Financializing the Development of Urban Neighborhoods[1]: thoughts on the relationship between art and gentrification

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Over recent decades, the fields of art and real estate have both been granted the dubious honor of being afflicted by speculation. One keyword that may help us grasp ongoing speculative tendencies is "financialization" (Aalbers 2016). In reaction to the social effects of said speculation patterns, the question of how contemporary art practices contribute to gentrification has emerged within the art field. Whether artists act as "pioneers" of gentrification processes, or whether nonconformist art projects risk being co-opted for neoliberal purposes, has already been intensively discussed, and will not be pursued further in this contribution. That said, revisiting some aspects of the financialization debate does seem fruitful to me, so as to open up new perspectives on the relationship between art and uneven development within cities.

The Financialization Perspective: four footholds
Financialization refers to tendencies within current forms of capitalism that are characterized by a prominent positioning of the financial realm. This includes, for instance, the surplus of assets traded on the financial markets – exceeding the total gross national product of all nation-states many times over – or the primacy of financial rationales within companies, governments or private households. Ben Fine suggests a definition of financialization that covers this entire range of phenomena:

> „However financialisation is defined and used, it points to a complex amalgam of developments within global finance and in its interactions with and consequences for economic and social life more generally. Further, it is not merely the expansion and proliferation of financial markets that are striking but also the penetration of such financing into a widening range of both economic and social reproduction – housing, pensions, health, and so on." (Fine 2012, p. 58)

Financialization debates address the relationship between the financial sphere and other areas of life, such as housing or art. Whereas the "financial sphere" has long been regarded as an exogenous factor to many social processes, financialization research, as Andy Pike and Jane Pollard argue, allows us to overcome the temptation of considering the financial sphere as "functionally, politically and spatially

1 This contribution is based on the author's PhD thesis "The Speculative Production of the City. Financialization of housing construction in Berlin".

[and, I would like to add, 'socially'] isolated" (Pike and Pollard 2010, p. 37). Using the example of Berlin's housing development, I'd like to illustrate how emphasizing the entanglement of the financial world with other aspects of social life can help us better understand the relationship between the contemporary art field and uneven urban development.

Financializing Urban Neighborhoods

In 2017, the foundation was laid for the Luisenpark project on Stallschreiberstraße. Thereby removing the last plots of an 18-hectare area right in the heart of Berlin, which, incidentally, were also the setting for the artistic project "*Skulpturenpark*".[2] Extending all along the former Berlin Wall, from Spittelmarkt to Heinrich-Heine-Straße, the new neighborhood now features over 2000 residential units, and 20 distinct building projects. The analysis of the building process reveals three phases of investment, reaching up to 2019.

Remarkably, the construction of the new neighborhood did not follow any superordinate plan, and barely attracted public attention. Even more striking is the type of real estate developer who was active here as of 2016. Many of these developers were new to building projects in Berlin, others had never been active in housing development at all. The one precondition for operating here, in 2016, was to simply prevail on a highly competitive land property market. Participants who appeared from 2016 onwards were granted access for one simple reason: they were "financialized project developers" who resorted to the capital strength of alternative forms of financing.

In the final stage of neighborhood construction, almost every real estate developer was operating in partnership with financial investors. The developers *Pandion* and *Ehret+Klein* formed joint ventures with investment firms, so as to finance the projects through private equity. The developer *Project Immobilien* operates in similar fashion, but the investment firm in question is its partner company *Project Investments*, which offers both private and institutional investment funds. *Patrizia AG* is – together with *Vonovia* and *Deutsche Wohnen* – among the largest German real estate investment companies, and mainly manages residential portfolios. It was with this project that the firm began constructing new apartments. *Instone* was bought by asset manager *Activum SG* in 2017, and is part of a fund for institutional investors. All of the above can be considered "financialized developers".

