WORKING PAPER 1 – 2014/E

MAPS MAISON D'ANALYSE DES PROCESSUS SOCIAUX

THE CIRCULATION OF WEALTH

# THE REAL ESTATE MARKETS: PLAYERS, INSTITUTIONS AND TERRITORIES

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**ISSN : 1662-744X**



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**Revealing the parties, the processes and the institutions and, consequently, both the diversity and contingency of the real estate markets, the existing increasing literature emphasises the contemporary numerous links and interdependencies between real estate, land value, planning and town planning policy and even the financial system. However, the vast majority of this research only looks at major cities, neglecting other areas. The aim of this article is to gain a better understanding of the real estate market through a process firstly of deconstruction and then reconstruction. The process of deconstruction involves identifying various market trends according to property type (principally residential buildings), players and institutions, territorial situations and temporalities based on research conducted in Switzerland. We then developed a meta-synthesis inspired by Fernand Braudel whose works put as much emphasis on day-to-day economic activity as on long-term activity, and on local as well as global issues.**

## Key words

Real estate markets,
Fernand Braudel,
Institutions,
Territorial context,
Switzerland

# INTRODUCTION

This article springs from dissatisfaction. In our extensive research into the real estate market, we were struck by the disparity between our own observations and the literature. In our fieldwork we met a tremendously diverse range of situations. What is there in common between a rural area in which buildings are the expression of private individuals' own requirements, and a major city centre in which real estate represents considerable capital? Theoretically speaking however, real estate has been the subject of numerous studies since the 1990s which have attempted to transcend the neo-marginalist (Wheaton, 1999) and Marxist (Harvey, 1978 & 1985) traditions. The interdependent nature of relations between real estate, the financial markets, town planning and even urban policy is now increasingly being examined (Fainstein, 2001 and 2008; Aveline-Dubach, 2008; Theurillat, 2011; David and Halbert, 2013). Nevertheless, these studies have primarily been focused on major cities, leaving out smaller towns and non-urban regions.

The aim of this article is to gain a better understanding of the real estate market through a process firstly of deconstruction and then reconstruction. The process of deconstruction involves identifying various market trends according to property type (principally residential buildings), players and institutions, territorial situations and temporalities based on research conducted in Switzerland. We then developed a meta-synthesis inspired by Fernand Braudel (1985) whose works put as much emphasis on day-to-day economic activity as on long-term activity, and on local as well as global issues.

Braudel defines three "stages" of economic life. Firstly the *self-production* or *self-consumption* stage, which has generally prevailed throughout history, characterises situations in which household activities are shaped by needs or aspirations, by the *use value* of the goods they produce. Here, there is no real market as monetary exchanges remain few and there is no distinction between producers and consumers. Everyone produces for themselves or through *reciprocal* relationships within local communities. In the property field, we primarily see *self-provision* or even *self-construction* activities.

The second stage, the *market* is characterised by *exchange* and *money* and by a distinction between *producers* and *consumers*. The actions of the former are no longer driven by their own needs but by objects and services with a market value (*exchange value*). Money is the central institution which allows the technical and social division of labour (Aglietta and Orléan, 1982). In real estate, this stage characterises the emergence of the *property developer* who calculates the difference between the monetary cost of production and the market price in order to achieve a profit margin.

Finally, in the third stage, that of *capitalism*, the parties involved are no longer motivated by notions of use or exchange but are looking for a return on capital investment, i.e. a profit. Capital means players centralising powers and means. The driving force is not so much the market as the *organisation*. In contrast to the second stage, in which prices are imposed on producers and consumers, here the parties involved have a certain amount of power (individually or collectively) to influence prices and the institutional framework of their activities. In real estate, this stage should, we believe, be divided in two. Indeed, some parties are involved in producing "real" building stock, whilst others have a financial strategy which aims to make a profit not only from returns on real estate, but also on capital gains

derived from stock market fluctuations.
The next chapter outlines the territorial and institutionalist approach and as well as the methods used in this article. We then expand upon the three stages of the property market, discussing their social institutional and territorial aspects. Each stage is compared with the literature. To illustrate the subject, we analyse typical situations encountered in our fieldwork. Finally, the fifth section shows how these logics (stages) interconnect in increasingly complex ways as urbanisation intensifies.

