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Policy-makers and "applied economic geographers": the role of financial intermediaries in the making of Brazil's Real Estate Investment Trusts

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Over the past years, the rising importance of financial markets and financial investors in the production of the urban built environment has been recognized. However, far from being simply a global, exogenous process that produces all sorts of local outcomes, financialization of the urban built environment is as much national and local a process as a global one (Ahston et al., 2014; Attuyer and Halbert, forthcoming). Additionally, to describe this process as one driven exclusively by abstract financial market forces is misleading, given that the State has been in the front line of financialization by putting in place a suitable regulatory framework to encourage financial intermediation and financial investment (Gotham, 2006, 2014). With this in mind, some scholars have scrutinized the active role played by financial intermediaries in furthering financialization, often based on the proposition that the latter should not be viewed as simply a reformulation of the rent capitalization principle long theorized by authors such as David Harvey, but instead should be seen as the process whereby financial intermediaries pool capital from dispersed investors and channel it to activities where opportunities of accumulation are identified and future profits expected (Guironnet and Halbert, 2015). Financial intermediaries are here not simply passive actors that allocate capital in response to market signals, but actively redirect these capital flows in conformity to their own collectively produced representations and expectations and in interaction with existing systems of actors at city-regional level (Theurillat et al, 2012).

Recognizing these actors' importance in making financialization, we aim to analyze the role played by financial intermediaries in Brazil in (1) fabricating new strands of financialized assets by encouraging the implementation of policies and regulations that enable the creation and circulation of property-backed securities; and (2) in shaping, through their investment decisions, the effective content taken on by these somewhat malleable policies, as well as their potential effects on the city-regional developments. In foregrounding financial intermediaries as key in grasping financialization of the urban production we do not wish to imply that they alone shape cities and their spaces. Rather, they must be considered as increasingly important actors in a tangle of interacting local players – developers, landowners, urban planners, architects, municipal councils, and so forth – that together structure the organization of cities. As a consequence, they can both be considered as "applied economic geographers" (Lee, 2002:347) that contribute to format urban change, but also, in doing so, as policy-*makers*.

With this in view, we examine the role that a small group of financial intermediaries played in influencing the design and subsequently shaping the actual content of a policy centered on creation of real estate investment trusts (REITs). REITs were legally instituted as investment vehicles in Brazil in 1993, but they only experienced a decisive growth in number, asset ownership and market capitalization after 2009. This growth was preceded, however, by extensive interactions between financial intermediaries (intervening often through business organizations) and Brazil's capital market oversight agency (Comissão de Valores Mobiliários, or CVM) with a view to fine-tuning the regulatory framework that governs the creation and functioning of REITs. Relying on documents such as minutes of hearings, on press material, and on interviews conducted with concerned actors, this paper shows how, a decade down the road, a financial instrument initially planed to support the construction sector has been colonized by financial intermediaries. The latter have been influential in drawing up the key legal rulings that currently underpin the operation of REITs – most notably the 2008 CVM Ruling 472, which regulates the duties and roles to be undertaken by the different players of this market. However, the discussions involving regulatory authorities and financial market players, as well as the final draft of Ruling 472, had no

specification or targets regarding the urban outcomes of this new financial circuit. This empty-shell character of the regulatory framework leads us to a second part of the research that looks into how these financial intermediaries, in their day-to-day interactions in a tightly knit business community based in São Paulo, gave shape to this policy after 2009 through their business strategies and investment decisions. Benefiting from the abovementioned regulatory framework, as well as from parallel incentives that included tax exemptions for shareholders in REITs and the permission for pension funds to buy REITs shares, investment banks have been nimble in spotting apparently promising investment opportunities, setting up new REITs to explore such opportunities, and marketing these investment vehicles to well-off households. Indeed, from an average of less than BRL 500 million before 2009, the volume of REITs shares issued annually rose steadily to reach a peak of almost BRL 7 billion in 2013. More important to our aim, though, the proliferation of REITs highlights how these financial intermediaries defined the content of the policy by directing investment to certain types of assets and certain locations instead of others. Our research shows that investment managers have expressed a number of preferences in building up property portfolios that reflect their own perceptions of opportunity and risk. First, in terms of asset types, financial intermediaries have been shown to give priority to grade-A property (such as upper-end office high-rises) due to the diminished risk posed by their characteristic tenant – usually large corporations with steadier cash flow expectations. Second, even if investment opportunities exist outside the two economic hubs (São Paulo and Rio de Janeiro), investment managers have instead chosen to concentrate their property portfolio in selected areas within these two cities, a preference that stems both from the easiness of seeking new investment opportunities in an environment of everyday interactions with developers and end users; and, relatedly, from the perception of risk associated with far-away cities. As a key conclusion, it is noted that, although the policy was justified on the grounds that it could generate widespread benefits to the building industry as well as funding to firms that want to re-concentrate capital on their core business, its actual implementation by financial intermediaries has resulted in a highly concentrated pattern of investment (both in terms of asset type and location), with

important potential consequences for urban development (see Halbert et al., 2014 for a reflection on this).

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