Geoforum 90 (2018) 206–218

Contents lists available at ScienceDirect

Geoforum

journal homepage: www.elsevier.com/locate/geoforum

Capitalizing on the State: The political economy of Real Estate Investment Trusts and the 'Resolution' of the crisis

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A R T I C L E   I N F O

Keywords:
Financialization
Real Estate Investment Trust
Financial crisis
Financial chain
Ireland
Political economy

A B S T R A C T

A burgeoning literature demonstrates how the inter-dependent relationship between the financial and real estate sectors has intensified boom-bust dynamics within urban property markets. Indeed, following the financial crisis of 2008, this articulation of increased financial risk within cities has been evidenced in the avalanche of distressed property assets and debt that accompanied the collapse of property markets internationally. However, while research has focused on the causes of the crash and its economic, social and political impacts, knowledge is less developed regarding how the link between finance and the built environment is being re-established. How are the circuits of capital into distressed property markets being rebooted in post-crisis contexts and what are the implications for the existing political economy? In response, this article explores the development of the Real Estate Investment Trust (REIT) market in Ireland as part of a wider effort to deleverage the country's failed banking sector and to attract global, yield-seeking capital into the moribund property market. Despite their location at the nexus between financial and real estate markets, REITs have not figured highly in critical geographic discussion of the financialization of real estate. This article addresses this gap by contextualising the history, politics and geography of REITs and by stressing their urban dimensions, as well as demonstrating how they are capitalizing on the deleveraging of the Irish banking and development sectors in the interests of global financial investors.

1. Introduction

Since 2007 global real estate and financial markets have experienced a period of profound crisis that has contributed to widespread and devastating economic, social and political impacts across Subprime America and Peripheral Europe (Crump et al., 2008; Waldron and Redmond, 2017). Harvey (2011) contends the crisis is rooted in the increasingly global nature of real estate investment and the empowerment of finance capital which has stimulated asset bubbles in the property market by switching capital from investments in the productive economy into speculative investments in the built environment. In this vein, a growing body of geographic literature has examined the role of financialization as a cause and consequence of the crash (Lee et al., 2009; French et al., 2011). Financialization describes how financial markets and actors have come to occupy an increasingly dominant position in contemporary society and economy and examines the processes and effects of the growing power of financial values and technologies on economies, corporations and households (Aalbers, 2016).

A key focus of the financialization literature is the impact of the *'wall of money'* that was pumped into the global real estate market from the 1990s (Fernandez and Aalbers, 2016). At the city level, this impact is evident in the avalanche of mortgage defaults, home repossessions and distressed commercial property assets that have accompanied the breakdown in the circuits that connect global financial capital and the urban built environment. The scale of this real estate/financial crash and the magnitude of assets involved is staggering. European banks currently hold €879bn of non-performing loans, the majority of which are linked to speculative property assets (BTG Global Advisory, 2015). In the United States, 6.2 million homes have been foreclosed upon by banks since 2007 (Andritzky, 2014) and many of these have been sold to private equity investors looking to capitalise on the rebound in property values (Fields, 2014).

While an extensive literature has examined the economic, social and political impacts of the financial crisis, attention has only recently turned to how the link between finance and the built environment is being re-established post-crash (Beswick et al., 2016; Byrne, 2016b). Indeed, the question arises as to how such financial circuits are being reconfigured? By what mechanisms are distressed real estate assets being redeployed back into financial circuits? What role is the State playing to reboot the real estate-financial complex? To explore these concerns, this article focuses on the policy response to Ireland's property crash, particularly the introduction of Real Estate Investment

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https://doi.org/10.1016/j.geoforum.2018.02.014
Received 28 June 2017; Received in revised form 7 February 2018; Accepted 11 February 2018
0016-7185/ © 2018 Published by Elsevier Ltd.

Trusts (REITs) as part of a wider effort to deleverage the country's failed banking sector and attract capital into the moribund property market. As publically listed real estate investment companies, REITs sit at the nexus between local property markets and global financial markets, yet are remarkably under-examined in the literature (Clark and Lund, 2000; Murphy, 2008). Most REIT research comes from real estate finance or urban economics and focuses on issues like investment performance and management efficiency (Chan et al., 2003). Few consider how REITs as socio-technical innovations have been formed or how history, politics and geography have influenced their development. This is an important omission considering how REITs transform property into a tradeable income-yielding asset by connecting hyper-mobile, investment capital to immobile, local property markets (Gotham, 2006).

In response, this article firstly examines how REITs are implicated in the globalization of finance and real estate, stressing how REITs have created a new financial chain that links distressed real estate assets with global finance capital. Secondly, the article highlights the role of the State in the *'resolution'* of finance-real estate crashes, not just in the reactionary absorption of toxic debts from banks and developers, but also in the active development and promotion of financial instruments, like REITs, that play a crucial role in re-establishing the conditions for growth. Finally, the article examines the investment practices of REITs and how they have capitalized on the deleveraging of the Irish banking and development sectors in the interests of investors.