# 1. A TERRITORIALIST AND INSTITUTIONALIST APPROACH

## 1.1 Braudel and the Literature on Real Estate as a Conceptual Framework

The territorialist and institutionalist approach (Crevoisier, 2011) which we are proposing consists of showing the *various forms of the real estate market in connection with the modes of finance whilst taking account of the technical systems and parties involved as well as their institutional and territorial contexts*. It draws on realist and socioconstructivist approaches (Lawson, 1997; Sayer, 1992) to contemporary real estate markets which we re-examine in the light of the stages defined by Braudel.
In order to get beyond the abstract and generalising approaches, which, when following the neoclassical model, result in econometric studies on optimal investment portfolio structures, and following the Marxist model[1] end up suppressing the role of the players entirely, various authors have, from the 1990s onwards, endeavoured to prise open the real estate market black box. Some of them immediately emphasised the players, institutions and processes at work in real estate market operations, whether this be from an institutionalist perspective (Healey, 1991, 1992 and 1999; Ball, 1998; Keogh and D'Arcy, 1999; Guy and Henneberry, 2000) or a Marxist perspective (Haila, 1991; Fainstein, 1994; Beauregard, 1994; Charney, 2001). From the year 2000 onwards, writing on the real estate markets started to view urban production as part of the neo-liberal institutional system (Swyngedouw et al., 2002; Fainstein, 2008). Real estate, and more specifically the transformation of the urban landscape through major projects, seems to be a key area of interest within one of the dominant literatures of urban studies, the so-called "actually existing neoliberalism" (Brenner and Theodore, 2002). Similarly, a growing number of writers are examining the interdependent connections between real estate and finance, taking account of a wide range of territorial situations from an institutionalist perspective (Aveline-Dubach, 2008; Theurillat et al., 2010; Theurillat, 2011a and b; Theurillat and Crevoisier, 2012 and 2013) or a socio-economic perspective (Torrance, 2009; David and Halbert, 2013).
These works underline the need to deal with the issue of built environment production in the light of the links between land ownership, finance or even public policy, and the need to stop putting real estate "under a bell jar in order to examine it more closely" (Aveline-Dubach, 2008: 13). Interpreting and extending Braudel's vision of the stages of economic production, we put these connections into perspective below. This approach clarifies the territorial situations in which property (primarily residential) is produced, from rural areas to the heart of major cities.

[1] According to both Marxist and neoclassical models, real estate markets depend on the growth of other economic sectors and are not considered to have their own internal dynamics. In other words, real estate is a derived demand. According to the neoclassical approach, the goods market drives all the others. When this market falls, employment is affected, thereby pushing

## 1.2 Methods and Approaches

The *three ideal/typical forms (stages) of the construction market* (Table 1) have been drawn up based on existing literature and three studies conducted in Switzerland.

The first covers relationships between financial capital and real estate markets through three major commercial projects recently bought up by financial institutions (investment funds and pension funds) and based in Neuchâtel (medium-sized city), Berne (political capital) and Zurich (economic capital). (Theurillat, 2011a; Theurillat and Crevoisier, 2012 and 2013).

The second examines demographic changes and residential attractiveness in Swiss cities. It examines the various parties (household residential choices, strategies of public and private players) involved in the urban regeneration projects in Neuchâtel and Zurich (Rérat 2010, 2012a, 2012b; Rérat et al. 2010; Rérat and Lees, 2011).

The third deals with residential cross-border mobility and the way the real estate market works in the Franco-Swiss Jura mountain region (Rérat et al. 2011).On the Swiss side, there was particular focus on small industrial cities (Le Locle), medium-sized industrial cities (La Chaux-de-Fonds) and rural regions (Vallée de Joux).

In the real estate markets studied, almost 90 interviews were carried out with key players and privileged observers (e.g. managers, construction companies, banks, real estate companies, investors, local authorities, etc.).

We subsequently compared case studies to reveal that differences were not just down to location but to structural characteristics. This suggested the existence of systems with their own unique internal dynamics. On the basis of this observation, we used Braudel's work as a basis for our own proposed conceptual framework, which takes account of these systems (the real estate *markets*) whilst situating them within the global picture (the real estate *market*). In implementing a *metasynthetical* approach (Finfgeld, 2003; Thorne et al. 2004; Walsh and Downe, 2005; Zimmer, 2006), which involved extrapolation through the gradual inclusion of case studies, we were able to create an *interpretative framework*.

**Table 1: The Three Stages of the Real Estate Markets**

| *Real Estate Systems* / *Characteristics* | 1st stage: SELF-PROVISION | 2nd stage: MARKET | 3rd stage: CAPITALISM – REAL | 3rd stage: CAPITALISM – FINANCIALIZED |
|---|---|---|---|---|
| **Parties involved** | Households | Property developers | Institutional investors | Portfolio managers |
| **Knowledge of the markets** | Tacit, based on local networks | Tacits, based on recent success and on interpersonal relations | Codified and quantified (market surveys) and interpersonal relations | Standardized and abstract |
| **Evaluation criteria and methods** | Functional and symbolic rather than monetary evaluation | Evaluation through the local housing market (construction costs) | Real comparative risk/return based on new methods (discounted cash flows) in accordance with local markets | Based on financial model of comparative risk/return on financial markets |
| **Phases** **Initial intension** | Maximise usage value<br>Minimise monetary cost<br><br>Isolation from the property market | Production to generate monetary returns (exchange value) | Set up a constant source of long-term profit<br>Speculation on local market appreciation | Attract institutional investors |
| **Creation** | Significant self-provision and production<br><br>Local savings, use of banks | Construction of homes (buildings) or individual houses (detached homes) | Construction of buildings, housing estates, etc. or purchasing of existing stock | Diversifiying risks and speculating on securities |
| **Exploitation** | Self-consumption | Sale to users | Letting (long-term) | Stock market appreciation and dividends |
| **Exit** | Family transmission (inheritance, etc.)<br><br>Sale on the local market | Sale by estate agents | Speculative property sales | Disposal of securities on the financial markets |

Source : elaboration by the authors

# 2. STAGE 1: THE SELF-PROVISION AND SELF-PRODUCTION REAL ESTATE MARKET

For this first stage, we called upon literature dealing with self-provision and self consumption (i.e. scenarios in which occupants participate, in various ways, in creating their home). This form of production is widespread and even predominant in numerous countries. This does not just refer to the informal construction of southern areas (Aggier, 1999; Bolay, 2006) or the slums in certain northern towns and cities (Ascensão, 2013). Despite not having been the subject of much study (see however Duncan and Rowe, 1993; Dubois, 2002), it is nevertheless widespread practice in rural areas and peri-urban areas of industrialised regions such as the Jura mountain area.

