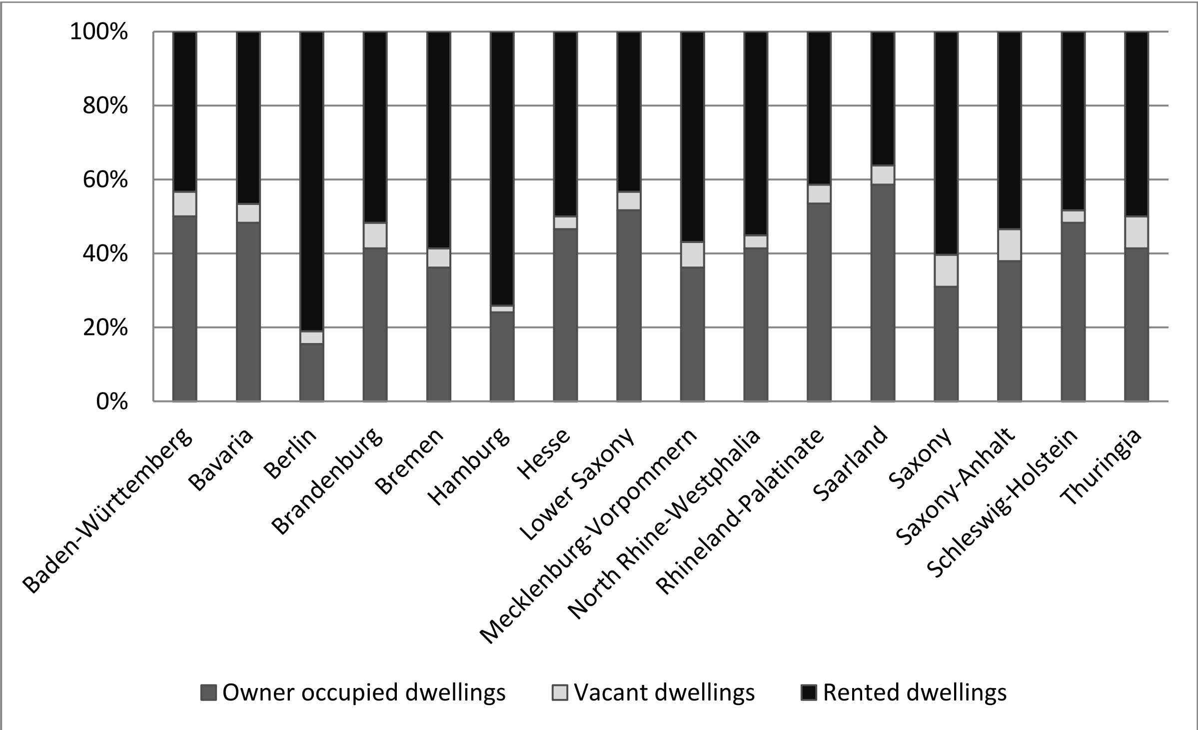

Figure 3. Owner-occupied, vacant and rented dwellings in the German regions

Source: Statistische Ämter des Bundes und der Länder (2013) 'Zensus 2011'; The Knowledge Centre for Housing Economics, 2014

	1990	1995	2000	2005	2010	2015
Hamburg	100	130	126	129	149	192
Bavaria	100	118	115	120	133	191
Rhineland-Palatinate	100	129	129	135	144	179
Saarland	100	127	132	134	153	175
Lower Saxony	100	128	124	125	133	171
Mecklenburg-Vorpommern	100	123	128	127	131	169
Bremen	100	118	122	124	136	167
Baden-Württemberg	100	123	117	125	134	164
Hesse	100	125	124	125	128	159
Saxony-Anhalt	100	156	136	123	126	158
Schleswig-Holstein	100	126	121	119	127	157
North Rhine-Westphalia	100	123	125	126	131	155
Saxony	100	145	123	111	113	151
Berlin	100	118	105	107	112	147
Thuringia	100	131	117	113	122	147
Brandenburg	100	125	116	108	118	143

Table 1. House price developments in the sixteen German regions

Source: Bulwiengesa AG, RIWIS, 2016

The remainder of this paper will be dedicated to explaining the German paradox: although seemingly stable and not very dynamic in terms of house price and mortgage debt fluctuations, the German housing market has become exposed to global financial dynamics in ways not widely recognized and discussed in the literature. The remainder of this paper presents a periodization of change in the German housing market through three stages or waves of financial expansion (see Table 2). This periodization helps us to explain and understand discontinuous change in the German housing market that is not included in analyses that focus primarily on mortgage debt and homeownership levels. Our periodization is not intended as an abstracted model of the world (Aalbers, 2015), but rather as a heuristic device to explain a historical sequence of qualitatively different,

yet interrelated and partially coinciding, waves of financial expansion in the German housing market. The boundaries between the different waves of change are not solid but rather closely intertwined and mutually reinforcing. We will discuss the details of Table 2 in the next section.

Wave	*Characteristics*	*Critical juncture*
First wave: liberalisation and marketisation (1986-1999)	Marketisation of the mortgage market by West German banks; German unification as a window of opportunity	Slowed down by the shock of German unification and the dotcom-bubble
Second wave: financialized privatization (1999-2009)	En-bloc privatization of the public housing sector; creation of an investment market for equity funds and other investors	GFC and the halt to large portfolio transactions
Third wave: financialization and demographic change (2009-present)	Housing boom in German cities; entry of listed real estate companies	Possibly a rise in interest rates; or housing crises in select cities

Table 2. Three waves of financial expansion in the German housing market

2.3. Three waves of financial expansion

In this section we challenge the dominant notion in the literature of Germany's supposed fundamentally robust housing market. We show that, despite signs of stability, the German housing market, in different ways than expected, also reveals some strong patterns of marketisation and financialization.

2.3.1. First wave: liberalisation and marketisation (1986-1999)

Although Germany's mortgage debt levels were relatively low during the global housing boom of the early and mid 2000s, they were among the highest in Western Europe in the

1980s (Ertürk *et al*, 2005; Mertens, 2014). Due to the fragmented landscape of the German banking sector, West Germany expanded its retail and commercial activities to increase rates of profitability (Hardie & Howarth, 2009). The widely used banking slogan of 'total finance' (*Allfinanz*) encouraged West-German banks to move into commercial real estate services and to increase mortgage lending (Rohmert, 2013). The new Christian-democratic government of Chancellor Helmut Kohl that came into office in 1982 also encouraged the financial expansion of the German banking industry. Anticipating on a political turn, the conservative Kohl administration favoured monetary politics that can be identified as a German version of the 'Great Moderation' (Streeck, 2009). Some scholars, therefore, have claimed that financialization in Germany reached its peak in the mid 1980s and early 1990s rather than in the mid 2000s (Ertürk *et al.*, 2005; Mertens, 2014).

The expansion of banks and mortgages had already started in the Federal Republic of Germany, but German reunification was certainly a window of opportunity for those who wanted to transform Germany in a liberal market economy (Streeck, 1997). Many West-German banks and real estate actors became heavily engaged in the monetary and economic integration by moving into former East Germany (Mertens, 2014). Again, the financial expansion was underpinned by political incentives. As the Kohl administration feared a massive migration of East-Germans to West-German cities would destabilise the harmony of reunified Germany, it introduced for several real estate subsidies and tax breaks to encourage property development in East Germany (Glock & Häußermann, 2004). Still, migrations from the East to the West could not be hindered and also put substantial pressure on the local housing markets of many West-German cities (Deutsche Bundesbank, 2002). Between 1990 and 1996 an unprecedented housing boom was triggered, especially in East Germany. Between 1990 and 1996 both housing construction and prices increased (Uffer, 2011). Mortgage debt as a percentage of GDP increased from around 40% in the early 1990s to 51% in 1999, similar to the developments in the United Kingdom and the Netherlands (see Figure 2).

However, the political and financial euphoria during the German housing boom was based on incorrect expectations. It was generally believed that the former East would catch-up with the Western institutions and that East-German cities would gradually reposition themselves in a global economy without much economic and political difficulties (Deutsche Bundesbank, 2002; Glock & Häußermann, 2004). But instead of reinventing itself as the 'Powerhouse of Europe', Germany moved into its worst post-war recession in 1997 and many of its political aspirations were not met in reality (Streeck, 1997). Many Eastern cities went into decline for many years and lost large parts of their populations (e.g. Bernt, 2009; Holm *et al*, 2015). In West-German cities, house prices stabilized, although prices in the major metropolitan regions continued to

rise moderately due to housing shortages (Deutsche Bundesbank, 2002). By the late 1990s, Reunified Germany was famously labelled 'the sick man of Europe' by *The Economist* (1999): facing government deficits, sluggish growth and declining industries and cities in the East, the economy of Germany was structurally weakened (Deeg, 2001). The shock of German unification and subsequent socio-economic decline halted the expansion of mortgages in the country (Mertens, 2014). As the housing market collapsed, many banks and other financial intermediaries withdrew from mortgage lending (Deutsche Bundesbank, 2002). Around the time of the dot-com bubble many German universal banks expanded their retail activities internationally (Hardie & Howarth, 2009; Mertens, 2017). Emerging European markets provided an institutional fix for German universal banks that could offset most of their capital in markets in Eastern and Southern Europe (Bitterer & Heeg, 2012; Jessop, 2014; Nölke & Vliegenthart, 2009).

In comparative terms, West Germany was quite indebted in the 1980s and mortgage loans were important to sustain homeownership. However, the attempts of West-German banks to build a strong mortgage market in reunified Germany failed. Mortgage credit levels stagnated and many German banks instead chose to expand their retail activities in emerging economies after the stock market crash in the late 1990s (Deutsche Bundesbank, 2002). Meanwhile, some reforms in the subsidization scheme of the social rented sector were implemented (Dorn, 1997; Kirchner, 2007) and the local autonomy of German municipalities for providing social housing subsidies was increased (Busch-Geertsema, 2004). Yet, the abolishment of the 'common interest' (*Wohngemeinnützigkeit*) in 1989 was the most dramatic change in the German housing sector; its consequences would materialize during the second wave.

2.3.2. Second wave: financialized privatization (1999-2008)

While in most Western European countries housing markets seemingly thrived on mortgage credit and increasing home-ownership rates from the mid-1990s onwards, mortgaged homeownership in Reunified Germany did not increase. Attempts by the German government to encourage homeownership through a set of financial subsidies to German households, in particular the *Eigenheimzulage* (homeowners' allowance), had not been sufficient enough to change the dominant housing patterns in the country (Voigtländer, 2010) and was abolished in 2006. Yet, it would be wrong to conclude that processes of financialization did not materialize in Germany and are foreign to the German housing market. An alternative pattern of financialization, characterized by the en-bloc privatization of formerly public housing associations, took root in Germany.

The question of social housing in Germany was already an issue during the first wave of liberalisation and marketisation when post-war public interventions were debated and criticized (Tomann, 1990). Public housing associations had traditionally received subsidies and were obliged to limit their profit-orientation following the principle of the 'common interest' (Fields & Uffer, 2016) When the law of the common interest principle (*Wohngemeinnützigkeit*) was abolished in 1989, housing associations were allowed to develop, maintain and finance their housing portfolios according to market principles and at market prices (Voigtländer, 2007). Reforming the market for social housing was now a political necessity for many (but not all) housing associations that formerly relied on subsidies from the government (Bernt, 2009). A special law (*Altschuldenhilfegesetz*) was implemented that also contributed to the privatization of the public housing stock: While many East German housing associations were still indebted after reunification, their debts were remitted by the federal government, provided that around 15% of the housing stock would be privatized and sold to households or investors (Aalbers & Holm, 2008).

Another strong feature was that many housing associations were privately run, but publicly owned by municipalities (Voigtländer, 2010). Facing mounting levels of public debts, many municipalities were keen on selling their housing portfolios to private equity funds to reduce their debts (Uffer, 2011; Voigtländer, 2007). Between 1999 and 2006 more than 500,000 social housing units were privatized in Germany (Detzer *et al.*, 2013). Many of these privatized units were located in larger metropolitan areas like Berlin, but also in West German regions like Schleswig-Holstein and North Rhine-Westphalia (BBSR, 2007). In many cases, US-based private equity firms stepped in to exploit first-mover advantages in this rapidly developing segment of the German housing market. Investing short-term (often three to five years) and with high leverage ratios (sometimes only 10% equity), these funds sought to maximize their returns on investment through exploiting anti-cyclical market opportunities (Holm, 2010a). In 2004 US-based private equity firm Cerberus, financially supported by investment bank Goldman Sachs, bought the entire Berlin-based social housing association GSW, overnight becoming a landlord of 66,700 housing units (Uffer, 2011). Another example is the acquisition of WOBA GmbH, a social housing company from Dresden with 47,830 housing units, by Fortress Investment Group, a US-based firm operating several private equity and hedge funds (Holm, 2010b). Although the privatizations of social housing companies were controversial from the early beginning, public resistance and social movements could not end such privatizations.

These private equity and hedge funds have a business model in which they seek to buy real estate at discounted prices, sell during an upswing in the market, bring maintenance costs down and cut expenses for building and tenant management (Holm,

2010a; Kofner, 2012). As a large part of the historically accumulated social housing stock in Germany changed ownership in just a few years (BBSR, 2007), the transaction volume in the market increased from €3.1 billion in 2002 to €19.8 billion in 2005 (BNP Paribas, 2014). When the GFC started in 2007, market liquidity dried up, thereby challenging the business models of private equity and hedge funds that rely heavily on leverage, and therefore on market liquidity.

Unlike in many other European countries, a model of mortgaged homeownership did not materialize in Germany due to the shock of German unification as well as policy choices at the federal level. However, the political reforms in the social housing sector and the privatization of many municipal housing units and even entire housing companies created an interesting market for private equity and hedge funds. As a result, a unique model of housing financialization developed in Germany in the five years before the outbreak of the GFC. We refer to this model as 'financialized privatization' (Aalbers, 2016). Contrary to the 'Right to Buy' in the UK or the wholesale privatization in many Central- and East-European countries, where most former social housing were sold to then-current tenants (Murie *et al*, 2005), in Germany entire housing associations were sold off to financial corporations. The privatization was also not primarily ideologically driven; nor was it meant as a shock absorber or a way to give people a stake in the system but rather as a way to realise government cutbacks and minimise government debt. The fact that the social housing stock was primarily bought up by large, US-based private equity and hedge funds was, in this sense, a contingency—not considered relevant to the government policy of en-bloc privatization, but essential to the development of the German model of housing market financialization.

2.3.3. Third wave: financialization through listed real estate companies (2009-present)

While it seemed that financialization in Germany remained limited to the social housing and subsidized rental housing stock, after the GFC some new developments occurred. On the one hand, low interests and the ongoing crisis in the Eurozone triggered a housing boom in Germany. On the other hand, a market for listed real estate emerged in Germany.

Following the GFC and the subsequent sovereign debt crisis in the eurozone, the European Central Bank decided to lower the interest rates in an attempt to boost the economy. As a result of the historically low interest rate, national and international investors increasingly perceived German real estate as an alternative asset class to government bonds and stocks (Scharmanski, 2012; Waltersbacher *et al*, 2013). Having traditionally been considered a stable and not very volatile asset class, housing in

Germany suddenly became more interesting to invest in. This trend was, however, not only encouraged by the changes in international interest rates. The waves of privatization in the rental market had inflated rental prices in German cities and more households became interested in becoming homeowners (Heeg, 2013; Voigtländer, 2010). As a result of welfare restructuring, households increasingly became reliant on their house to provide an income for old age, retirement or unemployment (Helbrecht & Geilenkeuser, 2012). Renewed urban growth in both East and West further increased local housing shortages and pushed prices up (Kabisch, Haase & Haase, 2010). Also, the surge in house prices can to a limited extent be related to positive net migrations in Germany (Krämer *et al*, 2015). Since the German economy was quickly recovering after the GFC, German banks also expanded their mortgage lending activities (Hofer, 2012). The Deutsche Bundesbank (2010) described the revival of the German housing market as a 'normalization' after the shock of unification twenty years earlier.

There is some evidence to suggest that many investments in German real estate were also encouraged by speculation by private investors on rising house prices (Heeg, 2013; Just, 2010a). In 2013 the Deutsche Bundesbank published a report on the increasing house prices in German cities in which it argued that in several metropolitan areas house prices were overvalued by 5-20% (Deutsche Bundesbank, 2013). The German news magazine *Der Spiegel* spoke of the 'German real estate miracle', referring to the post-war boom of West Germany (*das Wirtschafstwunder*). Although in comparative terms, house prices in Germany are still comparatively lower than in other European countries (Kofner, 2014a; Voigtländer, 2014), speculative investment has been mentioned as a potential danger for the stability of Germany's housing market (BBSR, 2014; Deutsche Bundesbank, 2013). Some examples of highly inflated urban housing markets are well-covered by the media. Cities like Rostock and Magdeburg are mentioned for their potential real estate bubbles. The city of Trier has become highly expensive due to the entry of private investors from Luxemburg. It remains to be seen whether the supposed stability of Germany's housing market will provide protection against local or regional real estate booms.

Another essential element of the third wave of financialization is a new transition in the ownership structure of the former social housing sector (see Table 3). As the market has recovered from the GFC, many American private equity and hedge funds have been selling their real estate portfolios at higher prices or have converted their German real estate subsidiaries into real estate companies that are listed at the stock exchange (Kofner, 2012) and thereby effectively sold off. Deutsche Annington, originally owned by British private equity firm Terra Firma Capital Partners, became a major actor in the emerging listed real estate market of Germany after it was taken public in 2013. Committing itself to creating shareholder value, the company purchased entire

portfolios of Fortress's private equity and hedge funds, until it finally merged with Gagfah in 2015, creating Vonovia and managing 370,000 housing units in Germany.

Another example of a major listed real estate company is Deutsche Wohnen, a listed real estate company that was linked to Deutsche Bank until 2008, and has become the second-largest listed real estate company in Germany after it purchased portfolios from Cerberus and Whitehall (Holm, 2010a), managing 146,000 units, two-thirds of them in Berlin. In the winter of 2015-2016 Vonovia acquired 28% of Deutsche Wohnen stocks and attempted a €14 billion hostile takeover but failed to convince enough shareholders. Despite the failure, the stock prices of both companies rose by 20-30% in the first six months of 2016. The examples highlight a new dynamic in the German housing market: private equity and hedge funds are stepping out of the market and listed real estate companies are stepping in. Vonovia, Deutsche Wohnen and other listed real estate firms together manage approximately 800,000 housing units in Germany.

A key difference between the funds and the listed companies is that the listed real estate companies intend to stay longer in the market and create shareholder value over the years. This implies that the investment strategy of these companies is rather long-term and oriented towards financial profit making at different levels. Optimizing the capital gains and rental income streams of the former social housing associations, reducing their vacancy rates, improving their general management strategy, privatizing individual housing blocks and selling them to tenants or other private investors are a few common strategies that listed real estate companies follow to perform better at the capital market (Holm, 2010a; Kofner, 2012).

2.4. Discussion and conclusion

The financialization of housing markets in each country is shaped by the existing institutional structures, economic circumstances and political decisions. Whereas many other countries liberalised their mortgage markets in the 1990s and early 2000s, and several of these countries witnessed the development of debt-fuelled house price boom and bust scenarios, the Germany housing market looked stable and a little boring by comparison. Following the German reunification and the late 1990s economic recession, mortgaged homeownership was not pushed politically or ideologically. As a result, mortgage debt and house prices didn't move much and Germany avoided a national housing market crisis during the GFC.

Housing associations	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GEHAG Berlin (24,500 units)	Public ownership	WCM / HSH Nordbank				HSH Nordbank			Oaktree Investment				Deutsche Wohnen							
GSW Berlin (66,700 units)	Public ownership							Cerberus / Whitehall (Goldman Sachs)										Deutsche Wohnen		
LEG NRW & Land NRW (93,000 units)	Public ownership											Whitehall (Goldman Sachs)					LEG Immobilien			
WB-Rheim Main Frankfurt (14,500 units)	Public ownership		Viterra AG (E.ON) / Hypovereinsbank						Deutsche Annington (Terra Firma Capital Partners)								Deutsche Annington			Vonovia
KWG Kiel (11,000 units)	Public ownership		WCM						Vitus Gruppe									Deutsche Annington		Vonovia
GAGFAH BfA (30,000 units)	Public ownership							Fortress											Deutsche Annington	Vonovia
Woba Dresden (47,830 units)	Public ownership									Fortress									Deutsche Annington	Vonovia
TLG Wohnen FRG (11,350 units)	Public ownership																TAG Immobilien			
LEG Kiel Schles-wig-Holstein (22,000 units)	Public ownership		DGAG Grundvermögen				Blackstone Group			Prelios (Pirelli AG) / RREEF (Deutsche Bank)								Buwog		
Years	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016

Table 3. Major ownership transitions of selected former public housing associations

Source: adapted by the authors from newspapers and annual report

In the wake of the third wave of financialization, it is difficult to estimate in what direction the German housing market is moving. For now, evidence suggests that a combination of economic circumstances and demographic change is increasingly pushing households into homeownership (Helbrecht & Geilenkeuser, 2012). Now that interest rates are historically low, it has become attractive for many German households to buy a house or an apartment, a development that is further encouraged by public and commercial banks that consider mortgage lending a profitable business (Hofer, 2012) The ongoing financialization of the former social housing sector also puts pressure on rent prices and reinforces the need for many households to become homeowners (Heeg, 2013). Although we cannot exactly foresee what the outcome of this transformation will be, some specific developments must be discussed briefly here. We believe that these developments will potentially undermine the relative stability of the German housing market.

The uneven distribution of housing wealth in Germany may reveal a latent problem at the heart of the German economy. Uneven development in Germany traditionally has been perceived along the lines of West versus East (Tomann, 1990). Almost immediately upon reunification, many former Eastern cities went into decline and faced severe problems in repositioning themselves in a global economy (Bernt, 2009; Brenner, 2000). Although the East is still performing less well than the West, former shrinking cities have stabilized (Holm, Marcińczak, et al., 2015; Kabisch et al., 2010), of which Leipzig and Dresden are good examples. As Figure 3 demonstrates, housing prices are increasing in most German cities, both East and West, and generally decreasing in less urbanised regions (see also BBSR, 2014). While large cities such as Berlin, Frankfurt, Hamburg, Munich, Cologne, Düsseldorf and Stuttgart witness rapidly rising house prices, also East-German cities like Leipzig and Dresden with their shrinking hinterlands, see rising house prices.

Even in some mid-sized cities, house prices increase faster than the national average. Many of these cities have regained their regional function after the shock of German reunification and have become 'islands of growth' in the middle of shrinking regions. Some of these cities, Rostock and Magdeburg for example, are faced with relatively high unemployment rates and weak economic conditions. On the other side of Germany, cities in the German Ruhr region of North Rhine-Westphalia, once the heartland of Germany's economic miracle, have faced serious issues with deindustrialisation, municipal debt, population shrinkage and (housing) privatization over the past two decades. Paradoxically, it is here rather than in former East Germany where listed real estate companies are most active.

Case studies of East German cities where private equity funds and listed real estate companies are active reveal how global finance has been able to uncover how

these actors on a local level reinforce the on-going demographic and socio-economic transformation of German cities and regions (Botzem & Dobusch, 2012; Bernt et al, 2017). Although the urban renaissance and the growth of the German economy are often perceived as evidence of a strong economy, the uneven distribution of housing wealth reveals a structural weakness of the Germany economy: growth in metropolitan regions and cities at the expense of their hinterlands and regions. More research is required to study how housing wealth is redistributed in the polycentric urban structure of Germany and, in particular, how housing wealth relates to income inequality, job employment and welfare benefits of citizens in German cities and regions (Dangschat, 1994; Kofner, 2014a: 273).

Another open question regards the ties between local housing markets, listed real estate companies and global capital. There are historically specific economic conditions that have made shares in German listed real estate companies highly attractive, but of course these conditions could change. This may put more pressure on these companies to realise larger profits, which could result in higher rents, lower maintenance expenses or the selling off of individual units, this time perhaps to new homeowners. This would push more Germans into mortgage homeownership, increasing a trend that has started in recent years and may bring Germany closer to many of its neighbours in terms of its housing and mortgage markets. If this will be the case, Germany's alternative financialization pattern may be the prelude to a more 'mainstream' financialization of the housing market.

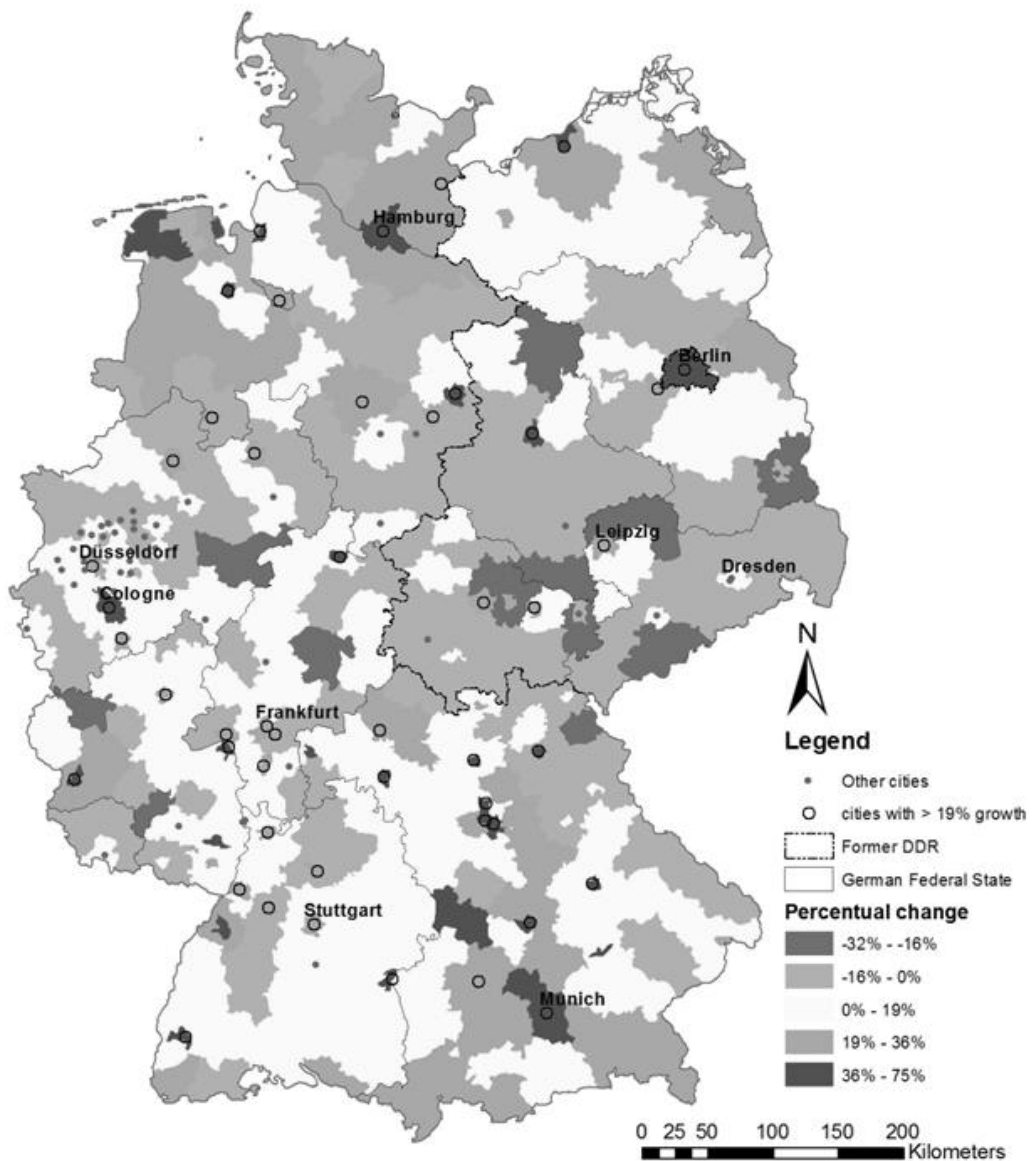

Figure 4. Nominal house price changes, (2007-2014)

Source: Bulwiengesa AG, RIWIS, 2015, map created by Egbert van der Zee.

Chapter 3. Privatised Keynesianism and the state-enhanced diversification of credit: the case of the French housing market

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Abstract

In 2008 it became clear that the pre-crisis growth model of privatised Keynesianism was at least temporarily undermined by the Global Financial Crisis (GFC). Instead, housing scholars started pointing out that the combination of reduced home ownership and the resurgence of private landlordism indicated a shifting approach to housing wealth in capitalist societies. However, this research on the housing market of France demonstrates that the rise of private landlordism does not necessarily undermine home ownership. Unlike in many other European countries, pre-crisis credit expansion in France was not only targeted at homeowners, but also at private landlords and buy-to-let investors that used state-authorized credit loans to fund investments in the private rental sector. Because the rise of private landlordism in France has rather complemented than undermined home ownership, this paper shows that privatised Keynesianism in France has both linked homeowners and private landlords to extensive housing debt.

Key words: Privatised Keynesianism, private landlordism, home ownership, asset-based welfare, France.

3.1. Introduction

Over the past decade or so, various housing scholars have addressed how housing markets in Western Europe, the United States and emerging economies have become widely integrated in and through global financial markets (Aalbers, 2016b; Jordá et al., 2014). Privatised Keynesianism has become a central concept for understanding this development and refers to a 'system of markets alongside extensive housing and other debt among low- and medium-income people linked to unregulated derivatives markets' (Crouch, 2009: 382). Although privatised Keynesianism is typically perceived as a finance-led growth regime in which public debt of governments is replaced by private debt of corporations and households (Crouch, 2011), housing scholars have pointed out that the extensive growth of mortgage debt associated with this regime is often fiscally and financially encouraged by governments that seek to switch households from the public housing sector into the private sector (see e.g. Jacobs & Manzi, 2017; Watson, 2010). Therefore, Privatised Keynesianism or 'house price Keynesianism' can also be perceived as a partially state-enhanced asset-based welfare regime in which households can compensate for reduced income and welfare by continually trading up the value of their housing assets (Aalbers & Christophers, 2014; Watson, 2010).

Nonetheless, various housing scholars have started pointing out that the pre-crisis growth regime of privatised Keynesianism was at least temporarily undermined in the aftermath of the GFC (Aalbers, 2015; Crouch, 2011b). While housing markets across the advanced, capitalist world collapsed and wider access to home ownership decreased, asset-based welfare through owner-occupied housing seemed to be out of reach for wide strata of the population (Forrest & Hirayama, 2015; Ronald, Lennartz, & Kadi, 2017). Instead, the combination of reduced homeownership and the resurgence of private landlordism was seen as a shifting approach to housing wealth and welfare security (Ronald & Kadi 2016; Forrest & Hirayama 2009). Furthermore, the shift to private landlordism was accompanied by a rather extreme intergenerational housing wealth polarization between older generations and younger adults (Arundel, 2017; Kemp, 2015). Or, as Ronald et al. (2017: 174) put it: ' the resurgence of private renting [is] driven by growing demand among younger adults excluded from home ownership, and the buying up of housing to let by those already embedded in the market.'

Although this paper recognizes this regressive trend in advanced, capitalist societies, it still considers the rise of private landlordism as an integral part of the pre-crisis growth regime of privatised Keynesianism. Firstly, this paper calls for a more holistic conceptualization of Privatised Keynesianism as a regime that not only turns homeowners into 'modern investment subjects' (Watson, 2010). Far more than a policy

regime that merely promotes mortgaged home ownership, privatised Keynesianism is a flexible regime of accumulation, which potentially links different kinds of households to housing debt, including private landlords (Crouch, 2011b; Fernandez & Aalbers, 2016). Secondly, this paper argues that the resurgence of private landlordism must not be perceived as a undermining, but rather as a deepening of privatised Keynesianism, even though it is accompanied by reduced asset-based welfare opportunities (cf. Ronald et al., 2017). While previous generations of homeowners that have benefited from rising house prices in the past are now switching their previously accumulated housing wealth into the private rental sector, privatised Keynesianism is essentially reconstituting itself by expanding into another segment of the market (Kemp, 2015). However, since national housing markets are unevenly developed 'systems in motion', this more regressive phase of privatised Keynesianism is not as strong in all national housing systems, i.e. is variegated across time and space (cf. Fernandez & Aalbers, 2016).

In order to make this argument, this paper revolves around a national case study of the French housing market which is traditionally known for state-developmentalism, a hybrid housing structure and relatively low mortgage debt and home ownership levels (Driant, 2010; Schwartz & Seabrooke, 2009). Nonetheless, The French housing system can be seen as an perfect example of how privatised Keynesianism can link both homeowners and private landlords to extensive housing debt (Trouillard, 2014). Following various housing reforms in the 1970s and the 1980s, the French developmental state progressively reduced its subsidies to the social housing sector and introduced new housing policies to boost the private housing sector (Driant, 2010; Gobillon & le Blanc, 2008). Rather than merely supporting home ownership, French-style privatised Keynesianism also promoted private landlordism in the private rental sector. Therefore, pre-crisis debt expansion in France was not mainly targeted at homeowners, but also at private landlords and buy-to-let investors that funded the production of new private rental homes (Gobillon & le Blanc, 2008; Pollard, 2010b). Or, as the French economist Alain Lipietz (2013: 11) puts it: 'the real estate bubble occurs… but its mechanism is much more 'monopolistic', that is to say, controlled. The loans come from banks, not from brokers, and go to owner-occupiers, but also to private landlords.'[2]

Firstly, by reconstructing France's pathway to privatised Keynesianism and a diversified credit system, this paper contributes to the ongoing yet loosely connected debates on privatised Keynesianism, private landlordism and the financialization of housing in advanced, capitalist societies (see e.g. Aalbers, 2016; Crouch, 2009; Ronald et al., 2017; Wijburg & Aalbers, 2017a). In doing so, it not only shows that privatised Keynesianism can link different kinds of households to extensive housing debt, but also that the regressive turn to private landlordism in post-crisis housing systems is

[2] Translation from French by the author.

variegated across time and space (Fernandez & Aalbers, 2016; Schwartz & Seabrooke, 2009). Secondly, by highlighting how commercial banks and private property developers use the money from private landlords to construct new housing units, this paper also highlights an important supply-side characteristic of privatised Keynesianism that is often disregarded by the literature (but see Romainville, 2017; Sanfelici & Halbert, 2016). In other words, this paper presents a national case study where besides commercial banks also private property developers play a key role in sustaining privatised Keynesianism (see also Pollard, 2011; Van Loon, 2016).

In the next section, this paper develops the argument that, rather than two fundamentally different approaches to housing wealth, home ownership and private landlordism are crucial part of the same growth regime: privatised Keynesianism (cf. Fernandez & Aalbers, 2016). Subsequently, this paper reconstructs the advent of privatised Keynesianism in France by reflecting on the legacy of housing policies and on the increased connections between French commercial banks and the domestic property sector (Pollard, 2007; Tutin & Vorms, 2014). Thereafter, this paper concludes that for the moment private landlordism and home ownership in France do not undermine, but rather complement each other. Nonetheless, it is not inconceivable that the French housing system will move in the same direction as the UK in the near future: the number of private landlords is increasing faster than the number of new homeowners that take mortgages.

3.2. Privatised Keynesianism as a flexible regime of accumulation

Privatised Keynesianism has become widely known as the unacknowledged but neoliberal successor of Keynesianism-Fordism: a policy regime in which households, rather than the state, take up credit to stimulate the economy (Aalbers & Christophers, 2014; Crouch, 2009). While the advent of privatised Keynesianism was strongly tied to national housing systems, the literature has shown that a secular tendency towards higher mortgage debt levels and house price inflation can be observed in most advanced, capitalist societies (Andrews et al., 2011; Jordá et al., 2014). Yet, the extensive growth of mortgage debt among households can only rarely be attributed to the 'deregulated' financial activities of the banking sector alone. In practice national governments still provide fiscal and financial support to promote mortgaged home ownership under privatised Keynesianism or 'house price Keynesianism' (Watson, 2010). Privatised Keynesianism has a potential advantage: increasing housing wealth through debt-fuelled house price inflation can compensate households for reduced income as long as house prices remain stable or keep on growing and credit remains available (Crouch, 2011b;

Watson, 2010). However, since privatised Keynesianism also links households to global financial markets, it is not a system without risks (Hay, 2011; Waldron & Redmond, 2017)..

In theory, privatised Keynesianism can link different kinds of households to extensive housing debt (Crouch, 2011b; Wainwright, 2009). Nonetheless, the literature has barely linked the advent of privatised Keynesianism to developments in the private rental sector (but see Kemp, 2015; Ronald & Kadi, 2016). To a large extent, this can be explained by the fact that the private rental sector is dominantly perceived as a tenure option, and not as a welfare strategy (Kemp & Kofner, 2010; Soaita et al., 2017). Firstly, rental regulations and tenant security has made it traditionally more difficult for private landlords to profit from house price increases, although market reforms across advanced, capitalist societies have also liberalized the private rental sector, especially in the United Kingdom (Kemp, 2015; Ronald, 2008). Secondly, private landlords have traditionally funded housing acquisitions with private equity and not with debt, which suggests that private landlords do not invest in housing with the intention to profit from capital gains (Kemp & Kofner, 2010).

However, a burgeoning literature in the United Kingdom and other post-homeownership societies has shown that private landlords have recently taken up large sums of housing debt as a means to fund new housing acquisitions (Forrest & Hirayama, 2015; Soederberg, 2017). Also, the literature has highlighted that the number of private landlords, as well as the number of their activities, have increased significantly from the mid 2000s onward in countries as varied as the UK, US, Japan and Australia (Arundel, 2017; Forrest & Hirayama, 2015; Ronald et al., 2017). Nonetheless, the resurgence of private landlordism is often seen as a trend that undermines, rather than complements, privatised Keynesianism. Because the resurgence of private landlordism in most English speaking countries is accompanied by reduced home ownership, it is sometimes believed that private landlordism indicates a shifting approach to housing welfare characterized by a rather extreme intergenerational housing dualization (Ronald & Kadi, 2016). In fact, most private landlords are effectively 'arrived' homeowners that let out private rental homes to younger adults whose access to owner-occupied housing has decreased in the wake of the GFC (Arundel, 2017; Ronald et al., 2017).

Although this paper recognizes this regressive element, it still considers the rise of private landlordism as an integral part of privatised Keynesianism. First and foremost, private landlordism was along with home ownership an important policy objective of pre-crisis privatised Keynesianism (Haffner, Elsinga, & Hoekstra, 2008; Kemp, 2015). While facing a public budget crisis in the 1970s, national governments imposed restrictions on public expenditure to the social rental sector and introduced new housing policies to stimulate the private rental sector (Harloe, 1995; Jacobs & Manzi, 2017). For

instance, the introduction of buy-to-let loans and tax subsidies to private landlords was an important political instrument to reduce a tight supply of housing (Aalbers, 2015; Vergriete, 2013). In other words, as it linked housing production to the agency of private actors, privatised Keynesianism also developed a strong supply-side component in which private landlords would play a key role (Gibb & Nygaard, 2005; Pollard, 2010b).

