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The making of urban financialization? An exploration of brazilian urban partnership operations with building certificates[☆]

Jeroen Klink*, Laisa Eleonora Maróstica Stroher

UFABC – Universidade Federal do ABC, Centro de Engenharia, Modelagem e Ciências Sociais Aplicadas (CECS), Bloco Delta, Sala 349, Alameda da Universidade, s/nº - Bairro Anchieta, CEP: 09606-045, São Bernardo do Campo, São Paulo, Brazil

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ABSTRACT

This paper provides two contributions to the research on urban planning and the financialization of land use. Instead of stressing the consequences of finance on others, it prioritizes the analysis of the social-technical constitution of finance itself within urban planning, and does so in an emerging country setting, which is still relatively understudied in the existing literature. We analyse a specific Brazilian planning instrument, i.e., the sale of securitized building certificates (CEPACs) in large urban (re)development projects (UDPs), as a potential constituent space of urban financialization. The paper explores how planners, financial consultants, contractors and builders/developers effectively shape the contradictory financial and physical design and implementation of UDPs with CEPACs. Although the initial evidence shows that there are still clear limits to the penetration of financial logics into land use planning, continuing regulatory rollout and the increasing activism of foreign investors suggest the instrument's open-ended trajectory, with a potentially more significant role for financial actors in constituting urban financialization through CEPACs.

> Financialization is a politically limited critique insofar as it is essentially a critique of what finance **does,** especially elsewhere—of where its tentacles extend to, of the constituencies thus enrolled and ensnared, of the 'nonfinancial' logics thus adulterated—and not of what finance **is**
>
> (Christophers, 2015:232)
>
> I think this mechanism of securitized building rights is wonderful business; it represents an emerging Brazil, bringing in the awareness and responsibilities regarding capital markets
>
> (Interview no. 1, Broker, November 2016)

1. Introduction

According to the citation from Christophers, academic research on financialization is threatened to lose political relevance considering its excessive emphasis on the analysis of the *consequences* of finance on others, while failing to flesh out its essence and internal workings. Strengthening the political relevance of research on financialization requires opening up the "black box" of finance, de-mystifying its complexity as well increasing our understanding of the linkages between money, credit and capital markets in contemporary society.

This challenge can be taken up by developing research on financialization with more emphasis on finance itself, and outside the setting of the industrialized world. After all, in emerging countries, where the value of money has often been eroded by high and fluctuating inflation and capital markets are relatively thin, before financialization "can extend its tentacles" to other spheres of daily live, it has to be socially constituted.

Our objective is to provide an initial contribution to such a research agenda through the analysis of a specific instrument that has emerged within Brazilian urban planning, i.e. the securitization and sale in public auctions of additional building rights (CEPAC[1]) in urban public-private partnerships (*Operações Urbanas Consorciadas – Urban Partnership Operations (UPOs)*). Brazilian UPOs are embedded in federal framework legislation and allow cities to implement, within specific perimeters established in their master plan, urban redevelopment projects financed by charging from developers the provision of additional building rights. While developers can be charged through command and control, formula-based mechanisms (*outorga onerosa*), several cities have worked with CEPACs in order to capture the acclaimed advantages

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* Corresponding author at: Rua Asteca 46, apt. 21 - 09190-390 Santo André, SP, Brazil.
E-mail addresses: jeroen.klink1963@gmail.com (J. Klink), laisaeleonora@gmail.com (L.E.M. Stroher).
[1] CEPAC means *Certificado de Potencial Adicional de Construção* (Additional Building Right Certificate).

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of the capital market that, according to the above-cited CEPAC broker, represents part of “the emerging Brazil”.

Not unlike tax increment finance districts used in several North-American cities (Weber, 2010; Pacewicz, 2013), UPOs financed by CEPACs enable to receive upfront financial resources associated with future urban redevelopment, thereby capitalizing *expected* additional revenues within predefined perimeters of project areas. Different from TIF, however, CEPACs are *not* part of municipal debt and should be considered tradable *non-interest yielding* assets, which can be acquired for investment opportunities, commercialized in secondary markets or used by builders and developers in the perimeter of projects. Moreover, as will be explained subsequently, CEPACs can be used as credit money to realise particular payments.[2]

Grounded in orthodox urban economics and finance (DiPasquale and Wheaton, 1996), CEPACs represent a creative Brazilian design for financial-market driven developer contributions and land-value capture (Blanco et al., 2016). A key element is their price, which is supposed to provide the right incentives in order neatly connect property (land owners, construction firms, contractors, developers) and financial asset markets for the built environment (potential investors), as well as providing local governments the required amount of resources to finance infrastructure and public goods.