## 2.1 Characteristics of Self-Provision in Real Estate

### 2.1.1 Players, Institutions and Money

In this stage, the property developers are also the consumers. Duncan and Rowe (1993) differentiate between self-provided housing and self-build housing, although there are grey areas between the two categories. In self-build housing, people are personally involved in the construction of their home. Self-provided housing refers more generally to cases in which households act as property developers, investors and users. Processes in which they are involved include the search for suitable land, raising capital and liaising with local authorities and workers.

Even in regions with high average income levels, it is common for people to invest a considerable amount of time in the construction or renovation of the building in which they are to live. They also take responsibility for all or part of the design and building works, often with the help of family and friends.

The advantage of this system is that it minimises both cash outflows (which mostly go to cover materials and labour) and debt, whilst securing a home for one's own use. Self-production is characterised by low division of labour and low skills. It is governed by use value.

In this system, financing derives from various sources. Firstly, there is household savings and income from family members (Poggio, 2012). The latter may also take the form of an inheritance in kind (land or building) involving few monetary transactions. Secondly, but crucially, monetary finance is less important than the household's investment of time. Thirdly, bank loans complete the project funding.

### 2.1.2 Spatiality and Temporality

Often the thinking behind this kind of production is to secure a satisfactory home, to "get out of the market" by having one's "own place", a form of guaranteed security independent of the prevailing economic situation.

It is prevalent mainly in rural and peri-urban areas and takes the form of the construction or renovation of individual houses or small buildings. In towns and cities, what some parties do (e.g. cooperatives) is close to self-provision in the sense that they are situated outside of the market place and their strategy is based on use value (chapter 5).

## 2.2 Case Study: Rural Municipalities in the Vallée de Joux

Self-provided housing predominates in rural and peri-urban areas. This is accounted for by the low cost of both land and buildings, facilitating access to property, and by the low level of other investor types. The Vallée de Joux makes a good case study for this form of housing production.

The buildings typically constructed are detached houses. Generally speaking, this relates to households living in the region who wish to get out of the rental market and into the property market. Their motivating factors fall into three main groups. Firstly, the purchase of a detached home with gradual repayment of a mortgage is seen as a saving, in contrast to rental payments which are seen as a current expense. Being a homeowner is also seen as a sign of social success as well as a way of securing a home ("having your own place"). Finally, the detached house is a particularly popular type of home for families (garden, etc.)[2].

The gathering of information, the proposed development area search, project organisation and appointing of real estate professionals can be done locally. The same goes for capital which, in addition to the initial deposit (in Switzerland, generally 20% of the cost of the property), involves a mortgage. The majority of the market is covered by banks with strong regional connections.

# 3. STAGE 2: THE URBAN REAL ESTATE MARKET

The second stage is the real estate market *in stricto sensu* and is based on *exchange value.* This section draws on a second corpus which, on the one hand, includes a neo-Marxist deconstruction of the real estate market and its infrastructure (i.e. the second capital channel described by Harvey (1978, 1985, 2003)) and an analysis of how it operates (Haila, 1991; Fainstein, 1994; Beauregard, 1994; Charney, 2001). On the other hand, the literature used references socio-institutionalist (Healey, 1991, 1992, 1998 and 1999) or institutionalist scholars (Ball, 1998; Keogh and D'Arcy, 1999; Guy and Henneberry, 2000), whose studies of institutions, processes and the various parties' interactions, analyse the critical role of developer-builders. This stage, characteristic of urban regions, is illustrated by two medium-sized cities: La Chaux-de-Fonds and Neuchâtel.

## 3.1 Characteristics of the Real Estate Market

### 3.1.1 Players, Institutions and Money

The market is an institution whose main characteristic is to socially distinguish specialist producers from consumers and to bring them together via various negotiation and exchange mechanisms. In the real estate sector, this corresponds to the emergence of professional property developers and brokers.

The market is based on the calculation, as reckoned by the developer, of the difference between the monetary cost of production and the market price, with the aim of achieving a margin. This margin enables developers to get paid for their work, and even create additional

[2] Here we see the main motivations revealed by other studies (see for example Haumont, 2001 and Bourdieu et al., 1990).

profit. The latter may be the result of a market malfunction (e.g. heterogeneity of goods, absence of transparency, etc.). The market is also characterised by competition and fact that prices must be paid by both producers and consumers. Producers only ever manage to have a marginal influence upon them. Inefficient producers may also find themselves ousted from the market.

