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COMMENTARY



Unbanking urban real estate: critique in purgatory

James Christopher Mizes^a, Martine Drozd^a, Sinan Erensü^b,
Ozan Karaman^a and Mathilde Moaty^a

ABSTRACT

Real estate investment trusts (REITs) are today appearing in cities across the world. Critical scholars have interpreted this situation as ‘financialization’, a concept that often serves as a metonym for global financial domination. In this commentary, we suggest an alternative approach to analysing urban financial instruments like REITs. Rather than detail and denounce the power that such instruments come to hold over an ever-increasing cornucopia of urban objects (real estate markets, municipalities, housing, the urban economy, the built environment, etc.), we stand this approach on its head. We ask: how is it that these financial instruments come to be framed as solutions to a wide array of urban problems? Our argument is that research on finance and space will benefit from deeper engagement with a minor tradition of pragmatist philosophy. This engagement will allow scholars to see critique as an object more than an end of research. It will offer a clearer comparative understanding of how urban financial instruments like REITs continue to gain widespread appeal and how they transform as they circulate across the world.

KEYWORDS


Real estate; critique; pragmatism; purgatory; financialisation; cities

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1. REIT PLACE, REIT TIME

There is a road in Nairobi that appears to be named after an obscure financial instrument. It is nestled in an archipelago of lush urban forests and, as one of its commercial residents boasts, is not far from Kenya’s most exclusive country club. The road is clean and leafy and its pavement smooth and fresh. Most residents know it as Dagoretti Road, a street supposedly named after a colonial-era airfield that the British once dubbed ‘The Great Corner’ and that Kenyans subsequently interpreted as ‘Dagoretti Corner’. But an official black and white street sign suggests a rather different name (Figure 1):

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Figure 1. Photo by Kevin Donovan, 2023.

Readers of this journal are likely to know what the acronym REIT stands for: real estate investment trust, a (perhaps once) obscure financial instrument created by the United States government in the middle of the twentieth century. The law that created these REITs aimed to offer the ‘investing public’¹ opportunities to participate in real estate markets from which they were previously excluded. Lawmakers thought REITs would lower the capital barriers to real estate investment and allow American citizens to reap the financial rewards of landlordism.

In recent decades, there has been a modest explosion of REITs in cities well beyond US borders. As of 2016, there were 276 listed on the São Paulo Stock Exchange with a total market capitalisation of around US\$6 billion (Sanfelici & Halbert, 2019). Similarly, as of 2023, 46 REITs were listed on the Borsa Istanbul with a total market capitalisation of around US\$8.5 billion (GYODER, 2023). But Asia is where most new issuances are taking place: since 2005, the number of Asian REITs has grown by 719% (from 31 to 223) with the largest increase in South Korea (from 3 to 21) (Nareit, 2023, p. 6). Indeed, since 1990 the total number of listed REITs across the world has increased from 120 to 893, reaching a combined market capitalisation of almost US\$2 trillion (Nareit, 2023, p. 6) (Figure 2).

But in cities like Nairobi, REITs are still rare. Few people passing by Africa Reit Lane are likely to know what its rather confusing street sign refers to. And, strangely, the sign isn’t meant for Dagoretti Road at all. It instead points to a small cul-de-sac across the street that is home to a mundane array of upscale businesses: a co-working space, a law firm, a dentist, a design firm, a skin care centre, and a real estate agency named Africa Reit, Ltd. The real estate agency, it seems, managed to name the cul-de-sac after itself.

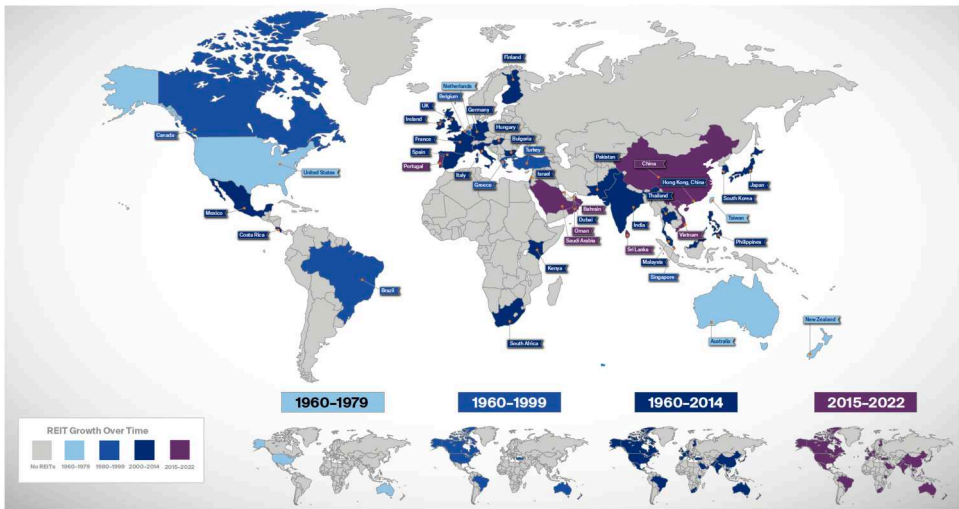


Figure 2. 'REITs around the World'.