2009–2013

2013–2014

2016–2019

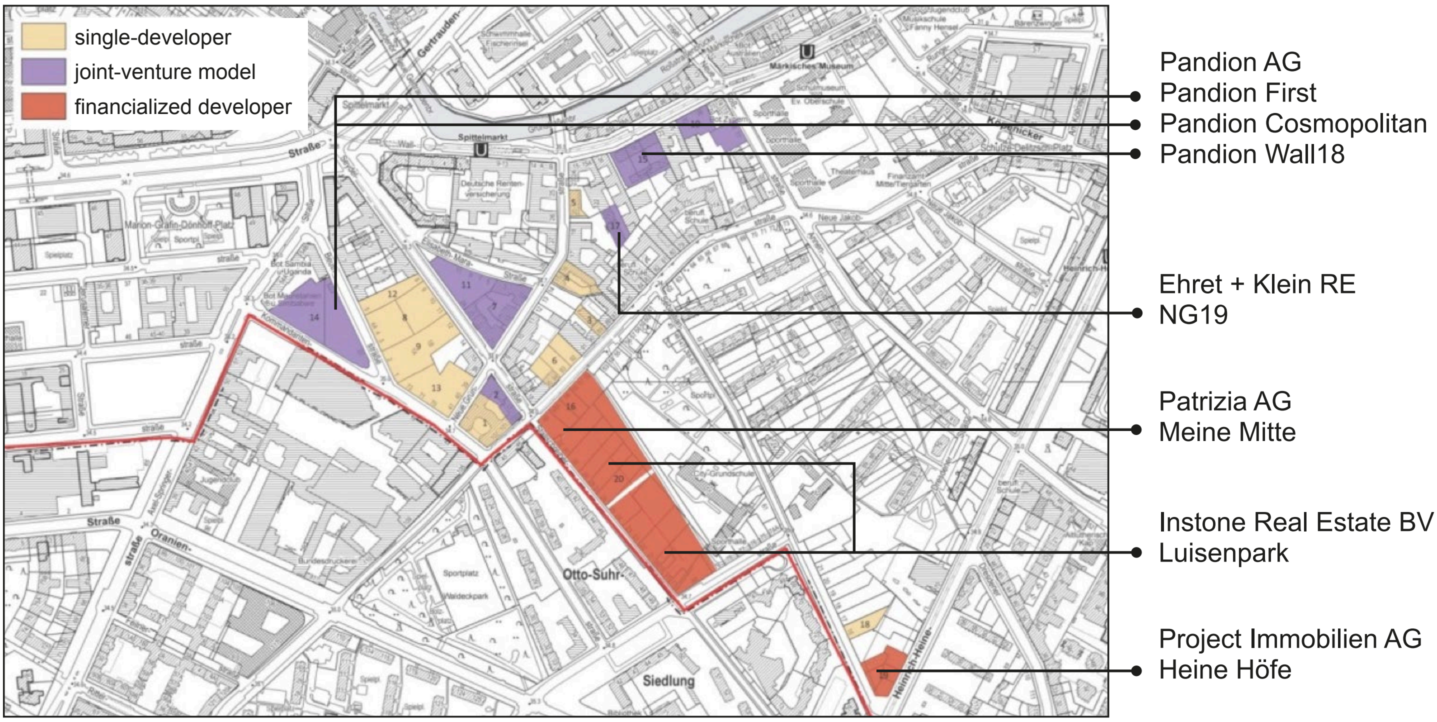
ill. 1: Development of the district in three investment phases. © L. Calbet

Spatial Footholds

Thanks to connections to alternative investment vehicles, the real estate generated by these developers can serve as collateral for financial endeavors even during construction. Shares on the development operation act as liquid ownership titles, the value of which is determined by demand on the financial markets (and not by the value of the real estate per se). The more valuable the property and project, the more capital can be collected through shares or investments. In this business model, expensive land is not an obstacle – as is usually the case – but an integral part of the business plan. Moreover, the production of high-end flats is not just a consequence of high construction costs, but also an opportunity to accumulate more capital on the basis of over-valuated proposals. Since the main goal of financialized investments is not to produce housing, but to realize financial profits first and foremost, gentrification and housing crises are the logical consequences of financialization. The use of new construction projects as collateral for financial investments associated with the emergence of financialized developers needs to be considered a key dimension of the spatial materialization of the financial sphere.