The urban real estate market is primarily based on the construction of small buildings (or even houses) with apartments aimed at private individuals. The latter concurrently play the role of funders, property owners and users. This market is based on exchange value and is organised at local level. Consequently, the key players are the real estate companies and construction companies which have a tacit understanding of a specific market. Their profits depend on the demand, income and savings of private individuals, as well as mortgage-lending conditions, which are governed by the institutional framework of the individual property market.

Examining the real estate markets' intrinsic dynamic, a number of authors emphasise the role of agents, specifically real estate developers and entrepreneurs (Haila, 1991; Healy, 1992). Although the properties which they are creating are part of a market, they do develop strategies to respond to existing demand, as well as to compete effectively with new products on the market. In this regard, Charney (2001) indicates three areas on which entrepreneurs play to create supply. They can specialise by combining location, sector (residential, commercial, industrial or offices) and property (new or existing buildings).

Consequently, the importance of specific knowledge of local real estate institutions and markets should not be underestimated. The action and "rationality" of entrepreneurs is determined by a given institutional framework (regulations governing structure and planning, policies regarding economic development, sustainable development, etc.) and a range of formal relationships (contracts) and informal relationships (contacts). On this basis various arrangements are formed around real estate production (Guy and Henneberry, 2000; Fainstein, 2001; Healey, 1999; Healy et al., 2002).

### 3.1.2 Spatiality and Temporality

There are several reasons why second stage real estate markets are organised on a local or regional basis. Firstly, demand is to all intents and purposes shaped by the fact that households are looking for accommodation in the area where they work, i.e. within reasonable travelling distance of their workplace. Demand is also characterised by economic capital which varies markedly from region to region. Moreover, real estate markets are often hard to fathom because of the heterogeneity of goods, the decisive importance of local regulations and practices and the role of local politics. All of this affects supply as well as the price of land. The same goes for the various services and infrastructures to which households have access. These real estate markets operate on an ad hoc basis; the one major advantage which local developers have is knowing how to identify and successfully exploit opportunities which arise.

The real estate market is one of the main regional and local economic channels. Effectively it represents a considerable household budget expense and one from which land and property owners, developers and entrepreneurs with strong local connections all benefit. All of these parties then go on to pay local workers, often to the extent that real estate can considerably boost a region's economy and contribute to regional competitiveness (D'Arcy and Keogh, 1999).

### 3.2 A Case Study: The Medium-sized Cities of Neuchâtel and La Chaux-de-Fonds

When ground rent becomes too high, self-developers are replaced by real estate companies and construction companies, who do not only deal with building *in stricto sensu* but take on the role of developers. They therefore account for a considerable proportion of the market in medium-sized cities such as Neuchâtel and La Chaux-de-Fonds.

They tend to favour buildings which house twenty or so dwellings, created for example within projects of densification of the built environment. They may also focus on housing estates of detached properties in suburban areas. These kinds of project are too extensive for individuals but too small for stage-three investors.

These companies have two aims: to generate work for their own business and to make a quick profit by selling on the finished properties. There are various reasons why they prefer sales to lettings: the prospect of better returns, the time and money involved in property management and the risk of properties lying vacant. The end-investors are private individuals, to the extent that this type of building owner is behind most joint-ownership dwellings. They are thus responding to the growing demand assisted by mortgage lending rates which in Switzerland have been particularly low over the last few years, thereby making property ownership more accessible. Some companies are however big enough to undertake larger projects (of around fifty dwellings) which they then sell on as turnkey property to stage-three investors (see below).

The construction companies and real estate businesses active in Neuchâtel and La Chaux-de-Fonds are based in the local area. Being based locally, they can understand the market and market trends, are in frequent contact with their business partners and competitors and can gauge the success of completed projects. They tend to operate on a more or less ad hoc basis, acting when their understanding of the area and their local networks indicate that an opportunity has arisen. Expressions such as “a feel for the market” or “sensing demand” crop up regularly during interviews. This approach is used over and above market surveys when determining demand, and this tends to be increasingly the case the smaller the project.

## 4. STAGE 3: THE METROPOLITAN REAL ESTATE MARKET

The third stage covers professional investors who invest their capital in real estate with the aim of *making a profit*. Ownership passes to the shareholders; it is dissociated from the use of the properties themselves which are generally rented out. The aim of producing property is not to enable the capitalist to raise revenue for consumption, but to reproduce their invested capital. This is of course a conceptual distinction. In reality, the roles of capitalist, developer, builder and even user may sometimes overlap.

The literature relating to this stage focuses largely on institutional investors who are interested in real estate and metropolitan infrastructures. There are two distinct types of financial capital: “real” real estate capitalism which takes the form of actual investments, and financialised real estate capitalism which takes the form of investments in listed or unlisted securities. In the latter case, investments are made on a portfolio basis and do not necessarily translate into actual constructions. A good example of this type of double market is the major international financial centre, Zürich.

## 4.1 Characteristics of "Real" Real Estate Capitalism

### 4.1.1 Players, Institutions and Money

Real estate and more broadly, cities, have long attracted capital from financial institutions Harvey, 1985; Fainstein, 2001) such as banks and insurance companies. The latter are attracted by revenues from (long-term) rental value and/or speculative value (resale at a profit).