Secondly, the dominant idea that privatised Keynesianism and the financialization of housing linked mostly homeowners to extensive housing debt during the pre-crisis credit cycle, has proven to be empirically inaccurate (Kemp, 2015). Firstly, while commercial banks sought for new sources of borrowers in the mid 2000s, credit expansion was also targeted at private landlords and other private actors (Forrest & Hirayama, 2015; Soederberg, 2017). Secondly, while private landlords discovered how to make competitive profits in the private rental sector, they were turned into 'modern investment subjects' too (Langley, 2006; Watson, 2010). This is, inter alia , reflected in the financial strategies that private landlords use to trade up the value of their assets and to increase their rental income (cf. Soaita et al., 2017).

Thirdly, since it requires expanded home ownership to make the transition to private landlordism possible, the resurgence of private landlordism across capitalist societies can be understood as a deepening of privatised Keynesianism, rather than as its end point (Ronald et al., 2017). To put it differently, the switch from home ownership to private landlordism is *de facto* a reconstitution and continuation of privatised Keynesianism, however in another segment of the market and with reduced asset-based welfare opportunities (Ronald et al., 2017). Yet, since varieties between national housing systems persist, the rate and degree of this more regressive phase of privatised Keynesianism is uneven and variegated across countries (Christophers, 2013; Fernandez & Aalbers, 2016). Most particularly, in non-liberal countries where multiple tenure options are prevailing, the increase of private landlordism does not necessarily undermine the home ownership project (see also Schwartz & Seabrooke, 2009).

To demonstrate this point, the next section will focus on the advent of privatised Keynesianism in France. Although the French market is known for moderate mortgage debt levels and a hybrid market structure, strong evidence suggests that the rise of home owners and private landlordism is an essential characteristic of French-style privatised Keynesianism. For instance, the number of French homeowners rose from 10.7 million in 1984 to 16.4 million in 2013. Although only 4.9 million of these homeowners had a mortgage in 2013, mortgage debt levels as a percentage of GDP increased from 20% in 1995 to 40% in 2012.[3] Similarly, the number of private landlords increased from 5.4 to 6.5

[3] While in an aging society such as the French a majority of homeowners has already paid off a mortgage, only 30 percent of the total number of homeowners was paying an actual mortgage in 2013. The increase of mortgage debt as a percentage of GDP from 20% in 1995 to 40% in 2012 is

million between 1984 and 2013. Comparative data shows that the total nominal amount of mortgage debt from private landlords increased from 2 billion euro to 20 billion euro between 1984 and 2013 (see also Figure 7).

To reconstruct the advent of privatised Keynesianism in France, this paper focuses on several housing reforms by the French government and also on the role of commercial banks and private property developers that offer financial services to homeowners and private landlords. The analysis builds on housing data from the *Compte du Logement* that covers the period 1984 to 2014. Figure 5 shows the total amount of government subsidies of the French state to housing between 1984 and 2014. Here we must distinguish between the 'aid to bricks and mortar', i.e. supply-side subsidies to social housing construction, the 'personal aid', which includes demand subsidies to homeowners and tenants in the private and social sector, and 'fiscal aid', which includes subsidies to homeownership and tax incentives to promote buy-to-let investments and to stimulate private housing construction (Driant, 2010). Although post-war housing policies historically prioritized the aid to 'bricks and mortar', the 'personal aid' and 'fiscal aid' gained prominence from the 1980s onward.[4] The main part of the 'fiscal aid' is made up of various modes of reduced VAT to support the activity of the construction sector.

3.3. Promoting home ownership in France

With around 400.000 houses in France destroyed and around two million severely damaged during the Second World War, post-war French housing politics responded to the need to tackle the housing shortage in the country (Blanc, 2004). In doing so, the state (re)established a financial network around the Treasury and the (semi)-public bank of the *Caisse des Dépôts et Consignations* (CDC). The CDC collected savings from households through traditional savings accounts and deposits (Shonfield, 1965). The government used its public bank to offer favorable loans and monetary support to the social housing sector, collectively known as the HLM (*Habitation à loyer modéré)*. The funding of public housing happened mainly through fiscal subsidies and mortgage loans with a favorable interest rate (Driant, 2010).

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quite substantial in France. Yet, the actual number is still small in comparison with countries such as the Netherlands (110%), the UK (85%), Ireland (85%) and Sweden (65%).

[4] The temporary increase of 'aid to bricks and mortar' between 2003 and 2010 can be explained by the fact that public housing providers (HLM) in France were allowed to purchase new housing units from private developers. While this increase may appear as a return to post-war housing subsidies, it is rather a form of marketization not discussed in this paper.

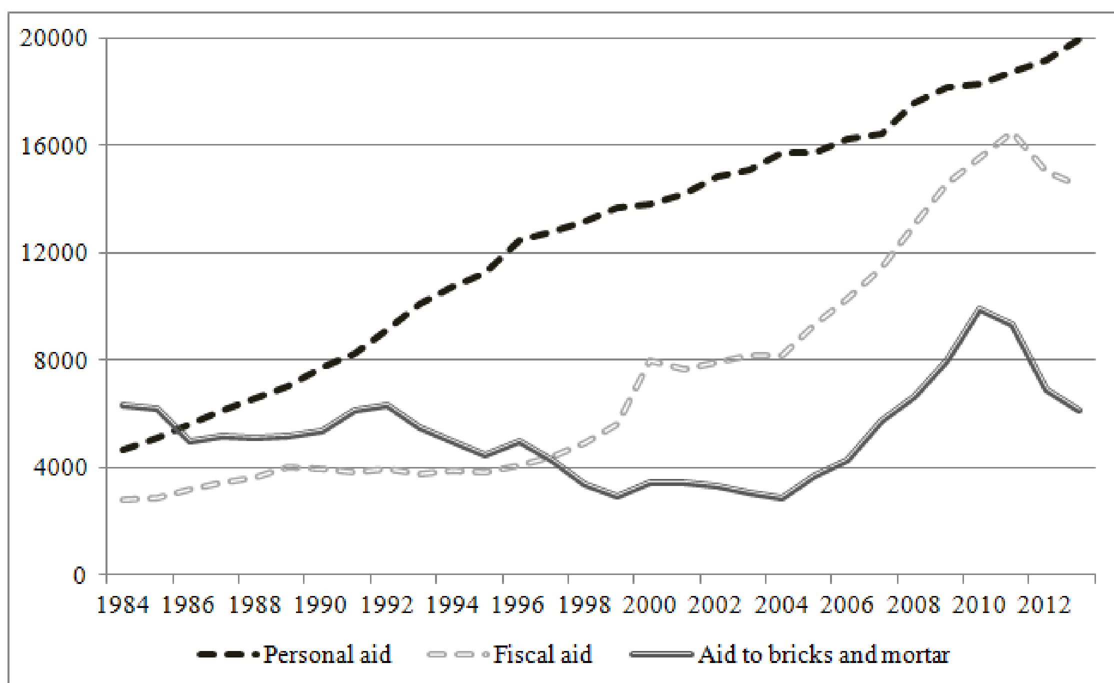

Figure 5: *government subsidies to housing in EUR millions, 1984-2013.*
Source: Compte du Logement, 2015.

However, around the time of the First Oil Crisis in 1973, criticism against the 'aid to bricks and mortar' increased. Firstly, the lacking quality of many housing estates and the gigantic proportions of many high-rise buildings triggered a debate whether homeownership was preferable to rental housing (Blanc, 2010). This debate was also inflicted by the enduring problems with inner city slums and the disappointing results of the social experiments with high-rise buildings in the *grands ensembles* around Paris and other metropolitan regions (Driant & Li, 2012; Levy & Fijalkow, 2010). Secondly, due to the slowdown of the economy and the First Oil crisis, government expenditure to welfare and social housing was also widely debated in France (Bourdieu, 2000; Pollard, 2010b). Much like in Great Britain, the gravity in housing policies shifted to imposing restrictions on public expenditure to social housing and launching private housing construction (Effose, 2003; Jacobs & Manzi, 2017).

It was under the administration of President Giscard D'Estaing and Prime Minister Barre when a new housing reform was implemented in 1977. While the French Treasury was traditionally in favor of funding the HLM, a new elite of state officials in the Ministry of Transport and Planning introduced the new policies of 'personal aid' (Bourdieu, 2000). Rather than extending the construction of social housing through the financial network established by the CDC, the new state officials actively sought to provide demand subsidies to homeowners and tenants in the private sector (Pollard, 2010b). The 'personal aid' was implemented to make this group of citizens solvent enough to enter this market (Driant, 2015). Depending on income and family

circumstances, households would gain financial support to choose between different types of housing tenure, including the private rental market and the owner-occupied segment (Blanc, 2004; Bourdieu, 2000).[5]

Although the largest part of the 'personal aid' consisted of housing benefits for tenants in the private and social rental sector, homeownership subsidies were also introduced (Driant, 2010). An important component of the 'personal aid' was the so-called 'authorized mortgage loan' or PC (*prêt conventionné*), which encouraged homeownership among especially low income households (Blanc, 2004). A specific type of such a authorized mortgage loan was the PAP (*prêt d'accession à la propriété*) which was extended to first-time home buyers. In this construction, the state financed a share of the interest payment to the mortgage bank, providing that the mortgage loan was offered at a fixed rate below market value (Driant, 2010).

In 1995, the French government introduced a new political instrument which has remained in place until today: the zero-interest loan. The *prêt à taux-zero* (PTZ) replaced the PAP in 1996 and was extended to first-time home buyers with especially a medium income. Contrary to authorized mortgage loans, the zero-interest rate loan is not financed directly by the state, but rather redeemed through a tax allowance (Pollard, 2010b). The maximum of the loan depends on family size, income and the geographical location where the housing unit is located (Gobillon & le Blanc, 2008). The value of the loan may typically not exceed 20% of the total value of the dwelling and may not account for more than 50% of the total amount of credit (Gobillon & le Blanc, 2008). From 2005 until 2011, the PTZ could also be used for the acquisition of existing housing units, without any obligations to carry out repairs or renovations (DGTPE, 2010; Pollard, 2010a).

The increased importance of state-authorized mortgage loans over the years has been displayed in Figure 6. Between 1984 and 1990, the total expenditure on authorized mortgage loans reached its highest point. Most of the expenditure on these loans was used by (low-income) households to fund the acquisitions of new homes. After the abolishment of the PAP and other authorized mortgage loans in 1995, the gradual expansion of the PTZ begins. Overall, the French state has spent between 1 and 2 billion Euro annually on promoting homeownership among households during this period.[6]

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[5] Effose (2003) and Blanc (2004) have highlighted that many trends towards marketization and liberalization have not solely been induced by the housing reform of 1977, but were already part of the policy agenda from the 1960s onward.

[6] Between 2010-2011, the PTZ had no income conditions, which explains the curve in Figure 6. The decline of the PTZ in 2013, however, was temporary. After the post-GFC stimulus package had achieved its policy goals between 2009 and 2012, the expansion of the PTZ was halted. However, the introduction of a new tax decree in 2014, the 'Pinel tax allowance', again puts a

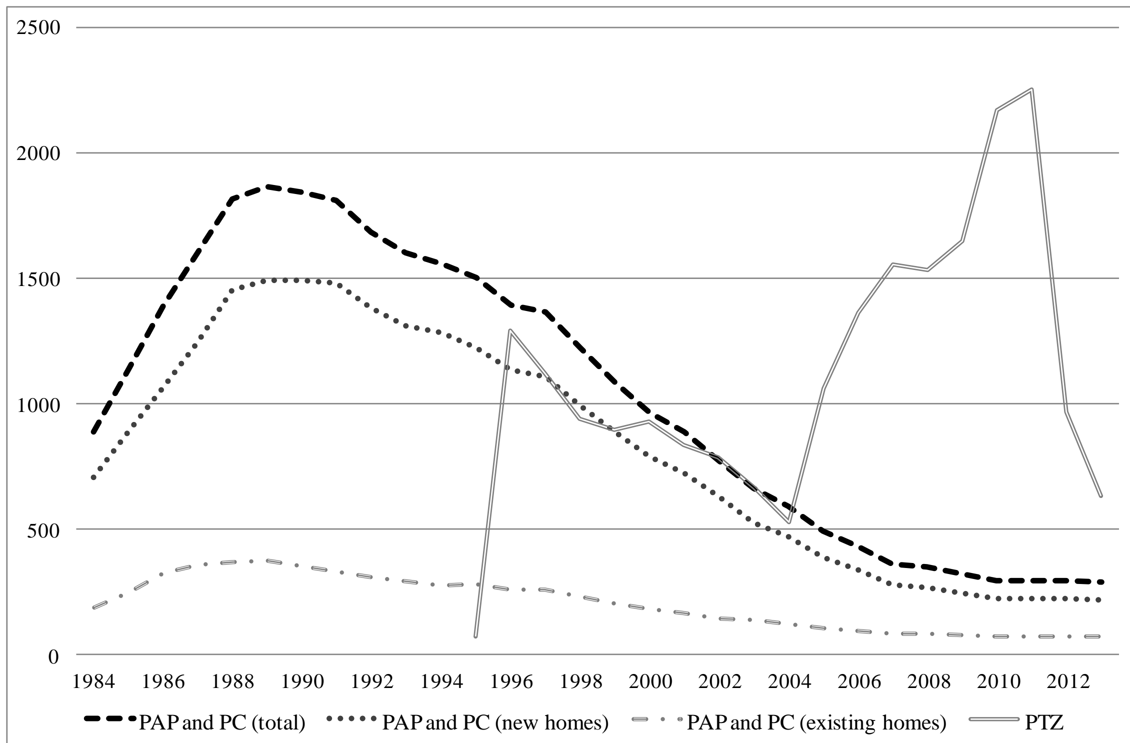

Figure 6: *demand subsidies (PAP and PC) and fiscal subsidies (PTZ) in EUR millions, 1984-2014.*
Source: Compte du Logement, 2015.

3.4. The increased importance of mortgage banks

The advent of privatised Keynesianism in France relied heavily on the capacity of the French banking sector to provide authorized mortgage loans to households (Effose, 2003; Trouillard, 2014). In practice, the policies of 'personal aid' strengthened the ties of French mortgage banks (Pollard, 2010b). Regarding market liberalization, the French government, however, did not choose to fully liberalize the French mortgage sector but rather opted for a shared risk model, in which the state subsidized substantial amounts of mortgage credit, providing that these credit loans would be issued to low-income households (Gobillon & le Blanc, 2008). Because of this housing policy, French mortgage banks could expand their mortgage activities to a large group of potential new homeowners without necessarily being exposed to high default risks, and simultaneously helping the French government to promote home ownership (Pollard, 2010b).

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strong emphasis on the PTZ as a policy instrument. This effect can be seen in Figure 4, which contains more recent data on the PTZ and housing transactions.

Between 1977 and 1996, only the Crédit Foncier de France and other *Société anonyme de crédit immobilier* (SACI) were allowed to distribute state-authorized mortgage loans to households (Blanc, 2004). However, with the introduction of the PTZ in 1996, the recently privatized French commercial banks also obtained the rights to do this (Driant & Li, 2012; Hardie & Howarth, 2009). The banking sector in France is relatively unified, despite ongoing liberalization and internationalization (Hardie & Howarth, 2009; Wijburg & Aalbers, 2017b). At a domestic level, large French banking groups operate at the intersection of mortgage lending, mortgage refinancing and property development (Tutin & Vorms, 2014). The three largest French banking groups, BNP Paribas, Crédit Agricole and Société Générale own large property companies and are very active in the construction sector (Boccara, 2014). Due to their close connections with the property sector, commercial banks have the ability to coordinate their activities of mortgage lending and property development in a cost-effective way. At the same time, government support and the authorization of credit loans enabled commercial banks to keep a relatively low-risk profile without becoming overly reliant on new financial practices, such as mortgage securitization (Boccara, 2014; Hardie & Howarth, 2009).

Nonetheless, The French housing market experienced an unprecedented surge in house prices during the pre-crisis housing boom of 1995-2007 (Friggit, 2011). Contrary to the housing boom in the 1980s, the most recent housing boom was not limited to the Greater Paris region and also manifested itself in metropolitan regions such as Lyon and Marseille (Davezies, 2012; Tutin & Vorms, 2014). Interestingly, the increase in French house prices was strongly boosted by the fall of global interest rates and the lenghtening of the duration of mortgage loans (Driant, 2010; Friggit, 2011). Yet, the French housing system did not experience a burst in house prices when the crisis hit (Cusin, 2013; Timbeau, 2013). Furthermore, mortgage debt levels remained comparatively low, despite a strong increase between 1995 and 2012 (Timbeau, 2013). However, the combined debt levels of homeowners and private landlords indicate that the French housing system has become more indebted than is commonly understood (Lipietz, 2013). Therefore, next section will elaborate on the role of private landlords and private property developers in the French housing system

3.5. Promoting private landlordism and buy-to-let investments in France

During the 1980s, the French government and local authorities started experimenting with the new housing policies of 'fiscal aid' (Vergriete, 2013). Against the background of stagnant economic growth, the policies of fiscal aid were introduced to further restrict public expenditure to the housing sector, but also to promote buy-to-let investments (*investissement locatif*) in France as a means to boost economic activity and property-led

growth (Pollard, 2010b). Rather than encouraging institutional investors to invest in new private housing production, the state mobilized private landlords and other investors to do this (Trouillard, 2014). This was also done because many institutional investors were withdrawing from the housing market and were increasingly orienting themselves in the commercial property sector (Bosvieux, 2011).

Much like in the United Kingdom, the introduction of tax allowances enabled buy-to-let investors to deduct large amounts of their investments from their tax income, providing that the housing units invested in are let out in the private rental sector for a number of years (Bosvieux, 2005). Yet, contrary to the United Kingdom, the policies of fiscal aid in France were mainly introduced to boost the construction sector and the production of new homes (Vergriete, 2013). That is to say, state-authorized credit loans were mostly used to fund new housing production and to reduce the tight supply of housing in French metropolitan regions (Gobillon & le Blanc, 2008). This supply-side characteristic of privatised Keynesianism is an important and distinctive component of the French housing model and also indicates that privatised Keynesianism was never solely about stimulating aggregate demand (but see Romainville, 2017; Sanfelici & Halbert, 2016).

Between 1996 and 2012, the politics of 'fiscal aid' primarily promoted new housing construction and buy-to-let investments, without imposing substantial requirements on the level of rental charges (Pollard, 2010b). However, a new tax incentive introduced in 2012 was accompanied by a rental ceiling to control rental incomes out of private renting (Scellier & Le Bouillonnec, 2008). The rental ceiling largely depends on the geographical location where the housing unit is located and seeks to keep buy-to-let rental units accessible for low and medium-income households (Gobillon & le Blanc, 2008). By making distinctions between different geographical locations, the buy-to-let tax incentives have not only been used to encourage private investments in the French housing system, but also to direct those investments into the most 'overheated' segments of the market in order to keep buy-to-let housing accessible for low and medium income households (Trouillard, 2014).

Because the policies of 'financial aid' essentially introduced tax incentives to invest in buy-to-let housing, private landlords have increasingly perceived investing in private rental homes as a financial strategy to offset for reduced income (Pollard, 2011). As a result, the new fiscal policies have not only boosted new investments in housing but have also contributed to the reinforcement of private landlordism in France, which more than before has become a patrimonial strategy for wealth accumulation (cf. Forrest & Hirayama, 2015; Soaita et al., 2017). Over the years, private landlords have increased their willingness to take up mortgage debt to finance their housing acquisitions (Bosvieux, 2005). Figure 7 shows that private landlords in France had mostly financed their investments with down payments until the introduction of the 'Périssol tax

allowance' in 1996 (Bosvieux, 2005). After the introduction of this tax allowance, mortgage loans became the major source of funding investments in private rental homes (Pollard, 2010a).

Another outcome of the fiscal aid-policies is that investments in the private rental sector have become more responsive to global credit cycles (Driant, 2010). Because buy-to-let investments are typically not only financed with private equity, the credit availability in the French banking sector has become an important variable for determining the annual amounts of buy-to-let investments in France (DGTPE, 2010). Figure 8 shows that buy-to-let investments are rather cyclic than constant: new housing construction went up from 20,000 housing units in 1995 to more than 60,000 housing units in 2005 and even to more than 70,000 housing units in 2010. Interestingly, investments in buy-to-let housing continued to increase after the outbreak of the GFC when a stimulus package, accompanied with new tax incentives, was introduced by the administration of President Sarkozy (Pollard, 2010a).

Regarding the rise of private landlordism, it is important to distinguish between different kinds of private landlords in France. In 2013, around 15% of French households owned minimal one extra home next to their private residence (Insee, 2017: 134). The majority of these households consists of wealthy and aging couples whose children have left the parental home and who invest in a second home in the Greater Paris region to secure an income for retirement. Around sixteen percent of the private landlords in France make use of fiscal aid and tax incentives to invest in private rental units (Insee, 2017: 155). On average, these private landlords are in their mid forties and earn a annual income of more than 70,000 euro and invest primarily in smaller studios and apartments in the south of France (63%) and Paris (19%) (Crédit Foncier, 2017: 8-13). Interestingly, private landlords belonging to the latter group possess in most cases two private rental units, but higher numbers are not uncommon: around 18% of this group owns more than six buy-to-let homes (Les Echoes, 2015).

Over the past few years, a few large property companies owned by French banking groups have become known known for making this business model more mainstream. For instance, Nexity, which was partially owned by the banking group of the Caisse D'Epargne and more recently has become part of the banking group BPCE, focused around 66% of its market activities in 2007 on buy-to-let investments and related services (Pollard, 2007). In 2015, this number was with 43% still considerably high for the largest listed property company of the country (Nexity, 2015). Other examples of property companies which have adopted similar investment strategies are BNP Paribas Real Estate and Sogeprom, a property company owned by Société Générale. Bouygues, the second largest property company of France, has done the same (Vergriete, 2013).

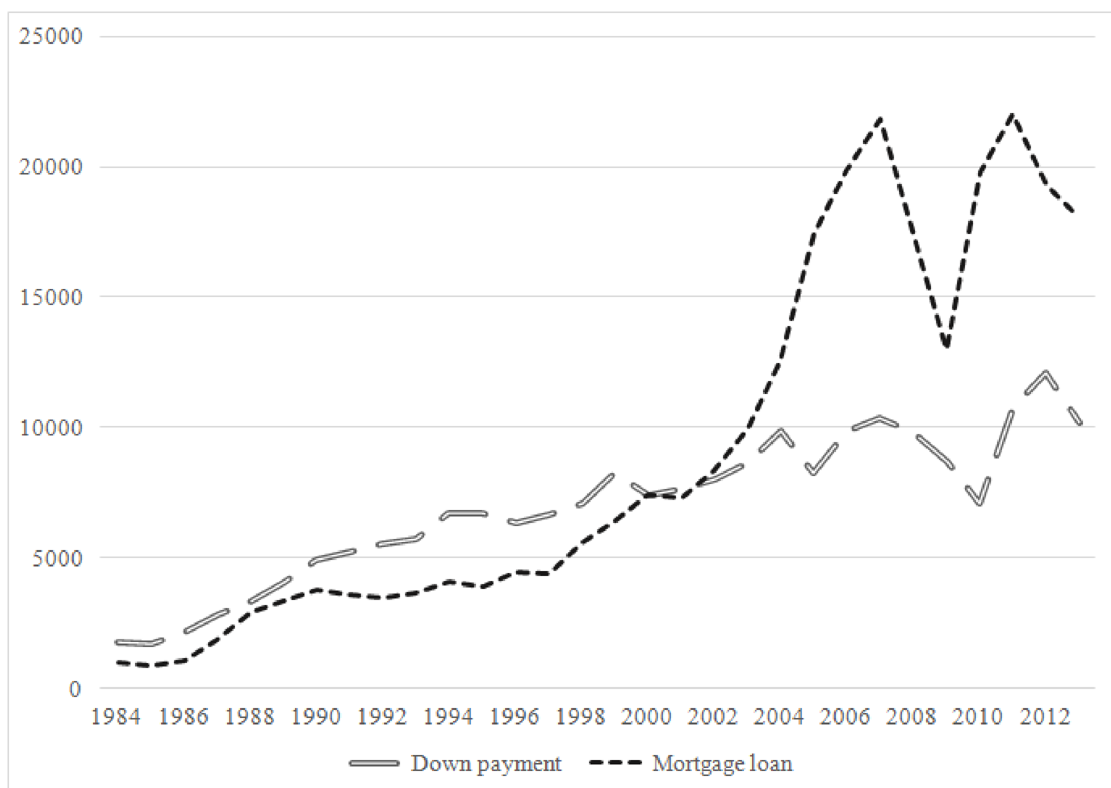

Figure 7: *Funding of housing acquisitions by private landlords in EUR millions, 1984-2013.*
Source: Compte du Logement, 2015.

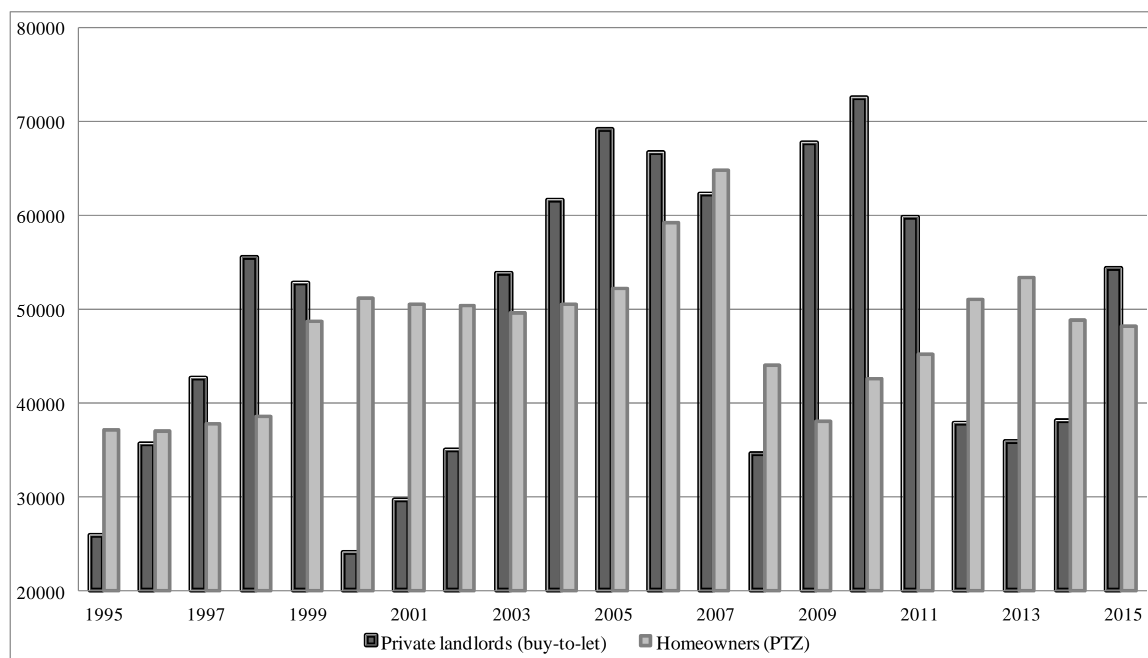

Figure 8: *New tax-exempt housing construction in total numbers, 1995-2015.*

Source: FPI France, 2016.

While large property companies prioritize financial motives, pre-crisis housing construction took mostly place in locations where tax allowances provided the highest return on investments and where substantial rental increases could be charged (Scellier & Le Bouillonnec, 2008). For instance, only 11.7% of the total amount of buy-to-let investments during the pre-crisis boom was concentrated in the most 'overheated' Greater Paris region, where the profit rates are relatively low because of high land prices and a tight supply of vacant building plots (Scellier & Le Bouillonnec, 2008). However, a remarkable number of investments was made in southern France: in the regions of Lyon (16.6%), Montpellier (11.6%) and Toulouse (11.2%), where housing supply is also tight, but not as tight as in Paris. This geographical focus on the south of France was both an economic necessity, but also a financial strategy to locate investments in more profitable regions (Vergriete, 2013).

For similar reasons, medium and smaller property developers were also notorious for investing in smaller cities and mid-sized towns as they 'reasoned in terms of tax gains without looking at the characteristics of housing and its location' (Scellier and Le Bouillonnec, 2008: 29).[7] With relatively low land prices and rent structures not yet fully exploited, buy-to-let investments in these locations provided higher tax returns than in more overheated markets (Scellier & Le Bouillonnec, 2008). However, local demand for private rental housing units was not always as high as these developers had hoped during the pre-crisis property boom (Vergriete, 2013: Chapter 8). The local crises of over-production in rural towns such as Albi, Saint-Gaudens, Montauban, Bergerac, Castres and Angoulême illustrate this (Scellier & Le Bouillonnec, 2008: 32). In response to the crisis, the French state introduced a new system of rental ceilings in 2012 to prevent future crises of over-production in smaller cities and regions (Pollard, 2011).

Against this background, it remains a challenge for the French government to stimulate the production of housing and to stabilize the rental levels in overheated market segments (Vergriete, 2013). Since the house prices in metropolitan areas of France are currently increasing beyond pre-crisis levels, an increasing part of the population becomes more reliant on private renting in the absence of available alternatives and affordable housing (Lipietz, 2013). In some locations, buy-to-let investments may satisfy both private landlords and renters as financial expectations and demand for new private rental homes can be reconciled. However, buy-to-let investments in other locations may encourage rentierism as private landlords and the real estate industry know how to 'game' rental and fiscal regulations and make renters pay for their investment schemes (Bosvieux, 2011; Pollard, 2011). In case of the latter, little may remain of the democratic promise of privatised Keynesianism as renters are locked out of the benefits of it (Lipietz, 2013).

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[7] Translation from French by the author.

In sum, these examples show that large amounts of state-subsidized mortgage credit via private landlords and private property developers have been funneled into the built environment (Lipietz, 2013). Mortgaged homeownership in France may have remained comparatively low with only 40% as a share of GDP. This number, however, conceals that a large proportion of mortgage credit of commercial banks was actually issued to private landlords and – indirectly – to private property companies and the construction sector. Interestingly, the ascent of private landlordism has hitherto not resulted in a decline of homeownership rates, a trend that can be observed in many post-homeownership societies such as the United Kingdom (Forrest & Hirayama, 2015; Ronald, Kadi, & Lennartz, 2015). To the contrary, homeownership rates in France have stabilized and mortgage debt levels are still increasing (Driant, 2010). However, while the number of new private landlords is increasing faster than the number of new homeowners that take up mortgages, it is not unlikely that French-style privatised Keynesianism will evolve into a more regressive phase in the near future: reinforced private landlordism and reduced home ownership.

3.7. Discussion and conclusion

While the resurgence of private landlordism in advanced, capitalist societies is generally accompanied by reduced home ownership and uneven housing opportunities, private landlordism is sometimes perceived as a trend that undermines an important aspect of Privatised Keynesianism: asset-based welfare through home ownership (Kemp, 2015; Ronald et al., 2017). Although this paper has recognized this regressive trend in advanced, capitalist societies, it has mobilized the idea that private landlordism is nonetheless an integral part of privatised Keynesianism. First and foremost, this paper has shown that private landlordism was already an important component of pre-crisis Privatised Keynesianism as national governments introduced various supply-side subsidies to boost the private rental sector and new housing production (cf. Fernandez & Aalbers, 2016). Secondly, it has mobilized the idea that while arrived homeowners are switching already accumulated housing wealth into the private rental sector, the resurgence of private landlordism is *de facto* a deepening of privatised Keynesianism in another market segment (Kemp, 2015).

In making this argument, this paper has focused on a national case study of the housing system of France. Much like in other European countries, the French government started promoting home ownership in the late 1970s, first among low-income households, later among medium-income households (Aalbers, 2015). However, a more distinctive element of French-style privatised Keynesianism is that the state also

encouraged private landlords to invest in the private rental sector and buy-to-let housing (Pollard, 2010b). As such, French-style privatised Keynesianism can be understood as a flexible regime of accumulation that both stimulates housing demand and housing production by linking different kinds of actors and households to each other (Lipietz, 2013). Rather than claiming that the diversified credit model of France was purely enhanced by the state, this paper has also shown that the diversification of credit was a business model which enabled commercial banks and property developers to optimize their profit rates by alternating strategically between mortgage lending and property development (Tutin & Vorms, 2014).

Although the French housing system appears to be resilient and relatively unexposed to the crisis of 2007-2008 (Tutin & Vorms, 2014), this paper concludes that French-style privatised Keynesianism is not necessarily a stable growth regime. Overall, it is striking that during the decades of privatised Keynesianism the tight supply of housing units in 'overheated' French metropolitan regions is still prevalent (Trouillard, 2014; Vergriete, 2013). Furthermore, while combined debt levels of homeowners and private landlords are quite high and still increasing, household indebtedness in France is significantly higher than commonly understood (Lipietz, 2013). Also, the French program of stimulating home ownership and buy-to-let housing has specifically been targeted to medium-income households (Driant, 2010). That is to say, an increasing number of low-income households is excluded from 'trading up the value of their housing assets' in both the owner-occupied and the private rental segment (Watson, 2010). Last but not least, the case of France also shows one of the contradictions of privatised Keynesianism or 'house price Keynesianism': little remains of the initial policy goal to reduce public expenditure to the housing sector now that the expenses of 'personal aid' have reached such heights and now that the state is receiving less tax income due to the 'fiscal aid' (Driant, 2010).

Beyond the French context, this paper concludes that a more fine-grained analysis is required to understand what qualitative transformation post-crisis privatised Keynesianism has undergone in advanced, capitalist societies. In this regard, a preliminary working hypothesis can be that in more liberal countries such as the United Kingdom, the reconstitution of privatised Keynesianism is strongly accompanied by reduced home ownership and uneven housing opportunities among generations and families (Kemp, 2015; Ronald et al., 2017). Yet, in more non-liberal countries such as France, home ownership and private landlordism are still co-evolving and rather complement each other. Nonetheless, this paper also acknowledges that once a housing systems reaches the stage of expanded home ownership, arrived homeowners tend to switch their housing wealth into the private rental sector (cf. Arundel, 2017; Lipietz, 2013). Although we can see this second phase of privatised Keynesianism only slowly

advancing in France, the ongoing transformations in the UK housing system certainly hold a mirror up to France and other non-liberal countries (cf. Fernandez & Aalbers, 2016). The emergence of a new class of property owners that actively engages in the letting out of state-subsidized private rental units is an important phenomenon that deserves more attention in France (Boisnier, 2011).

In further investigating the advent and reconstitution of privatised Keynesianism, this paper also points out that it is important not to disregard the legacy of housing policies and domestic policy-making (cf. Jacobs and Manzi, 2017). As the French case shows, the advent of privatised Keynesianism does not necessarily coincide with a neoliberal restructuring of global finance, but rather relates to fundamental shifts in domestic housing policies that were at first implemented in the 1970s (Driant, 2010). Another important conclusion is that the literature should not only address how global finance pushes homeowners into more debt, but also explore how credit expansion affect the supply-side of housing production, private landlords and private property developers (cf. Romainville, 2017; Van Loon, 2016). Furthermore, the French case shows that as long as a credit supply is targeted at different sectors of the housing economy, credit expansion can unfold in a more balanced and controlled way without necessarily over-leveraging the credit system (Tutin & Vorms, 2014). Therefore, this paper also calls for more research on 'moderately financialized' national housing systems.

In conclusion, this paper addresses an important issue for future research. In 2009, the French state introduced a new Securitization Act to boost the secondary mortgage market (Wainwright, 2015). This new investment act lifted previous restrictions to the issuance of securitized debts and also allowed mortgage banks to securitize insurance risks (Birouk & Cassan, 2012; Segoviano, Jones, & Lindner, 2015). With a total value of 47 million euro in 2014, the amount of issued real estate-backed securities in the European Union was the highest in France (Hypostat, 2015: 106). The Securitization Act of 2009 may be understood as a new measure to make the French banking sector more competitive (Hardie & Howarth, 2009; Wainwright, 2015). However, it can also be perceived as a new housing policy of 'liquid aid', where mortgage securitization is used is as a new political instrument to boost mortgage loans to home owners and private landlords (Segoviano et al., 2015). To what extent this evidence indicates that French-style privatised Keynesianism is currently moving faster into the direction of the housing systems of English speaking countries needs to be examined further.

Chapter 4. The internationalization of commercial real estate markets in France and Germany

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Abstract

This paper investigates the internationalization of the commercial real estate markets of France and Germany, markets typically ignored in comparative political economy. Although both markets are embedded in Continental European capitalism, their trajectories of internationalization are variegated. After exploring how processes of internationalization are processed within each country, we show how these processes have played-out in the commercial real estate markets of France and Germany. The French state played a key role in guiding processes of internationalization: the introduction of new tax regimes allowed French property companies to raise capital at the stock exchange. The case of Germany demonstrates the continued importance of the banking sector for real estate investment markets. Although the typical characteristics of the French and German political economies are strengthened in this process, agents also feel the need to respond to the interests of international investors by creating REIT-like systems to absorb domestic and foreign capital.

Key words: Internationalization, financialization, liberalization, commercial real estate, coordinated market economies, France, Germany.

4.1. Introduction

The Continental European model of capitalism has long been perceived as the counterexample of the Anglo-Saxon model of capitalism (Albert, 1991; Crouch & Streeck, 1997; Shonfield, 1965). Over the past few decades, however, the literature has documented how Continental European economies such as France and Germany have liberalized and internationalized their modes of economic organization (Amable, 2003; O'Sullivan, 2007; Streeck, 2009). As a consequence, it could be argued that the Coordinated Market Economies (CMEs) of Continental Europe have become more similar to Anglophone Liberal Market Economies (LMEs) (Hardie & Howarth, 2009; Lapavitsas & Powell, 2013; Streeck, 2013).

Although the literature has emphasized how processes of internationalization and financialization have deeply transformed major domains of Continental European economies, a crucial sector often remains under-studied: commercial real estate. This is a missed opportunity since the emergence of deep and liquid real estate investment markets in Continental Europe largely coincides with major reforms in financial systems and corporate governance regimes. In recent decades real estate markets have radically adjusted to international capital flows and increasingly are integrated in international financial markets (i.a. Gotham, 2012; Leitner, 1994; Lizieri, 2009). While European integration as well as financial and technological innovations have reduced barriers to foreign ownership (Coakley, 1994; Pryke, 1994), cross-border investment flows in European real estate markets have increased dramatically (Baum, 2001; Lizieri et al, 2003). At the height of the most recent investment cycle, between 2003 and 2007, global investment funds and other foreign investors pushed the office rents to unprecedented levels (Savills Research, 2014).