The afore-mentioned financialized developers were not, as often assumed, "foreign investors", or foreign players, but German companies. That said, their many

2 In 2006, the KUNSTrePUBLIK collective founded the *Skulpturenpark Berlin_Zentrum* (Alte Jakobsstraße, corner of Seydelstraße). It was closed down 2010; however, within the framework of the KW REALTY program 2018, a reboot was ceremonially announced for 2020.



ill. 2: Investors and projects of the third phase. © L. Calbet

financial transactions (aiming solely for tax benefits), as well as their financial transactions with equity funds, were deeply international in nature. A pioneer of the financialization tendencies on the site was the *Groth Gruppe*. Since 2009, the Berlin-based company realized four projects in the area, two of which were joint ventures with the Dutch fund manager *Reggeborgh Groep*. The financialization tendency was therefore initiated by a locally established developer, and bolstered by national corporations. This is not surprising, since project development requires specific local knowledge.

Over a second wave of massive investments, those ventured by the *Groth Gruppe*, and by other companies closely linked to the recent development of Berlin (*Baywobau, Lagrande Immobilien, Berlanto*), transformed the site from a shunned location to a high-end address. In 2014, the area was dubbed "Urban Development Area of the Year" by the Bulwiengesa AG (Bulwiengesa AG 2014, 27-35), and became a coveted investment hotspot. Local roots can therefore be quite relevant to the initiation of financialization processes. Location is used to not only assess the market situation for investment. Local real estate developers also contribute to the implementation of new financial rationales by resorting to connections to political and administrative actors.

Political Footholds

The "financialization of housing" is further linked to changes in the regulation of various sectors. Global financial flows have been driven not only by technological development, but also by new (inter-)national conditions for transactions and investments. The state-promoted "financial location Germany" led to the bank-based credit system losing in significance, to the benefit of financial-market and equity-based financing models (Windolf 2005; Lütz 2005). In the field of housing provision research, several analyses emphasize the importance of politics in financialization processes. Indeed, the commodification and financialization of rental housing was the result of en-bloc sales of public housing stock to real estate funds (Heeg 2013; Holm 2011; Uffer 2011).

Urban planning is a form of political regulation that has received comparatively little attention, but is essential within the context of city neighborhood development. Urban planning guidelines serve to regulate land use as well as construction. Since 1999, the plan known as *Planwerk Innenstadt* served as the legal basis for construction permits throughout Berlin's city center, this according to article §34 of the German planning regulation law (BauGB). As a result, individual projects within the neighborhood could be approved without any public facilities or green spaces being planned or implemented. This is also how public participation and the municipal council (*Bezirksverordnetenversammlung*) were "successfully" circumvented. The absence of zoning guidelines, and the permission of more floor area than urban planning by-laws customarily allow, resulted in particularly profitable development opportunities for investors. This liberal understanding of urban planning was established in a time of economic stagnation, with the aim of attracting investment. Nowadays, these regulations – for financial transactions, for housing markets, and for urban planning in general – create favorable conditions mainly for speculative return expectations among financialized developers.

Functional Footholds

A claim that is repeatedly made in financialization debates is that the financial sphere has decoupled itself from other areas of the economy (e.g. Stockhammer 2004). The supposed disconnection of finance from production is based on the idea that housing construction cannot constitute a form of financialization, since it actually produces something concrete (housing). This theory does not take into account the fact that speculative profits in urban development are not based on the material production of buildings, but on the increase of land value (Topalov 1979). In a speculative context, the value of built matter constitutes only a small proportion of property value. It is by planning and building on a given property that land value is maximized. The developers' aim is to avoid transferring this (full) value increase to the former owner at the moment of purchase. Financialized developers only act in situations in which they expect an increase in value along these lines.