Since the financial crisis of 2001, financial institutions have been showing renewed interest in investments and the built environment and in the major cities in particular. This interest stems on the one hand from institutional reforms affecting the financial markets and the development of mutual funds managed centrally by institutional investors[3]. On the other hand, it stems from the ready availability of property following the privatisation and outsourcing of business and governmental real estate in various countries (Aveline-Dubach, 2008; Theurillat, 2011b). Consequently, real estate revenue from residential lettings is increasingly supplemented by income from commercial real estate and large properties in the form of multi-purpose complexes (Theurillat, 2011a), from schemes for urban renewal (Hagerman et al., 2007) and infrastructure (Torrance, 2009).

The materialisation of financial capital in cities changes the relationships between developers and investors. With their indispensable knowledge of local markets, the professionals involved in the built urban environment play a key intermediary role between institutional investors and actual property (Wood, 2004; David and Halbert, 2010; Theurillat, 2011b; Theurillat and Crevoisier, 2013).In the case of large-scale urban projects, these are primarily major property development and construction groups with an array of technical as well as legal and financial skills. Whilst being directly involved in construction activities, they have specific and often tacit knowledge of the local real estate markets. They also have interpersonal relationships with the various parties involved (owners, local authorities, political parties, commercial operators, future users, etc.). Institutional investors also have recourse to certain real estate analysts and experts to evaluate investments and produce quantitative and comparative information on potential properties and towns or regions.

### 4.1.2 Spatiality and Temporality

The defining characteristics of the capitalist stage, in real estate as elsewhere, are the extent of monetary outlay and the size of the projects concerned. Investment is an expenditure made at a given point in order to secure future revenue during a given period. This is therefore a completely monetised system, on both the production and consumption side[4].

Real capitalism's area of investment mainly concerns major cities and large properties (Theurillat et al., 2010; Torrance, 2008; Halbert, 2004). Capital comes mainly from real estate funds, real estate investment trusts and domestic or foreign pension funds. Some scholars (David and Halbert, 2010; Sassen, 2010) emphasise the connections between business

[3] Financial capital comes from savings, mainly from pensions savings originating from wealthy countries and, increasingly, emerging countries (pension funds for instance), or from an imbalance in business surpluses (sovereign wealth funds). This has spawned a rash of financial products and funds in various sectors of the economy (private equity funds, hedge funds, derivatives funds etc.) and in the real estate sector in particular.

[4] In the first stage, monetisation is only very partial. In the second stage, the buyers and users can pay off their debts and be almost entirely free of these monetised systems.

globalisation, financialisation and metropolitanisation. The globalisation of businesses has increased demand for the kind of office buildings and infrastructures required by big businesses, thus boosting the metropolitan markets fuelled by international financial capital. Consequently "real" real estate capitalism's income involves very specific sectors within major cities (Lizieri, 2009). Institutional investors thus bank on urban income, generally in the long term in the case of rental income and in the short term in the case of capital gains made on the (re)sale of property.

The change in the scale of the real estate markets and the link with domestic and foreign financial capital is also apparent at specialist intermediary level (Magalhaes, 2002). In this market, the major development and construction groups and real estate consultants operate on an international scale (Cushman & Wakefield, Jones Lang Lasalle, etc.). To describe these networks of different groups involved in circulating capital across relatively long distances to their actual base in the urban environment, Halbert and Rouanet (2013) coined the term "transcalar territorial networks". Financial institutions therefore rely on specialist professionals whose job is to secure capital for the urban area. Information produced by the various property consultancy and ratings specialists is formatted such that investors, taking a "bird's eye view" of the territory, can select suitable projects (Theurillat and Crevoisier, 2013). Indeed, unlike users, who are limited to a single region, and property developers, who rely upon their knowledge of the local market, investors actually carry out a *comparative* evaluation of spaces. These specialist intermediaries operate on the basis of the so-called *discounted cash flow* (DCF) models used by institutional investors; they standardise and quantify the details of buildings and local markets to enable them to compare, rank and track their investments.

## 4.2 Characteristics of "Financialised" Real Estate Capitalism

### 4.2.1 Players, Institutions and Money

Institutional investors' renewed interest in real estate can also be seen on the financial markets. Indeed, the large-scale financialisation which has affected the industrial, financial and commodities sectors over the last twenty-five years has also caught up with the real estate sector. With the economic crisis in 2001, real estate even became highly attractive, with the portfolio-led approach (Markowitz, 1959) contributing to the diversification and lowering of risk. Consequently, this sector has evolved in an increasingly financialised manner. Property developers, working with finance companies, proposed large-scale projects (Spain, Ireland, etc.), or the financialisation of existing properties (e.g. Germany and the USA, with their now notorious *sub-primes*).

In this segment, the purely financial approach has often dominated the real estate market's real priorities. Thus, whole towns have been built in Spain without having been either sold or let. Whilst financial market investors were taking a massive gamble on sector growth (also based on mimetic expectations), rates continued to rise independently of the realities of local situations. This therefore refers to financial phenomena with specific conventions (Orléan, 2011), i.e. based on the financial community's shared perceptions about the evolution of an economic sector. The dot.coms bubble in the 1990s and the property boom in the 2000s are two good examples of this. Institutional organisations' profits come from *financial gains* made over the short-term (through buying/selling securities).