Based on the comparative political economy literature we can expect that both the degree and effects of the liberalization of real estate markets differ between countries. Simply put, one would expect more open, international markets in LMEs and more closed, less international markets in CMEs (Hall and Soskice, 2001). Yet, since the property boom of the 1980s, the real estate investment markets of CMEs have become integrated in and through international financial markets and largely suited to the needs of international institutional investors (Fernandez & Aalbers, 2016; Lizieri, 2009; Nappi-Choulet, 2012). The literature shows how key agents in Continental Europe have attempted to strengthen their domestic market position in response to the challenges of internationalization, either through the adaptation of Anglo-American investment practices (Just, 2010b; Theurillat et al., 2008; Van Loon & Aalbers, 2017), or by reforming domestic markets (Bastard, 2011; Berry et al, 1999; Boisnier, 2011). Indeed, internationalization has not merely increased the role of international investors; it has

also forced domestic agents to compete with foreigners and to consolidate their national interests (Crouch, 2005; Deeg & Jackson, 2007; Theurillat et al., 2014).

To understand how internationalization has forced domestic financial agents to consolidate their national market interests, this paper seeks to understand major changes in the real estate investment markets of two key Continental European capitalist economies: France and Germany. Although traditionally considered illiquid markets, the real estate investment markets of Germany and France are now the second and third largest within the European Union (CBRE Research, 2011; FSIF, 2010; Savills Research, 2014)—and once the Brexit has been carried out, they will be the largest two. Global investment funds have played a key role in transforming the investment markets of France and Germany. But rather than diminishing the activities of domestic financial agents, these agents, supported by the state, were able to consolidate their domestic market position. In France, the state introduced a new tax regime that contributed to the emergence of a listed real estate sector, which allowed French property companies to become more competitive by raising foreign capital at the stock exchange (Boisnier, 2011; FSIF, 2010; Nappi-Choulet, 2012b). In Germany, the traditionally dominant non-listed and bank-related real estate sector could respond more autonomously to the challenges of internationalization (Just, 2010b; Pfnür, 2013; Rohmert, 2013). We contribute not only to the comparative political economy literature but also to the real estate literature by demonstrating how domestic financial actors respond to the internationalization of commercial real estate markets.

This paper derives its findings from studying primary and secondary sources, including twenty semi-structured interviews with real estate and finance professionals in Frankfurt am Main (Germany) and Paris (France) in 2014 and 2015. These professionals include CEOs, managing directors, fund managers and senior analysts of various real estate funds and companies. In addition, we have also analyzed the commercial real estate transactions databases of BNP Paribas Real Estate and CBRE Research. By calculating the net investment turnover (acquisitions minus sales) of major investment groups in the property markets of Germany and France, we are able to differentiate between the investment flows of different types of investors before and after the global financial crisis (GFC). Rather than presenting the absolute levels of investments in commercial real estate we focus on the net turnover in order to centre on which types of agents are expanding in or retracting from the investment market.

The outline of this paper is as follows. The next section discusses the model of Continental European capitalism and shows how processes of internationalization have been processed within the wider political economies of France and Germany. We then discuss the internationalization of the commercial real estate investment markets, demonstrating the rise of a listed real estate sector in France and the continued

importance of banks in the German commercial real estate market. We conclude that the commercial real estate markets of CMEs have opened up to international flows on finance, but that this has not necessarily resulted in a diminished role of domestic agents. Indeed, the state has facilitated these actors, but it is important to note that the role of the state in CMEs is internally variegated as France and Germany have followed different paths to open up their markets while protecting key domestic agents.

4.2. Internationalization of the Continental European model

In the comparative political economy literature France and Germany traditionally have been known as the key examples of Continental European capitalism (Albert, 1991; Amable, 2003; Shonfield, 1965; Zysman, 1983). Continental European capitalism, like other CMEs, is typified as a non-liberal form of economic organization (Amable, 2003; Höpner, 2007), whereby patterns of shareholding and crossholdings between large banks, firms and (local) states limit the autonomy of 'free' markets (Jackson & Deeg, 2012; Streeck & Thelen, 2005). Unlike LMEs, the social organization of Continental European countries are 'premised on a logic of high commitments, patience, and stability and are underlaid by a Fordist coalition of workers and managers that prefers to see some key institutional aspects of society under democratic and bureaucratic control' (Engelen et al., 2010: 57). The importance of banks in funding private enterprises, combined with relatively small and undeveloped capital markets, has largely protected firms against hostile takeovers (Höpner & Jackson, 2006; Jackson & Deeg, 2012; Johal & Leaver, 2007). Instead, a major feature of Continental European capitalism is its supposedly stable and inward-looking corporate governance model that revolves around associational networks of organized private enterprise, often guided by the state or large banking groups (Amable, 2003; Jackson & Deeg, 2012).

There is of course not one single form of Continental European capitalism: whereas France is known as a more centrally guided political economy, characterized by *dirigiste* state intervention, Germany, is regarded as the prototype of an insider-controlled, stakeholder-oriented political economy in which banks play a central role and in which a dense network of firms, banks and insurance companies forms the institutional foundation for organized private enterprise (Fichtner, 2015; Howarth, 2013; O'Sullivan, 2007; Streeck, 2009). However, the end of post-war prosperity, the crisis of Fordism and high inflation undermined the structural foundations of the political economies of France and Germany (Albert, 1991; Amable, 2003; Streeck, 2013). The pressures to reposition the model of Continental European capitalism on a global scale increased (Hardie & Howarth, 2009). As a consequence, CMEs have not only become more similar to LMEs

(Hardie & Howarth, 2009; Lapavitsas & Powell, 2013; Streeck, 2013), but have also opened up their insider-controlled corporate governance model to international institutional investors (Höpner & Jackson, 2006; Johal & Leaver, 2007).

The internationalization of the French domestic economy started in the early 1980s. Initially, the French government sought to protect its economy by nationalizing major French banks and firms (Boyer, 1997; Clift, 2012; Howell, 2009). Mounting debt levels, however, encouraged the French government to privatize its public banks and firms (O'Sullivan, 2007; Schmidt, 2003). By the mid 1980s, the French state opted for a network economy, whereby public corporations were gradually privatized by selling them to "friendly" cross-shareholders of French nationality (Hancké, 1999; Johal & Leaver, 2007). In the 1990s, European integration and the globalization of financial markets undermined the French network economy (Morin, 2000): international institutional investors were able to acquire shares of French corporations and started introducing new regimes of accountability and profitability. Some feared that French corporations now would be subject to Anglo-Saxon forms of management (Morin, 2000).

Similarly, the West-German government initially sought to protect its model of Continental European capitalism by upholding the interests of organized private enterprise and by allowing public debt levels to increase (Amable, 2003; Höpner & Krempel, 2004). However, the shock of German reunification exhausted the capacity of the German federal government to do so (Streeck, 1997). During the 1990s, the German government stimulated the disintegration of the network of cross-shareholdings in Germany by encouraging large German firms and commercial banks to sell their stocks and to raise liquidity in and through international financial markets (Nölke & Vliegenthart, 2009; Streeck, 2009). The 'KonTraG' law, which abolished the tax on the sale of block-holdings of corporations in other firms, reinforced the liberalization of Germany's company network and facilitated the arrival of international institutional investors and hedge funds that were keen on buying German stocks (Fichtner, 2015; Höpner & Jackson, 2006). Like their counterparts in France, these new financial agents immediately started demanding shareholder value and changing the corporate governance model of German corporations (Lütz, 2000; Vitols, 2004).

Despite the dissolution of insider-dominated regimes of corporate governance in France and Germany (Culpepper, 2005; Hall & Soskice, 2001), internationalization has not undermined the Continental European model per se (Amable, 2003; Hay, 2004). Responding to the challenges of internationalization, the French government has not fully liberalized the autonomy of 'free' markets, but has sought to regulate and modify the outcomes of internationalization by giving a dense corporate network of French CEOs a large degree of local autonomy and managerial competence (O'Sullivan, 2007; Schmidt, 2003). Although the French government has shaken off its post-war *dirigisme*

(Clift, 2012; Howell, 2009) by privatizing public companies and banks, it continues to guide and modify economic relations and transformations of the French economy. The *post-dirigiste* strategy of the French government is characterized by a paradoxical 'retreat from interventionism in the economy, and the increasing exposure of the institutions of the French economy to international market forces' (Howarth, 2013: 388). Hence, joint-stock companies and commercial banks are encouraged to attract foreign capital and to expand abroad, but also to consolidate domestic market operations, using foreign capital as a lever (see e.g. Dixon, 2010; Johal and Leaver, 2007).

Rather than resulting in the complete dismantling of its Continental European features, the internationalization of the German political economy has provided a window of opportunity for German commercial banks and large firms to escape the strongholds of German corporatism by expanding their activities in international financial markets (Mertens, 2017; Nölke & Vliegenthart, 2009). The literature has widely documented how the largest German firms and commercial banks listed on the stock exchange—Deutsche Bank being a typical example (Hardie & Howarth, 2009)—have disintegrated from the associational network that once formed the corporate governance model of the German economy (Fichtner, 2014; Höpner, 2007). However, beyond this select group of firms, the corporate governance model of Germany has remained fairly in place (Jackson & Deeg, 2012; Streeck, 2009). For instance, public and cooperative banks still operate within a relatively strict regulatory framework (Celo & Lehrer, 2016; but see Hendrikse, 2015: chapter 3).

In sum, the Continental European economies of France and Germany have opened up their insider-controlled corporate governance models to foreign investors. However, the degree of internationalization has been different in both countries and has not resulted in the rise of 'free', liberal markets. In France, under supervision of the state, domestic actors and joint-stock companies started attracting foreign capital to consolidate their domestic market activities and to expand abroad. In Germany, only the largest listed companies and commercial banks expanded abroad and became subject to Anglo-Saxon forms of management. At least until recently, a large part of the German economy still revolves around associational networks wherein German banks play a key role.

4.3. The internationalization of commercial real estate in France and Germany

The previous section has explained why the internationalization of CMEs has not resulted in convergence along the lines of LMEs. Rather, internationalization has been processed differently in the political economies of France and Germany. In France, the

state has sought to guide the directions of internationalization. In Germany, the banking sector has done so. These patterns have also shaped the trajectories of internationalization of the commercial real estate markets of both countries. During the post-war era, commercial real estate investment in Germany and France largely responded to the need to boost national industries and to accompany post-war spaces of production (Albert, 1991; Shonfield, 1965). Both markets were locally organized, financed by local banks or families and real estate properties were often held on the balance sheets of firms and corporations (Pfnür, 2013).

However, following European integration, financial liberalization and economic globalization in the 1980s and 1990s, international institutional investors have entered the property markets of France and Germany. Against this background, the internationalization of Continental European investment markets is often operationalized as the acceleration of cross-border investment flows (Just, 2010b; Nappi-Choulet, 2013a). Although we do acknowledge the role of international institutional investors in France and Germany, our focus is on how domestic financial agents, supported by the state, have sought to strengthen their market position in their domestic investment markets. In France, the rise of a listed real estate sector exemplifies how the state has sought to protect domestic market interests by allowing the French property sector to raise foreign capital at the French stock exchange. In Germany, where foreign competitors appeared relatively late in the mid 2000s, the insider-controlled, non-listed real estate sector, traditionally owned by the German banks, blocked the transition towards a more international, transparent and liquid investment market. The liquidity crisis of German open-ended funds however has raised questions concerning the regulatory framework of the German property sector.

This section is informed by various primary and secondary sources, including 20 interviews with real estate and finance professionals in France and Germany. We have adopted a methodology of 'process tracing', whereby we have used the interviews to identify key-decision points and movements to draw out the internationalization of both markets in time and space (for a similar research strategy, see Hendrikse and Sidaway, 2013). We have first conducted 14 semi-structured, in-depth interviews in Frankfurt am Main between October and December 2014, which also included various exploratory interviews to learn more about commercial real estate markets in general. Subsequently, we have conducted 6 interviews in Paris between October and December 2015.

The interviews have informed our research in a three ways. First, the interviews have helped us to refine and to nuance some 'popular' claims on internationalization that we had found in newspaper articles and business magazines. Second, the interviews were indispensable for gathering some market-specific information on property investment in both countries. In some cases, interviewees have also provided internal

documents and real estate data. Third, the interviews made us aware that we should not only focus on the GFC and its aftermath, but also take into account the 1980s property boom and the 1990s property crisis as events that put institutional change in motion.

Drawing on our interviews, we have reconstructed a historical narrative for both markets, while focusing on a sequence of events: the reconstruction of the post-war markets, the 1980s property boom, the 1990s property crisis, the GFC and its aftermath. Specifically, we have focused on how the domestic markets have responded to the 1990s property crisis and to foreign competition. While doing so, it was also useful to study the house price dynamics in both countries. Although housing markets typically are less volatile they have followed a similar pattern as the commercial markets, especially between 2003 and 2007 in France and from 2009 onward in Germany (Wijburg, 2018; Wijburg & Aalbers, 2017a). However, while both markets are fundamentally different, we have not fully elaborated on the similarities and differences.[8]

4.3.1. The rise of a listed real estate sector in France

In the decades after World War II, the commercial investment market in France emerged in the so-called Golden Triangle of inner Paris. The Golden Triangle, which is mainly located in the Eight Arrondissement, including the Arc de Triomphe, the Place de La Concorde and the Boulevard Haussmann, was already the city's financial hub during the nineteenth century (Nappi-Choulet, 1998). Although the post-war French state was primarily concerned with managing industrial relations to launch French national industry (Boyer, 1997), it also provided the legal framework for a moderate investment market during the 1960s. The tax regime of *Société Civile de Placement Immobilier* (SCPI) allowed French commercial banks to develop public funds (open-ended and closed-end) that could invest in real estate on behalf of French households (Bastard, 2011). The tax regime of *Sociétés Immobilières pour le Commerce et l'Industrie* (SICOMI) provided an archetypical structure for commercial leasing and property finance.

Financial reforms in the 1980s and the 1990s resulted in the lifting of post-war credit restrictions to mortgage lending and property development (Nappi-Choulet, 1998). As a result, French commercial banks and real estate developers increasingly turned towards property construction and launched an unprecedented property boom in

[8] Institutional investors in France still hold residential portfolios, but tend to invest in commercial real estate through REITs. The state encourages private investors to invest in private rental housing. In Germany, by contrast, large housing portfolios increasingly are owned by listed real estate companies. However, institutional investors prefer to invest in commercial real estate through non-listed investment funds.

Paris (Nappi-Choulet, 2013a). While the city of Paris was becoming a global city, the property boom of the 1980s was underpinned by the expectation that Paris required an almost infinite supply of new "glitzy office space" (Ball, 1994; Pryke, 1994). The French state also played a key role here: in an attempt to rival with London as a "national champion", it orchestrated the construction of a new business district, La Défense (Crouch & Le Galès, 2012).

The 1980s property boom was largely triggered by excessive credit availability and came to a sudden halt when the global economy moved into a deep recession in the 1990s (Lizieri, 2009; Wissoker et al., 2014) in which the SCPIs and SICOMIs suffered terrible losses (Nappi-Choulet, 1998). The property crisis of the 1990s, which also resulted in a severe banking crisis, marked the arrival of international institutional investors in the investment market of France (Ludovic Halbert, 2013). Buying cheap and selling high, American private equity and hedge funds profited from the fall in property prices (Nappi-Choulet, 2013a). It was expected that the property sector of France (largely located in the Greater Paris region) would soon recover (Crouch & Le Galès, 2012), American hedge funds and other foreign institutional investors speculated on future property prices (Nappi-Choulet, 1998). Figure 9, which illustrates an historical account of the transaction volume in the Greater Paris region, shows the increased importance of foreign investors in the French investment market in the 1990s.

The arrival of international institutional investors was seen as an undesirable development that undermined the long-term stability of the French property market. Introducing new modes of accountability and profitability, American hedge funds took full advantage of the French property crisis and neglected corporate real estate management (Nappi-Choulet, 2013a). The French government perceived the arrival of international institutional investors as a threat to domestic interests and wished to protect the market better (Boisnier, 2011). Against the background of various capital market reforms in the mid 1990s, the post-dirigiste French state therefore introduced a new tax regime named *Société d'Investissement Immobilier Cotée* (SIIC) in 2003 (AMF, 2003). SIICs allowed French property companies to trade commercial real estate on the French stock exchange (Nappi-Choulet, 2013a). As such, the property market would become less dependent on bank loans and could refinance itself through the capital market (KPMG, 2013). Like their American counterpart, Real Estate Investment Trusts (REITs), the SIICs are fiscally transparent investment vehicles that focus on investments in income-producing real estate assets (Boisnier, 2011; FSIF, 2010).

The introduction of a fiscally transparent listed real estate sector can be seen as a strategy of the French post-dirigiste government to modify the internationalization of the French investment market (Boisnier, 2011). On the one hand, the SIIC regime enabled real estate companies to increase their liquidity by raising capital on the stock exchange

(KPMG, 2013). On the other hand, the introduction of SIICs also responded to the demand from large French corporations to divest their commercial real estate assets in order to raise shareholder value and to focus on 'core activities' (FSIF, 2010; Guironnet et al., 2015). Hence, the SIIC tax regime allowed large French firms to sell their corporate real estate assets without paying corporate taxes and by leasing them back from joint-stock real estate companies (KPMG, 2013).

Between 2003 and 2007, the French listed real estate market would develop into the largest of Europe (Boisnier, 2011; FSIF, 2010). Through mergers and acquisitions a few listed real estate companies in France could develop into Europe's largest in terms of portfolio size and market capitalization (FSIF, 2010). As Figure 10 shows, the net investment turnover (total acquisitions minus total sales) of SIICs amounted to EUR5 billion in 2007; in contrast, the net turnover of non-French REITs was only 2 billion. In other words, the French property sector had accomplished to take control over the domestic market; tapping from the pool of foreign capital provided an viable answer to the 1990s property and banking crisis (Boisnier, 2011; FSIF, 2010).

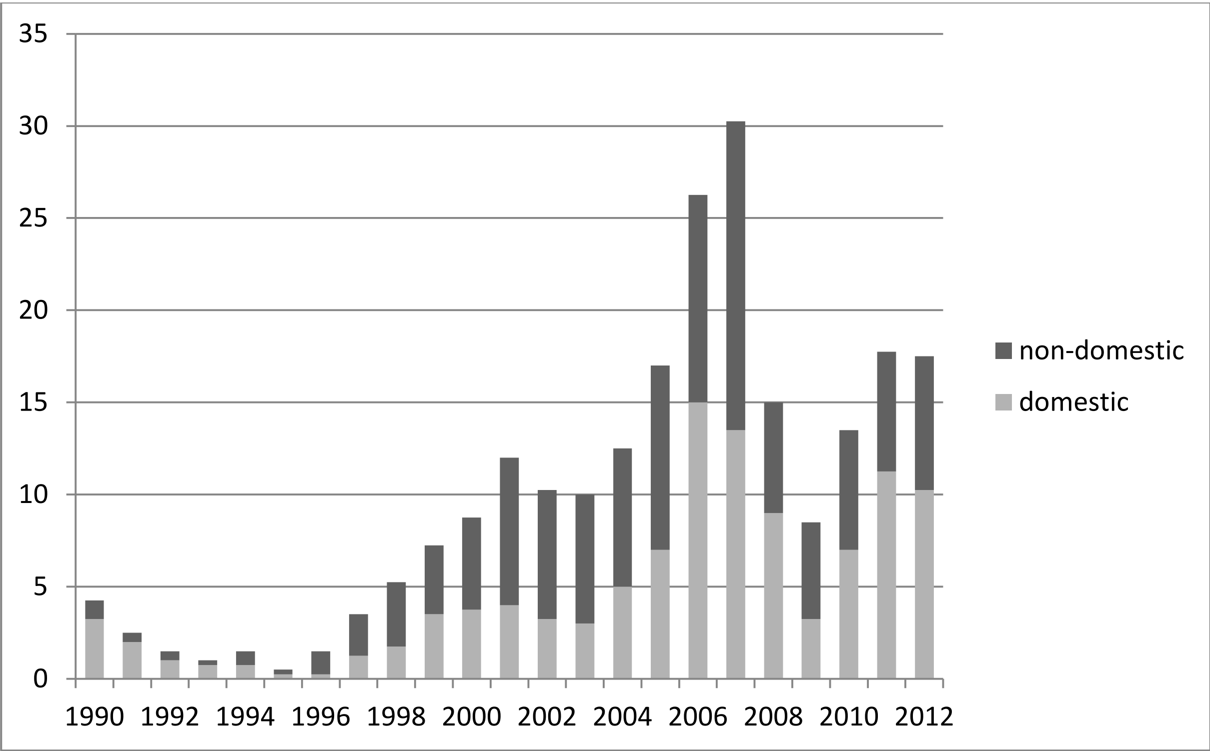

Figure 9. Investment volume in the Greater Paris region in billions of Euros (1990-2012, nominal)

Source: Adapted from Nappi-Choulet, 2013

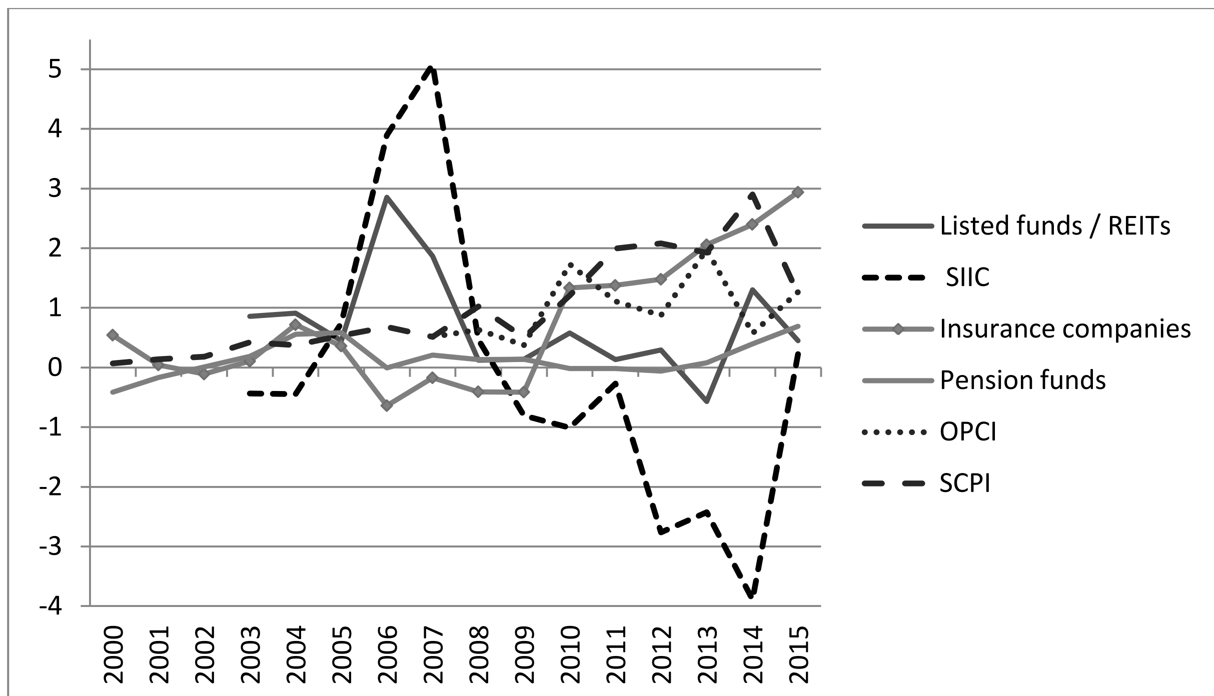

Figure 10. Commercial real estate transactions in France in billions of Euros (2000-2015, nominal)

Source: CBRE Research, 2016

Although the SIICs generally had performed better than other French joint-stock companies during the GFC (IEIF, 2014a), a decline in share prices overshadowed their pre-crisis performance (Boisnier, 2011). The SIICs had to sell some of their assets and relocated their post-crisis investment activities to other countries until the French market recovered (Boisnier, 2011). The retreat of the SIICs also can be related to a change in monetary politics from the European Central Bank. During the pre-crisis investment cycle, the SIICs thrived on financial leverage and securitized loans (FSIF, 2010). These options exhausted in the wake of the GFC, since the sovereign debt crisis in the faltering Eurozone triggered the European Central Bank to implement stress tests and to introduce new capital requirements for European banks (Hardie & Howarth, 2009; Howarth & Quaglia, 2013a).

Nonetheless, the retreat of the SIICs did not imply that the French market of listed real estate stopped growing. In 2007 the French government introduced the new tax regime of *Organisme de Placement en Immobilier* (OPCI). The introduction of OPCIs was meant to gradually replace the SCPIs and to make French investment funds more competitive, flexible and transparent, thereby also attracting investments of French households (De Vignet de Vendeuil, Langenbach, & Simon, 2007). Unlike SCPIs, OPCIs are equipped with the additional capability to invest in listed real estate companies (De Vignet de Vendeuil et al., 2007). Furthermore, OPCIs can be established as either public

funds or special-purpose funds for institutional investors (Bastard, 2011). Strategically positioned between non-listed and listed real estate investment, OPCIs mark another stage in the evolution of the French investment market (Bastard, 2011). As Figure 2 shows, the OPCIs reached a net investment of EUR2 billion in 2013. French pension funds, that had taken big hits in the 1990s property crisis, became important investors in OPCIs.

The introduction of OPCIs has not resulted in the progressive withdrawal from SCPIs as expected at their introduction. After Mario Draghi's famous proclamation in 2012 to do 'whatever it takes' to rescue the Euro, the European Central Bank under his presidency lowered interests rate to an all-time low, officially to stimulate investments in the Eurozone (Howarth & Quaglia, 2013b). The low interest rate environment was an incentive for French investment funds to borrow cheap capital and to reinvest it in real estate. In addition, the low interest rates on savings accounts pushed French households towards SCPIs (Bastard, 2011). Against the odds, the SCPIs became major buyers during the post-crisis investment cycle (net turnover of EUR3 billion). This example shows that the non-listed real estate sector in France has not become obsolete: while SCPIs only invest directly in real estate, they are able to realize higher profits than OPCIs, as long as the capital costs remain low (Bastard, 2011). Nonetheless, the rise of the SIICs and the OPCIs indicates that the French property sector has increasingly turned towards listed real estate, a development that is likely to continue in the future.

4.3.2. The continued importance of banks in Germany

During the post-war era, West Germany did not have a prime city like Paris for France. Berlin was divided by allied troops and instead, a polycentric structure emerged with Berlin, Düsseldorf, Frankfurt, Hamburg, Munich, Cologne (often together with Bonn) and Stuttgart—the so-called 'Big Seven'—as the major cities of commercial interest (Rohmert, 2013). The post-war German investment market largely co-evolved with Germany's banking sector (Voigtländer, 2010). From the 1960s onwards, German banks (both public and commercial) started collecting capital from German households to invest it on their behalf in commercial real estate assets. Open-ended funds allowed German households to invest small amounts of their savings in real estate with the possibility to redeem their shares at any time (Just, 2010b; Pfnür, 2013). Closed-end funds, which mainly invest on behalf of private investors, did not have this redemption option (Rohmert, 2013).

During the 1980s, the lifting of credit restrictions fuelled a property boom in West-Germany, in particular in Frankfurt, West-Germany's major financial centre (Ploeger,

2004; Rohmert, 2013). Upon German reunification, West-German banks and real estate developers also started constructing and investing in East Germany (Mertens, 2014). To facilitate the inclusion in Reunified Germany, it was expected that a wide range of commercial real estate buildings had to be built in East Germany. The property boom was also largely encouraged by the Kohl administration that provided tax breaks to stimulate investments in the East and to prevent that too many (economic) migrants from the East would come to the West (Mertens, 2014; Rohmert, 2013). Hence, the post-unification construction boom was seen as a window of opportunity by German investment funds, commercial banks and real estate developers.

However, the property boom in Reunified Germany was underpinned by the belief that East Germany would 'catch up' with the economy of West Germany (Uffer, 2011). In reality, 36 years of socialism had left the built environment and the labour market in many East-German cities in an idle state (Michelsen & Weiß, 2010). Many East-German cities did not develop immediately into 'mature' capitalist markets that could position themselves in the global economy (Glock & Häußermann, 2004). The new capital of Berlin only developed into a commercial hub that matches the demands of commercial real estate investors in the early twenty-first century (Uffer, 2011). Institutional investors continued to perceive the German market as somewhat backward and illiquid. Figure 11 shows how during the mid 1990s commercial real estate investment in Germany was still predominantly domestic in nature.

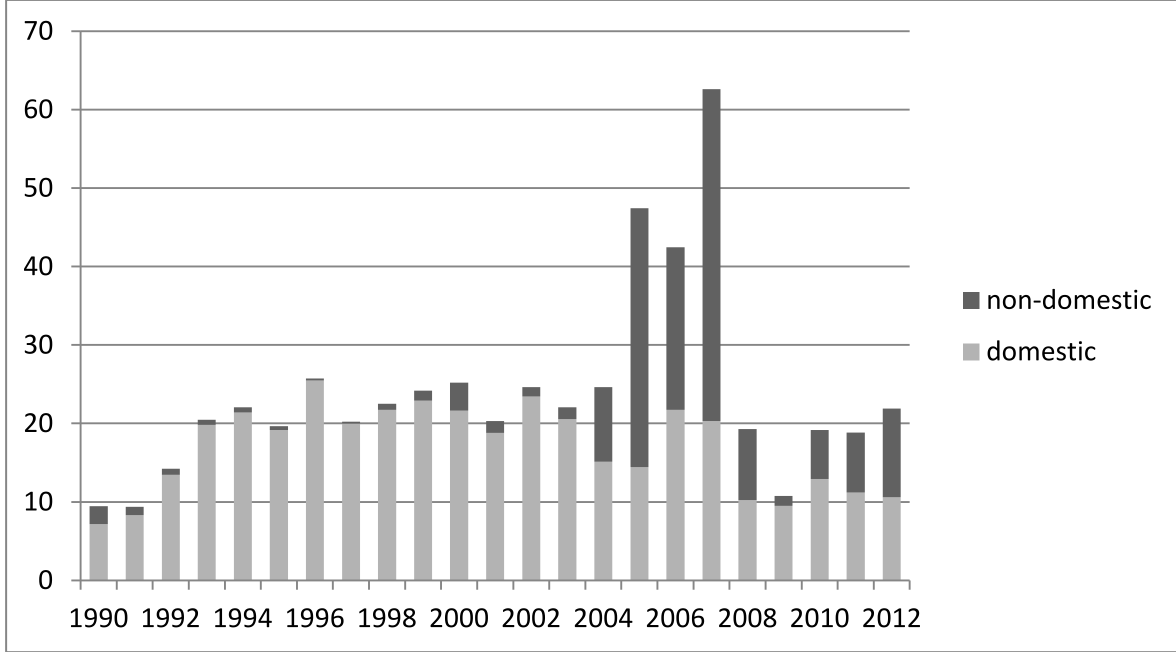

Figure 11. Investment volume in the 'Big Seven' of Germany in billions of Euros (1990-2012, nominal)

Source: Bulwiengesa AG, 2016

Substantial reforms in the property sector of Germany were not implemented during the early 2000s (Berry et al, 1999). Instead, the German government focused on strengthening the expansion of banking models and trade balances overseas and neglected the domestic property sector (Fichtner, 2015; Höpner, 2007). The non-listed real estate sector with its close ties to the German banks absorbed most of the market pressures related to European integration and the internationalization of finance (Rohmert, 2013). Unlike in France, the German government did not push for the provision of a radically new institutional framework for listed real estate vehicles (Amable, 2003; Berry et al., 1999). This can also be explained by the fact that international institutional investors had not yet entered the German investment market, which allowed the status quo to be maintained (Kofner, 2012; Wijburg & Aalbers, 2017a). Simultaneously, German open-ended funds started buying foreign real estate properties, in particular in the Greater Paris region and Eastern Europe (Bitterer & Heeg, 2012; Nappi-Choulet, 2013a).

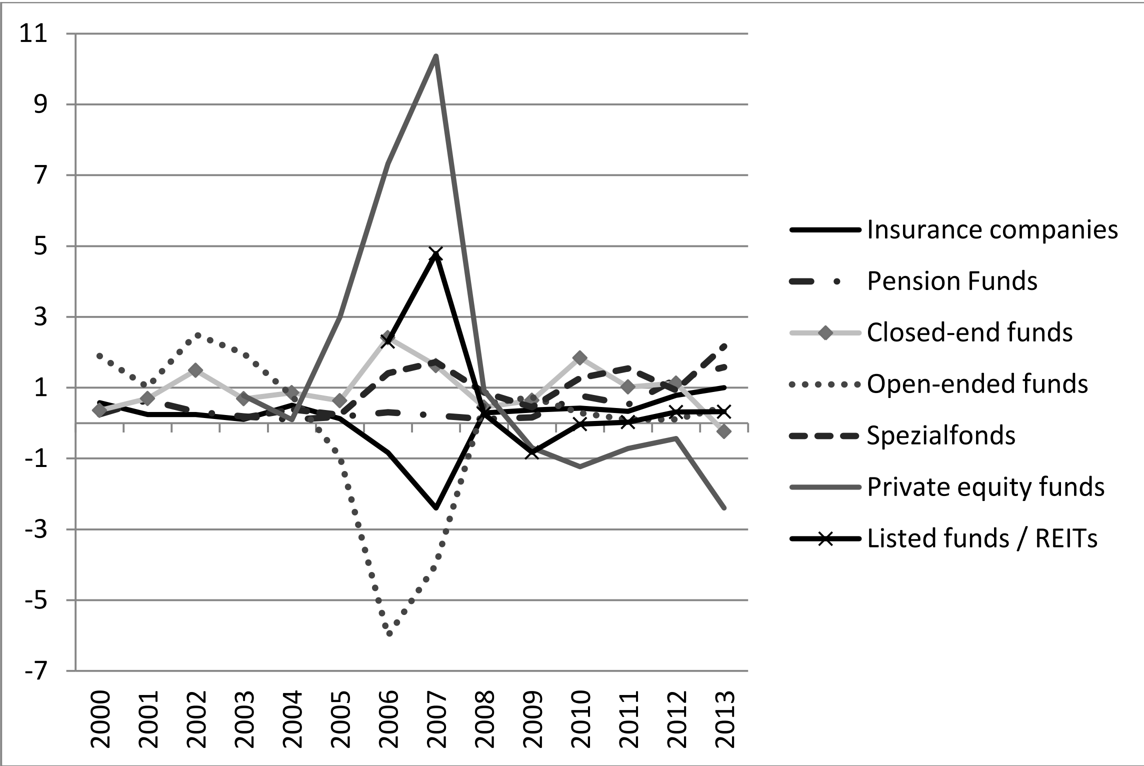

Figure 12. Commercial real estate transactions in Germany in billions of Euros (2000-2013, nominal)

Source: BNP Paribas Real Estate, 2016

Yet, during the early 2000s cheap credit and new financial instruments triggered a new investment boom in European property markets (Fernandez & Aalbers, 2016; Lizieri, 2009). The financial expansion of global investment funds initially focused on the property markets of the United Kingdom and Southern Europe (Lizieri, 2009). As these markets saturated, international institutional investors discovered that German real estate prices in 2003 were at the lowest point in decades (Rohmert, 2013). American private equity and hedge funds started buying commercial real estate assets with the intention to resell at higher prices in the near future. As Figure 12 shows, in 2007 private equity funds had a net investment turnover of EUR10 billion and listed funds of EUR5 billion.

Most global investment funds had focused on highly leveraged investments in the top segment of the German market, typically buying portfolios priced over EUR200 million (Heeg & Dörry, 2009). The high net turnover of private equity and listed funds conceals that German investment funds had also sought to profit from the global investment boom (Rohmert, 2013); the *Spezialfonds* (special-purpose funds) and open-ended funds stand out. Spezialfonds are public funds for institutional investors that have existed since 1968 and are mostly managed by public and commercial banks. Historically, effective demand from institutional investors for Spezialfonds has been low (Pfnür, 2013). Yet, Spezialfonds gained popularity in the late 1990s when institutional investors discovered that commercial real estate provided relatively stable and moderate cash flows (Berry et al., 1999). In 2007, the Spezialfonds displayed an investment net turnover of EUR2 billion.

The activity of open-ended funds is even more striking (net turnover of minus EUR6 billion in 2006). Selling a majority of their real estate assets to private equity funds, German open-ended funds had taken full advantage of the increased liquidity in the market and the demand of foreign investors for German real estate (Just, 2010b). However, open-ended funds had also leveraged their funds with investment capital from institutional investors. By design, open-ended funds allow investors to redeem their investments anytime they want (Berry et al., 1999). Between 2005-2007, international institutional investors started redeeming their invested capital as they expected that the investment boom was turning into a bubble (Rohmert, 2013). This created the equivalent of a bank run on German open-ended funds and many funds were forced sell large parts of their portfolios (Lizieri, 2009). Consequently, this resulted in a liquidity crisis whereby many open-ended funds plunged into under-performance and bankruptcy (Just, 2010b).

The post-GFC investment market was temporally disrupted by the banking crisis and the retreat of international institutional investors. The liquidity crisis of German open-ended funds also sparked some new developments. On the one hand, the

Spezialfonds initiated a rescue pact of several illiquid open-ended funds that struggled with selling their properties (Scharmanski, 2012). This manifestation is represented by a net turnover of EUR2 billion in 2011. On the other hand, the German state recognized that serious reforms were needed to solve the liquidity crisis. The implementation of the German Capital Investment Code in 2013 was necessary to increase the transparency of the funds and to restore investor confidence (Rohmert, 2013). An important part of the new Investment Code is that the option of daily share redemption from investors in open-ended funds was significantly reduced. At the same time, fund managers of open-ended funds were obliged to become more transparent in their investment practices and strategies (Himbert, 2014).

In another attempt to regulate the post-GFC investment market, the German state implemented a new tax regime in 2007: the G-REIT. Much like the American REITs or the French SIIC, the G-REIT allowed the German property sector to attract foreign capital at the German stock exchange and to increase the liquidity from investment funds. The G-REIT was implemented to make the market more professional and to increase fiscal transparency (Voigtländer, 2010). However, its introduction coincided with the GFC: due to bad timing the expected public offerings of new listed real estate companies have remained limited (Rohmert, 2013). To a large extent, this can be explained by the fact that the non-listed real estate sector in Germany is traditionally dominant and still has several advantages compared to the new tax regime of the G-REIT (Pfnür, 2013; Voigtländer, 2010). For now, the incentive for German banks and investment funds to transfer their real estate portfolio into a capital market structure is not strong enough.