Source: Nareit (2023).

Kenya created its REIT regime in 2013. But a decade later, the Reits Association of Kenya reports the existence of only four REITs. According to the chairman of the association, the market for REITs is small because of the enormous administrative hurdles involved in creating them. It is also small, he argues, because investors and developers are simply unaware of what REITs are or why they are useful (Mwenda, 2023). Yet to some professionals in the sector, the benefits of REITs are clear: they offer the 'formalization' of professional property management and 'financial inclusion' for small-scale investors. And as one asset manager put it, scaling up REITs is a key solution to 'Africa's housing crisis'.

2. SOLVING URBAN PROBLEMS?

Critical urban scholarship has offered a now familiar interpretation of such financial situations. This interpretation might lead us to expect that cities like Nairobi will be subjected to the same unsavoury effects as their REIT-infested counterparts elsewhere in the world (e.g., increased rents, fees and evictions in investor-owned homes). It also might lead us to expect that global finance capital's relentless search for returns will be to blame. Indeed, this could be the case. But this interpretation doesn't quite shed enough light on a slightly different but similarly important question: why exactly are REITs gaining worldwide appeal? To make better sense of their persistent popularity, we propose thinking of REITs in the way that their boosters do – as solutions to urban problems.

Taking this approach leads us to ask something different from previous critical scholarship on the subject. What are the kinds of problems to which urban financial instruments like REITs come to be posed as a solution? How do the moral justifications and moral judgments of these instruments differ across place and time? Our contention is that addressing these questions will offer a clearer picture of the political conditions under which such financial instruments appear. And one important element of these conditions is, we suspect, a critique of the banking system's role in financing large scale urban development.

3. UNBANKING, A CRITIQUE OF URBAN DEVELOPMENT

Lawmakers in the United Kingdom were reticent about REITs. They didn't create their own regime until 2007 and real estate development in the UK remained largely financed with bank

loans. But in the early 1990s, the developer of London's largest urban real estate project – Canary Wharf – went bankrupt. The bankruptcy and real estate crisis to which it contributed were on such an unprecedented scale that it stoked broader concerns about why banks agreed to finance such a risky project in the first place.

In the wake of this crisis, REITs appeared as a ready-made solution to this major urban development problem. As one British lawyer put it, the 'increased market scrutiny' that comes from listing on a stock exchange would prevent UK REITs from 'overleveraging' as banks had done in the past (Petersen, 2004, p. 13). In this way, REITs appeared as a programmatic critique of how banks finance urban development: REITs make real estate ownership available to all and they protect people from the reckless, opaque lending practices of banks.

Financial professionals have characterised this critique as 'disintermediation': the removal of an intermediary from a market exchange. But scholars have pointed out that disintermediation often replaces one financial intermediary (banks) with another (asset managers, for example). They then analyse how this process of 'financial re-intermediation can transform urban production' (Halbert & Attuyer, 2016, 1350). In contrast, our approach inverts this analytical relationship between finance and space: rather than frame urban space as an effect of financial techniques, we analyse financial techniques as effects of the formation of urban problems. For us, the idea of 'unbanking' draws attention to the diversity of these problems and the moral judgments and justifications that accompany their appearance.

For example, REITs are now appearing across the world as a solution to a very different urban problem: social housing shortages. In Senegal, the national social housing programme created an urban financial instrument very similar to a REIT. In the UK, one investment magazine even argued that social housing REITs are a form of 'social impact investing' (Shenkman, 2021). The United States has already financed social housing with REITs and some in Kenya now also suggest turning towards REITs for the same purpose.

But this brief global survey raises more questions than answers. There is likely a diversity of urban problems to which REITs are being framed as solutions. What kind of moral justifications and moral judgments have accompanied the introduction of these REIT regimes and their financial instruments? How is it that REITs came to be understood, in each place, as a reasonable solution to certain problems? And what is the extent of this form of finance in relation to the diversity of financial forms – from intra-familial lending to loan sharks to run-of-the-mill bank borrowing – likely to constitute any urban real estate market?

4. ALTERNATIVES TO 'FINANCIALIZATION'

Many scholars are quick to qualify the appearance of REITs as 'financialization'. But it is not at all evident that it should qualify as such. The appearance of a financial instrument does not necessarily mean that the real estate market in which it operates is becoming more financial than it was previously. In London, for example, bank loans have long financed major real estate operations, so it isn't clear to what degree REITs are making these markets more financial. In 2013, institutional investors held just 2% of the UK's private rental stock (Beswick et al., 2016, p. 21). A quick look at more recent data reveals something similar: REITs account for only around 1.5% of the UK real estate market (Investment Property Forum, 2022).