The financialised real estate market came into existence through the increasing liquidity/mobility of capital (Crevoisier and Corpataux, 2005; Corpataux et al., 2009), resulting from securitisation and the emergence of real estate investment vehicles (e.g. availability of listed and unlisted[5] companies and funds) in which institutional investors can purchase shares. The evolution of the financialised real estate markets thus depends on other sectors and spaces, in accordance with whatever the financial operators' prevailing views happen to be.

How have these enormous investments (even more so since the financial world's renewed interest in the built urban environment between 2000 and 2008) translated into actual real estate? In other words, what is the connection between real and financialised real estate capitalism? So far this matter has not been addressed in sufficient depth. We would however posit that, just as for companies involved in the production of goods and services, there are a certain number of "leaks" connected to the reinjection of capital on the financial markets (purely speculative rises in stock prices independent of concrete achievements). Financial capital does not necessarily result in concrete investments but is used for various operations which cause stock prices to rise, for shareholders (strengthening of equity capital), portfolio managers (stock options) or even competitive buy-outs (mergers/acquisitions).

### 4.2.2 Spatiality and Temporality

A "financialised space" (Corpataux et al., 2009; Theurillat, 2011a) brings together the world's major financial markets to form the "global city" (Sassen, 1991). Here, capital moves between them extremely rapidly. In fact, household capital raised for instance for retirement purposes, is then reinvested in financial channels. A proportion of this capital goes to fund projects based at relatively long distances from savers, sometimes even in other countries.

In financialised channels, wealth managers can make instantaneous comparisons of financial products and spaces. The way real estate evolves therefore depends strictly on information about changes (both projected and mimetic) to prices of other financial assets.

## 4.3 A Case Study: The Financial Metropolis of Zurich

Traditionally, the Swiss pension funds and insurance companies have invested in real estate. They mostly own residential properties, which tend to be locally-based for small and medium-sized pension funds, and further afield for larger ones (Theurillat, 2010). Since the 2000s, real estate funds (belonging mostly to the country's major banks) and large stock-market listed companies have experienced considerable success, with financialised real estate becoming a highly sought-after product for pension funds due to their ease of acquisition and management.

Zürich is a fine example of the harnessing of financial capital in the built urban environment. The main Swiss real estate funds, all based in Zurich, have developed new financial products which have helped fund the design and build of major multi-purpose projects including homes, offices and commercial units. This has happened for instance with *Sihlcity* (shopping & leisure complex), *Greencity*[6] and several projects within the *Zurich West* area which

[5] There are in fact numerous unlisted securities markets covering financial institutions. Prices are negotiated by mutual agreement and liquidity/mobility (exit) is less straightforward.

[6] This area, worth some Fr. 800 million, is based on renewable energies and built on a former industrial site. It includes retail units, office space and apartments for let or housing co-operatives.

combine business and residential spaces (*Puls5*) or office and retail space (*Swiss Prime Tower*). These large-scale operations, involving sums of up to several hundred million Swiss francs, have led to the regeneration of vast expanses of industrial wasteland.

As an international financial centre, Zurich deals with considerable cash flows. Real estate funds are in a position to attract capital at both national level (pension funds and insurance companies) and global level (institutional investors and private foreign investors) [7] and to invest a good proportion of it in the city of Zurich itself, which has become a symbol of financialised investment in the built urban environment in Switzerland.

An entire industrial, financial, legal and political system was set up during the 2000s. It includes the major real-estate financial institutions in the marketplace (some of which take on property development and investment roles, sometimes retaining the properties in their portfolio) and major national property development and construction companies (who develop projects intended for sale to institutional investors or who build projects developed by the latter). Within the Zurich market there are also big businesses letting out large retail or office units (insurance companies, banks, supermarkets, etc.) and major real estate consultancy companies.

This system also includes Zurich's local authority which during the 1990s adopted a new town-planning strategy based on collaboration with various different parties involved in the projects (landowners, investors etc.) (Rérat et al., 2010). This strategy was initially applied within the scope of industrial regeneration projects and was part of an initiative to increase the city's population after several decades of demographic decline (Rérat 2012).

Zurich is Switzerland's primary repository of financial capital coming from other regions or from abroad. Its urban income is largely related to the financial sector which is also ideally positioned to handle this income. The mimetic expectations of the financial markets with regard to both finance and real estate also extend to the real built urban environment, changes to which tend to affect the health of the financial sector. In the case of Zurich, the financial sector and real estate, whether stock-market listed or not, are therefore closely related. We therefore have a circular, self-referential system, focused on the Global City and attracting investments from its surrounding areas.

# 5. REAL ESTATE MARKET DYNAMICS IN INSTITUTIONAL AND TERRITORIAL CONTEXTS

The three stages we have presented are conceptual and analytical tools, ideal models of real-estate production systems. The aim of this final section is to bring together these three systems and outline the way in which they interconnect according to the level of urbanisation and the forces of gentrification.

## 5.1 Overlapping Systems and Competition for Income

In these three ideal real-estate system models, the first stage refers primarily to rural areas, the second generally to urban areas and the third to metropolitan areas. Figure 1 shows how these categories increasingly coincide with the level of urban development.