The recent developments in the German property sector have reinforced the debate whether more serious reforms are necessary. For instance, German pension funds traditionally guarantee fixed returns on investments (*Garantietzins*), which is difficult in the current low-interest environment. As returns on stocks and bonds have declined during and after the GFC, pension funds expanded their investments in real estate in the post-GFC years (Scharmanski, 2012). As this interviewee proclaimed: “today, when we invest in bonds or in stocks, the level of the yield is too low. Our clients are now asking us to buy real estate, to generate yields of 4% or 5% that cannot be generated in the capital market” (Interview with a CEO of a pension fund, November 2014, NRW). This development is reflected in a net turnover of EUR2 billion in 2012 and indicates that commercial real estate has become an important outlet for institutional investors in Germany (Heeg & Dörry, 2009). However, the expansion of a listed real estate sector could offer these financial agents more possibilities to optimize their investment flows: investing directly or in a German Spezialfond or G-REIT.

4.4. Discussion and Conclusion

Ever since the property boom of the 1990s, international investors have entered the property markets of Continental European countries. This has resulted in the idea that a global hegemony of foreign investment funds has taken a majority control over the property markets of Continental Europe, including France and Germany. This paper has gone beyond the key role of global investment funds and has highlighted how domestic financial agents in France and Germany have responded to the challenges of internationalization by consolidating their domestic interests. We have mobilized CPE to come to a better understanding of the continued variegation in commercial real estate markets in CMEs, but have also enriched CPE with an analysis of a market to which it had hitherto paid little attention. Commercial real estate markets are of particular interest because they are heavily tied to both national and international finance, but also because of the tension between location and liquidity. Real estate is by definition spatially fixed, but during the last decades it has been remade into an increasingly liquid asset class (Van Loon and Aalbers, 2017). As we have demonstrated in this paper, the creation of liquidity out of spatial fixity (Gotham, 2012) is highly variegated within the two major CMEs of Continental Europe.

Where the property crisis in France already began in the mid 1990s, foreign investors entered the Parisian market during the mid 1990s and sought to profit from the falling property prices. American private equity and hedge funds introduced new modes of profitability but also undermined long-term stability. The French state perceived the arrival of foreign investors as a potential threat to the French property companies and implemented a new tax regime that allowed these companies to launch publicly-listed real estate vehicles known as SIICSs. As such, the French property sector could attract foreign capital and increase liquidity, while enjoying new tax advantages. The rise of the SIICs was a major driver of the French investment boom of 2003–2007. In 2007, another major reform followed: the new tax regime of OPCI would gradually replace the old one of SCPI and transform French investment funds into 'hybrids' that could invest both in listed and non-listed real estate, with investments from not only institutional investors but also the general public. These vehicles have contributed to the rise of the listed real estate sector in France. Yet, the OPCIs have not fully replaced the SCPIs. In the contemporary low-interest environment, the SCPIs still have a comparative advantage: because they invest only directly in real estate, the SCPI are able to realize higher profits, as long as the capital costs remain low. Rather than seeing the French commercial real estate market being swallowed up by a globally active investment funds, international capital has been absorbed by French listed real estate funds.

Due to the shocks of German reunification, the momentum for internationalization arrived relatively late. During the 1990s, international investors considered the federally organized German property sector as somewhat backward and illiquid that still had to "catch up" with international trends. Major reforms in the German property sector were not implemented in the 2000s. Rather, the German state encouraged German firms and banks to expand abroad and to use positive balances of trade for capital accumulation in emerging economies. Between 2003 and 2007, American private equity and hedge funds entered the market and invested unprecedented amounts of capital in the German property sector. However, the traditionally dominant non-listed investment funds in Germany also responded. The German *Spezialfonds* were able to invest above their historical average because they collected capital from pension funds and insurance companies. Open-ended funds absorbed international capital flows and sought to provide high returns, something that resulted in a liquidity crisis when investors started redeeming their investment capital in 2007-2008. Some of these funds have recently been bailed out by German Spezialfonds, but the crisis of German open-ended funds has not been solved yet. In the aftermath of the GFC, the German state has introduced a new Investment Code to make the non-listed real estate sector stronger. This sector continues to rely heavily on the liquidity of banks: raising capital at the stock exchange is not possible. Contrary to France, the introduction of the G-REIT in 2007 has so far made little difference; the German preference for non-listed real estate remains strong.

Although the commercial real estate markets of France and Germany have opened up to global capital, they have not converged to a LME model. Despite the inflow of foreign capital these markets remain firmly embedded in their respective CME models. In France, we see the development of a post-dirigisme that extends to investment markets and facilitates foreign and domestic investment in French listed and mixed real estate funds that are similar to REITs yet typically French in their structure. In Germany we see a delayed entry of foreign capital: private equity and hedge funds massively buy up real estate portfolios (both commercial and residential) but we also see a strengthening of the existing bonds between banking and real estate. As private equity funds partly retreat from German real estate in the post-GFC years, it is the typically German *Spezialfonds*, among others, that expand their market share. Although the French and German political economies keep—and even strengthen—some of their typical characteristics, agents in both countries also feel the need to respond to the interest of international investors by creating REIT-like systems to absorb domestic and foreign capital.

Changes to real estate investment markets are crucial to the political economies of France and Germany. Not only is real estate a key arena to study the existing variegation

within Continental Capitalism, real estate investment has also become increasingly important to the economies of both countries. The listed real estate market of Germany and France are now the biggest of Continental Europe. Furthermore, real estate investment has become a standard investment class for households in both countries and.wealth management by French and German institutional investors increasingly relies on investments in commercial real estate. The controlled opening up to internationalization in France squares with wider trends in the French political economy. Similarly, the continued importance of banks indicates that Germany's dominant banking sector also takes an important share in the real estate business. Finally, in both countries we see how the state facilitates this process while simultaneously creating favourable conditions for select domestic investors (cf. Nölke et al., 2013; Stockhammer, 2008).

Although this paper has applied a comparative political economy lens, it is noted that the critical connections between political economy, commercial real estate and European property markets could be made more explicit by follow-up studies. For instance, the wider connections between the consolidation of Germany's non-listed real estate sector and Germany's bank-dominated financial system are only touched upon here (for a deeper analysis, see Berry et al., 1999; Pfnür, 2013). The same goes for the intricate relationships between France's post-dirigiste financial system and the push for a listed real estate sector by the French Financial Authority (AMF, 2003; Hardie & Howarth, 2009). However, future market changes in European property markets will also be associated with wider dynamics in the *global* political economy. In this regard, a more fine-grained analysis is needed to denote the linkages between commercial real estate investors, offshore finance and the shadow banking system (Fernandez and Aalbers, 2016; cf. Garcia-Bernardo et al., 2017; cf. Haberly and Wójcik, 2014). If, as some studies have suggested (e.g. Boisnier, 2011; Kofner, 2012; Lizieri, 2009), European investment funds use offshore centres to invest in their home markets, another complex layer needs to be added to the fundamental interplay between domestic and non-domestic investment flows.

Another open question regards the connections between commercial real estate investors, global finance and *urban* political economy. During European investment booms, some investment funds strategically move away from prime markets like Paris and Frankfurt, and start investing in the urban periphery or in mid-sized cities (see e.g. Savini and Aalbers, 2015). It has been well documented that European cities are becoming a reserve currency for domestic and non-domestic investment funds (Fernandez et al., 2016; Guironnet et al., 2015). French SIICs are known to be deeply involved in major urban redevelopment projects in the Greater Paris region (Boisnier, 2011; Enright, 2012). By contrast, the few listed real estate companies in Germany are

mainly involved in the residential sector, where the market potential is considered higher (Wijburg & Aalbers, 2017a). The wider involvement of commercial real estate investors in urban redevelopment projects may provide more evidence that domestic investors have a home advantage over their foreign competitors.

PART III:

URBAN CASES

Chapter 5. Intermezzo

In the preceding chapters, I have sought to identify the long-term institutional pathways of change in the residential and commercial markets of Germany and France. In doing so, I have demonstrated that these markets have followed a 'common trajectory' towards financialization and liberalization (cf. Fernandez & Aalbers, 2016; Hay, 2004). During this transition, I have also shown that the real estate markets of Germany and France have maintained their essential and institutional differences due to path dependency and uneven development (Driant, 2010; Voigtländer, 2010). Although the connections between real estate and finance indeed have become stronger in both countries (Hardie & Howarth, 2009), a dominant pattern of financialization, operationalized as a greater reliance on mortgaged homeownership and mortgage securitization, cannot be observed in Germany and France (Kofner, 2014; Tutin & Vorms, 2014). Yet, the transformations in the former subsidized rental housing sector of Germany indicates an alternative pathway of financialization since large housing portfolios are now managed by private equity funds and listed real estate companies (Fields & Uffer, 2016; Holm et al., 2015). In France, major changes in the housing sector are less clearly visible due to the quasi-monopoly position of banks and the state-enhanced diversification of credit between home owners and private landlords (Tutin & Vorms, 2014; Pollard, 2010b). Yet, the practices of private property developers, as well as the emergence of a new class of property owners, may suggest that processes of financialization are occurring on the supply-side of housing (Boisvier, 2011; Pollard, 2010a).

Nevertheless, real estate financialization operationalized as listed real estate companies owning and managing large real estate portfolios and actively pushing for the creation of shareholder value, can be clearly observed in Germany and France as a dominant pattern (Bernt et al., 2017; Fields & Uffer, 2016; Nappi-Choulet, 2013b; Boisnier, 2015). While real estate investment trusts (REITs) and other listed real estate companies own and manage large real estate portfolios, capital markets and institutional investors owning shares in these companies have the capacity to intervene in the business operations of these companies and therefore contribute to the circulation of financial expectations in the urban built environment (cf. Beswick et al., 2016; Guironnet et al., 2015; Moreno, 2014). Moreover, there is a clear relationship between institutional investors pushing for the creation of shareholder value on the national level and the financialization of real estate and urban development on the local level (cf. Van Loon & Aalbers, 2017; Weber, 2015; Lizieri & Pain, 2014). Interestingly, however, listed real estate companies in German and France have targeted fundamentally different markets (Fields & Uffer, 2016; Boisnier, 2015). Whereas in Germany the housing sector has become linked to the stock exchange, in France the commercial sector is increasingly becoming

capitalized by listed market actors (IEIF, 2014; FSIF, 2010). For that reason, I want to focus more systematically on the major differences between Germany and France in Part II of this PhD thesis.

Considering that Germany's office market has remained hitherto dominantly bank-based and managed and controlled by non-listed investment funds, it can be considered as quite striking that the residential sector, in which German banks also play an important role, the rise of a listed real estate sector has occurred (Rohmert, 2013). Indeed, it is striking: a a bank-based political economy, in which however a sub-sector of the housing market has been fully opened to international capital markets (see for a similar historical argument: Kohl, 2016). Nevertheless, the abolishment of the 'common interest principle' (*Wohngemeinnützigkeit*) and various capital market reforms in Germany opened the formerly subsidized public and private rental housing sector to financial investors (Kofner, 2012; Holm & Aalbers, 2008). Following the arrival of private equity and hedge funds in the late 1990s, listed real estate companies are now increasingly monopolizing this market segment, especially in the wake of the GFC (Holm et al., 2015; Heeg, 2013). The state played a dubious role in the background as it on the one hand abolished the tax on the sale of block-holdings of corporations in other firms, reinforcing the tax free sale of housing companies to opportunistic equity firms (Diamantis, 2013). On the other hand, the federal government did not really create a macro-economic framework in which ownership transfers could occur and hence was relatively late with for instance introducing a G-REIT tax regime in 2007 (Voigtländer, 2010). Therefore, I have thus identified the emergence of a listed real estate sector in Germany partially as the unintended outcome of a set of captital market reforms, housing privatization, welfare reforms and anti-cylic market opportunities triggering new financial investors to enter the German housing market (cf. Bernt et al., 2017; Diamantis, 2013; see also Krippner, 2011).

In France, where the banking sector holds a quasi-monopoly over mortgage loans and property development in the residential sector, housing has remained fairly bank-based, although many of the commercial banks are of course also listed on the stock exchange or own shares from listed property companies (Tutin & Vorms, 2014). Unlike in Germany, the French government decided to reform the public housing sector through a combination of reducing supply-side subsidies and commercializing the money supply to social housing developers (see Driant & Lee, 2012). As such, market reforms were executed, but the public housing sector was not 'put up for sale', although some residential portfolios of industrial companies were sold to institutional investors (Nappi-Choulet, 2012a). However, in the wake of the 1990s property crisis, the French government decided to introduce a tax regime of SIIC, enabling commercial property companies to become listed on a stock exchange (Boisnier, 2015). This transition towards

listed real estate can be seen in line with wider transformations in the French political economy where large non-financial corporations also became listed on the stock exchange too and became more reliant on capital funding for their business operations (Howarth, 2013; Johal & Leaver, 2007). This example exemplifies the shift from French dirigisme to post-dirigisme: the French state still intervenes in the economy, but more in the background (Clift, 2012). Rather than intervening directly in the production of commercial office space, listed real estate companies, under auspice of the French Authorities, become involved as major commercial property investors, enabling the state to continue exercising control (FSIF, 2010).

Having discussed the national dimensions of listed real estate markets in the foregoing chapters, I want to emphasize in the remaining chapters the urban characteristics of the advent of listed real estate. Listed real estate funds hold a patrimonial strategy of managing and owning income-producing real estate assets (Lizieri, 2009). However, real estate remains, by its very essence, spatially fixed and listed real estate companies need to engage in the urban process to make their real estate portfolios 'perform' (Wissoker et al., 2014). In Germany, as we will see in Chapter 6, this process occurs against the background of new locational politics introduced in post-unified German as a means to strengthen Germany as a investment location (*Standort Deutschland*) (Brenner, 2000). While government responsibilities were shifted to the local level, German cities and municipalities adopted new strategies of city entrepreneurialism and became more responsible for their municipal budgets (Holm et al, 2016). Facing high levels of public debt, may German municipalities, of which Berlin and Dresden are the key examples, decided to sell some of their municipal housing stocks to investors (Voigtländer, 2007). However, in North Rhine-Westphalia, or better: the Ruhr metropolitan area, many industrial companies also decided to sell their housing portfolios, resulting in a structural transition towards post-industrial urban governance (Krämer et al., 2015).

In France, decentralization and the rescaling of statehood has also resulted in the shift from government responsibilities to the local level. Inasmuch as this shift was to promote inter-city competition, it also provided more autonomy to metropolitan areas and city governments vis-à-vis the central government in Paris (Pinson & Le Galès, 2005). Interestingly, France already had a long tradition of what Eisinger (1982) calls the 'mixed economy' and which relates to the decentralization reforms of 1982 and after. Public-private partnerships in France on the local level are nothing new (Pinson & Morel Journel, 2016). However, in the context of the *Grand Paris* project, which is concerned with the extension of Paris *intra muros* into the urban periphery, French REITs play a key role as commercial property investors and developers (Gilli, 2014). To put it differently: they funnel domestic and non-domestic capital from the stock exchange into the urban

built environment, making the project of *Grand Paris* possible and investing in the development of commercial real estate projects (Boisnier, 2015; Nappi-Choulet, 2013b). In doing so, they engage with the national state which provides essential investments in mass transport and public infrastructure but also manages, in the background, the investment activities of French REITs (Enright, 2015).

The urbanization of capital and the role of listed funds in these urban governance networks is a very important mechanism behind financialized capitalism. As we will see in both the German and the French cases, the operations of listed funds often involve the transformation of deindustrialized areas which are being made 'productive' in financial terms through commercial leasing, real estate development and income production (cf. Kaika & Ruggiero, 2013). Although I do not believe that both cases exemplify 'profiting without producing' in their purest forms (Lapavitsas, 2013), I nevertheless show that the shift from industrial to financial capitalism, i.e. the transformation of Continental European capitalism, is an important evolution taking place in the background of these urban case studies. Secondly, I show that the financial practices of listed real estate funds also have deep and persistent socio-spatial implications (see also Bernt et al., 2017). While these firms seek to profit fully from increasing land and real estate values in peripheral areas or post-industrial towns, income producing management techniques may result in gentrification pressures and tenant displacement (see also Moreno, 2014; Rutland, 2010). Moreover, the role of listed funds operating in the urban built environment may reveal some of the contradictions of the 'grounded city' (Engelen, Froud, Johal, Salento, & Williams, 2017). Property development, on the one hand, can be seen as an important accelator of economic growth in peripheral and post-industrial urban landscapes that struggle with stagnation and public indebtedness. However, in the absence of stabilizing counter-effects, such as the production of affordable housing and important public facilities and utitilities, there is a danger that such property development may also exhaust the relative stability of the territory. This fundamental tension between accelarization and stabilization will therefore be further explored in Part II of this PhD thesis.

In the remainder of this PhD thesis, I elaborate on these national and urban dimensions by adopting a actor-centered research approach in two urban case studies. In Chapter 6, I study the investment practices of two listed real estate companies in the Ruhr metropolitan area: Foncière des Régions and Vonovia. Because the first acquired the former ThyssenKrupp portfolio from Morgan Stanley and the latter is the successor of Deutsche Annington, I will particularly raise the question: how and to what extent do the investment strategies of listed real estate companies differ from private equity and hedge funds? Yet, as I engage in their local investment strategies in Mülheim an der Ruhr and Essen, I also focus on the urban and socio-economic consequences of this shift

towards listed real estate. Because Foncière des Régions is a French REIT, I also reveal an interesting cross-national pattern relevant to this PhD thesis: a French commercial property investors that owns a housing portfolio in Germany.

In Chapter 7, I focus on the investment practices of Icade, a former social housing developer of the public bank of CDC which is landowner of a large territory in Aubervilliers, a city at the northern east of Paris. Firstly, I show how the introduction of the tax regime of SIIC can be characterized as a strategy of 'regulated deregulation' on both the national and the urban level. By enabling a local property company to become listed on a stock exchange and to raise domestic and non-domestic capital, the creation of a listed market can be seen as a strategy of managing cross-border capital flow in the national territory (cf. Nappi-Choulet, 2013b). Yet, because Icade is using capital from the stock echange as a means to invest in the urban development of Aubervilliers and the Greater Paris region, it can also be seen as a urban strategy of providing external funding to the large-scale development of *Grand Paris*. Therefore, I show that Icade's major investment, the business park of Le Millénaire, reveals a somewhat contradictory feature: owned and managed by a listed real estate company that is legally obliged to maximize shareholder value, the project is supported by state authorities and the CDC Which still owns shares in Icade and remains involved in the background.

Chapter 6. The Financialization of Rental Housing 2.0: Releasing Housing into the Privatized Mainstream of Capital Accumulation

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Abstract

This article presents two cases of listed real estate companies that operate in the Ruhr metropolitan region of Germany. The first is Immeo Wohnen, a subsidiary of the French Real Estate Investment Trust (REIT) Foncière des Régions that was previously owned by a US hedge fund. The second is Vonovia, Germany's largest real estate company, originally a subsidiary of a British private equity firm. Both examples embody what we call the shift from financialization 1.0 to financialization 2.0, i.e. the transition from pure speculation to long-term investment. We show that long-term investment strategies are used by REITS and listed funds in order to release housing into the privatized mainstream of capital accumulation. With the advent of the financialization of rental housing 2.0, the long-term investment focus of these funds paradoxically enables a short-term investment focus by buying and selling shares in these funds on the stock exchange.

Key words: financialization, gentrification, Germany, primitive accumulation, private equity and hedge funds, rental housing

6.1. Introduction

In Germany, Spain, the US and elsewhere, a new set of landlords has entered the rental housing market: private equity firms, hedge funds, real estate investment trusts (REITs) and publicly listed real estate firms. We refer to the original acquisition of different forms of decommodified and not-fully commodified housing (public, social, cooperative, rent-stabilized and company housing[9]) by private equity funds and other opportunistic investment funds as financialization 1.0. Like land grabbing (Ince, 2014), it is one of the forms of land enclosures or primitive accumulation of the early 21st century. The subsequent phase 2.0 starts with the conversion to REITs and listed real estate firms.

The financialization of rental housing 1.0 largely took place in the seven years before the global financial crisis (GFC) of 2007 and is associated with short-term investment strategies of 'buying low and selling high' (Fields & Uffer, 2016; Holm, 2010b). Private equity firms operate in a financial web of multiple actors, loans and securitizations, which makes it difficult to conceptualize who really is the landlord and to whom tenants should address their grievances. Private equity firms have a short-term focus (3 to 5 years), are highly leveraged (i.e., loaded with borrowed money and little equity) and typically invest little in maintenance (Diamantis, 2013; Fields, 2015). Some of their real estate acquisitions are so over-leveraged that the average rent per unit is lower than the cost of servicing the debt per unit, i.e. the rent does not even cover the interest on the loans that were taken out to acquire these properties in the first place (Fields, 2015; Holm, 2010a; Uffer, 2011).

However, in cities like New York and Berlin the financial expectations of the private equity firms often did not materialize. Making money on subsidized rental housing turned out to be harder than expected. Some of these firms simply have collapsed, others had to readjust their strategies: both rents and sales brought in less money than expected and buy- hold- and sell-plans had to be adjusted accordingly (Fields, 2015; Fields and Uffer, 2016). As a result of the GFC, accessing external finance, crucial for the business models of private equity real and hedge funds, became so difficult that most were forced to sell off their portfolios (Aalbers, 2016). However, financialization did not stop or halt; many private equity funds were converted into REITs and listed real estate companies, and housing portfolios were sold directly to listed real estate funds (Wijburg & Aalbers, 2017a). We here focus on the financialization

[9] Rental housing in Germany is organized on the one hand in private housing and on the other hand in public (different state companies), non-profit (e.g. cooperative housing) and social housing (this is a special state financing scheme in order to enable lower rents for a limited time – mostly ten to twenty years).

of rental housing 2.0, i.e. the take-over of housing portfolios by REITs and listed real estate funds.

Unlike private equity and hedge funds, REITs and listed real estate companies appear to adopt a long-term investment strategy to create stable cash flows for their shareholders (Lizieri, 2009). They seek to create a 'rentier structure' to optimize cash flows, rental incomes and capital gains through the sale of individual housing units (Moreno, 2014; Rutland, 2010). Secondly, they seek to enhance the net value of the portfolio, for instance through focusing on core investment strategies, stimulating gentrification effects through modernizations and refurbishments, 'gaming' rental regulations and teaming up with local authorities to coordinate neighborhood development (Bernt et al., 2017; Beswick et al., 2016). Instead of the 'pure' speculative strategies of 'buy low and sell high', the new landlords focus on long-term real estate management. Nevertheless, also REITs and listed real estate companies are primarily aimed at extracting (potential) value from former decommodified and not fully-commodified housing.

We argue that the shift towards financialization 2.0 does not signify a radical break with financialization 1.0, but rather a continuation with different means and strategies. We show that the more aggressive phase of financialization 1.0 was a prerequisite to launch the 'expanded reproduction' of dispossessed housing as an income-producing financial asset. Albeit qualitatively different, both stages are part of the 'ongoing process of social reconfiguration that imposes logics of (fictitious) commodification and fictitious capital formation on land' (AlShehabi and Suroor, 2016: 837-838). Therefore, we also show that the boundaries between 1.0 and 2.0 and, accordingly, between private equity and hedge funds on the one hand, and REITs and listed real estate companies on the other, are not as clear-cut as they seem and that both stages make up for what Harvey (2003) considers a wider pattern of 'accumulation by dispossession.' Like earlier forms of accumulation, financialization 2.0 "entail[s] taking land … and then releasing the land into the privatized mainstream of capital accumulation" (Harvey, 2005: p. 145).[10] More precisely, it entails a stage of capital accumulation in which rental housing units are no longer treated as purely speculative goods but rather as long-term investment objects for investment funds. Paradoxically, the long-term investment focus of these funds enables a short-term investment focus by buying and selling shares in these funds on the stock exchange.

[10] In this specific quote, Harvey (2005) understands the 'privatized mainstream of capital accumulation' as the private market itself. However, in the spirit of his work on accumulation by dispossession, we see housing units really becoming part of the 'mainstream' once the units become tradable as long-term investment objects on the stock exchange.

Although the arrival of listed real estate companies is recognized as an important development, the rise of financialization 2.0 remains under-studied in the literature. Against the background of austerity urbanism and the ongoing expansion of international capital markets into housing and real estate (Fernandez & Aalbers, 2016; Peck, 2012), this could be considered a shortcoming. On the one hand, there are several urban case studies which have highlighted how former decommodified housing portfolios have been sold to financial investors (Bernt et al., 2017; Beswick et al., 2016; Fields and Uffer, 2016; García-Lamarca, 2017; Teresa, 2016).[11] Yet, these studies focus primarily on financialization 1.0 and have only hinted at the rise of the next phase: financialization 2.0. On the other hand, there are a few studies that focus on REITs and listed real estate companies in Germany, France and Ireland (Byrne, 2016; Holm, 2010a; Waldron, 2017; Wijburg & Aalbers, 2017b). However, the latter studies are national in scope and neither focus on local investment strategies, nor on the urban processes shaping financialization 2.0.

We scrutinize these processes through an analysis of the investment activities of a REIT and a listed firm in Germany: Immeo Wohnen and Vonovia. Immeo is a subsidiary of the French REIT Foncière des Régions (FdR) that entered the German market in 2005 after it purchased a 39,400 units large housing portfolio from a hedge fund of US investment bank Morgan Stanley. The second company, Vonovia, is the largest listed real estate company in Germany. Until 2015, the company was known as Deutsche Annington and belonged to the British private equity firm Terra Firma Capital Partners. Both companies operate in the Ruhr area, the region where the largest number of housing units in Germany were sold to financial investors between 1999 and 2008 (BBSR, 2007; Diamantis, 2013; Kofner, 2012). FdR is currently selling most of its remaining housing assets here as it conducts a 'core investment strategy' and relocates its business activities to more profitable areas, such as Berlin and Hamburg. Although Vonovia's overall strategy is broadly similar, the company is currently engaged in the redevelopment of a neighborhood in Essen. Using government aid and modernization techniques, Vonovia adopts a gentrification strategy to enhance the real estate values by gaming the system of rental housing regulations.

By describing the shift from financialization 1.0 to 2.0, this paper adds to the literature on the financialization of rental housing (Aalbers, 2016b; Bernt et al., 2017; Beswick et al., 2016; Fields & Uffer, 2016; Soederberg, 2017; Wijburg & Aalbers, 2017a) but also contributes real-world examples to the literature that argues that real estate increasingly is managed as an object of investment (Coakley, 1994; Lizieri & Pain, 2014;

[11] While finishing our paper, we became aware of a working paper that uses almost the same heuristic, but has a slightly different understanding of financialization 2.0 (García-Lamarca, 2017).

Van Loon & Aalbers, 2017) and more generally to the a strand of the financialization literature that argues that profit-making occurs increasingly through financial channels rather than through trade and commodity production (Krippner, 2011). Because the advent of financialization 2.0 coincides with wider transformations in the financial sector and urban political economy (cf. Botzem & Dobusch, 2017), we conclude that the described transition also exemplifies how international finance and the stock exchange intensify their control over the management and production of urban space and local real estate markets (cf. Moreno, 2014; Rutland, 2010). We demonstrate this by adopting and by focusing on the local investment strategies of Immeo Wohnen and Vonovia in the Ruhr area of Germany.

This paper has adopted a mixed case study design. Newspaper articles, policy documents and annual reports have been investigated to explore the investment practices of Immeo and Vonovia in Mülheim an der Ruhr and Essen. In order to fully comprehend the local investment practices of both companies we also conducted 14 semi-structured, in-depth interviews with various city councilors, urban planners, tenant associations, housing activists, but also general managers and project managers of Immeo and Vonovia between October and December 2016. The next section provides a contextual history of housing privatization in Germany. We then discuss the local investment practices of FdR and Vonovia in Mülheim an der Ruhr and Essen. We conclude by summarizing the business strategies of listed real estate companies and explain how these strategies, together with other developments in rental housing, constitute financialization 2.0.

6.2. From financialization 1.0 to financialization 2.0

During the late 19th century, a subsidized private rental sector emerged in German cities (Harloe, 1995; Kohl, 2015). Mortgage banks, manufacturing firms, private developers and local municipalities were responsible for the construction of large-scale social housing associations (see also Voigtländer, 2010). After World War II, subsidized rental housing became a cornerstone of post-war housing policies in Federal Republic of Germany (Kofner, 2014).[12] Facing a permanent housing shortage, in part a result from war damage, the federal government vastly supported the construction of affordable housing

[12] Under state socialism of East Germany, housing construction was state-led and part of a planned economy. Upon German reunification, the institutions from the West were transferred to the East. Because of this 'institutional transfer', German housing scholars usually focus on the post-war history of West Germany to describe the housing trajectory of the country as a whole. To the purposes of this paper, we do the same.

(Voigtländer, 2010). Affordable housing, typically managed by private or municipal companies, was seen as an integral part of Germany's post-war 'social market economy' (Kofner, 2014). The law of the *Wohnungsgemeinnützigkeit* ('common interest principle') guaranteed that social housing companies were exempt from taxation, providing that they served a public goal and offered affordable, rental housing units (Voigtländer, 2010).

However, during the 1980s the state support for subsidized rental housing was heavily debated. The Kohl administration argued that it was necessary to reduce public expenditure to the subsidized housing sector and to promote 'free' competition (Holm, 2015). A new law, introduced in 1989, abolished the 'common interest principle'. Upon German reunification, social housing companies lost their protected status and were forced to become market-oriented and to introduce market logics to make the provision of housing possible (Voigtländer, 2007).[13] As a result, many municipal and industrial housing companies divested their real estate portfolios in order to pay-off municipal debt or to raise shareholder value (Kirchner, 2007; Voigtländer, 2010). Between 1999 and 2011, around 1.4 million housing units were sold off (BBSR, 2011), almost 3.5% of the entire housing stock in Germany. Such sales took place in both East and West Germany; and in both economically weak and strong regions.

The reforms in the subsidized rental sector opened up the market to international investors: the financialization of rental housing 1.0. Although it wasn't the goal of the German government to facilitate these investors, their entry into the German housing market is the contingent outcome of state restructuring, welfare reforms and housing privatization that created new state-market relations (Bernt et al., 2017). The first international investors that entered the German housing market were US- and UK-based private equity and hedge funds (Aalbers & Holm, 2008; Kaiser, 2008; Voigtländer, 2007). These funds create and manage real estate portfolios by collecting investment capital and leveraging it with credit from investments banks or the shadow banking system. Operating with little equity and high leverage ratios, private equity funds aim to make high returns but are also exposed to high default risks (Fichtner, 2014; Kofner, 2012). Their business model is based on 'buying low and selling high'— i.e., on speculation in its purest form—and revolves around the usage of complex financial instruments and measurements (Deeg & Hardie, 2016; Kofner, 2012). Private equity funds aim to reduce vacancy rates and extract higher rents while deliberately disregarding maintenance, sometimes even when the older housing units of their portfolio are eroding (Holm, 2010b; Botzem and Dobusch, 2017).

[13] Before the large portfolio transactions in the late 1990s and early 2000s, housing companies in the former East and Berlin had already sold many of their individual housing units as they were legally obliged to compensate for the remission of old debts (*Altschuldehilfe*).

In Germany privatization and financialization happened throughout the country, but more intensely in some regions such as Berlin because of the large public housing stock and the dire budgetary crisis of the State of Berlin. Not only did the 19 different public housing companies sell off thousands of units, two companies were completely privatized. With the 2004 purchase of GSW and its 65,000 units, Cerberus, an American private equity firm valued at $24 billion, became the largest landlord of Berlin overnight. Valued at €405 million, the deal allowed Cerberus to purchase the stock at a mere €6,230 per housing unit, although Cerberus also took on GSW's debt. The company acquired another 30,000 units in at least nine different transactions (Aalbers and Holm, 2008). Cerberus was backed by Goldman Sachs' real estate subsidiary Whitehall Funds. Cerberus and Whitehall had planned to hold GSW and the other 30,000 units for a few years, raising rents, upgrading and selling a number of units in gentrified neighbourhoods (Uffer, 2011), while reducing maintenance costs elsewhere.

During the mid 2000s and in particular since the GFC, many private equity and hedge funds have exited the German housing market (Müller, 2012; Scharmanski, 2013). However, most housing portfolios were not sold directly to new investors. Instead, several funds transformed their housing subsidiaries into independent housing companies that became listed on the Frankfurt Stock Exchange, allowing the private equity and hedge funds to exit the German housing market (Heeg, 2013; Kofner, 2012). For instance, Cerberus managed to bring GSW to the stock exchange, marking the shift to financialization 2.0. The IPO of GSW was valued at €468 million, undoubtedly less than Cerberus and Whitehall Funds had counted on, but assuming these firms have loaded GSW further with debt than it already was when Cerberus bought it in 2004, both companies probably still realized a handsome profit. Other funds struggled with meeting the high interest payments on their offshore credit loans and defaulted in the wake of the crisis (Botzem and Dobusch, 2017). The shift from private equity and hedge funds to REITs and listed real estate was followed by a wave of mergers and acquisitions, resulting in a select group of listed companies and REITs: Vonovia, Deutsche Wohnen, LEG Immobilien and Foncière des Régions (Immeo Wohnen) are four major players with a quasi-monopoly position. In 2013 the total size of the listed real estate sector in Germany, 75% of which is residential (Barkow and Georgi, 2014), was valued at €1,833 billion (EPRA, 2013).

Unlike private equity funds, listed real estate companies adopt a mid- to long-term approach of managing and maintaining income-producing real estate assets (Kofner, 2012). Much like real estate investment trusts (REITs), listed real estate companies are legally obliged to distribute the largest part of their operative income to

their shareholders (Lizieri, 2009).[14] While shareholders expect a maximization of shareholder value, listed real estate companies typically seek returns of 4-6% annually and are thus devoted to creating continuous cash flow and operative income (IEIF, 2014a; Heeg, 2013). In doing so, listed real estate companies and REITs alike are known for developing strategies to enhance the real estate values of their portfolio, sometimes by gaming the systems of rental regulations (Kofner, 2012; Lizieri, 2009), as will become clear in section 3. These strategies of 'expanded reproduction' can be considered as a continuation of the more 'primitive' strategies of private equity funds, albeit with different means and considering a longer time frame (cf. AlShehabi and Suroor, 2016).

Nonetheless, it must be emphasized that the boundaries between private equity and hedge funds on the one hand and REITs and listed real estate companies on the other are not as clear-cut as it seems. For instance, Bernt et al (2017) have shown how private equity funds can make money through receiving state-subsidized rents to house unemployed welfare recipients. Providing that a housing shortage prevails and interest rates remain low, private equity funds can make money on this so-called 'Hartz IV-model' as they offer low-cost and often low-maintained housing units to this target group (see also Müller, 2012). However, this model has also been adopted by various listed funds that seek to make long-term profits. Similarly, some private equity funds were already involved in property management before they sold-off their portfolios or before their IPO; some listed funds still adopt private equity techniques and divest the less profitable parts of their housing portfolio (Kofner, 2012). Increasing evidence also shows how both private equity funds and listed real estate companies engage in a tight network of supporting financial intermediaries, thus extending their activities far beyond the reach of the real estate industry alone and also generating income through fees, commissions and mortgage securitization (Botzem and Dobusch, 2017). Table 5 provides a summary of the investment strategies of REITs and listed real estate companies compared to both social housing companies, and private equity and hedge funds.

[14] Every country has different legislations for listed real estate companies, mostly based around a REIT-structure (KPMG, 2013). In Germany, the G-REIT which has tax advantages compared to regular listed real estate companies has been introduced in 2007. But while G-REITs are only allowed to invest in housing units constructed after 2007, most listed real estate companies in Germany have adopted the legal structure of a joint-stock company (*Aktiengesellschaft*).

Company structure *Characteristics*	Social housing company	Private equity and hedge funds	Listed real estate companies/REITs
Principal activity	Providing affordable housing for low- and moderate-income households	Buying low and selling high	Managing and maintaining income-producing real estate assets
Debt structure	Fiscal and financial subsidies, bank loans	Low equity and high debt, often through offshore finance (highly leveraged)	Capital markets and offshore finance
Profit versus risks	Non-profit, long-term	High risks, high profits, short-term	Medium profits, low to medium risks, long-term

Table 5. *Investment strategies of listed real estate companies in Germany*

6.3. Listed real estate companies: FdR and Vonovia

Since the aim of this paper is to identify local investment strategies that make up for expanded reproduction, this section focuses on two large listed real estate companies operating in the Ruhr area in the state of Nordrhein-Westfalen (NRW): Foncière des Régions (Immeo Wohnen) and Vonovia. While both companies adopt broadly similar investment approaches, they locally adjust their strategies to fully exploit the uneven geographies of the regional and urban economy of Germany. Table 6 displays the key figures and locations of both companies. The Nordrhein-Westfalen (NRW) state includes the Ruhr area.

Before moving into the analysis, we want to emphasize that both companies can be considered as representative for all listed real estate companies in Germany which, as we have explained in the previous section, adopt broadly similar investment strategies regardless of the historical origin of their housing portfolio (public, municipal or industrial) but adjust these strategies according to the market challenges and

opportunities of the city or region in which the housing portfolio is located. Likewise, we want to emphasize that both firms are not uniquely 'German' inasmuch as they translate global real estate practices into local investment strategies and hence adopt a similar business model as REITs and listed funds in other countries (cf. Aalbers, 2016; Beswick et al., 2016). The German case is similar to transitions from financialization 1.0 to 2.0 in countries such as Ireland, Spain, UK and the US where, albeit in a different institutional environment, the ownership transfer from private equity to listed real estate also can be observed (see e.g. Fields, 2017; García-Lamarca, 2017; Waldron, 2017; Beswick et al., 2016). However, whereas Vonovia is more representative for a listed real estate company launched on the stock exchange initiated by a private equity firm, Immeo Wohnen is more representative for a globally operating REIT which expands its real estate portfolio through acquisitions. Yet, Vonovia also strategically cooperates with important housing companies in other European countries such as France.

	FdR (Immeo Wohnen)	**Vonovia**
Original owner	ThyssenKrupp steel company	Railway and utility companies (among others)
Private equity/hedge fund	Immeo Wohnen (Corpus/Morgan Stanley)	Deutsche Annington (Terra Firma)
Net initial yield (EPRA)	5,0%	5,6%
Market capitalization	€18.4 billion (€2.1 billion in Germany)	€13.3 billion
Housing units under management	44,939 in Germany	333,381
Geographical focus	NRW (52%), Berlin (34%), Dresden and Leipzig (8%), Hamburg (6%)	Nation-wide: in NRW (31%), Leipzig and Dresden (14%), Stuttgart (9%), Berlin (9%)

Table 6. *Key figures from Vonovia and Immeo Wohnen*

6.3.1. Immeo Wohnen

The housing portfolio of Immeo Wohnen consists of the former housing units of two steel companies: Thyssen and Krupp. After the two competitors merged in 1999, ThyssenKrupp decided to focus on its 'core' activities. As a result, the housing portfolio in the Ruhr area was put up for sale. In 2004, the ThyssenKrupp portfolio of 48,000 housing units was sold to Corpus, a hedge fund owned by US investment bank Morgan Stanley for an estimated price of €2.1 billion (Kofner, 2012). Morgan Stanley rebranded the housing portfolio into Immeo Wohnen. Morgan Stanley's goal was to improve the cash flow of Immeo in order to resell it during a future market upswing (Kaiser, 2008). However, it was faced with high interest payments on loans it had obtained to finance the acquisition of the portfolio (Kofner, 2012). As the company struggled with repaying its debts, in particular during the GFC, Morgan Stanley started selling of some dwellings. In 2005-2006, FdR acquired Immeo for €1.8 billion.