Still, the argument 'financialization' may seem to make sense in cities where bank financing is rare yet on the rise. Vast swaths of real estate markets in cities across the world hardly appear on banks' financial ledgers and so the appearance of complex financial instruments might feel like a big structural transformation in which financial logics are increasingly dominating previously non-financial social relations. Yet, in these markets, it is likely that finance has long played an important role, and it would therefore be inaccurate to assume that they are being 'financialized'. Rather than a shift in the size of finance, there may simply be a shift in the type of finance – for

example, from intra-familial lending to bank loans – that may or may not affect a shift in the relative scale of financial relations.

‘Unbanking’ is one way to describe such a shift in the quality, and perhaps the quantity, of finance (e.g., a shift from bank loans to REITs). But there is likely little empirical evidence with which to argue that the appearance of a handful of buildings bundled into and traded as REITs in cities like Mumbai or Istanbul or Johannesburg translates into the ‘financialization’ of any of the big objects commonly of concern to urban scholars (real estate markets, municipalities, housing, the urban economy, the built environment, etc.). REITs may just be the tip of the real estate iceberg.

To be clear, it could still be possible to make the argument ‘financialization’. However, the evidentiary burden of such an argument requires defining an object of analysis, defining ‘finance’, and then demonstrating how and to what degree this object is now more financial than it was previously (see Krippner, 2005). For example, it is probably true that the name of at least one cul-de-sac in Nairobi has been ‘financialized’. But it would be harder to argue that an object like ‘Nairobi’s built environment’ is ‘financialized’ or even ‘financializing’. And it would be especially hard to argue that this situation is a result of REITs.

Geographers have already pointed out similar limits to ‘financialization’ (Christophers, 2015). But few have suggested an alternative way to study finance and space, particularly in situations where the argument ‘financialization’ doesn’t quite make sense. How, for example, should one go about studying small and experimental forms like REITs? Forms whose related moral and political effects are not yet stabilised or clearly identifiable, even to those involved in them?

5. PURGATORY AND ITS CRITICAL EFFECTS

Riffing off Michel de Certeau, Paul Rabinow (1999) once suggested ‘purgatory’ as a concept with which to make sense of such experimental forms. Purgatory is a Christian word that first appeared, likely in the twelfth century, to describe ‘a place between heaven and hell’ (Keck, 2014, p. 49). The idea was that, even after death, souls might still be forgiven for their lesser sins, ascend into heaven, and find salvation. Purgatory was a place of suspended judgment. For centuries, this suspension allowed humans to intervene in divine judgments – prayers from loved ones were thought to alter the fate of deceased souls (Course, 2022).

It is in this sense that Rabinow used the term to analyse the ethical practices that form a part of any ‘problematization’. In an interview with Rabinow, Michel Foucault (1984, p. 389) gave ‘problematization’ a specific meaning: the ‘transformation of a group of obstacles and difficulties into problems which the diverse solutions will attempt to produce a response’. Purgatory points to a ‘suspended time’ during ‘problematization’ in which judgments about what is a good and reasonable response to any particular group of obstacles have ‘not yet been stabilized’ (Keck, 2014, p. 49).

Among many scholars, moral judgments about urban financial instruments have become surprisingly stable and even highly standardised. One interesting result is that these critiques may now be shaping REITs themselves. This is, in part, because scholars have taken the claims and concepts of financial professionals as objects to debunk and to hold up against their own observations of ‘real world phenomena’ (Christophers, 2015, p. 196). In short, these critics are intervening in a dispute. But what exactly have been the effects of such critiques on the circulation and evolution of financial instruments like REITs? Has the financial sector’s recent turn toward social housing been a response to these critiques?

In places where such instruments are still relatively small experiments, their related sets of moral justifications and moral judgments are rather ambiguous. Contrasting critiques – of banks or of capitalism – have yet to be stabilised and may still be in formation (Boltanski & Thévenot, 2006). Critical judgments of finance may not yet have taken hold or may never take

hold, and there is little reason to assume that the polemics proper to places where similar financial instruments are already prevalent will be repeated in places where they are still relatively rare.

In such places, it is not yet clear what kind of critiques will emerge or endure, nor is it clear what or where their effects will be. So, our argument is that the scholarship on finance and space would benefit from analysing these critical effects as they take shape in purgatory. This type of pragmatist analysis requires recognising judgment as a useful yet Sisyphean desire, as an object of analysis rather than an end of it. Doing so will allow scholars to more easily see financial instruments like REITs as responses to ‘a problem, a new problem, and not as an old, failed solution’ (Robert Musil quoted in Collins, 2017).

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NOTE

1. For a discussion of the emergence of the ‘investing public’ in the United States, see Ott (2009).

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