Metropolitan areas are typical of this overlap. Here we have not only the market, based on exchange value, but also real estate capitalism, based on profits and real or financialised

[7] The federal legislative framework does however limit capital contributions from abroad for residential buildings ("Lex Koller"): the portfolio of stock-market listed funds which are open to foreign investment may therefore not exceed 20% of residential properties.

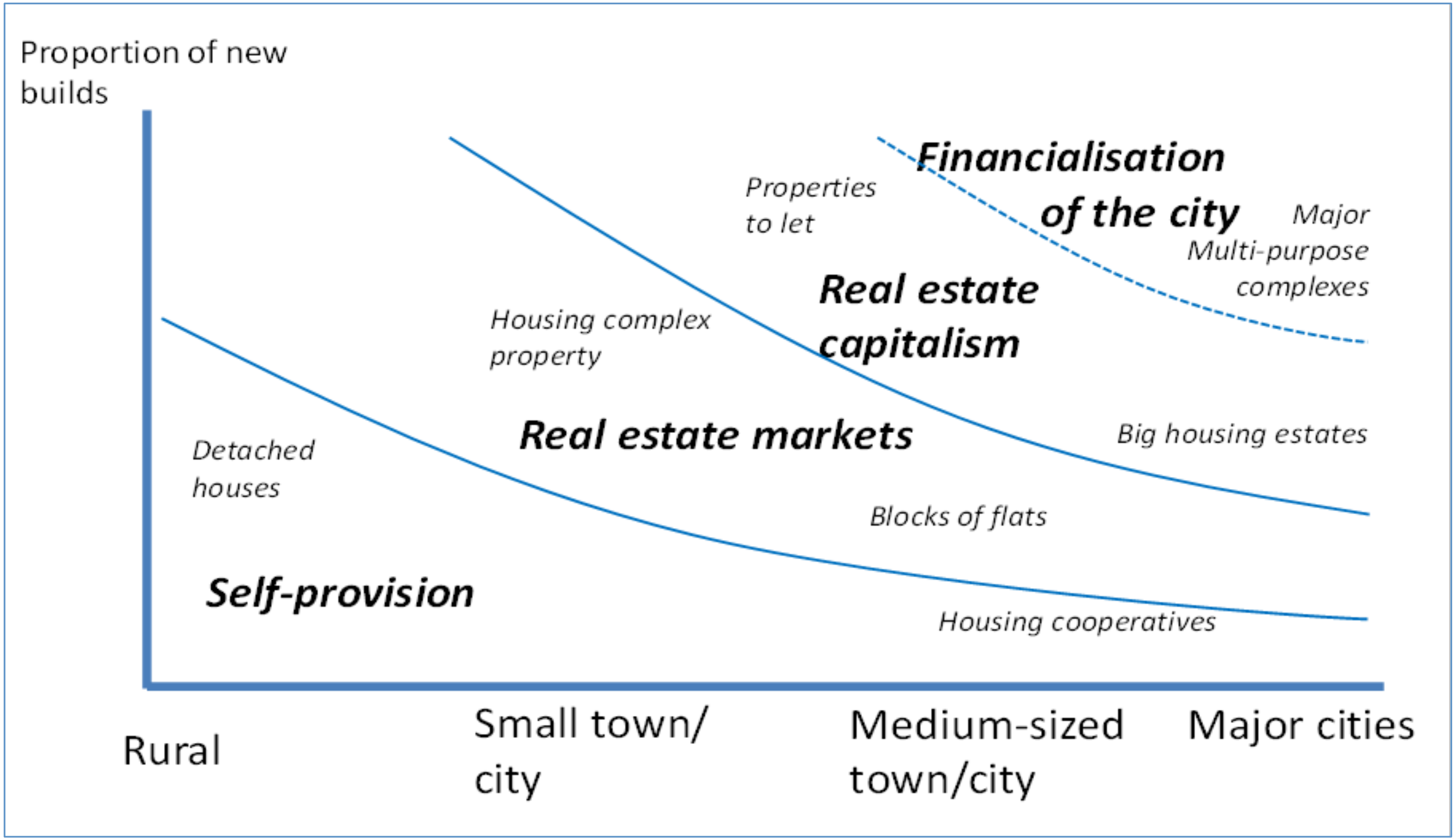
urban income. The first stage, based on use value and (partial) isolation from the market, is also prevalent amongst non-profit organisations such as cooperatives or local-authority owned or subsidised agencies. Their existence is encouraged in order to address social concerns (rents are lower than on the open market) as well as environmental considerations (construction criteria).

In Switzerland, cooperatives are at the heart of the Confederation's new housing policy, and that on which the Cantons model themselves. They are being supported by the authorities in providing land, mortgage loan backing, etc. Financial arrangements for these projects are based on equity from company shares owned by each member of the cooperative. Occupation is on a dual "lessee-owner" basis: the household does not own its apartment outright, but a part of the overall project. In Switzerland, cooperatives own $1/20^{th}$ of all housing stock. Despite recent political support, their existence owes more to the areas in which the cooperative movement blossomed in the early 20th century, Zurich being such an example, with almost 20% of housing cooperatively owned.