Founded in 1963, FdR was initially a property company that maintained a large parking garage in Metz (IEIF, 2014a). After some acquisitions and leaseback agreements in the 1980s and 1990s, it expanded its portfolio with residential units and also acquired commercial real estate properties from Axa, Telecom and other French multinationals (IEIF, 2014a). After its IPO at the Paris Stock Exchange in 2003, FdR began to diversify its portfolio further, also internationally. Focusing strategically on offices in France and Italy, on hotels throughout Europe and housing units in Germany, the company developed into one of the largest REITs of Europe (IFRA, 2014). By 2015, the portfolio of FdR consisted of commercial real estate in France (45%) and Italy (17%), residential real estate in Germany (20%), hotels and hospitals in Europe (13%) and other types of real estate (6%). In 2015, the company's portfolio equaled a total market capitalization of around €13 billion. A majority of the shares of FdR are owned by a consortium of shareholders, including Delfin Group (29%), the holding company of Italian billionaire Leonardo del Vecchio, and three French insurance companies: Covéa Group (12%), Crédit Mutuel Insurances (8%) and Crédit Agricole (7%). Parts of the company are still owned by Charles Ruggieri, its founder.

The entry of FdR into the German housing market was part of its wider strategy of global diversification (Immeo, 2014). While homeownership rates, rental price and house price levels in Germany were lower than in other European countries, the German housing market was considered full of potential. However, FdR soon realized that the Immeo portfolio was less profitable than it had anticipated. Since most of Immeo's housing units were located in the less dynamic Ruhr area, the surge in house prices and rents remained limited. As a result, FdR changed its investment strategy in 2009 (Boisnier, 2011). Selling many of its 'non-core' assets in the Ruhr area, the company

relocated its investment activities to the metropolitan regions of Berlin, Dresden, Leipzig and Hamburg where house price dynamics were stronger (Wijburg & Aalbers, 2017a). As a result, the dominant investment strategy of FdR can be characterised as a core investment strategy: a general withdrawal from the Ruhr area in order to expand in more booming regions, whereby the company only keeps those assets with a special value, as we will see in the next section.[15]

6.3.2. Vonovia

The housing portfolio of Vonovia was established after a merger between Deutsche Annington and Gagfah in 2015. Deutsche Annington was created in 2001 when British private equity fund Terra Firma acquired 64,000 housing units from the German Federal Railways. With its headquarters in Düsseldorf and Bochum, Deutsche Annington started expanding its portfolio and eventually acquired large housing companies in Berlin, Dresden and Leipzig (Holm, 2010b). In 2005, the energy companies E.On (previously: Veba and Viag) and RWE sold their housing portfolios of respectively 138,000 and 4,500 housing units, which also enlarged the company's housing portfolio in the Ruhr area (Kofner, 2012: 89). During the GFC, Deutsche Annington introduced the so-called Clear Water reform, consisting of the abolishment of regional contact centers, the digitalization of rental leases and the dismissal of 300 employees (Kofner, 2012). Furthermore, it was able to refinance €4.3 billion of outstanding debt in 2012, at the time the largest commercial mortgage-backed security deal in Europe. In the German public debate, Deutsche Annington has often been portrayed as a grasshopper (*Heuschrecken*) that destroys the harvest, without sowing because it was a prime example of a private equity fund that increased rents while simultaneously neglecting maintenance (Holm, 2010b).

Terra Firma never intended to stay in Germany for more than 6-8 years. In 2013 Deutsche Annington was transformed from a subsidiary of Terra Firma into an independent company listed at the Frankfurt Stock Exchange. After Deutsche Annington merged with Gagfah in 2015, the company was transformed into Vonovia, a listed real estate company. The initial public offering of the company allowed Terra Firma to progressively reduce and sell its shares in the company. Since its IPO, about 28% of the company in 2015 is owned by a consortium of asset managers and banks, including Blackrock (8%), Norges Bank (8%), Lansdowne Partners (5%), Deutsche Bank (4%) and Sunlife Partners (3%). This shareholder structure underlines the international dimension

[15] Here it must be noted that Immeo still considers Düsseldorf as an important market for their investments. Mainly the smaller cities in the Ruhr area, of which Mülheim an der Ruhr, Duisburg and Oberhausen are good examples, are considered non-strategic.

of listed real estate in Germany. Not only can global asset managers such as Blackrock influence the local business strategies of Vonovia through shareholder votes; a large share of the profits of Vonovia, i.e. the rents of tenants in Germany, flow out of the country and are absorbed into international capital circuits.

With the exit of Terra Firma, the new company of Vonovia started 'focusing on scale advantages and offering mid-priced private rental housing' (Interview regional ministry NRW, 2016). Another way of Vonovia to increase profits is through a strategy of *insourcing* services, such as internet, energy and repairs. By closing package deals with local companies, Vonovia is able to provide relatively affordable services to its tenants while also taking a cut themselves. Sometimes the service package of Vonovia is included in the rental contract. To counter its past reputation as a grasshopper, Vonovia also developed a strategy to improve customer satisfaction and its corporate image. For instance, many of the Clear Water reforms were reversed. Vonovia also started refurbishing and modernizing its housing stock in low-income neighborhoods and engaging with 'neighborhood development' (*Quartiersentwicklung*) (Vonovia, 2015), typically as a strategy to increase rents, thereby increasing pressure on some low-income tenants to move.

6.4. The local investment strategies of Immeo and Vonovia

In this section we present two local case studies to demonstrate what investment strategies Immeo and Vonovia have adopted. These cases point to how listed real estate companies adopt two main strategies to make profits: selling housing units at a lucrative price or renting them out while improving the net value of the portfolio. The first case is the Heimaterde, a neighborhood in Mülheim an der Ruhr where Immeo Wohnen sells most of its housing assets and maintains only those that cannot be sold immediately or that are still profitable. The sale of the Heimaterde illustrates Immeo's wider investment strategy of relocating to more booming metropolitan regions outside the Ruhr metropolitan area, with the exception of Düsseldorf. The second case is Elting, a central neighborhood in Essen. Because Vonovia recognized the potential of Elting, the company has entered into a public-private partnership with the City of Essen and other stakeholders to develop the neighborhood by investing in the modernization of the housing units. As such, Vonovia adopts a gentrification strategy to enhance the real estate values by gaming the system of rental housing regulations.

6.4.1. Immeo in Mülheim an der Ruhr

The Heimaterde (in English: 'home ground'[16]) is a neighborhood in Mülheim an der Ruhr of approximately 900 dwellings. It was built during the 1920s and 1930s by workers of the steel company of Krupp according to the principles of the English garden city movement. During the reign of the Nazi regime the Heimaterde was collectivized and became fully owned by Krupp, the regime's weapon producer. After the war, Krupp remained owner and intended to sell parts of its housing portfolio in the 1980s. However, it first took a merger with Thyssen in 1999 until it eventually sold its housing subsidiary to Morgan Stanley in 2004 (Kaiser, 2008). Morgan Stanley, immediately focused on increasing the earnings of the company, but sold Immeo to FdR one year later as it struggled with making profits and meeting interest payments (Kofner, 2012).

Initially, FdR manifested itself as a long-term investor and focused on the maintenance of the Heimaterde, thereby securing real estate values and contributing to neighborhood stability: 'Immeo was not so much concerned with profit maximization. At least from the political side, we could still talk to them and the issues of tenants were also taken seriously' (interview City councilor I, 2016). The long-term commitment to the Heimaterde was also reflected in its ambition to develop some parcels of land in the Max Halbachstraße. Since the Heimaterde has rather large gardens, Immeo planned to use some of them for new housing construction and received permission from the municipality, provided that it would construct housing for senior residents of the Heimaterde (Hesselmann, 2015).

However, in 2008, in the midst of the GFC, FdR decided to change its investment strategy. On the one hand, the company realized that the former ThyssenKrupp dwellings were not profitable enough: 'We are currently selling individual housing units, mainly family apartments and those that are difficult to manage. … We also seek to divest our non-core assets, which are mainly larger housing estates located in Duisburg' (interview CEO of Immeo Wohnen, 2016). On the other hand, the company strategically relocated its investment activities to more dynamic metropolitan regions: 'We mainly invest in inner cities, including Berlin, Dresden and Düsseldorf, that is to say in smaller housing units, which have rental potential' (Ibid, 2016). As the outcome of this wider development, large sales followed in 2008 in Essen and Oberhausen (Lindgens & Süselbeck, 2012). Simultaneously, the company progressively acquired more dwellings in Berlin, Dresden, Leipzig and Hamburg.

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[16] The German concept of *Heimat* (and therefore: *Heimaterde*) does not have an equivalent in many European languages, including English. We have used a literal translation.

The local strategy of Immeo can be characterized as an 'exit strategy', similar to that of private equity funds (Diamantis, 2013). However, whereas private equity funds anticipate an exit from the market, either through an IPO or a resale of the entire portfolio, Immeo mainly focuses on the sale of individual housing units, thereby seeking to realize profits on each transaction and using the money to fund new acquisitions elsewhere. Although data of housing transactions in Mülheim are not available, Immeo started selling family homes in the Heimaterde soon after it changed its investment strategy. As a city councilor mentioned: 'Mülheim an der Ruhr is one of the greenest cities of the Ruhr area. There are large plots of land. People working in Düsseldorf or Essen want to come and live here. Real estate and land is in high demand' (interview City councilor II, 2016). As both the CEO Immeo and a local urban planner stress, several houses were also sold to existing tenants or their children.

The exit strategy also resulted in the termination of the Immeo plan to construct housing for seniors (Hesselmann, 2015). In 2016 the company sold the land and its building plan to Engel & Völkers, a private developer based in Hamburg. This created a problem for the municipality because the building plan was open to interpretation: 'The development plan was not *precise* enough; it could be sold and reinterpreted by the new developer' (Interview urban planner I, 2016). In other words, Engel & Völkers could bypass some of the commitments Immeo had made and instead focus on the construction of more luxurious apartments with an underground car park. As such, the new homes that are currently under construction can be sold to any buyer regardless of age or income class. A city councilor confirmed: 'The CEO had decided that rental houses for elderly no longer belonged to the "core" business of Immeo: they sold the land for a good price' (Interview city councilor II, 2016).

Although FdR is selling part of its local portfolio, the company still owns several blocks in the Heimaterde. Firstly, it owns a couple of retirement homes (see Figure 13) which are offered as 'special-purpose properties' on their website. Although retirement homes are difficult to split and to sell as pieces, senior homes can be easily marketized since they are scare and equipped with added value, such as elevators or wheelchair accessibility. Against the background of a nationally and locally aging society, Immeo can still profit from the demand for age-appropriate houses, without having to built those assets from scratch, and also receiving federal grants to finance renovations (see also Helbrecht and Geilenkeuser, 2012). Furthermore, Immeo has recently installed new solar panels on the rooftop of the retirement homes. The costs of these modernizations can be charged to the tenants, allowing Immeo to increase the rents.[17]

[17] It has to be taken into account that German rent regulation makes a fundamental difference between maintenance which has to be paid by landlords and modernization which has to be paid by tenants. Modernization applies mostly to energy saving expenditures which should save

Figure 13. Max-Halbachstraße 53-55: one of the few remaining assets of FdR in Mülheim an der Ruhr

Source: Photo taken by Annia Martinez

Secondly, Immeo still owns a number of under-maintained blocks of flats. As private landlords in Germany receive federal subsidies to house welfare recipients below market prices, these low-cost and low-quality dwellings can still be made profitable, providing that the capital costs of the buildings are low (cf. Bernt et al, 2017). The case of the Heimaterde illustrates that a listed real estate company may combine a long-term "hold" strategy for its core assets with a "sell" strategy for its non-core assets, depending on location, rental potential, sale potential and government policies it can incorporate in its business model. Through the sale of non-core assets in NRW, FdR is able to collect the money for new acquisitions in more dynamic regions, including Berlin and Hamburg. Essentially, the company applies a 'core investment strategy' characterized by divestments in NRW and investments in booming metropolitan areas.

energy. This is why the difference is an issue between both sides although the German law rarely offers possibilities to oppose the modernization. (see Bürgerliches Gesetzbuch § 559).

6.4.2. Vonovia in Essen

Vonovia's investment strategies in Essen's Elting neighbourhood are another paradigmatic example of financialization 2.0. Once a lively working class neighborhood, Elting was populated by the coalminers of RWE and railroad workers of Deutsche Bahn. After the coal crisis in 1957 and deindustrialization, Elting slowly started to decline. While many workers lost their jobs, the neighborhood got abandoned. From the 1970s onward, low-skilled migrants arrived in Essen and moved into Elting. The neighborhood became known for its high unemployment rates and impoverished housing conditions. In 2016, more than one third of the population in the neighborhood received welfare benefits and almost half of the population had a double or non-German nationality (Schymiczek, 2015).

Vonovia owns around 3,500 housing units in Elting and struggled to keep up its real estate values. As the neighborhood was known as a 'no go' area, Vonovia initially hired 'guards to keep control in the neighborhood' (Interview project manager Elting, 2016). Yet, Elting was recognized as a neighborhood with potential as it was relatively well located between the city center and the University of Duisburg-Essen (Vonovia and CBRE, 2016). At the same time, the energy company RWE and various other companies reopened their headquarters at the nearby Altenesesener Straße, thus providing local employment. Hence, Vonovia realized that there was not only potential in the neighborhood, but also an opportunity to change its socio-economic structure. In the words of a project manager of Elting: 'they had to do something for the stability of the neighbourhood, this was purely to secure the real estate values of Elting' (Interview, 2016).

The first steps in the transformation of Elting had already been taken by Deutsche Annington when, in 2014, it approached a public-private entity named Innovation City.[18] Innovation City operates largely in line with the Energy and Climate Plan adopted by the German federal government in 2008 in order to reduce CO^2 emissions (Eckardt, 2015). Central to the approach of Innovation City is the idea that 'without a common effort, neighborhood improvements cannot be made' (interview Innovation City, 2016). Vonovia and Innovation City laid the foundation for a development project based around the theme of 'making Essen and Elting greener' (Interview city councilor II, 2016). First, it was negotiated that Vonovia would invest around €9.3 million in Elting in order to modernize around 1,400 of its 3,500 housing units. The renovations included energetic refurbishments, replacement of boilers, installations of double glazing and

[18] Interestingly, the CEO of Innovation City and former mayor of Oberhausen, Burkhard Drescher, was the CEO of Deutsche Annington between 2008 and 2011.

insulating external walls (Vonovia, 2015). Second, the City channeled federal grants to the improvement of the neighborhood and also agreed to pay rent increases for welfare recipients if the improvements allowed Vonovia to increase them over the thresholds defined in the Hartz IV-model of welfare.

The different actors involved agreed that neighborhood development should not result in the displacement of existing tenants. It was argued that modernization would result in lower energy expenses, which would compensate for higher rents. However, the development plan of Elting soon transformed into a prestige project of Vonovia, meant to improve it corporate image: 'Vonovia has a bad image in Germany, they are under enormous pressure. For instance, to mobilize local support of residents, students and artists, Vonovia hired a project manager who would be in charge of 'neighborhood development' (*Quartiersentwicklung*) (Grenz, 2016). In 2015 Vonovia also opened a pop-up art gallery, thereby providing an opportunity to local artists and students to exhibit their work locally (Hagenbucher, 2016). Additionally, Vonovia installed new balconies in the better streets of Elting and equipped them with geraniums to please existing tenants (Hagenbucher, 2016). Figure 14 shows the new balconies placed in the Victoriahof, a particular quarter of Elting where Vonovia and the City also develop a green courtyard.

Figure 14. Victoriahof, Essen: Vonovia installs new balconies and co-finances a green courtyard

Source: Photo taken by Annia Martinez

However, the approach of neighborhood development also caused some local controversies. In 2016 Vonovia announced its intention to replace a popular playground with a new child care center (Grenz, 2016). Some inhabitants and journalists feared that neighborhood development of Vonovia was *de facto* a gentrification strategy (Böhnke, 2015). With the combination of renovation, arts, neighbourhood branding and having the local and federal government pay for at least part of Vonovia's investments, it is not hard to see why its strategies where labeled gentrification. By forming a partnership with the municipality and other local stakeholders, Vonovia has succeeded in improving a well-located neighborhood while only investing €9.3 million of its own resources.

At the same time, Vonovia is "playing" rental regulations. In 2013, the liberal-conservative government introduced a new rental law in which private landlords are allowed to pass on environmental modernization costs to their tenants. While doing so, the government has provided a leeway in Germany's rental regulation to increase the rents at a faster rate than normally is possible. As a representative of a tenant association confirmed: 'A private landlord in Germany is allowed to transfer eleven percent of modernization costs [that are in line with the Energy and Climate Plan] to its tenant on an annual basis. After ten years [taking into account a low interest rate on loans], Vonovia has paid off its entire investment in Elting but the higher rental charges remain. Everything that follows is net profit' (Interview, tenant association 2016). In other words, Vonovia uses modernization in their business model to raise rents in the Ruhr area and elsewhere in Germany (Unger, 2017). Without modernizations, rents are only allowed to increase with a maximum of twenty percent over three years and not above the rental ceiling (*Mietspiegel*) of the neighbourhood (Deschermeier, Haas, Hude, & Voigtländer, 2016).[19]

Furthermore, Vonovia has found ways to game the rental regulations, a strategy reminiscent of those used by landlords of rent-stabilized apartments in New York (Aalbers, 2016b; Wyly, Newman, Schafran, & Lee, 2010). Private landlords in Germany are legally obliged to pay the maintenance costs of their housing units. However, in practice, the distinction between modernization and maintenance is not always clear-cut. In the words of a representative of a tenant association: 'The rental law says that it should be "comprehensible" what exactly belongs to maintenance or renovation costs. [However,] Vonovia sends a very detailed building plan of 300 pages, which due to its

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[19] Calculated on a annual average, rents can normally only increase with less than seven percent on a three-year basis and not above the rental ceiling in the specific neighbourhood. Modernization creates an incentive for listed real estate companies to increase the rents. Up to eleven percent of the modernization costs can be added to the rents on an annual basis irrespective of whether or not the new rents are calculated above the rental ceiling. Moreover, the 11% increase is without time restrictions.

length and detail, is almost impossible to comprehend. We cannot verify how the maintenance and renovation costs are calculated' (Interview, 2016). This spurs fierce protests among tenants, which are further ignited by the communication strategies of some of the larger funds. Vonovia is known for its automated and individualized announcements of rent increases and payment reminders giving the impression of imminent eviction and increasing fear among tenants. Thus, the huge housing stock enables scale effects and strategies which smaller landlords do not have. This set-up, which will further drive up the costs of living, spurs gentrification and may also result in the displacement of low-income tenants when rents become unaffordable. This shows the real face of Vonovia's 'modernization strategy': neighbourhood development goes hand in hand with gentrification and displacement pressures.

6.5. Conclusion

In this paper we have introduced the concept of 'the financialization of rented housing 2.0' as a heuristic device to denote the shift in ownership from private equity funds and hedge funds to listed real estate companies and REITs. Whereas phase 1.0 is about enclosure or primitive accumulation 21st century style—the commodification of fictitious commodities—and is a purely speculative strategy, phase 2.0 is about the treatment of housing as if it is a mainstream rather than fictitious commodity in the Polanyian sense (Polanyi, 1944). Likewise, the massive privatization of housing in many former socialist states (e.g. Murie et al., 2005) could be considered a case of primitive accumulation, but only when these units are being resold or mortgaged they have entered the privatized mainstream of capital accumulation. Furthermore, the buying out of favela dwellers in Brazil and the subsequent commodification of the land, could be considered a form of primitive accumulation, whereas the rehousing of these people into mortgaged houses signifies the start of financialization 2.0 (cf. Pereira, 2017). By adopting an actor-centered approach and focusing on the investment and management strategies of two listed real estate companies, we have shown how these strategies have changed in phase 2.0 in Germany.

In the case of the REIT Foncière des Régions, we find that a REIT in a less dynamic market adopts a core investment strategy that results in selectively holding and selling properties. In the wake of the GFC, FdR decided to sell most of its housing assets in the Ruhr area and to refocus its investments on the more dynamic regions of Berlin and Hamburg where returns on investment are higher. Non-core properties, notably family houses in mid-sized cities as well as large housing portfolios in post-industrial cities like Duisburg and Oberhausen are considered less attractive. The listed real estate

company Vonovia, on the other hand, manages rental housing throughout Germany and makes additional investments in the Ruhr area. While Vonovia may not be implementing the aggressive policies of private equity and hedge funds and appears to be taking a long-term interest in neighbourhoods like Elting, its main goal is to create shareholder value. Government subsidies and rental regulations are employed and gamed to be able to increase rents. Even if this does not always result in direct displacement in the short run, thanks to local government guarantees, it does contribute to indirect displacement in the mid- to long-term.

Both cases show how REITs and listed real estate companies have moved progressively beyond the phase of speculative investment and appear to be interested in rental housing in the long run. Although they selectively withdraw from less dynamic regions, they define different core regions: whereas some focus on more dynamic regions with increasing housing prices and rents, others focus on less dynamic regions where they can monopolize local sub-markets. Within their core and non-core regions these companies also apply more local investment strategies. These landlords sell and hold properties selectively, depending on their location, rental potential and sale potential as well as the government policies and subsidies it can incorporate in its business model. In some cases, the rules of the welfare system are used to rent out low-quality housing to low-income tenants (see also Bernt et al., 2017); in other cases they mobilize energy efficiency initiatives or gentrification pressures to increase rents. Both FdR and Vonovia have made arrangements with local governments to coordinate neighborhood development or to invest in age-appropriate housing. While potentially benefitting local communities, such partnerships may also result in gentrification and displacement and clearly underline the important role of state authorities.

In this paper, we have demonstrated that financialization 2.0 has not substituted or replaced financialization 1.0, but rather has transcended it. However, our critical point here is that financialization 1.0 and 2.0 are part of the same cycle of accumulation by dispossession, despite the fact that both stages are qualitatively different and involve different market actors and investment practices. As we have focused on the role of listed real estate companies, we have pointed out that listed funds are in charge of the second stage of financialization, i.e. with 'releasing housing into the privatized mainstream of capital accumulation' (cf. Harvey, 2005). In phase 1.0, private equity and hedge funds are engaged in pure speculative operations of buying low and selling high, and increasing the rents while neglecting maintenance. REITs and listed real estate companies have a long-term focus in which annual or monthly returns become more important than pure speculation. With the advent of the financialization of rental housing 2.0, the long-term investment focus of these funds paradoxically enables a short-term investment focus by buying and selling shares in these funds on the stock

exchange, thereby substituting pure speculative strategies in the housing market by those in the stock exchange—*plus ça change, plus c'est la même chose*.[20] The dividing line between financialization 1.0 and 2.0 remains thin: some listed funds still adopt investment techniques typical for private equity funds and vice versa. In other words, we do not consider the endeavors of listed real estate companies as more 'friendly' or 'patient' per se; the creation of shareholder value is the prime consideration; both financialization 1.0 and 2.0 constitute and reconstitute capital accumulation, either through pure speculation or through strategies of expanded reproduction (see AlShehabi and Suroor, 2016).

Financialization 1.0 and 2.0 highlight the dual nature of housing as both as place of survival and a site of accumulation (e.g. Soederberg, 2017). Under the regime of *Wohnungsgemeinnützigkeit* ('common interest principle') housing was primarily valued for its use value, even though the exchange value was never completely out of sight and exploitation not completely averted, as such houses were still constructed and managed within a capitalist regime and often owned by private corporations. As the idea of *Wohnungsgemeinnützigkeit* was abandoned, many public, non-profit and corporate entities sold their housing stock to the highest bidder, opening up to the primitive accumulation of financialization 1.0. At the time, use values—still important to tenants—became secondary to exchange values. With the shift from phase 1.0 to 2.0 we also witness a shift in how these exchange values are created: first primarily (but never exclusively) through pure speculation strategies of 'buy low and sell high', and then primarily (but again not exclusively) through maximizing rental returns and expanded reproduction. The long-term effects on housing affordability and displacement will, no doubt, be a topic of future research. Also, the ways in which listed real estate funds play 'a transformative role in the transition from industrial to financial capitalism' (Kaika and Ruggiero, 2013: p. 3), deserves more attention.

In conclusion, we state that our real-world examples also have important implications for the 'financialization of rental housing 2.0' in other countries. As large housing portfolios have been put up for sale, the phenomenon of the global corporate landlord is becoming more widespread (Beswick et al, 2016; cf. Soederberg, 2017). We conclude that more comparative research is necessary to denote the local and national varieties between countries and cities, but also between investment strategies. Further, it must be taken into account how these trends coincide with related developments, such as new innovations of social housing bonds, the revival of securitization markets, the introduction of REIT-like systems across capitalist countries and the role of special-purpose vehicles and offshore finance in (re)funding real estate acquisitions and investment costs (Wainwright and Manville, 2017; Waldron, 2017). For better or worse,

[20] French proverb: 'the more things change, the more they stay the same.'

housing provision in present-day financialized capitalism becomes increasingly funded and managed by capital markets, a pattern which reminisces the late nineteenth century (Harloe, 1990; Kohl, 2014). The arrival of listed real estate companies that invest in real estate assets is only the beginning of this trend. By the last turn of the century Neil Smith (2002: 430) considered 'gentrification generalized as a central feature [of] urbanism'; with the advent of financialization 2.0 we can consider financialization increasingly becoming generalized as a central feature of urbanism.

Chapter 7. Regulated deregulation and the introduction of real estate investment trusts (REITs) in France

Abstract

The introduction of REITs in France is often perceived as a strategy of the French government to reinvent control over the domestic property sector after the arrival of foreign investors in the mid 1990s. However, this chapter shows that the introduction of REITs can also be perceived as a political-urban strategy to funnel capital from the stock exchange into the urban built environment of especially the Greater Paris region. Furthermore, the chapter shows that the role of the French government goes beyond merely coordinating the rise of a listed real estate sector in the background. As a major shareholder of Icade, France's fifth largest REIT, the French state and the public bank of the Caisse des Dépôts are essentially invested in a listed commercial property developer that operates mostly in the urban periphery of Paris. By analyzing the genesis of Icade and its investment operations in Aubervilliers, the chapter therefore shows that the emergence of a French listed real estate sector is also internal to the state as the stock market is used to enable the transformation of a state entity into a commercial property developer.

Key words: Internationalization, regulated deregulation, listed real estate, REITs, Grand Paris, France.

7.1. Introduction

The concept of financial deregulation is commonly used to denote the increased autonomy of financial markets vis-à-vis the nation-state (see e.g. Birch and Siemiatycki, 2015; Crouch, 2011). In the context of international property markets, this concept can also be applied intuitively to explain the relative autonomy of globally operating commercial real estate investors and other property companies (Lizieri, 2009; Nappi-Choulet, 2013a; Van Loon & Aalbers, 2017). For instance, the literature has shown many examples of global investment funds that own and manage a global real estate portfolio and operate seemingly beyond institutional constraints (e.g. Büdenbender and Golubchikov, 2017; Clark et al., 2013; Weber, 2015). Furthermore, actor-centered research has shown how global investment funds and other institutional investors make frequent use of offshore finance and shadow banking systems to bypass local tax regimes and national regimes of regulation (e.g. Botzem and Dobusch, 2017; Fernandez and Wigger, 2017; Haberly and Wójcik, 2015).

However, there is also consensus among economic geographers that the concept of financial deregulation wrongly suggests that financial deregulation takes place without state involvement and state regulations (see Castree, 2008; Le Galès and Scott, 2008; Nölke et al., 2013). Or, as Gotham (2016: 1375) puts it in a recent contribution: 'financial deregulation [does] not mean 'the absence of state regulation but [rather] the extension of state power to actively facilitate financialisation via legal and economic guarantees of new kinds of financial instruments.' In conceptualizing this paradox of market liberalization, Aalbers (2016) has recently re-introduced the concept of 'regulated deregulation.' Regulated deregulation perfectly captures the paradox that financial deregulation is not synonymous to *laissez faire*, but instead is associated with the extension of state power in the name of 'markets' (see also Tickell and Peck, 2003).

Although the concept of regulated deregulation is commonly used to describe the opening up of national economies to international capital markets, there is relatively little reflection in the literature on how national states also seek to control and manage cross-border capial circulation in the national territory (but see Clift and Woll, 2012; Crouch and Le Galès, 2012; Morgan, 2012). Equally important as increasing the exposure of the national economy to international finance is the state's capacity to create boundary conditions to regulate and manage the impact of cross-border investment flows in the national space (Lizieri, 2009; Nappi-Choulet, 2013b; Wainwright, 2015. As such, the concept of regulated deregulation can be used as a heuristic device to elaborate upon the ways in which state and market relations become increasingly blurred when state authorities shape the macro-economic framework in which the expansion of markets can

take place (Ashton & Christophers, 2016; Ashton, Doussard, & Weber, 2016; Konings, 2009).

For elaborating on this pattern of regulated deregulation, this chapter focuses on the introduction of real estate investment trusts (REITs) in France And Europe. While it is well known that REITs are fiscally transparent holding companies that own and manage income-producing real estate assets (Boisnier, 2011; Lizieri, 2009), their wider role and significance in urban political economy remains under-studied and under-theorized. At the same time, REITs are often merely understood as private vehicles that maximize shareholder returns and honor the financial logics of the global real estate industry (Beswick et al., 2016; Rutland, 2010). Yet, as this paper will show, the introduction of REITs in France has been carefully guided and planned by the French government as a strategy of controlled internationalization and market liberalization (Boisnier, 2015; Nappi-Choulet, 2013b). Furthermore, the emergence of a listed real estate sector in France must also be linked to the rescaling of the state and France's specific urban governance model in which public and private actors are involved in facilitating property-led urban growth (Guironnet et al., 2015; Pinson & Le Galès, 2005; Pinson & Morel Journel, 2016).

In making this argument, this chapter focuses on two key aspects of the introduction of REITs in France. Firstly, this chapter aims at sharpening the more mainstream argument that the French government introduced REITs in an attempt to reinvent control over the domestic property sector and in response to the arrival of foreign investors in the mid-1990s (Boisnier, 2015; Wijburg and Aalbers, 2017b). In addition to the literature, this chapter states that the introduction of French REITs can also be perceived as a political-urban strategy to funnel capital from the stock exchange into the urban built environment of especially the Greater Paris region (cf. Boisnier, 2011; Enright, 2016). The French REIT-regime must be seen in line with wider capital market reforms in the political economy of France and was not specifically introduced for this direct purpose (AMF, 2003). However, while it allows listed entities to invest in the production of new real estate assets, an advantage which makes the French REIT-regime rather unique, it has strongly encouraged international capital markets to invest in the urban built environment of France (Boisnier, 2015). In 2013, listed French entities held around 17 billion euro of assets in the vicinity of Grand Paris stations, amounting 64% of total office assets in the urban periphery of Paris (J.P.Morgan Cazenove, 2013). Before the introduction of the 2003 tax regime, such a market for listed real estate had not existed in France (Nappi-Choulet, 2013b).

Secondly, this chapter demonstrates that the role of the French government goes beyond merely coordinating the rise of a listed real estate sector in the background. As a major shareholder of Icade, France's fifth largest REIT, the French state and the public

bank of the Caisse des Dépôts are directly invested in a listed commercial property developer that operates mostly in the urban periphery of Paris (Cour des Comptes, 2014; Frétigny, 2015). Icade no longer operates at arm's length of the CDC as it has become a listed entity that operates independently from its shareholders (IEIF, 2013). However, its historical transformation from a social housing developer into a commercial property developer was internal to the state and coincided with CDC's decision to finally launch Icade on the stock exchange and to make the public bank more competitive (Cour des Compte, 2014). Alternatively put, the case of Icade demonstrates how state restructuring, i.e. the opening up of a para-public national housing company to the stock exchange and its subsequent transformation into a commercial property investor, coincides with and triggers urban restructuring, i.e. a shift in developmental activities from residential to commercial properties (see for a similar argument in a comparable case: Adisson, 2017). The paradox here is that Icade has remained embedded in France's multi-level urban governance regime as it performs a key role in the urban project of Grand Paris and the redevelopment of a large territory in Aubervilliers. However, while it is simultaneously obliged to maximize shareholder returns, Icade needs to reconcile public and private tasks in its investment activities.

By describing how French state authorities actively seek to integrate REITs into the urban political economy of the country, this chapter contributes to the literature on the financialization of urban development and real estate (Fields & Uffer, 2016; Kaika & Ruggiero, 2013; Theurillat & Crevoisier, 2013; Weber, 2010), but also shows how the reworking of the state, i.e. regulated deregulation, is accompanied by the expansion of markets and state power (see e.g. Engelen, 2015; Gotham, 2009; Konings, 2009; Wainwright & Manville, 2017). In so doing, the chapter adopts a wider frame of regulated deregulation and shows how state authorities deliberately transfer risks associated with liberalized, global financial markets to new holding structures that mediate between states and markets (see also Adisson, 2017; Ashton et al., 2016; Byrne, 2016; Christophers, 2016). Furthermore, by describing the transformation of Icade and its investment operations in Aubervilliers, this chapter also contributes to the literature which focuses on how market actors on the *meso* level actively mediate and shape processes of financialization and internationalization on the local level (see e.g. Halbert & Attuyer, 2016; Savini & Aalbers, 2016; Wijburg et al., 2017). In this regard, it is crucial to emphasize that following its initial public offering (IPO) Icade has dominantly shifted from housing development to commercial property investment.

The empirical work of this chapter draws primarily on the consultation of various primary sources, including annual reports, policy documents, market reports, newspaper articles and academic literature. Although the first round of desk work and document analysis was helpful to understand the policy implications of the tax regime of

SIIC, six additional in-depth and semi-structured interviews with Paris-based commercial property investors were conducted in 2015 to learn more about the listed real estate sector in France. At this stage of the research, my interviewees suggested to focus on Icade as this French REIT not only closely collaborates with national and local authorities in the urban project of *Grand Paris* but also holds historical relationships with the public bank of the CDC. To triangulate existing knowledge on Icade (Cour des Comptes, 2014; Frétigny, 2015), two confidential interviews with a general manager and a asset manager of Icade were conducted in Aubervilliers in 2017. These interviews were necessary to learn more about Icade's business park in Aubervilliers and also about Icade's wider role in France's multi-level urban governance network. However, while the aim of this chapter is to reconstruct the genesis of Icade, and its historical transformation from a social housing developer into a commercial property investor, I have primarily based the analysis of this chapter on primary and secondary sources.

The next section of this chapter links the concept of regulated deregulation to the literature on REITs and perceives the introduction of REITs as a political-urban strategy of national governments to control and manage cross-border capital flow in the urban built environment. Subsequentl sections reflect on the introduction of REITs in France and specifically reflects on how French REITs become increasingly involved in funding large-scale urban redevelopment projects. Finally, this chapter reflects on the investment operations of Icade in the urban periphery of Paris. Since the transformation of Icade into a commercial property developer was politically encouraged by the state, the case of Icade exemplifies how the relations between states and markets have become increasingly blurred in France. The consequences of the shifting state and market relations, as well as its ambiguities and contradictions, are discussed in the concluding section.

7.2. The regulated deregulation of real estate investment trusts

Over the past decade, the rise of real estate investment trusts (REITs) in the Americas, Asia and Europe has drawn some attention in the literature (Aveline-Dubach, 2016; Haila, 2016; KPMG, 2013). Much like their late nineteenth century counterparts, REITS are generally perceived as holding companies that invest in income-producing real estate assets and enable shareholders to hold real estate indirectly as a financial asset (Boisnier, 2015; Van Loon & Aalbers, 2017). While REITs are fiscally transparent, the literature has shown that they are legally obliged to maximize returns and to promote the circulation of shareholder value (Beswick et al., 2016; Waldron, 2017). Following the introduction of REITs in the United States (1960), REIT-like structures have been introduced globally

(KPMG, 2013). In the European context, the listed real estate markets of Germany (2007) and France (2003) are the largest, followed by the United Kingdom (2007) and Italy (2007).

In the tradition of critical economic geographic research on the linkages between property markets and international finance (Coakley, 1994; Pryke, 1994; Wissoker et al., 2014), the existing research on listed real estate has shown that REITs play a key role in transforming real estate from a spatially fixed and illiquid property into a financial asset class (Gotham, 2009; Moreno, 2014; Rutland, 2010). As such, the literature has typically highlighted that listed funds are concerned with enhancing the operative income of their real estate portfolio (Nappi-Choulet, 2013a; Waldron, 2017). Moreover, REITs can make profits by combining various real estate operations, such as portfolio management, property development and commercial leasing (Boisnier, 2011; Wijburg et al., 2018). Yet, the relative success of REITs also depends on their investment strategies, which can vary from realizing capital gains, enhancing the existing portfolio's rental income, mergers and acquisitions and global diversification (Lizieri, 2009; Waldron, 2017).

However, REITs are more than mere private vehicles that simply hold and manage real estate assets on behalf of their shareholders and investors (Boisnier, 2015; Newell, Yue, Kwongwing, & Siukei, 2010). In his seminal work on the U.S. property market, Gotham (2006) provides strong empirical evidence for what can be called the 'regulated deregulation' of REIT-like structures. While US REITs only gained significance after the passage of various new investment acts in the 1980s and the 1990s, Gotham (2006) argues that the relative success of REITs largely depends on state regulations. Furthermore, he states that while national governments play such an active role in regulating listed real estate markets, national and local varieties persist. Or, to use his own words: 'transformations in real estate activity, flows, and networks are not merely inherent structural properties of an unevenly developed global real estate system. They reflect national patterns of real estate development (tax systems, trade regulations, law and legal regulations) as well as countries' evolving responses to international socioeconomic changes' (Gotham, 2006: 267-268).

Although the creation of a listed real estate sector opens up a domestic property sector to international finance, national states do not necessarily push for patterns of unbridled market liberalization. As a matter of fact, national governments understand that an unconditional opening up to international investment flows may potentially undermine national growth interests and the stability of the domestic property sector (cf. Clift and Woll, 2012; Nappi-Choulet, 2013b). Against this background, the concept of regulated deregulation can be used as a heuristic device to explain the wider attempt of states to enhance and control cross-border capital flow in the national territory by creating a set of boundary conditions and control mechanisms (cf. Wijburg and Aalbers,

2017b). To put it differently, the introduction of REITs can be seen as part of the wider national state's attempt to 'resolve the tension between interdependent economies and political territoriality in a variety of political economic settings' (Clift & Woll, 2012: 323). Furthermore, it can be seen as an example of how state powers seek to manage heightened risk associated with liberalized, global financial markets by promoting new holding structures or financial instruments that reinforce a reworking of the state (Ashton & Christophers, 2016; Ashton et al., 2016; Konings, 2009).