However, our analysis explores that, in a context of weakly developed capital markets, local stakeholders are not mere “price-takers”; as a matter of fact, the circulation of expectations and conventions among consultants, urban planners and contractors/builders/developers effectively shape the financial and physical design and implementation of UPO with CEPACs. Moreover, although the absence of secondary asset markets indicates limits to the penetration of financial metrics into urban planning, recent UPOs nevertheless suggest the instrument's open-ended trajectory, with a potentially more significant role for financial actors in constituting financialization of land use through CEPACs.

This paper contributes to research on emerging countries, where the articulation between the state, urban planning and capital markets is bound to generate a more truncated social constitution of financialization. We also establish closer links between a political economy inspired literature on neoliberalization and entrepreneurial urban planning – which has been rather silent on the rationalities of financial actors– and more specific work on urban redevelopment projects, land use and finance– which, with few exceptions, has emphasized the penetration of the logics of the financial sector into other social networks, while under-analysing the interactions that take place among planners, contractors, developers and financial actors in constituting financialization of land use itself. As such, we contribute to research with less binary distinctions between actors in and outside the financial markets in shaping the interaction between finance, land use and urban planning in an emergency country context (Halbert and Attuyer, 2016).

This research was elaborated on the basis of a review of the literature on urban financialization and its relevance for understanding UPOs financed by CEPACs. This was complemented by an analysis of official government publications, reports on financial and economic viability and market prospectuses, as well as 17 semi-structured interviews with urban planners, contractors and developers, financial consultants, investment banks, social movements and one of the few specialized brokers working with CEPACs. These interviews lasted between one or two hours and were recorded under the condition of maintaining confidentiality. While prioritizing the ex-post reconstitution of one of the more consolidated experiences in the city of São Paulo (Água *Espraiada*), reference is made to on-going operations in Rio, Curitiba and São Bernardo do Campo (located in Greater São Paulo). The latter has just managed to get its UPO approved by the municipal council and, at the time of writing this paper, is preparing a first emission in the stock exchange.

Four sections follow this introduction. After a brief review of the literature on urban financialization and its relevance for the Brazilian debate, we provide a primer on UPO financed by CEPACs, its evolution within the institutional framework of Brazilian urban planning and the narrative behind its dissemination. The third section summarizes the empirical results while we conclude with suggestions for a Brazilian research agenda with relevance for emerging countries.

2. Urban financialization and the Brazilian scenario

Aalbers provides a working definition on financialization (2015: 214):

> 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

There is by now a large and rapidly expanding literature on financialization.[3] Zwan (2014), for example, discusses three research programs with somewhat different but complementary approaches. First, political economy goes back to different traditions such as Marxism (through authors such as Hilferding, 1910), regulationist thinking (Boyer, 2000), post-keynesians (e.g. Minsky, 1974) and critical theory of international relations (such as Helleiner, 1994). Depite its internal differences, this program emphasizes structural transformations in the system of accumulation (the economy) and the mode of regulation (state organization and intervention) through the investigation of issues such as the post-Bretton Woods monetary order and its impact on capital markets, global economic restructuring and capital switching. The latter means that successive crises in industrial production (the primary circuit) are temporarily absorbed (but never resolved) by the circulation of capital through the built environment (secondary circuit).[4] A second program, often labelled as “critical accountancy”, is grounded within an academic tradition that studies corporate governance and finance. Already since the work of Cyert and March (1963), the modern firm became recognized as an arena of frequently conflicting interests. Principal-agent theory took this one step further by fleshing out the conflicts between chief executives and owners-shareholders (Fama, 1970; Froud et al., 2002). Its main argument was that it could not be taken for granted that higher management would continuously follow shareholder interests; as such, management had to be monitored by owners, implying significant transactions costs. Stimulating management to adopt shareholder value maximization through such mechanisms as bonus distribution of stock or stock option programs could reduce these costs. Thus, a main theme of critical accountancy approaches to financialization is the changing relationship between management and owners structured around shareholder value maximization and its consequences in terms of short-termism of planning, management and investment strategies under contemporary capitalism. A third strand of research stresses the penetration of credit and finance in the (re)production of daily life through access to diverse sources of (micro)credit and financial instruments, from real estate to short term consumer-credit. A link with the political economy approach

[2] Credit money is non-commodity money that consists of non-interest bearing claims that are not redeemable on demand. Available at: http://wiki.mises.org/wiki/Credit_money. (Accessed 21 January 2017).

[3] For a recent overview on the Brazilian debate see Ribeiro and Diniz (2017) and other papers in the august special issue on financialization, mercantilization and neoliberal urbanism in *Cadernos Metrópole*, v. 19, n. 39, p. 339–690, august 2017.

[4] Recent work on capital switching and the subprime crisis also showed the role of financial capital in building bridges between the secondary and tertiary circuit. The latter is related to issues of reproduction of life, for example through pension and health care plans. The subprime crisis triggered unsustainable debt levels for the older population, which had leveraged their mortgages in order to supplement pension and health care plans. (Aalbers, 2008).