Critics in the vein of Wolfgang Krumbein also note that financialization does not decouple firms and government bodies from the financial sphere. Rather, they use "new financial instruments in order to acquire additional profit and management opportunities" (Krumbein et al. 2014: 14). This can indeed be observed in our neighborhood example, in the case of non-financialized real estate developers. Building owners who rely on traditional forms of financing, and whose projects do *not* act as collateral for fictitious capital on the financial markets, did also benefit from high sale prices – providing they had acquired the land early on, and were not exposed to competition for land acquisition. Such was the case of an owner on Sebastianstraße, who participated in the speculation process "at the right time". In sum, not every form of speculation is associated with financialization; both processes coexist. Non-profit-oriented investors are, however, gradually being forced out of the market.

Social Footholds

The individual level is the one which is most difficult to assess with regards to financial processes, not least because it implies broader societal issues. A key driver of financialization processes is the connection of private household wealth to financial circuits (Lapavitsas 2013). The privatization of old-age provision, and the need to make savings profitable – or to at least secure them against depreciation – bind ever-increasing shares of private wealth to the financial markets (Heeg 2013). Which is why numerous financialization researchers (Martin 2002; García-Lamarca and Kaika 2016) now address the financial subjectivities of individuals and households. The spread of residential property is an example of these financial subjectivities, through which households try to individually safeguard their wealth, or provide for old age, even at the expense of high debt levels.

The demand for condominiums in our neighborhood example – many of which are not primary places of residence – shows that processes of financialized urban development are indeed accompanied by this form of asset-based-wealth. Financialization processes do not end with the completion of a new-build, but continue to persist within the loans of singular households. However, in comparison to professional financial actors, individuals are systematically disadvantaged (Lapavitsas 2013, p. 800). The result is a generalized bottom-up redistribution process which Lapavitas calls "financial expropriation" (2011, p. 621) and which David Harvey terms "accumulation by dispossession" (2004).

Conclusions for the Arts

The example in question shows how financialization is linked to four aspects of society, and how it affects unequal access to the housing market. In my view, it allows for several considerations and questions for the debate regarding the relationship between art and uneven development. To me, an important starting point for a reflection on the financialization of art is the distinction between processes in which art-related actors contribute to the financializing of other social sectors, and processes that contribute to the financialization of artworks and the actions of artists themselves. Much of the debate around gentrification and art is devoted to the former type of process. To focus on this first perspective, and to emphasize spatial components, is to raise questions such as: to which extent does art, or do the actions of artists, serve to commodify other values, and increase the attractiveness of spaces for financialized investors?

However, even processes through which art is in *itself* being financialized – as described in the latter perspective – contribute to social polarization. For contemporary art to address its role in current forms of capitalism and neoliberalism, it needs to become aware of the political, functional and social establishment of financial rationalities within the field of art itself. In this sense, a "functional" perspective might ask: how does art (and the actions of artists), function as collateral, one that contributes to financialized forms of accumulation? Examples of this are not limited to the astronomical prices sometimes paid for artworks. Politically, it would be equally necessary to ask whether forms of regulation within the art field have changed, and whether they now contribute to financialization in turn. Finally, it would also be important to question to which extent subjectivities have arisen that contribute to the further commodification and financialization of art.[3] Financialization can be understood as the transformation of finances from a means (financing) to a goal (financial profit). A critical reflection on the processes of financialization in art should ensure that, despite the linkage between art and the financial sphere, art continues to pursue methods and goals other than financialization itself.

Translated by Jana Thormählen

3 Ideas on blockchain-financing and -valorization, as currently discussed in the art scene, point in this direction.

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