There are multiple ways in which national governments can create boundary conditions to control cross-border flow in the national territory. Firstly, since REITs need to adapt to local tax regimes, investment trusts and listed funds remain subject to government control (Berry et al., 1999; KPMG, 2013). Secondly, by creating the macro-economic framework in which REITs can operate and maneuver, national states can shape the boundaries in which investment operations of REITs can take place (Byrne, 2016; Lizieri, 2009). For example, taxation, restrictions on shareholding and legal requirements for income distribution are forms of regulation that circumscribe the market activities of listed funds (IEIF, 2014a; KPMG, 2013). Thirdly, while the growth of a listed real estate sector also depends on the 'regulated deregulation' of credit and finance, national states can indirectly hold control over REITs by controlling the financial sector (Engelen, 2015; Wainwright, 2015). However, in this context it must be noted that due to the existence of offshore finance and shadow banking systems, national states holds relatively little power (Fernandez & Wiggers, 2017; Haberly & Wójcik, 2015).

In a few European countries, REITs are also allowed to invest in large-scale urban redevelopment projects (see for an overview: Guironnet and Halbert, 2014). For instance, some recent research has shown that REITs play a key role as commercial property developers in large urban redevelopment projects such as *Grand Paris* in Paris or *Crossrail* in London (Enright, 2016; Fernandez et al., 2016; IEIF, 2013). That is to say, REITs have become increasingly known as private agents that provide external funding for property-led urban growth in 'national champion cities' and other metropolitan regions (Crouch & Le Galès, 2012; Morgan, 2012). This blurring of state and market relations can, on the one hand, be seen as a reinforcement of already existing public-private partnerships that increased in number from the 1980s onward when local authorities shifted towards new modes of urban governance (Ashton et al., 2016; Brenner, 2004; Le Galès, 2011). On the other hand, however, the emergence of a listed real estate sector indicates a qualitative shift inasmuch as real estate and land become more intensely linked to international capital markets and because an increasing share of real estate funding is now provided by the stock exchange (Kaika & Ruggiero, 2013; Savini & Aalbers, 2016).

To further substantiate on this pattern of 'regulated deregulation', the next section of this chapter focuses on the introduction of REITs in France. Ever since the transition

from dirigisme to post-dirigisme in the 1980s and the 1990s, the French government has opened up the insider-controlled corporate governance network of the country and has granted relative autonomy to French corporations and their managers to exercise control over the companies that they run (Howarth, 2013; O'Sullivan, 2007). Nonetheless, the relatively autonomous REITs still operate within a macro-economic framework that French state authorities have created and in which the boundaries of market operations are demarcated (Johal & Leaver, 2007; Wijburg & Aalbers, 2017b). To explain this in detail, the next section describes the resurgence of the French listed real estate sector from a historical perspective. Subsequently, it turns towards the role of French REITs in France's multi-level urban governance structure and the specific ways in which REITs contribute to property-led urban growth process (Pinson & Morel Journel, 2016).

7.3. The emergence of a listed real estate sector in France

7.3.1. SIICs as a form of economic patriotism?

During the late nineteenth century, the urbanization and industrialization of France was heavily funded by and through the Parisian stock exchange (Harloe, 1995; Marguerat, 2015). For example, the Crédit Mobilier, one of the first universal banks of Europe founded by the Péreire brothers in 1852, was notorious for funding large-scale infrastructural and industrial developments with capital from their shareholders (Harvey, 2006). However, after the First and the Second World War, the capital market was destroyed. Centralizing the economy, the dirigiste state took a leading role in guiding the post-war reconstruction, mainly through funding social housing construction with its public bank, the Caisse des Dépôts et Consignations (CDC), and through creating national champion firms (Albert, 1991; Shonfield, 1965). As large firms and private enterprises were nationalized, the construction of new office space was mostly funded by the banking sector and the state, leaving a minor role to capital markets, which only regained some of its historical significance in the late 1960s when the tax regime of SICOMI was introduced (Boisnier, 2011). First attempts to kick-start the French property sector were made by British property companies in the late 1960s and the 1970s (Nappi-Choulet, 1998).

Nonetheless, when the dirigiste state failed to maintain French competiveness in the early 1980s, it turned towards a new strategy of post-dirigisme and sought to increase the exposure of the French economy to international financial markets (Clift, 2012; Howarth, 2013). Following various regulatory reforms in the 1980s and the early 1990s, the financial market and property sector of France were liberalized and corporate

elites were granted autonomy and discretionary power to stimulate the economy (Amable, Guillaud & Palombarini, 2012; O'Sullivan, 2007). Now that previous restrictions were lifted, commercial banks and institutional investors saw opportunities to expand into the domain of property development (Frétigny, 2015; Vergriete, 2013). However, the subsequent 1980s property boom was largely driven by unbridled credit expansion and resulted in over-construction and over-investment, most particularly in Paris (Nappi-Choulet, 2013a). As a consequence, property investors and commercial banks suffered terrible losses and plunged into bankruptcy when the 1990s property crisis started (Boisnier, 2011). Subsequently, foreign opportunistic equity funds entered the markets and introduced new investment techniques of 'buying low and selling high' (Nappi-Choulet, 2013a). Between 1993 and 1996, more than eighty percent of all investments in the French property sector were made by foreign investors (Wijburg & Aalbers, 2017b).

Responding to the property crisis and the arrival of foreign competitors, the French state introduced the new tax regime of SIIC (*société d'investissement immobilier cotée*) in 2003. The introduction of SIICs can be seen as a strategy of the national state to reinvent control over the property sector by allowing domestic property companies to raise capital on a stock exchange and to consolidate their domestic market activities while using this new capital as a lever (Nappi-Choulet, 2013b; Wijburg & Aalbers, 2017b). However, the opening up to the stock market was also a wider trend in the French political economy as the French state promoted financial and non-financial corporations to become listed on the stock exchange (Howarth, 2013; Johal & Leaver, 2007). Simultaneously, the new tax regime was introduced to provide an extra income for the French government as domestic property companies were required to pay an 'exit tax' in order to launch an initial public offering (FSIF, 2010; Nappi-Choulet, 2013b). By the end of 2016, around 27% of the total commercial real estate stock in France is in possession of SIICs; a quite high percentage given the fact that they exist for less than fifteen years and are in competition with various other investment funds (IEIF, 2017). Table 1 presents the key market figures of the ten largest SIICs in France in 2017. It must be mentioned that, with the exception of Icade, most French REITs are partially owned by consortia of institutional investors and commercial banks and in some cases even by holding companies of billionaires and private investors.

SIIC	Market capitalization (EUR)	Floating stock	Major shareholders
Unibail-Rodamco SE	21 387 930 809	100%	-
Klèpierre	11 002 895 349	66.6%	Simon Property Group (20.3%) and APH (13.1%)
Gecina	7 597 600 462	55%	Ivanhoé Cambridge (22.9%) Crédit Agricole (13.3%), Norges Bank (9.7%)
Foncière des Régions	5 311 385 170	44%	Leonardo del Vecchio (28%), Groupe Covéa (13%), ACM (8%), Crédit Agricole (7%)
Icade	4 987 682 818	42.04%	Caisse des Dépôts (39,1%) and Crédit Agricole (18,6%)
Altarea Cogedim	2 660 360 799	18%	Founding shareholders (46%) and Crédit Agricole (27%)
Société Foncière Lyonnaise	2 224 550 247	10%	Immobilaria Colonial (53,14%), Qatar Holdings (13,60%), Predica (13,20%)
Foncière des Murs	2 028 966 507	21.5%	Foncière des Régions (43.2%), Predica (13.0%), Générali Investments (8.9%), BNP Paribas Cardif (8.8%)
Mercialys	1 569 438 331	50%	Groupe Casino (40%) and Groupe Generali (8%)
Eurosic	1 120 875 311	6%	Groupe Batipart (23,3%), Groupe Covéa (21,3%), Crédit Agricole (18,3%) and ACM (16,9%)

Table 7: The ten largest SIIC in 2017, measured in EUR market capitalization

Source: IEIF, 2017 and annual reports

7.3.2. *SIICs as part of an urban strategy?*

Reinventing control over the domestic property sector as a strategy to compete with foreign investors was not the only reason why the French government introduced the tax

regime of SIIC. In France, the rise and legacy of SIICs cannot be seen outside the context of urban governance and spatial planning. Until the 1980s, the national state provided large material support to cities and regions and actively sought to redistribute national wealth in the spatial economy (Vergriete, 2013). However, following various reforms of decentralization, the French government shifted many responsibilities regarding urban spatial development to the local level (Pinson & Le Galès, 2005). Against this background, a highly decentralized and multi-leveled urban governance regime was established in which the state was rescaled and the local autonomy of cities and regions increased (Eisinger, 1982; Pinson & Morel Journel, 2016; Savini, 2012). While this urban governance regime revolves around intergovernmental competition and gives autonomous power to local mayors and chief executives, cities often rely extensively on private funding as a means to fund urban development projects (Gilli, 2014; Subra, 2012).

The first major experiments with appointing private investors as external funders of urban projects started in the 1980s and 1990s with the introduction of development zones known as ZACs (*zone d'aménagement concerté*). Regarding the funding of commercial real estate and industrial sites, the 1967 tax regime of *Sociétés Immobilières pour le Commerce et l'Industrie* (SICOMI) was one of the first urban tax regimes that enabled commercial leasing and property development through the stock exchange and non-listed financial channels (Wijburg & Aalbers, 2017b). Yet, while many SICOMIs went bankrupt during the 1990's property crisis, this tax regime became outdated and new sources of real estate funding became necessary (Boisnier, 2015). The tax regime of SIIC, which can be regarded as the successor of SICOMI, still enables property development through the stock exchange and other financial channels: SIICs are allowed to devote twenty percent of their investment capital to other (development) activities (KPMG, 2013). However, contrary to SICOMIs, SIICs tend to hold newly constructed properties into their portfolios and only rarely transfer the ownership titles of commercial buildings to the user-occupier after the investment has been paid off (Boisnier, 2011). Hence, SIICs can combine property development and commercial leasing, a feature which is quite unique given the fact that most REITs across the advanced, capitalist world mainly hold already existing portfolios which are developed by private property developers (KPMG, 2013).

In a wider context, the introduction of the tax regime of SIIC can also be related to the large urban project of *Grand Paris* (Enright, 2016; J.P.Morgan Cazenove, 2013). This project, which was politically initiated by the administration of President Sarkozy, has as main objective to create a Greater Paris region and to stimulate the expansion of Paris *intra muros* beyond its physical boundaries through a set of infrastructural investments in adjacent municipalities in the periphery of Paris (Enright, 2013; Gilli, 2014). By local authorities, Grand Paris is generally perceived as a 'authoritarian strategy of the national

state to retain power over the spatial development of Paris and its suburbs' (Savini, 2012: 1891). Alternatively, Grand Paris can be seen as a political attempt of the state to transform Paris into a 'national champion city' that will create overall economic growth for the national economy and can compete with other global cities such as London and New York (Crouch & Le Galès, 2012). Figure 15 presents a map of the train networks of the Grand Paris and the stations.

The project of Grand Paris is motivated by the official policy goal to create a new metropolitan area which involves around 157 municipalities that will be connected through the construction of around 70 new stations and other public utilities in and around Paris (Gilli, 2014). Simultaneously, the project also seeks to stimulate economic development by promoting investments in growth pole areas that are located around or in the vicinity of the newly constructed stations (Savini, 2012; Subra, 2012). However, while the national state is dependent on international capital markets to provide external funding for territorial development, SIICs have become important urban partners in the Greater Paris region (Boisnier, 2015; Enright, 2016). For instance, the examples of Gecina in Gennevilliers, SILIC and Foncière de Paris in the Plaine Saint-Denis, Icade in Aubervilliers, Unibail-Rodamco in Roissy and Altareo Cogedim at Kremlin-Bicetre show that SIICs have become embedded in collaborative networks of urban and regional planning in the urban periphery of Paris (IEIF, 2017). Yet, SIICs do not merely manifest themselves as urban partners; they also seek to profit fully from expected increases in land values that are associated with the expansion of Paris *intra muros* (see e.g. Boisnier, 2015; Enright, 2016).

Before we move into the analysis of Icade, it must be emphasized that the tax regime of SIIC was not specifically introduced to support the Grand Paris project. The SIIC-regime was introduced in 2003, whereas the Grand Paris initiative started in 2007 and was given more body with new laws introduced in 2010 and 2015. Nevertheless, the French REIT-regime was certainly tailored for urban projects of Grand Paris' scale and magnitude. For instance, its associated tax benefits and stock market opportunities enabled listed entities to compensate for huge investment costs and high investment risks that are inherent to development initiatives in peripheral areas (Enright, 2016; J.P.Morgan Cazenove, 2013). Following previous experiences with private equity firms investing in the urban periphery of Paris (Nappi-Choulet, 2006), the increased involvement of SIICs in the production of urban space was also favored by state authorities because SIICs are long-term investment companies that are locally registered and do normally not build speculatively (Enright, 2016). Similarly, the engagement of the national state to the urban project of Grand Paris, as well as high yield prospects that the project generates, can be seen as other key factors why the tax regime of SIIC and the urban project of *Grand Paris* go well together (Nappi-Choulet, 2013b).

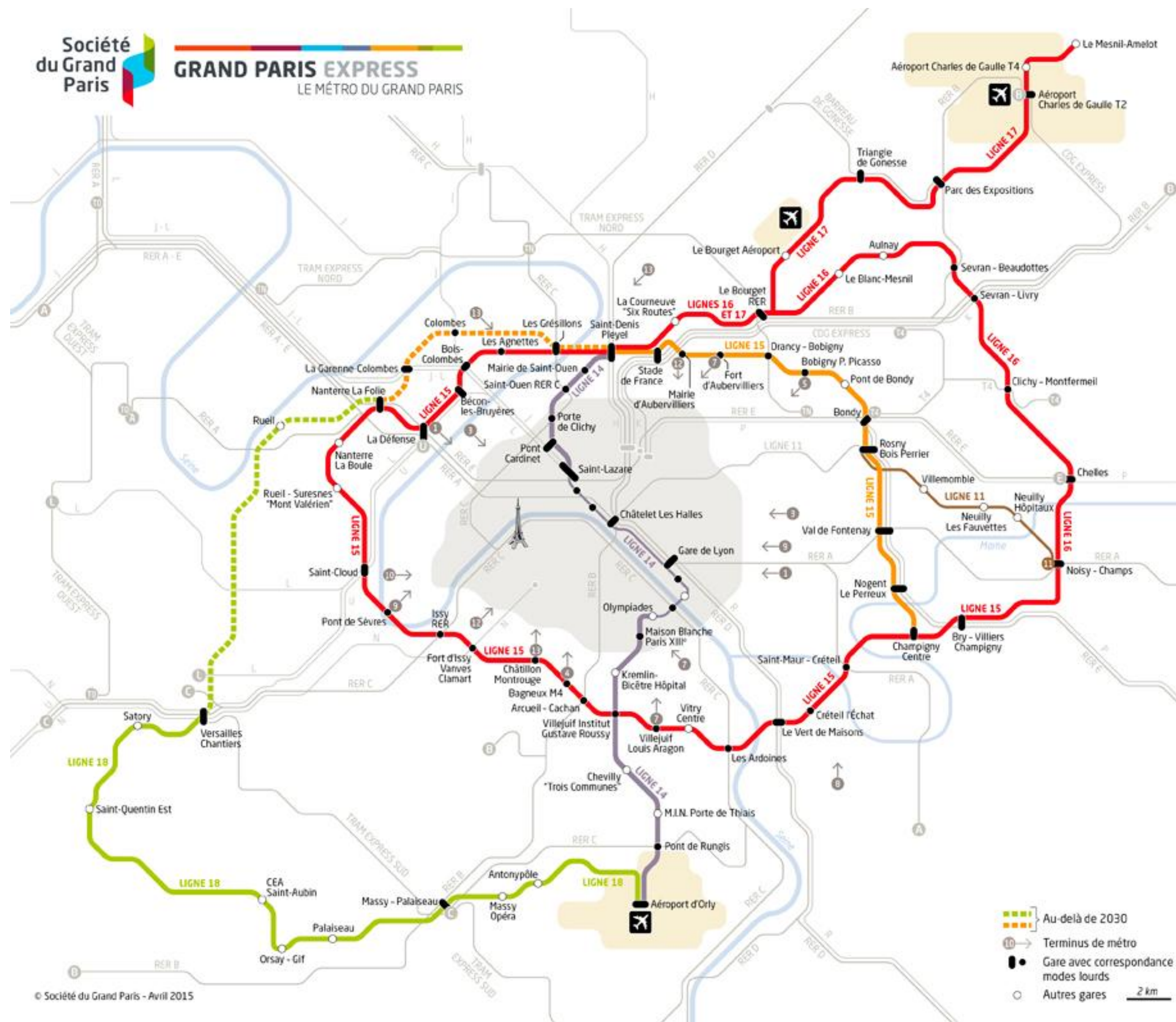

Figure 15. Map of Grand Paris Train station network. *Source:* Société du Grand Paris, 2015

7.4. Icade and Grand Paris: managing public and private relations

In the previous section I have highlighted and discussed the national and urban characteristics of the regulated deregulation of listed real estate in France. In the remainder of this chapter I go beyond the empirical observation that the French state coordinated the emergence of a listed real estate sector in the background. By analyzing the genesis of Icade, France's fifth largest REIT which is partially owned by the public bank of the CDC, I show that a para-public national banking institution also used the tax regime of SIIC to transform one of its subsidiaries into a commercial property developer which becomes increasingly linked to international capital markets (Frétigny, 2015). Icade is the only SIIC in France which is partially owned by the state or a state entity (FSIF, 2010; see also Table 1). Yet, it is a highly relevant actor since Icade is a major commercial property developer in the urban periphery and exercises control over a large plot of land in Aubervilliers, an important growth pole area in the urban periphery of Paris (Cour des Comptes, 2014). The prime reason for studying Icade is not so much that CDC has remained a major shareholder of Icade and receives a large share of its operative income (Icade, 2014b). Instead I focus on the fact that the state and CDC have used the tax regime of SIIC as a way of inserting market logics into the public bank. Much like any other French REIT, the case of Icade thus demonstrates how listed entities in France manage and maintain large business parks and other real estate assets in the Greater Paris region (Enright, 2016). However, due to its historical relationship with CDC, the case of Icade additionally shows how state restructuring, here understood as the transformation of a para-public national housing company into a commercial property investor, coincides with and triggers urban restructuring, i.e. a shift in developmental activities from residential to commercial properties.

Prior to its IPO in 2006, Icade was known as the SCIC, a major public property company which developed high-rise housing estates in what have become known as the *grands ensembles* of Paris (Shonfield, 1965; Eisinger, 1982). However, while CDC wanted to increase its competiveness in the 1990s and the 2000s, the SCIC was gradually transformed into a listed property investor known as Icade (Frétigny, 2015). Although Icade is listed on the stock exchange, Caisse des Dépôts (CDC), still holds 39% of its shares in 2016. The other shares are owned by Crédit Agricole (18%) and private investors (42%). Icade is the fifth largest SIIC of France with a market capitalization of 4.7 million euro and a total real estate value of 9.7 million euro in 2016. Around 86% of its real estate portfolio is located in the urban periphery of Paris and most particularly in Aubervilliers, La Défense, Nanterre, Orly and Roissy (Icade, 2014b). Although the company no longer operates on direct behalf of CDC and the French government, it still

maintains historical relationships with national and local authorities and collaborates with public actors to secure its real estate values (Frétigny, 2015).

The remainder of this chapter discusses the genesis of Icade as an example of regulated deregulation and shows how this listed fund represents the blurring of state and market relations on the national level and in the context of urban and regional planning. In doing so, this section focuses on three key aspects of regulated deregulation which are brought together in Table 8. Firstly, the transformation of the social housing developer SCIC into the listed commercial property investor Icade was a process internal to the state and largely coincided with the adoption of new public management doctrines by the CDC and the French government (see also Frétigny, 2015; Pollard, 2007). Secondly, as a owner and developer of a large business park in Aubervilliers, Icade is largely involved in the structural re-making of Paris as a 'national champion city' and hence reconciles private and public interests in its investment approach (cf. Crouch and Le Galès, 2012; Gilli, 2014). Thirdly, since its building activities facilitate the relocation of business firms and public departments to the periphery of Paris, Icade provides an important 'public' service by providing office space for various public and private actors (Enright, 2016; Subra, 2012).

Components of regulated deregulation	**Public interests**	**Private interests**
The transformation of a public entity into a listed stock market entity	Making commercial profits on behalf of principal shareholder CDC; transferring risk from a public bank to the stock market	Maximizing shareholder value; a shift in holding from residential to commercial real estate
Investing in a growth pole area of Grand Paris	Stimulating economic development in Aubervilliers; facilitating the expansion of Paris *intra muros* into the urban periphery	Making commercial profits while managing a large business park; profiting from surging land values and rental levels
Relocating business firms and public departments	Mediating the relocation of public and private actors to a crucial growth pole area; facilitating the domestic demand for new office space	Letting out office space to single tenants and securing operative income; increasing land and real estate values by attracting signature clients

Table 8: The public and private characteristics of Icade

7.4.1. Icade and the transformation of the CDC

The SCIC, *Société Centrale Immobilière de la Caisse des Dépôts*, was created in 1954 in response to the pressing need for new housing construction after the Second World War (Cour des Comptes, 2014). As a subsidiary of CDC, the SCIC was a spin in the web of France's post-war growth model and focused on the construction of high-rise social housing estates in and around Paris (Eisinger, 1982). Furthermore, the SCIC became widely known as one of the principal builders of academic hospitals in the national territory of France (Pollard, 2007). However, in the wake of the 1970s public budget crisis, the national government decided to impose restrictions on the public expenditure to housing construction (Vergriete, 2013). Hence, supply-side subsidies to the SCIC and other social housing developers were progressively reduced in the following decades (Eisinger, 1982; see also Wijburg, 2017). In response to a changing market environment, SCIC gradually adopted new modes of profitability and accountability and started selling individual housing units to balance its accounts ant to fund new real estate production (Pollard, 2007; Frétigny, 2015). Furthermore, SCIC increasingly oriented itself in the private rental sector and the commercial sector, thereby embracing commercial targets and collaborating more intensely with commercial banks and insurance companies (Pollard, 2007).

Against this background, the gradual transformation of SCIC into a commercial property developer was not necessarily imposed by 'markets' but was rather politically encouraged from *within* the state and by CDC itself (Cour des Comptes, 2014). In the early 2000s, this transformation was reinforced as the management board of CDC decided to establish a new holding structure and transferred all its competitive financial assets to the newly established investment bank of CDC Ixis (Frétigny, 20015). Subsequently, CDC Ixis was opened up to other commercial banks and merged between 2002 and 2004 with the Caisses d'Épargne and in 2007 with the large banking group of Banque Populaire (Pollard, 2007). One outcome of the establishment of this new universal bank was that CDC agreed to divide SCIC into two separate entities that would each focus on a 'core' activity: Icade, launched on the stock exchange in 2006, focused on commercial estate and the Groupe SNI, founded in 2005, focused on housing development (Cour des Compte, 2014).

As SCIC transformed itself into the commercial property investor of Icade, major parts of its historical housing portfolio were sold internally to the Groupe SNI for a price fixed by CDC. In 2009, Icade sold its remaining housing division of Icade Patrimoine to Groupe SNI. This deal involved a total amount of 26.034 housing units, more than 81 percent of Icade's housing portfolio (Frétigny, 2015). Since Icade used the obtained capital for the expansion of its commercial portfolio, the sale of its housing units was

criticized heavily by the Cour des Comptes (2014) as public housing assets were sold in order to increase shareholder value. Between 2002 and 2013, Icade acquired a few large commercial property companies that would become essential for its new investment focus: Entrepôts et magasins généraux de Paris (EMGP) in 2002, Foncière des Pimont in 2004, Compagnie la Lucette in 2007 and Silic in 2013 (Icade, 2014). The genesis of Icade thus exemplifies the first component of regulated deregulation: the insertion of market logics in a subsidiary of the state, as well as its launch on the stock exchange, was politically encouraged by CDC and was part of a wider strategy of making the public bank more competitive.

7.4.2. Icade and the urban project of Grand Paris

The second component of regulated deregulation can be attributed to the somewhat contradictory role that Icade plays in the large-scale urban development of *Grand Paris*. On the one hand, Icade maintains close relationships with national and local authorities and is devoted to the remaking of Paris as a 'national champion city' by investing in the economic development of important growth pole areas (Enright, 2013; Gilli, 2014). On the other hand, however, Icade is legally obliged to maximize shareholder value and needs to reconcile public and private interests in order to make competitive profits (Cour des Compte, 2014). Icade does not merely conceive its real estate portfolio as a 'public' good; it also seeks to profit fully from increases in land and real estate values and hence manages its real estate as a financial asset (Pollard, 2007).

In the context of the urban project of *Grand Paris*, this fundamental tension between public and private interests becomes manifest. In 2002, Icade acquired the property company of Les Entrepôts et magasins généraux de Paris (EMGP) and became an important landowner in Aubervilliers, a city at the northeast of Paris which is characterized as an important growth pole area (Gilli, 2014; Subra, 2012), In that capacity, Icade became involved in a 'public' project which was previously started by the Plaine Commune, an important public body for inter-municipal cooperation which performs joint planning tasks on behalf of eight municipalities and which has successfully lobbied for infrastructural investments in and around Aubervilliers (Savini, 2012; Cour des Comptes, 2014). However, due to the involvement of Icade, the urban restructuring of Aubervilliers, a low-income urban settlement located in the *banlieue*, was also dominantly linked to financial expectations associated with the stock exchange (see also Cour des Comptes, 2014).

In 2005, Icade started a large project with the development of Parc le Millénaire, a business park which comprises a territory of in total 170,000 square meters. The

shopping mall of Le Millénaire, which covers an entire space of 56,000 square meters, was built in 2011 and is co-owned by Klépierre, the country's second largest SIIC that owns and manages various large shopping malls in Europe (IEIF, 2014a). Because the shopping mall is both developed and leased out by Icade and Klépierre, Icade seeks to add value by strategically combining property development and commercial leasing on behalf of its clients and local stakeholders (Pollard, 2007). Yet, due to its public and private responsibility, the economic value created by Icade not only 'trickles down' to Aubervilliers and its surrounding areas, but also creates shareholder value as the company adopts a patrimonial strategy of holding and managing income-producing real estate assets (Cour des Compte, 2014). As a general manager of Icade confirmed: 'we seek to make long-term profits through combining commercial leasing and property development, but also through profiting fully from land price increases' (Interview general manager Icade, 2017).

Since state authorities believed that investments in the business park of Le Millénaire could potentially create jobs for the wider Greater Paris region, regulated deregulation is also demonstrated by the supporting role of the state (Cour des Comptes, 2014). By providing mass transport and infrastructure in the vicinity of the business park, the national state indirectly supported the project of Icade and Klépierre (Enright, 2013; Savini, 2012). For instance, a few years after the completion of the shopping mall, Icade publicly announced that Le Millénaire did not attract enough visitors (Cour des Comptes, 2014). Partially to meet Icade's wishes, the national state and the para-public institution of the Grand Paris Express are currently building the new metro station of Fronte d'Aubervilliers which will open next to the shopping mall and will link the site to multiple transport connections (Plaine Commune, 2016). Previously, the state had also provided a ferry connection on the Canal Saint-Denis to bring more visitors to Le Millénaire (Icade, 2011).

7.4.3. Icade and the relocation of business firms and public departments

A third component of regulated deregulation can be attributed to the fact that Icade is involved in the 'public' task of relocating French business firms and public institutions to the urban periphery of Paris. After the French government privatized many public companies in the late 1980s and the early 1990s, many French corporations became listed on a stock exchange and decided to divest their corporate real estate assets in an attempt to increase shareholder value (Guironnet et al., 2015; Wijburg & Aalbers, 2017b). Furthermore, the national government launched the new public body of *France Domaine* which on behalf of the state became in charge of 'seeking to increase the value of public land and real estate properties to defend its [the state's] interests' (Adisson, 2017: 10). As

such, French corporations and public departments became interested in finding new office locations, preferably at locations with lower rents than in the inner city of Paris (FSIF, 2010; Nappi-Choulet, 2013b). Against this backdrop, Icade has emerged as an important market actor that enables business firms and public departments to relocate their headquarters to the new growth pole area of Aubervilliers (Icade, 2014).

In 2015, Icade extended its business park of Le Millénaire with a new large office building of 32.000 square meter which was built in order to provide the new headquarters of the French Ministry of Justice (Cour des Comptes, 2014; Plaine Commune, 2016). This new office building, which hosts around 12.000 new workers, has been built according to modern energy standards and demonstrates Icade's role in relocating public institutions to Aubervilliers (Plaine Commune, 2016). Although the arrangement between the Ministry of Justice and a subsidiary of the CDC may suggest that the national state prearranged this set-up, a general manager of Icade assured that the negotiations between Icade and the Ministry of Justice were 'fully according to market competition' (Interview general manager Icade, 2017). Nonetheless, Icade provided an essential 'public' service by providing the Ministry of Justice the opportunity to open a new office building in Aubervilliers. In 2015, the public administration of *France Domaine* exercised its option to buy Le Millénaire 3 for around 185 million euro.

In 2016, Icade also extended its business park of Le Millénaire with the new headquarters of Véolia, a CAC 40-listed French company of which the core activities revolve around water management. Much like the Ministry of Justice, Véolia was looking for a new headquarters in the Greater Paris region where it had recently acquired a new distribution centre and where rental levels were expected to be lower than in the inner city of Paris (Plaine Commune, 2016). However, contrary to the Ministry of Justice, Icade and Véolia signed a contract for an initial commercial lease of nine years. Depending on the experience of both Icade and Véolia, the contract can be extended but the investment of in total 195 million euro remains in ownership of Icade (Icade, 2014a).

Since the economic development of Aubervilliers relies strongly on the attraction of jobs and employment (Plaine Commune, 2016), the provision of new office space by Icade is an integral part of the public policy goal to strengthen this important growth pole areas of *Grand Paris* (Gilli, 2014). Yet, along the way, the relocation of the Ministry of Justice and Véolia to Aubervilliers also satisfies Icade's preference for letting out office space to single tenants and signature clients that to secure the operative income of is real estate portfolio (Icade, 2014; see for a similar case: Guironnet et al., 2015). Interestingly, the relocation of signature clients to Aubervilliers also has a positive effect on the value of the land and real estate that Icade owns and manages in this area (Cour des Comptes,

2014). As such, the case of Icade demonstrates the contradictions of French urban and regional planning in times of financialized capitalism: while serving both public and private needs, Icade is required to reconcile the fundamental tension between states and markets in its development project in the urban periphery of Paris.

7.5. Discussion and conclusion

The concept of 'regulated deregulation' is sometimes used to describe the paradox of market liberalization: financial deregulation does not mean the absence of state power, but rather the extension of it (see e.g. Aalbers, 2016; Castree, 2008; Gotham, 2016). Rather than presenting another case study on how national states accommodate market liberalization (Engelen, 2015; Wainwright & Manville, 2017), this chapter has mobilized the idea that regulated deregulation can be operationalized as a proactive strategy of post-dirigiste national governments to reinvent control over their national economy by strategically linking it to international finance (Clift & Woll, 2012; Morgan, 2012). In doing so, this paper has reflected upon the ways in which state authorities can create boundary conditions to control and regulate cross-border investment flow in the national territory by the introduction of REITs and other forms of listed real estate (see also Hofman and Aalbers, 2017). Furthermore, it has linked the introduction of French REITs to the restructuring of the state and the urban project of *Grand Paris* which is partially shaped by the investment operations of REITs in the peripheral towns around Paris (see e.g. Boisnier, 2015; Enright, 2016).

Besides reconstructing how the French government coordinates the emergence of a listed real estate sector in the background, this chapter has shown how the emergence of a French listed real estate sector is also internal to the state. As a principal shareholder of Icade, the state and the public bank of CDC played a key role in launching a quasi-public listed real estate company which has emerged as a principle commercial property developer in the northeast of Paris (Pollard, 2007; Cour des Comptes, 2014). Since it aims at reconciling public and private interests, the case of Icade exemplifies the blurring of state and market relations, i.e. regulated deregulation (Aalbers, 2016a). Yet, the historical transformation of Icade also exemplifies the reworking of the state and a shift in urban politics in the past few decades (Cour des Comptes, 2014). Whereas SCIC previously received public loans and subsidies to built high-rise housing estates in the outskirts of Paris (Eisinger, 1982), Icade receives an increasing part of its funding through the stock exchange and primarily invests in commercial real estate projects (Frétigny, 2015; Wijburg, 2017). This shift in holding and urban activities is not per se imposed from the outside by 'markets' but is rather encouraged from within CDC and the state itself.

Considering that Icade is the only French REIT in which state entities are invested, more research is required to study the shareholder structures of other REITs operating in the Greater Paris region. Most French REITs are entirely funded by institutional consortia and private investors and hold no close relationships with state authorities (IEIF, 2014). Unibail-Rodamco, for instance, is a free floating fund of which a minority of shares is owned by a Dutch pension fund and two American asset managers (Boisnier, 2011). Foncière des Régions, another major investor in the urban periphery of Paris, is partially owned by Italian and French billionaires Leonardo del Vecchio and Charless Ruggieri (Wijburg et al., 2018). Despite its rather unique shareholder structure, I have demonstrated in this chapter that Icade is not necessarily an exceptional case. Inasmuch as Icade is monitored by French state authorities, so are other REITs; and inasmuch as Icade manifests itself as a urban partner in the large-scale development project of *Grand Paris*, so do others (cf. Enright, 2016). However, whereas a large share of the operative income of Icade flows back to CDC, income produced by REITs such as Unibail-Rodamco and Foncière des Régions is distributed to private actors. This is a major difference that needs to be examined closer. Who is profiting from the redevelopment of the urban periphery and how are the gains and costs distributed and divided among state authorities, market actors, civil society and citizens?

Beyond the French context, this paper has shown that the production of urban space in capitalist societies not only relies increasingly on provision of capital by the stock exchange, but also on the capacity of state authorities to regulate and control the outcomes of internationalization in the national and urban space (Morgan, 2012). In line with existing research on urban governance and state rescaling, this 'return of the nation-state' may appear somewhat counter-intuitive (Brenner, 2004; Le Galès, 2011). However, since the national state never retreated entirely from urban politics (Le Galès, 2011), this chapter has emphasized that national governments still play an important role in managing the production of urban space (see also Byrne, 2016; Savini and Aalbers, 2016). Now that an increasing share of real estate funding is provided by international capital markets (Guironnet & Halbert, 2014), this chapter concludes that the intensified connections between international capital markets and urban development have profound implications for the ways in which large-scale urban redevelopment projects are negotiated and planned (Moreno, 2014; Rutland, 2010).

Although this chapter recognizes the potential advantages of REITs, it further concludes that a strict modification is required concerning the supposed economic value that REITs create (Enright, 2013; Boisnier, 2015). Since REITs are legally obliged to maximize shareholder value, they are principally agnostic to societal values and only invest in urban projects which render out high returns (Lizieri, 2009). To some extent, the example of Icade demonstrates this fundamental tension between the needs of a society

and the logics of markets. After its transformation into a commercial property investor, Icade refrained from its historical task of providing social housing in the *grands ensembles* of Paris and instead focused on developing commercial business parks in the Greater Paris region (Cour des Comptes, 2014). However, while Aubervilliers remains a low-income urban settlement that is located in the *banlieue* of Paris, a valid question can be posed: to who does the urban spatial development that REITs are funding contribute? Can a new institutional compromise between states and capital markets be negotiated, or will such arrangements ultimately result in a regressive form of urbanism in which financial logics prevail over societal values?

Because the emergence of a listed real estate sector is not unique to France (KPMG, 2013), this chapter finally calls for more comparative research on REITs, especially with regard to the differences between national REIT-systems and their local implementation in the urban context (see for similar calls: Fields & Uffer, 2016; Gotham, 2006). Comparative research on REITs may not only demonstrate how and why REIT-like systems are differently implemented at national and local scales; it may also highlight the different local strategies of REITs and the variegated ways in which listed funds have positioned their real estate portfolio unevenly across advanced, capitalist societies (see e.g. Beswick et al., 2016; Fields, 2017; Wijburg et al., 2017). For better or for worse, the growth of listed real estate markets does not seem to be a temporary phenomenon that merely enables global capitalism to provide a spatial-temporal fix for over-production in the real economy (Gotham, 2009; Waldron, 2017). The unprecedented expansion of international capital markets into real estate and other sectors of the economy indicates that a more fundamental transformation of global capitalism is occurring (Kaika & Ruggiero, 2013; Moreno, 2014; Van Loon & Aalbers, 2017). The direction of this transformation, as well as its rate and impact on society, needs to be conceptualized further.

PART IV:

CONCLUSIONS

Chapter 8. Conclusions

8.1. Brief overview

The shock of the Great Recession of 2007-2008 has shown that processes of real estate financialization have become widespread across Northwestern and capitalist countries (Fernandez & Aalbers, 2016; Jordá et al., 2014). Not only in the United States, where the *subprime* mortgage crisis resulted in the collapse of the American financial system (Aalbers, 2008; Gotham, 2012; Schwartz, 2009), but also in countries like Ireland and Spain, where credit-financed housing consumption resulted in an unprecedented boom-and-bust cycle (Coq-Huelva, 2013; Fraser et al., 2013; Palomera, 2014; Waldron & Redmond, 2014), processes of real estate financialization have undermined the stability of the economy. Against this background, a burgeoning literature on the financialization of real estate has documented how processes of real estate financialization vary in different national and local real estate markets (see e.g. Aalbers, 2016; Fields & Uffer, 2016; Pereira, 2017; Romainville, 2017). Indeed, processes of real estate financialization are variegated across time and space and are triggered by different kinds of mechanisms, including the shift to finance-led growth by post-Fordist economies, the emergence of regimes of shareholder value and the grounding of finance into the everyday life of households and citizens (cf. Van der Zwan, 2014).

Nonetheless, surprisingly little research has studied to what extent the increased importance of finance has transformed and affected the real estate markets of Germany and France, two Continental European economies that are at the heart of the European Union (De Saint-Perier, 2013; Hardie & Howarth, 2009; Howarth & Quaglia, 2013a). This is a missed opportunity because Germany and France are two Continental European economies that appear to operate outside the domains of financialized capitalism and, indeed, do not stand out as financialized countries according to conventional measurements (Gobillon & le Blanc, 2008; Kofner, 2014a; Tutin & Vorms, 2014; Voigtländer, 2010). However, as I have shown in the first part of this PhD thesis, the real estate markets of Germany and France are 'financializing' too, albeit in different ways than the United States and other countries. As such, I have shown that financialization is an inherently variegated and uneven process that takes different forms in different institutional settings (cf. Aalbers, 2017; Fields & Uffer, 2016; Ward, Van Loon, & Wijburg, 2017). Furthermore, I have shown that the pathways of real estate financialization not only vary externally between Germany and France, but also internally between the residential and commercial markets of both countries (cf. Fernandez & Aalbers, 2016).