Borne out of a larger project examining the re-setting of relations between the financial and development sectors and the State in post-crisis contexts, this article draws on data from 21 interviews that were conducted in 2016/2017 with directors and associates working in REITs, property consultancies, financial advisory firms, legal and tax consultancies, as well as public officials (Table 1). Interviewees were identified through searches of the financial press, corporate websites, annual reports and snowballing techniques. The interviews were semi-structured and open-ended and interviewees discussed issues regarding their activities to shape REIT policy and legislation, the investment strategies of Irish REITs and their market impact. These interviews are supplemented by an analysis of secondary data sources, including investment reports, articles from the financial press and REITs' investor notices to the stock market.

The article is structured as follows: section two discusses the emerging literature on practices and policies of financialization in response to the crash in order to situate the discussion of REITs as a type of *'financial chain'* that connects distressed real estate assets with global financial markets. Section three discusses REITs as a network of social relations, examining the actors involved, the dimensions of their interaction and how they are implicated in the globalization of international finance and real estate. Section four contextualises the Irish property crash and discusses the role of the State in establishing the Irish REIT framework. Section five examines how REITs are capitalizing on the carcass of the Irish crash in the interests of global investors and uncovers their investment preferences and asset management strategies. Section six concludes the article.

Table 1
Breakdown of interviewees.

Interviewee number	Function	Date
Interviewee 1	Civil Servant - Finance	12/10/2016
Interviewee 2	REIT CEO	14/10/2016
Interviewee 3	Tax Advisor	14/10/2016
Interviewee 4	REIT Management	14/10/2016
Interviewee 5	REIT CEO	17/10/2016
Interviewee 6	REIT Development Manager	17/10/2016
Interviewee 7	Tax Advisor	18/10/2016
Interviewee 8	Equity Analyst	20/10/2016
Interviewee 9	Equity Analyst	20/10/2016
Interviewee 10	Economist - Real Estate	20/10/2016
Interviewee 11	Lawyer - Real Estate	21/10/2016
Interviewee 12	Corporate Finance Advisor	08/11/2016
Interviewee 13	Civil Servant	08/11/2016
Interviewee 14	Civil Servant	19/11/2016
Interviewee 15	REIT – Acquisitions Manager	23/11/2016
Interviewee 16	Real Estate Analyst	25/11/2016
Interviewee 17	Civil Servant	21/12/2016
Interviewee 18	Civil Servant	09/03/2017
Interviewee 19	Regulator - Stock Exchange	10/03/2017
Interviewee 20	Equities Analyst	13/03/2017
Interviewee 21	Civil Servant	27/03/2017

2. Deepening practices of financialization in response to crisis

From 2008 the circuits of capital that connect global finance with local real estate broke down with spectacular effect. This story of the crisis is familiar, where a global *'wall of money'* was unleashed via financial re-regulation and innovations which facilitated the reallocation of capital globally into property investment (Guironnet and Halbert, 2014). When the bubble burst, the ensuing credit crunch halted the flow of interest bearing capital to the economy, leading to the longest post-war recession across advanced economies (Kitson et al., 2011). Without wishing to underplay these impacts, this review seeks to move beyond the consequences of the crash to focus on the actions taken to revive financial flows back into distressed real estate and facilitate deepening practices of financialization. Three relevant themes are identified which situate the discussion of the role of REITs in the 'resolution' of the Irish crash; the role of the State as a market maker, the expansion of private equity into property and the role of financial innovations in expanding the terrain for the financialized economy post-crash.

2.1. Financialization and the State

Despite conspicuous interventions to buttress financial markets from 2008, the State's role in resolving finance-led property crashes has only recently become a research focus. Two productive avenues have been forged regarding the *'roll up'* of private banking liabilities through State-backed Asset Management Companies (AMCs) (Byrne, 2016a; Ashton, 2011) and the *'roll out'* of public assets to private financial actors (Aalbers, 2016). Regarding the former, a key problem arising from the breakdown in financial circuits following a property crash is the uncertainty of asset valuations, which hampers credit issuance and market liquidity. Public AMCs are typically introduced to isolate problematic assets from the wider financial sector, address the uncertainty of their valuation and crystallise the losses associated with such assets through State-backed asset sales (Byrne, 2016a). Typically these sales occur on advantageous terms to investors, involving steep discounts on the original par value of debt and often at significant cost to taxpayers (Janoschka and Alexandri, 2017). AMCs are thus deployed as *'market makers,'* tasked with generating liquidity and transactions in a collapsed market based on their ability to establish an artificial price floor and control the supply of property being redeployed to the market. The establishment of AMCs was the primary response to the crash in Europe, with €264bn of private property debt transferred to the public bourse (Cushman & Wakefield, 2014).

The *'roll out'* element of the State's actions speaks to the related processes of privatization and financialization. Here, the State can actively intervene in markets through privatization practices to create the conditions for financialization to occur (*e.g. the sale of social housing units to tenants which leads to greater levels of mortgage borrowing*). In other cases, the privatization process itself can become financialized, where entire portfolios of publically owned land, housing and infrastructural assets are sold *en-bloc* to private equity investors, in a process termed *'financialized privatization'* (Aalbers, 2016, 3). Crucially, the State intervenes to manipulate values within the market, often under conditions of economic stress or fiscal austerity, and typically enacts

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