Small and large towns and cities are also likely to attract local or national institutional investors (third stage) in the case of extensive properties. In Switzerland, multipurpose complexes (e.g. sports stadia combined with shopping centres) have been built in the latter and acquired by real estate funds or pension funds (Theurillat, 2011a).

There is also some overlap in rural areas between the first and second stages. It is far more unusual with the third stage although some internationally-renowned ski resorts have managed to attract "big" money. The appearance of tourist megaprojects in the Alps are seen as good diversification opportunities for Swiss and foreign funds, the Swiss market having a reputation for stability and reliability.

**Figure 1: The Areas of the Real Estate Market**




Source : own elaboration

## 5.1 Gentrification as a Complementary/Opposing Force between the Three Stages

Gentrification exemplifies the links between the three stages. This phenomenon can be defined as the transformation of urban areas by or for the upper middle classes. Initially seen in large cities such as London, gentrification has spread further afield in other types of area and at other levels of the urban hierarchy, to the extent that it has become a clear marker of urban change. The various forms of gentrification all share four main characteristics (Lees et al., 2008; Rérat et al., 2010): the reinvestment of capital in certain urban areas, the arrival of groups of a higher socio-economic status, transformations of the built environment and landscape and the effects of eviction (whether direct or indirect).

According to the forms and stages of gentrification, capital reinvestment will relate to one or other of the stages identified. Gentrification is often started by pioneer households, particularly artists who tend to be good at seeking out cheap areas with good potential (Ley, 2003). Such groups have for instance created new ways of living such as lofts (Zukin, 1982). During this phase, financial investment is limited but there is a considerable investment of users' time and effort (sometimes referred to as *sweat equity*).

The enhanced prestige and image of the area eventually translates into an increase in real estate prices, leading to the displacement of the initial gentrifiers and the arrival of households with higher economic capital. During this phase, the key players are the property developers, whose role Smith (1979) defined as identifying and exploiting a 'rent gap' (i.e. the difference between current returns and the potential returns in the event of redevelopment). Moreover he sees gentrification above all as the return of capital to the city and the result of disinvestment and reinvestment processes.

Gentrification can also take the form of large-scale projects when property developers and investors transform entire areas often with the support of the authorities (Hackworth and Smith, 2001). These operations require considerable capital to the extent that they show the various connections between global players and those involved in real estate financialisation and gentrification.

In the second and third stages, the capital required comes from property developers and investors and it is only in the second stage that households become part of the process of reinvestment in central areas through rental payments or home-buying. Where the first form implies the gentrifiers' direct involvement in the renovation of their home, others represent a "commodified" version of gentrification (Butler, 1997).

# 6. CONCLUSION

Since the 1990s, researchers have been deconstructing the real estate market with the aim of understanding its internal dynamics. These works have revealed the parties, the processes and the institutions and, consequently, both the diversity and contingency of the real estate markets. Increasingly, these analyses put great emphasis on the numerous links and interdependencies between real estate, land value, planning and town planning policy and even the financial system. However, the vast majority of this research only looks at major cities, neglecting other areas. Therefore, in developing new thinking based on Braudel's three stages, our aim was to take a more integrated approach.

The ideal models proposed are based on a meta-synthetical approach, drawing on various pieces of research conducted in Switzerland and on the literature adopting a socio-economic

approach to real estate. Real estate is a market with its own characteristics. It is a good which has both a use value (consumption), exchange value (sale) and a return (profit). Its global “value” depends largely on context: it definitely depends on a property’s characteristics but most of all its location. Equally, this context relates to use (for example proximity to an area of employment), as well as real or financialised investment value. For example, real estate in major cities has a financial market value, whereas that in a medium-sized town generally does not. The analytical framework we have developed not only takes account of this territorial diversity but also those overlaps which exist within a given situation.
The typology proposed here does not constitute a finished theory on real estate. It has a different ambition, i.e. to juxtapose, compare and link the various objects, parties and institutions as well as the territories that go to make up the real estate system. This relatively complete approach enables an understanding of the sector’s overall dynamics and its wider role in the economy and society.
Although until now most works have emphasised the role of property developers, builders or investors in real estate market dynamics, the issue of urban, land and real estate revenue is often seen as a “given” which depends on the level of demand at a given point. Now, one of the major heuristic challenges is to deconstruct the economic value of a property. This value depends on various technical criteria, relating to future users’ expectations of use and function for example. It also depends on projected commercial returns, whether directly through business users or indirectly through property owners and investors’ rental income. It also depends on the prevailing aesthetic and ethical values in a given situation. Obviously those criteria which govern the aesthetics and the “beauty” of the built environment today are not what they were ten or thirty years ago. Town planning and construction quality are also increasingly based on the local authorities’ and the inhabitants’ own expectations regarding quality of life and sustainable development. The economic value of a property, particularly in projects of a certain size, is therefore affected by various social values which may facilitate or prevent it being realised. For example, a project's environmental credentials may be valued by property developers. Conversely, those opposing property developments may also do so on the basis of ethical or social criteria, such as the need to maintain public space or the architectural integrity of an area. Therefore the property developers’ “business model” may now be more complex due to the territorial situation or the level of involvement of local parties such as the municipal authorities and civil society.

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