In the second part of this PhD thesis, I have elaborated on this empirical observation by focusing on the advent of listed real estate markets in Germany and France and the local investment practices of real estate investment trusts (REITs) and listed real estate companies (see also Boisnier, 2011; Heeg, 2013; Holm, 2010; Nappi-Choulet, 2013). In doing so, I have demonstrated that, although listed funds in both countries adopt broadly similar investment strategies (cf. Moreno, 2014; Rutland, 2010; Van Loon & Aalbers, 2017), their target markets and investment strategies are different due to a combination of socio-economic factors and the role of the state in enabling real estate financialization. In Germany, listed real estate companies primarily own and manage large housing portfolios that once belonged to state entities and industrial companies and aim to create an operative income by turning German rental regulations into their strategic advantage or by selling individual homes to new home owners (cf. Bernt et al., 2017; Heeg, 2013). In France, REITs and other listed funds rather invest in commercial real estate and urban spatial development in the Greater Paris region and operate largely in line with the macro-economic framework of the *Grand Paris* project which is concerned with the funneling of captial from the stock exchange into the urban built environment (Enright, 2012; Gilli, 2014). As such, the emergence of listed real estate markets in Germany and France, and also the urban and socio-economic implications of this trend, reveal on a more structural level how international finance and capital markets intensify their control over the urban process and the management of local real estate markets (cf. Moreno, 2014; Rutland, 2010).

In the remainder of this concluding chapter, I will first briefly summarize the major research findings of this PhD thesis by answering the two main research questions presented in the introductory chapter concerning the qualitative nature of real estate financialization in Germany and France. Then, I will turn towards the third sub-question of this PhD thesis which is concerned with the broader implications of real estate financialization for the uneven and variegated development of capitalism itself. In doing so, I present a few empirical observations that tell us more about capitalist development in general: financialization and endogenous development, financialization as a transformative process, financialization and urban restructuring, financialization and value transferring, financialization and inequalities. Finally, I conclude that a new flexible accumulation regime is possibly emerging in which a compromise between states and international capital markets, rather than between capital and labor, counter-balances processes of real estate financialization. Now that in hindsight the post-war period of prolonged economic growth appears to be exceptional in the history of capitalism, I conclude that future research should theorize and conceptualize possible new modes of accumulation, either by focusing more specifically on questions concerning the regulation and governance of finance, or by focusing on more sustainable forms of real estate production and corporate governance. However, while doing so, I

also conclude that future research needs to move towards a more holistic understanding of income as not only wage-based because income out of labor is increasingly complemented with income out of financial assets.

8.2 The financialization of real estate in Germany and France

How and to what extent are processes of financialization observable in the residential and commercial markets of Germany and France?

In the first part of this PhD thesis I have presented and juxtaposed the long-term trajectories of institutional change in the residential and commercial markets of Germany and France. Moreover, I have reconstructed the endemic restructuring of these markets and have assessed the qualitative manifestations of real estate financialization in both countries from as historical perspective. In doing so, I have relied on a analytical framework and a set of operational definitions presented on page 34 in the Introductory chapter. Financialization is indeed a heuristic device which meaning is sometimes stretched too far due to its fluid conceptualization (see for a critique: Christophers, 2015). Nevertheless, it is a meaningful and helpful concept providing that it is precisely operationalized and analytically differentiated from other processes such as liberalization and internationalization. In practical terms, financialization can be defined as the 'increasing dominance of financial actors, markets, practices and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Aalbers, 2017a). Financialization can be associated with the shift towards finance-led accumulation, the rise of shareholder value orientations and the 'democratization of finance' in the everyday life of households (Van der Zwan, 2014).

Informed by the ever increasing body of financialization literature, I have operationalized three key definitions of financialization in the Introductory chapter. These operationalizations and their idealtypical manifestations, as highlighted in Table 9, can be summarized as follows: [1] domains of the real estate sector rely increasingly on finance; [2] finance relies increasingly on domains of the real estate sector; [3] real estate is increasingly managed as a financial asset. Financialization, narrowly defined as the unbridled growth of mortgaged homeownership and mortgage securitization, resulting in higher levels of personal debt and house price bubbles, cannot be clearly observed in Germany and France. However, it must also be noted that Germany and France are not the 'static' outliers that some commentators make of them (see e.g. Tutin & Vorms, 2014; Voigtländer, 2010). First of all, financialization is not a end stage which makes countries

more or less 'financialized' in absolute terms (Aalbers, 2017; Lapavitsas & Powell, 2013). On the contrary, financialization is a variegated process of which the rate and degree is uneven and differential (Engelen et al., 2010; French et al., 2011; Pike & Pollard, 2010). Using the idea of a 'common trajectory' (cf. Fernandez & Aalbers, 2016; Hay, 2004), this PhD thesis has shown that alternative pathways of real estate financialization have occurred in Germany and France. In highlighting the socio-temporal specificities of real estate financialization in Germany and France, this PhD thesis will discuss the major research findings thematically but in accordance with Table 9.

8.2.1. Financialization of housing

While many European countries experienced an unprecedented housing boom during the mid 2000s, Germany - as one of the few countries in Europe – did not experience a rise in national house prices and personal mortgage debt levels (Andrews et al., 2011; Just, 2010a; Schneider & Wagner, 2010). To a large extent, this can be explained by the fact that the post-war German welfare state provided large material support to the revival of the rental housing sector and installed a system of rental breaks to keep the rental levels affordable for the working and lower middle classes (Tomann, 1990; Voigtländer, 2010). Also, the conservative lending practices of German banks have traditionally prevented the growth of mortgage debt levels in Germany (Hofer, 2012; Just, 2010a). Nonetheless, in Chapter 2 I have observed two empirical patterns which indicate that Germany follows an alternative and somewhat delayed pathway towards housing financialization. Thus, more than a mere 'nation of renters' in which the housing sector is safeguarded from financial pressures, I have shown that characteristics of financialization can also be observed in Germany.

Firstly, attempts to stimulate mortgaged homeownership were already made in Western Germany in the mid 1980s when German mortgage debt levels as a percentage of GDP were still higher than in the UK (Ertürk et al., 2005; Mertens, 2014). However, due to the shock of German reunification and the subsequent collapse of the housing market, the anticipated expansion of mortgaged home ownership and 'house price Keynesianism' never really occurred in Reunified Germany (cf. Byrne, 2016; Crouch, 2009). Nevertheless, Germany is currently experiencing a delayed upswing of the housing market as house prices in metropolitan regions and mid-sized cities of Germany are increasing rapidly (Deutsche Bundesbank, 2013). This trend can partially be explained by the fact that the shock of German reunification has been processed and that market dynamics have 'normalized' again; it is however also reinforced by the combination of low interest rates, demographic pressure and economic developments in metropolitan areas and the national economy (Hofer, 2012; Scharmanski, 2012).

Operationalizations of Financialization	Mechanisms	Idealtypical manifestations	Germany	France
Domains of the real estate sector rely increasingly on finance	The retreat of the welfare state and the reworking of post-war real estate markets; the invitation of private competition and finance in the housing sector	A greater reliance on mortgaged home ownership	Not significant in the housing sector (Chapter 2)	Not significant in the housing sector (Chapter 3)
		the increased involvement of financial and private actors in providing homes to a range of households	Significant in the former subsidized public and private rental housing sector (Chapters 2 and 5)	Moderately significant in the private rental housing sector due to buy-to-let investments (Chapter 3)
Finance relies increasingly on the real estate sector	The reworking of post-war financial markets; the global embeddedness of real estate in financial markets	Mortgage securitization and debt-fuelled housing bubbles driven by the quantity of credit	Significant in the housing and commercial sector (see Chapter 2 and 4)	Significant in the housing and commercial sector (Chapters 3 and 4)
		Institutional investors owning large real estate portfolios	Most significant in the commercial sector (Chapter 4)	Most significant in the commercial sector (Chapter 4)
Real estate is increasingly managed as a financial asset	The ascendancy of regimes of shareholder value and the adoption of new modes of profitability; financial innovations and instruments that enable new holding companies to create shareholder value	Increasing real estate ownership by listed real estate companies and other financial actors that focus on the creation of shareholder value	Most significant in the housing sector due to the arrival of listed real estate companies (Chapters 2 and 5)	Most significant in the commercial sector due to the arrival of French REITs (Chapters 4 and 6)
		Profiting without producing through the creation of rentier structures	Significant as listed real estate companies create an operative income by managing and maintaining existing housing portfolios (Chapter 5)	Not significant as French REITs also invest in the production of urban space but of course in order to create a rentier structure (Chapter 6)

Table 9. The rate and degree of real estate financialization in Germany and France

Thus, after many years of apparent stability and house price stagnation, the German housing market is now 'catching' up with trends elsewhere and becoming increasingly linked to global financial trends (BBSR, 2014; Just, 2010a). However, while house price inflation is not fundamentally triggered by mortgage securitization and while mortgaged home ownership is not entirely substituting other tenure options, the owner-occupied segment of the German housing sector has not 'financialized' with the same degree and intensity as for instance the markets of the United Kingdom and the United States.

Secondly, however, real estate financialization can be observed in the former subsidized rental housing sector of Germany. Since the Kohl administration decided to abolish the 'common interest principle' (*Wohnungsgemeinnützigkeit*) in the 1980s, some of Germany's largest public and private housing companies were sold to private equity funds and hedge funds upon German reunification and especially in the 1990s and early 2000s (Holm, 2010a; Voigtländer, 2007). As a result, large housing portfolios that once belonged to state entities and industrial companies became managed by opportunistic investment actors that deployed investment strategies of 'buying low and selling high' while keeping maintenance costs low, reducing vacancy rates and increasing the rents substantially in order to make quick profits (Aalbers & Holm, 2008). In the wake of the GFC, many of these housing portfolios have however been launched on the stock exchange or have been sold to real estate companies that adopt a rather long-term investment approach and seek to own and manage income-producing real estate assets (Bernt et al., 2017; FSIF, 2010; Lizieri, 2009). Nevertheless, these listed real estate companies continue the process of turning former not fully-commodified housing assets into financial commodities, albeit with different means and using different strategies than private equity funds (Kofner, 2012). Financialization can thus be observed in the rental housing market where the emergence of a listed real estate sector and the allocation of management and production tasks to listed real estate companies indicates how international finance and the stock exchange intensify their control over local real estate markets (see also Beswick et al., 2016; Fields & Uffer, 2016).

After the Second World War, the French government and the public bank Caisse des Dépôts (CDC) provided large material support to the social housing sector, collectively known as the HLM (*Habitation à Loyer Modéré)* (Blanc, 2004; Driant & Li, 2012). Therefore, France has become widely known for its statist-developmental housing system in which 'homeowners are a small share of the population, and mortgage debt and mortgage interest payments are relatively low as a share of personal income' (Pollard, 2009: 215). Since the national state was directly involved in the reconstruction of the post-war housing sector and strongly encouraged social housing developers to construct affordable homes, the emergence of a private housing sector in the 1950s and the 1960s was long to be perceived as a rather marginal development (Driant, 2010).

However, following a housing reform by the new administration of President Giscard D'Estaing in 1977, the government successively introduced new demand subsidies for homeowners and tenants in the public and private rental sector (Pollard, 2010b). Furthermore, the subsequent introduction of various buy-to-let housing policies can be seen as another attempt boost the private housing sector by encouraging private landlords to invest in new private rental units (Bosvieux, 2005). For the execution of this 'bureaucratic revolution' (Bourdieu, 2000), the French government relied increasingly on the role of commercial banks to distribute state-authorized credit loans to households and private landlords (Gobillon & le Blanc, 2008; Pollard, 2010b).

Against the background of these wider market changes, France experienced a housing boom between 1997 and 2007, which was however not followed by a burst in house prices (DGTPE, 2010; Tutin & Vorms, 2014). Although French scholars sometimes take this example to argue that the housing market is quite resilient, I have shown in Chapter 3 that the French housing system is less robust than it may seem. Firstly, the size of mortgage-debt-to-GDP ratio increased from 20% to 40% between 1995 and 2012, a significant increase considering that the total number of homeowners with a mortgage did not increase radically during the same period. Secondly, credit expansion in France is not only targeted at homeowners, but also at private landlords that use credit to fund the construction of new private homes or the refurbishment of existing ones (Pollard, 2010b; Trouillard, 2014). For instance, comparative data shows that the total nominal amount of mortgage debt from private landlords increased from 2 billion euro to 20 billion euro between 1984 and 2013 (see also Figure 3). In other words, a closer look at the distribution of credit in France shows that (state-authorized) finance has penetrated more deeply into the French housing market than is sometimes recognized (see for a similar argument: Lipietz, 2013). This trend, however, like in Germany, is difficult to qualify as 'financialization' because practices of mortgaged securitization are still modest in comparative terms and because alternative tenure options, such as public and private rental housing, have hitherto remained in place too.

Nevertheless, I have also shown in Chapter 3 that processes of real estate financialization can be observed on the supply-side of housing production, be it in a somewhat ambiguous form. Following the introduction of buy-to-let housing policies, the French government has strongly encouraged private landlords to invest in the production of new private rental units by subsidizing loans from the financial sector and by enabling private landlords to deduct large parts of their rental income from their tax income (Pollard, 2010a; Scellier & Le Bouillonnec, 2008). However, while private landlords rely on the services of private property developers and commercial banks, their investments do not necessarily reduce a tight supply of housing in French metropolitan areas but also serve the financial needs of the market. Rather than

producing new rental homes in the most over-heated geographical locations of France, private property developers tend to produce buy-to-let housing units only in those locations where profitability and tax returns are higher and thus encourage private landlords to invest in 'strategic' locations (Pollard, 2011; Vergriete, 2013). This development, along with the emergence of a new class of property owners exerting substantial control over the private rental sector, may suggest that a new rentier class is emerging in France (Boisvier, 2011). Furthermore, because large property developers are often owned by commercial banks, the French credit sector holds a quasi-monopoly over the property market, enabling commercial banks to alternate their financial activities between mortgage lending and property development (Trouillard, 2014; Tutin & Vorms, 2014). Thus, a moderate degree of financialization can be observed on the supply-side of housing because housing units are increasingly capitalized as financial assets by different kinds of actors.

8.2.2. Financialization of commercial real estate

Measured in terms of accelerated cross-border investment flow, there is clearly an argument to be made for the financialization of commercial real estate in Germany and France. Once the Brexit is carried out, Germany and France can be considered as the first and second largest property market of the European Union which attract investment capital from all over the world (Savills Research, 2014). The role of institutional investors owning large real estate portfolios is unmistakably a pattern of real estate financialization as it denotes how commercial real estate becomes a wider part of the global financial system which increasingly revolves around market-based banking and the management of 'liquid' assets (Hardie & Howarth, 2013). However, the most interesting pattern that I have found in Chapter 4 is that the internationalization and financialization of commercial real estate also results in a counter-movement by domestic real estate actors that seek to consolidate their market position by reinventing control over the national markets and 'controlling' processes of internationalization (cf. Clift & Woll, 2012). In France, this pattern is clearly observable as the post-dirigiste government deliberately manages and regulates cross-border investment flow by enabling domestic property companies to become listed on the stock exchange (AMF, 2003). In Germany, the attempts to launch a G-REIT in 2007 have hitherto not been very successful. Yet, the non-listed real estate sector with its historical ties to the German banking sector, has its own private vehicle that can absorb international capital flows: *Spezialfonds*.

For a long time, the German office market was perceived as not very dynamic and as 'stable but very boring' (Just, 2010b; Rohmert, 2013). Most German business firms

owned their own real estate, were not relying on commercial leases and institutional investors adopted rather conservative buy-and-hold strategies and perceived real estate as a hedge against inflation (Rohmert, 2013). As such, German reunification appeared to be a historical momentum for those who wanted to convert Germany into a liberal market economy (Streeck, 1997). However, the 1980s property boom was based on wrong expectations and the shock of German reunification delayed and slowed down the process of market liberalization, resulting in the outflow of capital and declining investments in the property sector (Just, 2010b). Furthermore, because the decentralized office market of Reunified Germany is divided over the 'Big Seven'-cities of Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart, foreign investors believed that the German office market was not liquid enough and rather invested in other countries when the 1990s property crisis came to an end (Grote, 2008; Rohmert, 2013).

However, when the German real estate prices reached their all time low in 2003, Germany was suddenly perceived as a safe haven for investment in the eurozone and institutional investors considered the office market as a anti-cyclic opportunity (Scharmanski, 2012). Between 2003 and 2007, an unprecedented investment boom followed and investment capital of various domestic and non-domestic investors was funneled into the office market of Germany (Savills Research, 2014). Although many German open-ended funds had sought to profit fully from the pre-crisis investment boom, they plunged into bankruptcy when various institutional investors withdrew their capital from the investment funds as they anticipated a collapse of the market or redeemed their capital for different reasons (Lizieri, 2009). During the post-crisis investment boom, the German office market is still largely dominated by traditional non-listed investment funds that hold strong connections with the German banking sector (Rohmert, 2013). Spezialfonds, rather than G-REITs, invest in commercial real estate portfolios and play a crucial role as financial intermediaries between international finance and local office markets. Considering the continued importance of banks in Germany, this development is not surprising: a a shift towards listed real estate has hitherto not been made.

Historically, the post-war office market of France emerged in the inner districts of Paris where it evolved as a sub-sector of the residential market (Nappi-Choulet, 1998). However, because French business firms required new office space to facilitate growth and expansion, the new business district of La Défense was developed from the late 1960s onward, turning Paris into a global financial centre to compete with the cities of London and New York (Lizieri, 2009). Much like in London and New York, the 1980s property boom in Paris was triggered by an over-supply of credit and eventually resulted in the bankruptcy of commercial banks, investment funds and property

developers (Bastard, 2011). Because the 1990's property crisis had virtually dried up all liquidity, foreign support was required to revive the French office market and to boost recovery (Nappi-Choulet, 2006). As a matter of fact, Anglo-American private equity funds and hedge funds entered the Parisian market and introduced new investment techniques and modes of profitability that hitherto had not existed in France (Nappi-Choulet, 2012b).

In response to the property crisis and foreign competition, the French government introduced a new tax regime of SIIC (*société d'investissement immobilier cotée*) in 2003 (AMF, 2003; Nappi-Choulet, 2013b). The rise of a listed real estate sector enabled locally listed property companies to raise capital on the stock exchange and to reinvest it into the urban built environment (IEIF, 2014a). This somewhat protectionist measure was enforced to make French corporations compete with other real estate investment trusts (REITs) and to consolidate domestic operations with new capital funding (FSIF, 2010). Between 2003 and 2007, the SIICs were the key investors in the French market and not only absorbed large amounts of foreign capital, but also controlled the emerging market for new office space in the Greater Paris region (Boisnier, 2011). In the aftermath of the GFC, the SIICs sought to consolidate their market position, but other private vehicles such as the SCPI (*Société Civile de Placement Immobilier*) and the OPCI (*Organisme de Placement Collectif en Immobilier*) also manifested themselves as important buyers (Bastard, 2011). The OPCI, introduced in 2005, are liquid investment vehicles for private and institutional investors that can hold real estate directly, but also indirectly through investing in a SIIC (De Vignet de Vendeuil et al., 2007). As such, the advent of a listed real estate sector can be considered as a crucial component of real estate financialization in France.

8.3. Explaining differences and variegation on the local level

How and why are processes of real estate financialization in Germany and France different?

As Table 9 highlights, the mobilization of real estate as a financial asset class occurs in Germany and France mostly in the listed real estate sector. In the second part of this PhD thesis I have therefore focused on what I consider an essential pattern of real estate financialization in Continental Europe: the rise of listed real estate markets and the role of listed funds owning large real estate portfolios. In Germany, as I have shown in Chapters 2 and 5, listed real estate companies operate almost exclusively in the residential sector where the sale of former not-fully commodified housing companies has

opened up the German housing market for international capital markets. In France, as I have shown in Chapters 3 and 5, listed funds operate almost exclusively in the commercial sector because the new tax regime of SIIC enabled local property companies to become listed on the French stock exchange and thus to funnel domestic and non-domestic capital into the urban built environment of especially Paris.

Firstly, I have shown how the rise of listed real estate in Germany and France relates to regulatory reforms on the national level. In hindsight, the rise of a listed real estate sector in Germany can be perceived as the indirect outcome of wider housing and capital market reforms in Reunified Germany (Heeg, 2013). With the abolishment of the 'common interest principle', the German government had intended to make the former subsidized rented housing sector more 'competitive' by abolishing government subsidies and stimulating private competition (Voigtländer, 2007). However, while focusing on paying off public and municipal debt and reforming the housing sector, the German government had not anticipated that a large part of the national housing stock would later be sold to market actors listed on the stock exchange (cf. Bernt et al., 2017; Heeg, 2013). In France, the rise of a listed real estate sector can be perceived as a more deliberate attempt of the French government to protect the domestic property sector against foreign competitors. By enabling locally listed funds to raise capital capital on the stock exchange, the French government enabled the property sector to reinvest itself in the wake of the 1990's property crisis (FSIF, 2010). Furthermore, the rise of a listed real estate sector in France must be seen as an integral part of wider capital market reforms which had already started in the early 1980s and which aimed to stimulate the opening up of the domestic economy to the stock exchange (Amable et al., 2012).

Secondly, I have also addressed the important urban dimensions of the rise of listed real estate. In Germany, I have shown that the arrival of private equity funds and listed funds coincided with the introduction of new locational politics to strengthen post-unified Germany's position as a investment location (*Standort Deutschland*) (Brenner, 2000; see also Streeck, 2009). Since municipalities needed capital to pay-off municipal debt, or because private companies wanted to increase shareholder value, the sale of former public and private housing portfolios clearly had a urban dimension as it involved the restructuring of the local economy and the invitation of private competition in the urban process (Holm, 2010a; Kofner, 2012). In France, I have shown that the introduction of the tax regime of SIIC can be regarded as a sophisticated urban strategy of providing urban capital funding for the structural re-making of Paris as a 'national champion city' (cf. Crouch & Le Galès, 2012). Because French REITs can raise domestic and non-domestic capital and use it to consolidate domestic market operations, the opening up to international capital markets also served a urban purpose to provide funding for the *Grand Paris* project (Gilli, 2014). As such, listed funds in France are

embedded in a multi-level urban governance structure and despite their private agenda still operate in a macro-economic framework set up by French state authorities (Enright, 2012; Gilli, 2014).

In line with these urban characteristics, I have also shown how listed funds in Germany and France seek to manage their real estate portfolios in different ways as 'financial assets.' Because listed real estate companies in Germany hold a quasi-monopoly over formerly subsidized public and private rental housing portfolios, their investment strategy can be characterized as releasing already existing housing portfolios into the privatized mainstream of capital accumulation where they are sold and traded as financial commodities (Bernt et al., 2017). In doing so, listed real estate companies do not merely focus on selling individual housing units or increasing the rents and real estate values. Additionally, they seek to find loopholes in German rental regulation and develop strategies of expanded reproduction to enhance the patrimonial value of their housing units. In France where listed funds not do not merely invest in already existing commercial portfolios, but are also committed to property development and commercial leasing (see also Boisnier, 2011), the investment strategies can be considered as more 'integrated' (Pollard, 2007). By controlling the value chain of commercial real estate in the Greater Paris region, French REITs aim to create an income out of combining real estate services to French multinationals and public institutions that require for different reasons new office buildings in the urban periphery (Nappi-Choulet, 2013b). In this regard, it is noteworthy that many French property companies still held a residential portfolio prior to their IPO (Boisnier, 2015). As such, the shift in holding from residential to commercial real estate, or better, the reorientation in a more profitable market with better opportunities to create shareholder value, can also be seen as an integral part of the investment strategy of French REITs (Gilli, 2014).

To document the major differences between Germany and France, I have adopted a actor-centered research approach and have focused on the investment practices of three listed funds in Chapter 6 and Chapter 7: Foncière des Régions (FdR) and Vonovia in the case of Germany and Icade in the case of France. Whereas FdR through its holding company of Immeo Wohnen is adopting a strategy of relocation and sells most of its remaining housing units in Mülheim an der Ruhr to expand in larger metropolitan areas, Vonovia is committed to a large project of neighborhood development in the Elting district of Essen. In France, the case of Icade shows how a former social housing developer has reinvented itself as a commercial property developer of a large business park in Aubervilliers, a peripheral city located in the northeast of Paris (Savini, 2012). Although Icade is a listed real estate company with an independent board of directors, it still operates at arm's length of the French government in the wider macro-economic

framework of the *Grand Paris* project and hence needs to reconcile public and private interests (Frétigny, 2015).

8.3.1. Germany: selling and buying housing assets for profit's sake?

How and to what extent do the investment strategies of listed real estate companies differ from private equity and hedge funds? In Chapter 6, I have elaborated on this question by focusing on the local investment practices of Immeo Wohnen (a subsidiary of FdR) and Vonovia in the German Ruhr area. Since the housing portfolios of FdR and Vonovia were previously owned by the opportunistic equity funds of Morgan Stanley and Deutsche Annington, I have shown that FdR and Vonovia embody the shift from what I have called financialization 1.0 to financialization 2.0: the transition from short-term speculation by private equity funds to long-term investments by listed real estate funds. While releasing housing into the privatized mainstream of capital accumulation, I have shown in Chapter 6 that FdR and Vonovia tend to cooperate with city governments and municipal authorities to enhance the patrimonial value of their real estate and to stabilize their cash flow. However, public-private partnerships between city governments and listed real estate companies are opportunistic in nature as listed funds primarily aim to serve their private interests and not public goals.

In the case study of Vonovia in the Elting district of the City of Essen, this pattern becomes very clear. Although the Elting neighborhood had long been perceived as a under-maintained 'no go'-area, Vonovia recognized the potential of the neighborhood because of its central location and close proximity to the new university. After Deutsche Annington had already approached a few stakeholders to invest in neighborhood development, Vonovia became locally involved in a public-private partnership with the city government and Innovation City, a public-private entity that promotes 'energy efficient' urban development in order to reduce CO2-emissions in Germany. In the spirit of this urban project, Vonovia invested in the modernization of its housing portfolio by replacing boilers and installing new insulating external walls and windows. However, while doing so, Vonovia's prime goal remained the creation of shareholder value. German rental regulation provided a loophole to do this: since private landlords in Germany are legally allowed to pass on the costs of modernizations to their tenants, Vonovia's modernization strategy *de facto* enables the company to raise the rents with 11% on an annual basis and at a faster rate than normally is allowed. Without modernizations, rents are only allowed to increase with a maximum of twenty percent on a three-year basis and not above the rental ceiling (*Mietspiegel*) of the neighborhood (Deschermeier *et al*, 2016). Furthermore, while the city of Essen also invests in the urban development of the Elting district, the total investment costs of Vonovia are negligible

relative to the future rental income streams the company has created by 'modernizing' its housing stock.

In Chapter 6, I have also focused on the local investment activities of Immeo Wohnen in a small neighborhood in Mülheim an der Ruhr: the Heimaterde. Immeo is a holding company of French REIT Foncière des Régions. Initially, FdR manifested itself as a long-term investor and arranged a deal with the City of Mülheim to built new homes for elderly on some of its vacant gardens in the Heimaterde (Hesselmann, 2015). Moreover, the company showed a willingness to collaborate with local authorities in order to create a stable environment for profit-making but also to invest in neighborhood development. However, in 2009 the French REIT decided to relocate its 'core' investment activities to more profitable metropolitan areas, such as Berlin, Hamburg and Düsseldorf. In so doing, FdR started selling its remaining housing assets in Mülheim an der Ruhr, including the building plot which was assigned for building new senior homes. When it turned out that the financial prospects in the Ruhr metropolitan area were lower than anticipated, FdR launched a new strategy of relocating to other metropolitan areas. This example makes it clear that financial logics and the creation of shareholder value strongly underpin the investment decisions of listed real estate companies. Interestingly, however, FdR continues to hold a few housing units in Mülheim that cannot be sold immediately or still hold a strategic value. For instance, a large complex of retirement homes in Mülheim is still used as a 'special-purpose property', enabling FdR to profit fully from the high demand for senior homes until the complex can be sold.

In reconstructing the local investment strategies of two listed real estate companies, I have thus provided real-world examples of processes of real estate financialization in Germany. The examples in Germany demonstrate well how listed real estate companies mobilize real estate as a financial asset and release housing into the privatized mainstream of capitalism. Since these companies possess a large housing portfolio which has been constructed in the second half of the twentieth century, they can simply create a rentier structure out of existing rental homes and profit without really producing new housing units on a large-scale basis. Nevertheless, some evidence indicates that listed real estate companies may become more 'productive' than they currently are at this part of the business cyle. Immeo Wohnen originally intended to produce senior homes in Mülheim before it changed its national investment strategy in Germany. Vonovia, while teaming up with city governments in Germany, but more recently, also by initiating a partnership with French housing developer SNI, is becoming involved in housing production too. Once listed funds begin to manifest themselves more actively as housing developers, it becomes more difficult to think of the listed real estate sector in Germany as 'financialized' in terms of only extracting profits

without involving new labor. For the moment, however, strategies of expanded reproduction by companies like Vonovia are mainly used to increase the rental levels and hence do not contribute to large-scale housing production.

8.3.2. France: raising international capital to fund urban spatial development?

In France, as I have shown in Chapters 2 and 7, rise of a listed real estate sector was linked to the dynamics in the commercial property sector and the arrival of foreign competitors in the mid 1990s. However, the introduction of the tax regime of SIIC also had indirect consequences for the housing sector: many social housing developers, that were already having a first look in the commercial markets in the 1980s, reinvented themselves as commercial property investors and divested their residential portfolio once they became listed on the stock exchange (IEIF, 2014b). One example of such a property company was the Société Centrale Immobilière de la Caisse des Dépôts (SCIC). During the post-war settlements, the SCIC was the major social housing developer from the CDC, France's public bank that was in charge of the production of high-rise housing estates in the *grands ensembles* of Paris (Eisinger, 1982). However, the SCIC started orienting itself in the commercial market when the national state progressively reduced its supply-side subsidies to the social housing sector in the 1980s and the 1990s (Cour des Comptes, 2014). After the adoption to the tax regime of SIIC in 2007, the new company of Icade was transformed into a commercial property investor and sold its housing units to a holding company of the CDC (Cour des Comptes, 2014). The CDC remained an important shareholder and in fact internally encouraged the initial public offering from the SCIC (Frétigny, 2015).

After its acquisition of the Entrepôts et Magasins Généraux de Paris (EMGP) in 2003, Icade became landowner of a large brownfield area in Aubervilliers, a peripheral municipality at the northeast of Paris (Plaine Commune, 2016; Savini, 2012). Although this land was abandoned and under-maintained, Icade recognized its potential because local authorities and the state had invested in infrastructure around the development site (Gilli, 2014). Furthermore, the expectation that Aubervilliers would become a crucial growth pole in the Greater Paris region made investments in Aubervilliers interesting from a long-term investment perspective (Icade, 2011). After its IPO in 2007, Icade remained devoted to property development as SIICs are allowed to invest in the production of urban space (Boisnier, 2011). Hence, Icade raised capital on the stock exchange and used it as a lever for funding the spatial development of its land in Aubervilliers. The development of the business park of Le Millénaire can be seen as an iconic urban project in which Icade provides funding for a shopping mall and various

office buildings in an important growth pole area of the Greater Paris region (Cour des Comptes, 2014).

Although Icade seeks to maximize shareholder value by combining property development and commercial leasing (Pollard, 2007), I have shown in Chapter 7 that Icade still operates at arm's length of the French government in the wider *Grand Paris* project. Firstly, by providing new office headquarters to Véolia and the French Ministry of Justice, Icade helps French multinationals and public institutions to relocate to the new growth pole area of Aubervilliers and essentially provides a 'public' service. In fact, the national state also encouraged the relocation of French firms and institutions to Aubervilliers by investing in mass transport and new infrastructure (Enright, 2012). Secondly, because the CDC still holds 39% of Icade's shares, a large amount of Icade's operative income flows indirectly back to the public bank. Since Icade thus clearly needs to reconcile public and private interests in its investment operations, the relations between the state and the market have become increasingly blurred. The state is involved as a market regulator of the *Grand Paris* project but, due to its involvement in Icade, is simultaneously market participant itself. This contradiction of 'regulated deregulation' tells us something about the blurring of state and market relations in the context of French urban planning, but also about how the state in times of financialization extends its state power with new market regulations..

The example of Icade embodies a key component of French-style real estate financialization: a shift in holding from residential to commercial real estate. However, on a more fundamental level, the example also illustrates a wider shift in the urban political economy of France. Whereas the SCIC was established to trigger post-war economic development by producing large-scale residential portfolios in the outskirts of Paris, Icade commits itself to property-led urban growth and commercial property development in the very same area where it once built social housing residences (Cour des Compte, 2014). As such, Icade shows how ever changing state-market relations in France have resulted in new urban and socio-spatial policies: a shift from large-scale social housing development funded by the state and a public bank towards property-led urban growth organized by the state but increasingly funded by international capital markets. Against this background, it remains a question how this shift in urban policy will affect the socio-economic structure of Aubervilliers and other municipalities in the periphery of Paris (cf. Enright, 2015; Savini, 2012). Will low-income groups and ethnic minorities in the urban periphery profit from urban development and urban regeneration? Or will increasing land values, gentrification pressures and other socio-economic and demographic factors eventually result in their displacement, voluntarily or involuntarily?

Unlike Vonovia and Immeo Wohnen in Germany, French REITs and Icade are strongly involved in the development of land and thus add labor to the production process (see e.g. Boisnier, 2011). However, since French REITs and other holding companies are legally obliged to promote the circulation of shareholder value in the urban built environment, some scholars argue that their investment practices and building activities must nevertheless be related to processes of financialization (see e.g. Guironnet et al., 2015). Furthermore, due to their specific role in France's multi-level urban governance regime, I associate the rise of French REITs and Icade also as a case of 'regulated deregulation' where the state extends its power through the expansion of the stock exchange and the blurring of state and market relations in the urban context (cf. Adisson, 2017). In so doing, 'financialized' elements are clearly at play as Icade deliberately initiates a shift in holding from residential to commercial real estate and manages its land and real estate as a financial asset (Frétigny, 2015). Yet, since Icade also performs a 'productive' role in the wider project of *Grand Paris* (Gilli, 2014), financialization strategies are combined with strategies of expanded reproduction.

8.4. The wider impact of real estate financialization

What can real estate financialization tell us more broadly about the variegated nature of capitalism and its development?

In the classification of comparative political economy and the Varieties of Capitalism-literature, Germany and France have often been portrayed as the textbook examples of Continental European, coordinated market economies with a insider-controlled corporate governance network and a strong welfare state (Amable, 2003; Crouch & Streeck, 1997; Hall & Soskice, 2001). This PhD thesis, by only looking at real estate and finance, has explored to what extent Germany and France actually conform to these classifications (see for a similar but more over-arching research design: Streeck, 2009). Based on the descriptions of Continental European capitalism, one could expect that the real estate markets of Germany and France operate largely outside the domains of financialized capitalism, either because they are embedded in wider corporatist or statist-developmental networks (Schwartz & Seabrooke, 2009); or because the reliance on credit and finance in both markets is not so well established as in so-called Anglo-American, liberal market economies (Lichtenberger, 1995). However, contrary to these expectations, I have shown in this PhD thesis that the real estate markets of Germany and France are effectively 'financializing', albeit not with the same rate and degree as in the United States and other countries. As such, this PhD thesis has made a empirical

contribution to the literature on variegated financialization and the debate on the ongoing decline of Continental European capitalism (Jackson & Deeg, 2012).

On a more structural level, real estate financialization, as well as its qualitative manifestations in Germany and France, inform us about the variegated and uneven nature of capitalist development itself. Indeed, the endemic restructuring of the real estate markets of Germany and France indicates a fundamental shift from a post-war real estate regime in which the state and public banks did hold a strong lever over the production and management of real estate, towards a real estate regime in which real estate funding is increasingly provided by international capital markets, financial institutions and other financial intermediaries (Weber, 2015; Lizieri, 2009). Instead of perceiving this pattern of interdependence as a mutual 'trade-off', it should be perceived as the manifestation of a *crisis*, because large quantities of overaccumulated capital, which normally would have been invested productively in the economy, are switched into the urban built environment and periodically trigger real estate prices bubbles and land price increases (Wissoker et al., 2014; Charney, 2001; Haila, 1997; Harvey, 1982). To a large extent, the exhaustion of the state's capacity to provide affordable housing as a welfare policy, as well as restrained wage growth following the decline of Fordism and the deeper penetration of international capital markets into post-Fordist economies, have contributed to this particular restructuring of the post-war real estate systems of Germany and France (Boisnier, 2015; Rohmert, 2013).

Although it is difficult to precisely pin down what has triggered this shift towards an increasingly finance-led real estate regime, I have argued that three explanations are useful here. First, real estate financialization can be associated with a wider shift towards finance-led accumulation in advanced, political economies (see e.g. Fernandez & Aalbers, 2016; Stockhammer, 2008). When the post-war economic miracle of prolonged economic growth came to a halt due to declining industrial output, returns on capital began to exceed returns on labor as financial markets fared better and produced higher rates of profitability (Streeck, 2013; Piketty, 2013). For that reason, an increasing share of globally circulating capital is no longer fixed in production but is rather invested in fictitious commodities such as real estate, stocks and bonds (Turner, 2015; Van Loon & Aalbers, 2017). Furthermore, state authorities, while seeking to tackle a public budget crisis, have progressively reduced their direct involvement in the real estate sector by enabling financial institutions and market actors to step in as financial intermediaries (cf. Jacobs & Manzi, 2017; Halbert & Attuyer, 2016). Thus, the intensified connections between real estate and finance must also be seen in relation to 'regulated deregulation' and the invitation of private competition, for instance through the promotion of mortgaged home ownership, private landlordism or private housing production (Aalbers, 2015; Kemp, 2015).

A second explanation for real estate financialization is the emergence of regimes of shareholder value orientation and the adoption of new modes of profitability by financial institutions and non-financial corporations (Froud et al., 2002; van Der Zwan, 2014). Due to the erosion of former insider-controlled corporate governance networks in the 1980s and the 1990s (Streeck, 2009; O'Sullivan, 2007), many large companies have become listed on the stock exchange and have decided to divest their office portfolio in order to increase shareholder value (Wissoker et al., 2014; Lizieri, 2009). In a similar way, the state has deployed new modes of real estate management or has sold public housing companies in order to reduce public debt levels (see e.g. Adisson, 2017; Holm & Aalbers, 2008). The emergence of REITs and other private investment vehicles has not only linked the stock exchange to liquid real estate markets; it has also enabled financial institutions and institutional investors to establish new holding structures enabling them to externalize risks or to provide access to new sources of capital (Frétigny, 2015). In other words, financial re-regulation and the rise of market-based banking have also contributed to the increased importance of shareholder value orientations in the real estate sector (Hardie & Howarth, 2013).

A third explanation for real estate financialization is the grounding of finance into the everyday life of households and citizens. Due to financial re-regulation and the 'democratization of finance' (Erturk et al., 2007), a new market has emerged in which consumers, rather than only states and private firms, get an increasing amount of credit from financial institutions and banks (Crouch, 2009; Lawrence, 2015; Mertens, 2017). Indeed, the pre-crisis housing bubble was fundamentally triggered by the unbridled and unprecedented growth in mortgage debt and was facilitated by liquid capital markets and institutional investors looking for new investment opportunities (Schwartz & Seabrooke, 2009; Aalbers, 2012). However, because the outbreak of the GFC has not stopped the ongoing expansion of finance in real estate, but rather has modified and deepened it, there is no reason to believe that finance again plays a reduced role in the everyday lifes of citizens (Aalbers, 2015). Although homeownership has become less accessible in the wake of the GFC, real estate and land have remained crucial assets for generating an income or for storing wealth (Arundel, 2017; Ronald et al., 2015). For now, the uneven distribution of housing wealth and the uneven impact of financial risks on strata of the population, as well as the emergence of a new patronage of globally operating wealth elites, corporate landlords and private investors, indicate that finance still penetrates into the everyday life of citizens (Fernandez et al., 2016; Forrest & Hirayama, 2015; Ronald et al., 2017).

In the remainder of this section, I want to engage more critically in an open debate on the major implications of the research findings presented in this PhD thesis. In doing so, I will stress a few empirical observations from this PhD thesis which can enrich

the ongoing debate on variegated financialization, capitalist development and the 'commonalities of capitalism' (Aalbers, 2016; Streeck, 2009; Peck & Theodore, 2007). In doing so, I want to emphasize the following observations in Germany and France: real estate financialization does not merely occur within a unified national-economic space but rather takes place at multiple spatial scales; it undermines the relative stability of post-war real estate systems and results in institutional restructuring and discontinuous change; it mobilizes and treats the urban landscape as a collateral for real estate-driven economic growth; it revolves around the fundamental tension between value production and value transfers; it reinforces existing inequalities in society and other socio-economic disparities. As such, real estate financialization, along with the shift towards finance-led growth, the rise of regimes of shareholder value and the grounding of finance into the everyday, denotes a structural transformation of contemporary capitalism in which production-led accumulation is increasingly substituted by finance-led accumulation.

8.4.1. Financialization as a uneven and multiscalar process

As said before in Chapter 4, the shift towards finance-led growth and the emergence of shareholder value orientation is often associated with the disintegration of national corporate governance networks which protected business firms against hostile takeovers and coordinated the economy with patterns of shareholding and crossholding (see e.g. Boyer, 1997; Hardie & Howarth, 2009; Lütz, 2000; Streeck, 2009). However, because corporate profitability was higher and less restrained in foreign markets, commercial banks and larger business firms sought to escape from the strongholds of German corporatism and French dirigisme and expanded internationally in the 1990s and early 2000s (Hardie & Howarth, 2009). Moreover, global diversification became a dominant strategy for German and French business firms to consolidate profits and to increase shareholder value in environments with more flexible labor markets and more advanced or 'liquid' financial systems (Dixon, 2010; Johal & Leaver, 2007; Lapavitsas & Powell, 2013). As such, it has been widely documented that large institutional players, such as Deutsche Bank and BNP Paribas, developed themselves into global investment banks which were notoriously involved in the pre-crisis global credit and property boom (see Hardie & Howarth, 2013).

On a structural level, it is an undeniable truth that German and French capital have become increasingly reliant on what Jessop (2014: 248) has called the 'structural coupling and dynamic entanglements' of national economies. Similarly, it is an undeniable truth that German and French capital could thrive in the mid 2000s by providing external funding to the property markets of the US, Spain, Eastern Europe and the Middle East (Hardie & Howarth, 2013). However, when controlling for real estate

and finance, this PhD thesis has also found substantial evidence that capital in Germany and France has turned towards the domestic economy for the purposes of finance-led accumulation (Just, 2010b; Nappi-Choulet, 2013a). For instance, the steady expansion of credit and finance in the domestic real estate sectors can be perceived as a structural attempt to create a new outlet market for overaccumulated domestic capital in Germany and France (Lipietz, 2013; Rohmert, 2013). Similarly, the creation of deep and liquid commercial real estate markets in the 1980s was initiated by domestic property developers and financial institutions; foreign investors entering these markets in the late 1990s and early 2000s only reinforced capitalist development by bringing additional liquidity into the market (Nappi-Choulet, 2013b). In fact, domestic market actors are still controlling the local property sectors of Germany and France, either by absorbing foreign capital into their investment funds or by consolidating domestic market operations through establishing new private vehicles (Boisnier, 2015; see also Just, 2010).

The implication of this major research finding is that a more nuanced view on the accumulation strategies of German and French capital is needed. Indeed, German and French capital has extensively relied on global diversification, if only because the spreading of risks has become a necessity in current globalized and variegated capitalism (Lapavitsas & Powell, 2013). The example of Foncière des Régions in Chapter 7 perfectly demonstrates how and why a French investor maintains and manages one fifth of its real estate portfolio in a foreign country. However, we can also clearly observe that the variegated financialization of German and French capital takes increasingly place in the domestic economy. In this regard, the creation of a listed real estate market, which enabled French property companies to raise foreign capital and to consolidate domestic market activities, is a striking example. Rather than using the stock exchange to fund expansion into foreign markets, as is often argued in the literature on international political economy (see e.g. Johal & Leaver, 2007), French REITs use international capital as a lever for funding national operations and the production of urban space in the Greater Paris region. Variegated capitalism thus both applies internally and externally: the restructuring of global finance is a uneven and multiscalar process and does not take place in a unified national-economic space but rather at multiple spatial scales. The literatures on growth models and variegated capitalism could be taken as interesting starting points for further exploring the multiscalar aspects of contemporary capitalism (Baccaro & Pontusson, 2016; Brennet et al., 2010; Peck & Theodore, 2007).

8.4.2. Real estate financialization as a transformative process

Institutional change in advanced, political economies such as Germany and France is often perceived as a gradual process that 'takes place within, and is conditioned by, the

very same postwar institutions that it is reforming or even dissolving' (Streeck & Thelen, 2005: 4). While not being fundamentally triggered by a exogenous shock or a 'Thatcherian' revolution, the liberalization of German and French capitalism is thus characterized as a 'steady expansion of market relations in areas that under the postwar settlements of Continental European capitalism were reserved for political-decision making' (Streeck & Thelen, 2005: 30). Indeed, there is abundant literature which has described the slow dismantling or withering away of post-war institutions in many domains of the economies of both countries (see e.g. Alvarez, 2015; Celo & Lehrer, 2016; O'Sullivan, 2007; Streeck, 2009). In fact, the steady expansion of market relations in Germany and France has also contributed to the dominant idea that processes of real estate financialization have not materialized in these countries (Kofner, 2014a; Tutin & Vorms, 2014; Voigtländer, 2010). Ultimately, moderate mortgage debt growth and relatively modest unsecured secondary mortgage markets are often perceived as signs of low financialization in Germany and France..

In accordance with the literature on gradual change, this PhD thesis has indeed found substantial evidence that real estate financialization unfolds at a steady and gradual pace. For example, Chapters 2, 3 and 4 have shown that a perspective of the moyenne durée is useful for understanding the qualitative manifestations of real estate financialization in Germany and France. It was not so much a 'Big Bang' in finance which triggered the financialization of real estate: a combination of economic and demographic developments, as well as regulatory reforms and new public housing policies contributed equally to institutional change in the real estate sectors (Blanc, 2004; Driant, 2010; Kirchner, 2007; Kohl, 2015). In Germany, the gradual shift towards mortgaged homeownership is a political project which was already initiated by West German banks in the mid 1980s and which got delayed for two decades by the shocks of German reunification (Ertürk et al., 2005; Mertens, 2017). Similarly, the state-enhanced diversification of credit to homeowners and private landlords in France is a banking model of which the foundation was established in the late 1970s and the 1980s (Bosvieux, 2005; Bourdieu, 2000; Pollard, 2010b).

Nevertheless, this PhD thesis has also shown that processes of real estate financialization can also materialize and emerge in a rather abrupt way. In this regard, it is noteworthy that the post-war real estate markets of Germany and France are not just getting slowly dismantled (cf. Streeck & Thelen, 2005). The advent of listed real estate clearly shows that new socio-spatial networks are mobilized in order to make real estate markets abide to financialized capitalism (Heeg, 2013; Holm, 2010a). Throughout the post-war history of Germany a substantial part of the national housing stock was managed by the state and private companies in order to provide affordable housing units to tenants and workers (Holm & Aalbers, 2008). However, within roughly twenty

years after the first sales of public and private housing portfolios in the mid 1990s, a large part of the national housing stock has become managed by private equity funds and listed real estate companies which no longer abide to the 'common interest principle' (Bernt et al., 2017). In France, the emergence of a listed real estate sector can also be perceived as a rather abrupt development considering that the listed real estate sector has emerged in barely fifteen years and already manages around 20% of the entire French office stock in 2016 (IEIF, 2016; Boisnier, 2011). These examples indicate how rapidly real estate financialization can transform a real estate sector, regardless of institutional typologies or political-economic frameworks. Especially in Germany, where the real estate sector remains overly bank-based, the entry of listed real estate companies in the housing sector is really transformative (Heeg, 2013; Kofner, 2012). In France, where some REITs are still partially owned by financial institutions, the rise of a listed real estate sector can also be understood as an example of institutional conversion because banks use new holding companies to externalize risks to the stock exchange (Frétigny, 2015; Boisnier, 2015). As for that, this PhD thesis has shown that real estate and finance need to be taken seriously to understand the structural transformations of contemporary capitalism: the relative stability of post-war real estate markets is undermined due to institutional restructuring and discontinuous change.

8.4.3. Financialization and urban restructuring

Under the post-war settlements, collective and political decisionmaking on the national level was dominantly concerned with launching large-scale and nation-wide real estate construction to trigger the post-war economy and to provide housing opportunities to the population in a war damaged Europe (Albert, 1991; Harloe, 1995; Shonfield, 1965). While doing do, it became an important policy goal to shift resources from the national level into urban real estate markets in order to distribute economic growth evenly (Nappi-Choulet, 1998; Rohmert, 2013). However, in the wake of the public budget crisis, several central government responsibilities were shifted to the local level and the role of urban elites and market actors in shaping the urban process has increased as new networks of urban governance have emerged (Bernt et al., 2017; Brenner, 2000; Gilli, 2014; Savini, 2012). Now that the state's capacity to fund urban spatial development directly has become exhausted, real estate projects on the local level have become increasingly managed by city governments and financial actors that provide external funding (Adisson, 2017; Guironnet et al., 2015; Holm, Marcińczak, et al., 2015; Kühn, Bernt, & Colini, 2016). With the increased importance of listed companies in the urban process a new dimension to of the rescaling of statehood and the restructuring of urban space has been added: international capital is increasingly funneled into the urban built

environment, resulting in the financialization of real estate and urban land markets (Lizieri & Pain, 2014).

In the case of France, the linking of global financial accumulation to the production of urban space becomes very clear in the *Grand Paris* project (Gilli, 2014). Since the state relies on the capacity of listed funds to provide external funding for the spatial development of Paris, the production of urban space is increasingly negotiated by the financial expectations of French REITs and other financial investors (Enright, 2012; Guironnet et al., 2015). As a consequence of that, the redevelopment of Paris no longer merely follows a national growth agenda: the creation of shareholder value becomes an important criterion for urban spatial development (Boisnier, 2011; Nappi-Choulet, 2013a). In Germany, the local investment activities of listed real estate companies exemplify that urban space has become linked to the spatial flow of capital in a similar way. For now, listed funds such as Vonovia and Immeo Wohnen however rather deploy strategies of expanded reproduction in the existing housing stock and are not strongly invested in the production of new homes (see also Kofner, 2012). However, it is not inconceivable that listed funds in Germany will also use their financial capacities to provide funding to the production of urban space as French REITs are currently doing in the urban periphery of Paris.

Nevertheless, the linking of international finance to local real estate markets indicates how urban space, as well as its production and restructuring, is becoming increasingly financialized. Firstly, as I have shown in Chapters 6 and 7, the investment strategies of REITs and listed real estate companies denote a structural transformation in post-war capitalism as far as industrial land and real estate is increasingly turned into a financial asset (cf. Adisson, 2017; Kaika & Ruggiero, 2013; Savini & Aalbers, 2016). Whereas industrial cities like Essen and Mülheim an der Rühr were once the backbone of Germany's industrial capacity and post-war economic miracle, the remaining bastions of this industrial past are now sold to listed companies that transform housing assets and the urban landscape into financial commodities for sale (see also Hendrikse, 2015; Krämer, Scholz, Wagner, Wenzel, & Wiegandt, 2015). Similarly, the brownfield area in Aubervilliers is currently made 'productive' in financial terms as Icade is creating a stable cash flow through commercial leasing and property development (Cour des Comptes, 2014; Savini, 2012). Secondly, financialization occurs because listed funds and other institutional investors store their capital into the urban built environment and try to intervene in the urban process as urban space is increasingly used as a form of urban wealth production (Bernt et al., 2017; Guironnet et al., 2015). The role of the state in guiding this process of capital switching is essential too. Since national governments understand that a unconditional opening up to international investment flows may potentially undermine markets, they tend to create regulatory boundary conditions to

control and manage capital flow in the national territory (see for a similar argument: Hofman & Aalbers, 2017; Wainwright, 2015). As such, this PhD thesis has shown that the ways in which urban space and its public or private 'assets' are managed by different kinds of actors, are essential for understanding contemporary changes in financialized capitalism. National economic growth increasingly depends on 'asset price urbanism' and the economic value of local property and infrastructure markets (cf. Byrne, 2016).

8.4.4. Financialization and value transfers

The increasing concentration of real estate assets in the hands of large corporations, corporate landlords and transnational wealth elites is another common trend in 'financializing' real estate markets. After having identified this phenomenon as a specific articulation of financialization, I have demonstrated how REITs and other holding companies deploy new investment strategies which tend to shift away from value production and revolve around 'profiting without producing' (cf. Lapavitsas, 2013). As such, I have highlighted that value is increasingly derived from financial speculation, rather than from production and economic activity, i.e. from value transfers instead of value production. Nevertheless, it must be mentioned that in practice the boundaries between value production and value transfer in practice remain rather thin. For instance, many REITs profit fully from charging higher rental costs to tenants, and therefore do not produce value, but at the same time can only sustain this business model if their properties in the medium to long run maintain a certain use value that can be put to use in society (Lizieri, 2009). It is therefore that I have shown in Chapter 6 that the long-term investment focus of listed real estate companies paradoxically enables a short-term investment focus by buying and selling shares in these companies on the stock exchange.

In Germany, most of the housing companies acquired by private equity funds in the late 1990s and mid 2000s were heavily burdened with housing debt (Aalbers & Holm, 2008). As a consequence, private equity firms and listed funds had no choice but to focus on refinancing or remitting the debts before they could consider to engage in long-term investment activities (Kofner, 2012). For instance, American private equity firm Cerberus acquired Berlin-based municipal housing company GSW and its 65,000 housing units for an amount of €405 million in 2004 and thus paid approximately €6,230 per housing unit. However, considering that GWS's debt was valued at 1.7 billion euro, Cerberus virtually paid an additional amount of €26,153 per housing unit to cover for the company's debts and interest payment. Moreover, the 'real' price per unit was fixed at around €33,283 which was comparatively low but also included a debt obligation and financial risks that had to be taken into account. Essentially, Cerberus thus speculated

that it could sell the homes at a profitable market value in the next few years and that meanwhile it could refinance the debt without succumbing to debt payments (see also Botzem & Dobusch, 2017; Holm & Aalbers, 2008). With the advent of listed real estate, value production is more likely to occur since listed companies become involved in long-term investment activities, such as incremental refurbishments, modernizations and new housing production. However, for the moment, these strategies of expanded reproduction are used to increase the rental levels even further and therefore still revolve around value transfers (cf. Bernt et al., 2017).

In France, the fundamental tension between value production and value transfer remains unresolved too, but not in the same way as in Germany. While being historically committed to the production of social housing, The SCIC aimed to become more commercially oriented, especially when the state reduced its monetary support to the social housing sector and when the deficits of the SCIC increased accordingly (Frétigny, 2015). Following the shift in holding from residential to commercial real estate, Icade nevertheless remained engaged in property development as it became committed to the management of large business parks such as the one in Aubervilliers (Cour des Compte, 2014). However, since the land values of its business parks rely extensively on the expected growth of *Grand Paris*, Icade anticipates that the exchange value of its commercial properties will increase substantially in the future (Gilli, 2014). While the state is also providing new mass transport facilities adjacent to Icade's development zone, the land values of the business park in Aubervilliers are expected to increase further (Savini, 2012; Enright, 2015). Essentially, Icade is thus expecting to profit from higher exchange values by strategically divesting its historical housing portfolio and by engaging in state-supported commercial activities in the urban periphery of Paris (Cour des Compte, 2014; see also Van Loon & Aalbers, 2017). Against this backdrop, the created 'value' is not necessarily linked to the production of the business park in Aubervilliers itself. Rather, it is linked to the concerted, cartel-like action from Icade and state authorities that results in higher rents and the assetization of land in the broader context of *Grand Paris* (Enright, 2015). As such, these examples of listed real estate demonstrate that value transfers, and its underlying mechanisms, become increasingly important for understanding the structural transformation of financialized capitalism (cf. Ward & Aalbers, 2016).

8.4.5. Financialization and inequalities

The ongoing housing boom in Germany shows that house prices become increasingly unaffordable for wide strata of the population, especially in large metropolitan areas such as Hamburg and Berlin (Heeg, 2013). Similarly, the sale of large housing portfolios

to private equity funds and listed real estate funds has made it increasingly difficult for low income households to find affordable housing or to defend their housing rights (Heeg, 2013). With regard to inequalities, the uneven development of regional house prices is something to be watched in Germany. Especially, the uneven development of housing wealth and house prices between cities and regions suggests that inequalities in Germany are rapidly increasing (BBSR, 2014). This development, which also relates to broader issues, such as economic development, demography and labor market dualization, not only indicates that housing wealth is unevenly spread across the country, but also that cities and regions are played off against each other as 'winners and losers' (see also Heeg, 2013; Brenner, 2000). Moreover, the qualitative nature of real estate financialization in Germany reveals a hidden weakness of the 'Powerhouse of Europe': while urban economies are performing strongly in terms of labor and housing market developments, their hinterlands and the regions are performing weakly (see also Bernt, 2009). Indeed, the uneven development of house prices indicates that socio-economic disparities in Gemany are spatially divided among cities and regions (see also Kofner, 2014a; Soederberg, 2017).

Obviously, house price developments in France are the strongest in Paris and other metropolitan areas, such as Lyon (Cusin, 2013). However, as Davezies (2012) has shown, house price developments in France are not as unevenly spread as in Germany. Nevertheless, inequalities in terms of housing wealth and housing opportunities can also be observed in France. After the decision to withdraw supply-side subsidies to the social housing sector, the state introduced new demand subsidies to support mortgaged homeownership and private renting (Driant, 2010; Pollard, 2010b). Initially, these housing policies were targeted at low income households and were meant as a supportive measure to help them switching from the public to the private sector (Blanc, 2004). However, following the commercialization of the mortgage market and the introduction of the prêt à taux zéro (PTZ) in the 1990s, new state-authorized credit loans are primarily targeted at medium income households, excluding lower income groups from homeownership subsidies (Gobillon & le Blanc, 2008; Pollard, 2010b). Although officially meant to reduce a tight supply of housing, the promotion of buy-to-let housing also promotes inequalities in certain ways. Because not everybody is financially able to invest in (buy-to-let) housing, only a minority of private landlords can offset for reduced income and profit from the fiscal advantages of buy-to-let housing (Bastard, 2011). As such, the emergence of a new group of property owners may suggest that a new patronage of private landlords and rich families is emerging in France (cf. Lipietz, 2013; Piketty, 2013).

In Chapters 6 and 7, I have also explored the issue of socio-economic inequality on the urban level. In Germany, the investment practices of listed real estate companies

are indeed aimed at creating shareholder value and thus put pressure on current tenants who struggle to pay higher rental charges (Heeg, 2013; Holm, 2010b). While many tenants are thus forced to leave their homes, tenant displacement or the relocation of tenants to other neighborhoods is widely discussed in Germany. The ultimate paradox here is that the business model of 'gaming' German rental regulations also enables listed companies to make profits by offering homes to unemployed welfare recipients with a low income: the Hartz V-model, as discussed in Chapter 6, enables listed funds in Germany to offer low-maintained housing units to welfare recipients for a low but state-subsidized rental price (see also Bernt et al., 2017). Providing that the capital costs remain low, listed real estate companies can make profit out of this construction.

In France, the urban development of *Grand Paris* also raises questions concerning inequalities. The spatial expansion of Paris *intra muros* into the *banlieue* drives up real estate and land values and puts pressure on the socio-economic structure of low income neighborhoods (Enright, 2012; Savini, 2012). For example, Icade is not only involved in the development of a large business park in Aubervilliers, as I have shown in Chapter 7, but is also owner of Campus Condorcet, which is currently being developed into a residential area for students and doctoral researchers. Although the French government still provides a law that in every municipal jurisdiction the housing stock should consist for twenty percent out of social housing (Driant, 2010), it remains a question whether the property-led urban growth project of *Grand* Paris can actually sustain enough houses for lower income groups (Enright, 2012; Savini, 2012). To a large extent, this depends on the capacity of local authorities and housing developers to provide affordable rental homes in the periphery. Yet, France's largest housing developer and counter-part of Icade, Groupe SNI, has recently issued social bonds on the capital market, thereby guaranteeing institutional investors a 3.5% return on investment and committing itself to more market-oriented social housing development (SNI, 2014). Much like in Germany, gentrification pressures and tenant displacement can therefore be expected in Aubervilliers and other peripheral towns around Paris. Real estate financialization reinforces existing inequalities, both directly and indirectly.

8.5. Future outlook and scope for research

8.5.1. Future outlook

Why should the ultimate victory of a trend be taken as a proof of the ineffectiveness of the efforts to slow down its progress? And why should the purpose of these measures not be seen precisely in that which they achieved, i.e., in the slowing down of the rate of change? That which is ineffectual in stopping a line of development altogether is not, on that account, altogether ineffectual. The

rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us.

Karl Polanyi, 1944: 2011, 39.

In this PhD thesis, I have perceived capitalism as a historically specific social formation that is not necessarily self-regulating (Aglietta & Breton, 2001; Lipietz, 1974). In order to overcome anarchy and capitalistic self-destruction, capitalism requires a counter-balance and wider embeddedness in socio-economic institutions (Aglietta, 2000; Boyer, 1986; Jessop, 2014). During the post-war settlements, Continental European capitalism found its counter-balance in the Fordist regime of accumulation which enforced an institutional compromise between capital and labor and resulted in the prolonged economic miracle of the 1950s and the 1960s (Albert, 1991; Shonfield, 1965; Zysman, 1983). Hence, the institutional stability of the German and French real markets was safeguarded by the essential features of post-war organized capitalism (Amable, 2003; Crouch & Streeck, 1997; Lichtenberger, 1995).

However, as I have shown in this PhD thesis, the advent of real estate financialization has gradually and sometimes abruptly undermined the supposed institutional stability of the post-war real estate systems in Germany and France. And, if financialization is defined as a ever changing and ongoing process which moves forward in fits and spurts (Lapavitsas & Powell, 2013; Pike & Pollard, 2010; van Der Zwan, 2014), it can be expected that it may continuously do so. For now, a preliminary analysis of the post-crisis real estate markets of Continental Europe indeed suggests that real estate financialization has not stopped, but has rather deepened itself. The post-crisis investment booms in residential and commercial real estate not only demonstrate that real estate financialization has resumed in Germany and France, but also that it takes new forms (Scharmanski, 2012). In this regard, the increased use of mortgage securitization and social bonds indicates that the German and French government help to promote 'liquid aid' in the domestic property sector, making more, rather than less finance, the mantra for crisis solutions (Rohmert, 2013; Segoviano et al., 2015). Finally, the growth of listed real estate, which especially in France is strong considering the critical role of French REITs in the *Grand Paris* project, also suggests that real estate financialization is 'here to stay' (FSIF, 2010).

Although I have shown in this PhD thesis that real estate financialization demands its toll on the national and urban economies of Continental Europe, I argue that it is not inconceivable that this seemingly endless expansion of finance can still be restrained, or better, can be made 'productive.' As I have shown in Chapter 7, the regulatory capacity of the state is not limitless, especially not considering the increased

importance of offshore finance and shadow banking which enables listed real estate actors to operate beyond institutional constraints and to exploit national and local real estate markets to their best advantage (Fernandez & Wigger, 2017; Haberly & Wójcik, 2015). However, I have also shown that the national state can still introduce boundary conditions to control and manage cross-border capital flows in the national territory and impose regulations on the investment activities of listed funds and other market actors. Economic patriotism, essentially a strategy of reinventing control over open markets, signals in some ways the return of the *dirigiste* state on both the national and the urban level (cf. Clift & Woll, 2012; Morgan, 2012). Obviously, this re-articulation of state-market relations no longer fits the depiction of the post-war order as a institutional compromise between capital and labor (Albert, 1991; Crouch & Streeck, 1997; Shonfield, 1965). However, it may as well account for a new institutional compromise that is currently in the making and negotiated at various scale levels: a institutional compromise between states and international capital markets.

Against this background, I suggest that future research should explore the ways in which new state-market relations can result in more stable and controlled patterns of real estate financialization that dampen down boom-and-bust cycles and funnel international capital into more 'productive' forms of investment (see also Fields & Uffer, 2016). In this regard, future research should dare to consider financialization as *a fait accompli* which, for better or for worse, shapes our economy and society and which needs to be embedded in more stable social relations as previously was done during the post-war era. In hindsight, it may appear that the post-war economic miracle of prolonged growth and more stable social integration of markets was exceptional in the long history of Continental European capitalism. However, as far as historical capitalism is driven by the *fundamental tension* between self-regulating markets and stable social integration in which the pendulum sometimes swings to the side of markets and sometimes to the side of society (Polanyi; 1944; see also Streeck, 2009), future research should address how international capital markets can be embedded in human society in a more 'friendly' way. A new institutional compromise between states and international capital markets may not be a panacea for holdings markets in place for ever, but it may at least dampen down or restrain the rate and degree of real estate financialization and the toll it demands on society.

8.5.2. Scope for research

What future research topics need to be addressed? <u>Firstly</u>, I suggest that future research should focus on how more sustainable and less overheated investment markets can be established and governed in times of financialization. In this regard, it is noteworthy that

not only the national state realizes that unconditional and unrestrained real estate financialization is potentially harmful for the economy and for society. During many of my interviews in Frankfurt am Main and Paris, various chief executives and general managers of real estate companies stated that the amount of capital and investment pressure, as is currently experienced in the market, is alarming. Although profits can be made when speculation and risk are involved, real estate managers tend to prefer investing in more predictable and less volatile real estate markets that may not give the highest yield returns, but provide a stable and long-term operative income (Scharmanski, 2013). In fact, one of the key reasons for investing in Germany and France, or better: in the 'core' markets of Continental Europe, is the fact that these markets are still considered to be less volatile than the UK and markets in Southern Europe (Rohmert, 2013). Even on the side of capital, we can thus observe the conviction that less open, and more controlled investment markets are in the general interest of everybody. Especially among pension funds, open-ended funds and other public or private wealth managers this call can be heard (see also Lizieri & Pain, 2014).

Secondly, from a more historical perspective I suggest that future research should address in what ways globally circulating overaccumulated capital can possibly sustain a new long wave of economic growth accompanied by productive and tenant-friendly real estate investments in for instance social housing or energy efficient office buildings. In this regard, it should be mentioned that it is not uncommon in the history of capitalism that surplus capital circulating in the economy becomes productively invested in the urban built environment. For instance, during the late nineteenth century a large surplus of industrial capital was funneled into the urban built environment and laid the foundation for new urban settlements and the growth of industrial towns and industry (Harloe, 1995; Kohl, 2017; Marguerat, 2015). Furthermore, It must not be forgotten that the sometimes romanticized social housing sector of and the late nineteenth and twentieth century was, by its very essence, a *bourgeois* invention too (De Swaan, 1988; Stébé, 1998). Although the property loans to social housing developers were subsidized by the state, they were still interest-bearing and social housing production was politically encouraged by economic elites to civilize the 'dangerous classes' (Blanc, 2011). Moreover, even in Fordist times, real estate was in some ways 'financialized', even though that capital was more restrained and linked to the production cycle of the 'real' economy (see also Harloe, 1990). Therefore, future research can address important questions regarding the nature of financial capital and long wave cycles of economic growth. Is it possible to re-funnel overaccumulated capital in the financial markets into the property sector without disturbing the economy? Or will this eventually result in another crisis of financialized capitalism?

Regarding this, the literature should develop new middle range theories that incorporate more critical, neo-Marxian approaches and more substantive neo-Weberian

or neo-Polanyian approaches. In line with the first, it should consider the regressive and potentially disruptive effects of real estate financialization and link these effects to the fundamental problem of capital accumulation. However, in line with the latter, it should be considered that, although markets have a tendency to expand beyond their original domain, society still musters the 'capacity and the will to put markets in their place and keep them there' (Streeck, 2009: 247-248). Although the fundamental tension between self-regulating markets and stable social integration cannot necessarily be solved, a new counter-balance to real estate financialization may not be ineffectual. For example, the discussion on the *neue Wohnungemeinnützigkeit* in Germany can be seen as a political initiative to establish a new public housing sector in times of financialization (Holm, Horlitz, et al., 2015). Similarly, the developments in the public housing sector of France, where social bonds play an increasingly important role to refinance property loans, needs to be examined further (SNI, 2014). As such, urban research should also address to what extent development projects in the urban periphery may pave the way for a more sustainable environment in which capital is not only invested in overheated market segments. Will such projects eventually decrease the pressure on inner cities and thus result in lower real estate prices? Or will they simply trigger gentrification pressures and result in the displacement of tenants as for instance is occurring in the *banlieues* of the Greater Paris region?.

Thirdly, I suggest that future research should address the possible emergence of new modes of corporate governance in times of financialized capitalism. Now that an increasing part of the global real estate stock is controlled or owned by large property companies and corporate landlords (Beswick et al., 2016; Lizieri & Pain, 2014), it may appear that the Fordist 'common interest principle' of real estate and land has increasingly been substituted by the need to create shareholder value or returns on investment (Wissoker et al., 2014). However, the increased concentration of property ownership in the hands of a few global property firms may also provide an opportunity to make these firms publicly accountable again (see also Moreno, 2014). It could be argued that once property companies and wealth elites exercise substantial control over local real estate markets, they technically become political subjects, in the sense that they are responsible for the 'public' policy of their land and real estate (cf. Crouch, 2011). Moreover, social movements and civil society can hold large firms such as Vonovia, Immeo Wohnen and Icade democratically responsible for the actions and business activities that they are conducting (cf. Fields, 2015; Crouch, 2011). Similarly, new social blocs and political parties may provide electoral resistance against large corporations or wealth elites and thus contribute indirectly to the emergence of new modes of corporate governance (Baccaro & Pontusson, 2016; see also Streeck, 2016). Furthermore, European regulation for corporate landlords and institutional investors may restrain finance-led

activities and provide opportunity structures for more sustainable forms of investment (Pittini, Koessl, Dijol, Lakatos, & Ghekiere, 2017).

In this regard, two crucial elements are important for further research. On the one hand, the state can still put pressure on large corporations by introducing new regulatory reforms or by fiscally encouraging corporations to engage in more socially responsible activities (Clift & Woll, 2012). For instance, recent experiments with social housing REITs in the UK and the US, but also the political initiatives of the European Investment Bank and the emergence of social bond markets, indicate that public housing of the future will be funded by capital markets (see also Wainwright & Manville, 2017). The role of the state is crucial in this regard as capital market reforms and fiscal instruments are required to make it worthwile for institutional investors to invest in social housing (Scharmanski, 2012). On the other hand, it must also be acknowledged that the blurring of the state and markets needs to be examined further (cf. Adisson, 2017). There is a need to reconsider what the state is (Jessop, 2007), but also how market liberalization and economic patriotism of states are related to each other and result in more state power (Clift & Woll, 2012; Crouch & Le Galès, 2012; Morgan, 2012). For instance, public-private partnerships, urban funding models and complex financial structures may promote dispersed competition among private actors, but at the same time constitute a set of social relations which becomes increasingly incorporated into the body of the state (Ashton et al., 2016; Konings, 2009). As such, the extension of state power through the expansion of markets, i.e. regulated deregulation, remains an important research topic (Aalbers, 2016; Gotham, 2016).

As with regard to the discussion on regulated deregulation, a more fine-grained analysis is required on the increased role of the stock exchange in other sectors than property. Although I have demonstrated in this PhD thesis how the French state plays an important role in providing regulatory support to the listed real estate sector, the tax regime of SIIC was not per se tailored to enable listed real estate companies to funnel capital from the stock exchange into the urban built environment of Grand Paris. However, it must also be acknowledged that other sectors of the French political economy have become equally linked to the stock exchange, and already as early as in the mid 1980s (Amable, 2003; Boyer, 1997; Morin, 2000). It must therefore be taken into account that the increased role of the stock exchange is not unique for the French property sector only and rather represents a wider transformation at the heart of the French political economy in times of globalization and financial liberalization (Amable et al., 2012; Howarth, 2013). In line with this observation, some questions have remained unanswered in this PhD thesis: can the introduction of the tax regime of SIIC be perceived as a deliberate strategy of the state to reinvent control over the property sector? Is the French government essentially stabilizing the property market by enabling domestic property companies to raise capital on the stock exchange and to reinvest it in

real estate? Or must the rise of a listed real estate sector be associated with continuous institutional change in the French political economy and with a 'deepening' of financial markets? If the latter is the case, what remains of the state and *which* state is still exercising control over the property sector, and how?

Similarly, the 'regulated deregulation' of the housing sector of Germany and France remains a point for discussion. I have shown in this PhD thesis that the housing markets of Germany and France have largely evaded the housing crisis of 2007-2008 because mortgage debt as a percentage of GDP only increased moderately in France and for a while even decreased in Germany. Unlike the UK, where public debt was replaced by private debt and where the 'deregulated' financial system linked households to secondary mortgage markets, the 'regulated deregulation' of housing took a different form in Germany and France. Whereas in Germany the state sought to reduce public debt drastically by abolishing housing subsidies and by selling housing companies to private equity firms, the French government paradoxically did so by providing personal and fiscal aid to promote private debt expansion and private housing construction (see for a similar analysis for Germany: (Holm, Horlitz, et al., 2015)). Financialized privatization can be used as a concept to denote the unique characteristics of Germany's and France's alternative privatised welfare regimes which share a few commonalities with UK-style privatised Keynesianism, but are not privatised Keynesian as such (cf. Aalbers, 2016).

As with regard to the latter, fiscality is a crucial topic for further research. The privatization of housing and welfare is especially in France accompanied by the introduction of fiscal policies which, indirectly, has resulted in reduced fiscal income on housing acquisitions and private housing construction (see for a similar analysis: Lipietz, 2013). For that reason, follow-up research should consider to what extent the shift from direct monetary welfare support to fiscal policies and privatization has overall resulted in a reduction of public housing expenditure or that lower tax income virtually conceals that public housing costs have remained on more or less the same quantitative level over the years. Also, more research is required to denote in what direction the housing systems of Germany and France are currently moving. Whether the state is promoting it or not, private debt levels in Germany and France have increased in the wake of the GFC due to a combination of socio-economic and monetary factors. Mortgage securitization, possibly encouraged by the to be established Capital Market Union, has also increased, especially in France (Fernandez & Aalbers, 2017). Can we then think of a more mainstream phase of financialization yet to come? Or will the housing regimes of Germany and France remain distinctively different?

<u>Finally</u>, I suggest that the study of real estate financialization in advanced, political economies can also be improved by focusing more deliberately on income out of labor and financial assets. Financialization studies, including this PhD thesis, have

mainly focused on the ways in which finance penetrates into non-financial domains of the economy and have addressed issues regarding labor and income only in passing by. Indeed, some recent studies have linked the advent of credit-led growth to labor markets and have addressed how wage growth and household indebtedness are related to each other, but also how household indebtedness increasingly compensates for restrained wages and income in exporting countries like Germany (Baccaro & Pontusson, 2016; Mertens, 2017; Streeck, 2016). However, while doing so, these studies have perceived income dominantly as wage-based and not as asset-based. As such, I conclude in line with Piketty (2013) and other studies on income inequality and asset-based welfare (see e.g. Arundel, 2017; Jordá et al., 2014; Ertürk et al., 2005) that more study is required regarding the financial assets of households and citizens and the ways in which real estate ownership creates and reinforces socio-economic inequalities in society. Such an approach may not just underline how finance and housing are becoming financialized, but rather how the financialization of real estate is intertwined with the entire growth model of the political economy and the distribution of wealth in society.

For such an analysis, the balance sheets of non-financial corporations, financial institutions, central governments and households contain a wealth of information (Ertürk et al., 2005; Lapavitsas & Powell, 2013). However, while adopting such a balance sheet approach, it is not only important to show how income is distributed and which part of income is created by the performance of financial assets, but also how labor markets and housing markets have become linked to each other more generally. Some important research has already pointed out that labor market dualization and housing market dualization reinforce each other and hence result in more socio-economic inequality (Arundel, 2017; Ronald et al., 2017). After all, households and citizens in high-paid jobs can accumulate housing wealth and become cumulatively richer providing that housing markets remain stable and do not collapse (Kemp, 2015). Yet, households and citizens without full or well-paid employment cannot accumulate housing wealth and become comparatively poorer (Forrest & Hirayama, 2015). For better or for worse, it appears that this regressive pattern of housing dualization and labor dualization not only persists in credit-led countries, but also in export-countries where wages are restrained in order to remain competitive and where households and citizens increasingly rely on asset-based welfare to compensate for reduced income (Baccaro & Pontusson, 2017). Therefore, it is not so much the institutional variability of different political economies which explains whether inequalities in advanced, capitalist countries are increasing (Streeck, 2013; Peck & Theodore, 2007). Housing dualization and labor market dualization are common trends in advanced, political economies and therefore justify new theoretical and conceptual approaches to questions regarding income, growth and distribution.

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