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Title pages

**Tracing the socio-spatial logics of transnational landlords' real estate investment.
*Blackstone in Madrid.***

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3. Abstract

The rapid internationalisation of the Spanish property market has triggered debates about the main characteristics of emerging post-crisis urban dynamics. Financial and urban policy reforms have shaped a model depicted by incessant rent increases and displacements. Echoing these concerns, this article addresses two interconnected objectives about the way policy restructuring encouraged transnational investments into Spanish real estate and the concomitant socio-spatial effects this wider asset reshuffling has produced. Both queries are discussed by pinpointing the multi-scalar investment strategies of the private equity firm Blackstone that emerged as predominant institutional investor during the recovery phase of the Spanish property market. The article initially sketches out the trajectory of the political economy of housing in Spain, and then it focuses on the strategies pursued by Blackstone for the acquisition of real estate and housing stock. The following sections connect the nodes of the financial chain that link this investor to former social housing tenants whose homes are by now owned by Blackstone. The spatial and social effects of this change in property ownership demonstrate the importance of in-depth research about the financial nodes that interplay with and shape the post-crisis urban condition in and beyond Southern Europe.

Tracing the socio-spatial logics of transnational real estate investment: Blackstone in Madrid.

1. The transnationalisation of real estate investment in Spain – An introduction.

Ten years after the global financial crisis there is a growing consensus that the financialisation of real estate markets remains crucial for the creation and uneven distribution of wealth (Aalbers & Haila, 2018; Marcuse & Madden, 2016; Rogers, Nelson & Wong, 2018). The economic and political shockwaves of the crisis have triggered novel debt-management policies and institutional arrangements resulting in an extensive rescaling of the State. The ongoing restructuring of housing into a liquid, commodified and globalised asset epitomises how financialisation has been shaping the socio-spatial logics in cities across Europe (Fields & Hodkinson, 2018; Alexandri & Janoschka, 2018). In other words, the fresh cycle of accumulation reinforces the enlarged role of novel financial tools and institutions, whereas investment strategies of global financial actors increasingly influence the living conditions of urban populations (Gotham, 2009; Waldron, 2018). This is especially true in Spain, which alongside with the US and Ireland was hit the hardest during the crisis yet has now become the epicentre of real estate investment for transnational institutional actors who have poured billions of euros of internationally mobile capital into the country (Beswick et al., 2016; Byrne, 2015; Di Feliciano & Aalbers, 2018).

The rampant restructuring and transnationalisation of the Spanish property market offers a prime research gap with potentially inspiring insights for academic but also political debates taking place elsewhere in Europe. For instance, social movements have identified so-called 'transnational landlords' as key drivers of rising rents faced by millions of households across the country. Paired with displacement pressures stemming from the proliferation of tourist accommodation in central areas, this has now seriously affected the affordability of housing in many Spanish cities (Cócola Gant, 2016; Hughes, 2018; Janoschka, 2018). However, existing research has mainly concentrated on other aspects of the Spanish housing crisis, such as the biopolitics of mortgage and the socio-spatial effects produced by repossessions (Garcia-Lamarca & Kaika, 2016, Garcia-Lamarca 2017; Gutiérrez & Vives-Miró, 2018). This means that only limited knowledge exists about the political strategies to attract transnational investment into the Spanish post-crisis housing market. And so far research has not addressed how this has actually affected housing circumstances in specific places and neighbourhoods. While it has been widely discussed how uneven processes of financial accumulation distress the living conditions of tenants and mortgaged homeowners in the US, the UK and Germany (Aalbers, 2016; Beswick et al., 2016; Fields & Uffer, 2016), the consequences of the transnationalisation of housing markets in Spain still remain underexplored.

Taking into consideration these initial reflections, the article aims at providing analytical insights into two mutually related questions, namely (i) how policy restructuring encouraged transnational investment into Spanish real estate during the post-crisis period and (ii) which socio-spatial effects this wider asset restructuring may produce. Both queries will be discussed by pinpointing the multi-scalar investment strategies of the private equity firm Blackstone, which emerged as predominant institutional investor during the recovery phase of the Spanish property market.

Our argumentation will be developed in four steps. The first section will draw conceptual enquiries into the processes and essence of housing financialisation. In a second step, the political economy of the Spanish housing market and its recent restructuring will be analysed. This will elucidate the specific political and economic arrangements settled to attract transnational investors, as well as reconstruct Blackstone's investment strategy in the country. Thirdly, institutional changes will then be linked to the daily experiences of Blackstone tenants in the working-class district *Carabanchel* in the south-western periphery of Madrid – an area that was subject to the sale of 1,860 public housing units to *Fidere*, one of Blackstone's local branches. This analysis prepares a final discussion connecting the socio-spatial logics of financial actors conceptually with reflections about the role that low-income residents play in housing markets under the conditions of contemporary capitalism. While the presence of transnational investors intensifies gentrification and touristification in Madrid's central areas by causing further rent increases, empirical findings in the periphery of the city suggest different structural adjustments paving the way to yet another housing crisis by triggering multiple displacements.

The analysis stems from qualitative empirical research carried out during more than two years in Madrid. We have created a matrix systematising and triangulating data from sources such as financial and real estate journalism, related online information on the websites of Blackstone and its subsidiaries, the asset management company *SAREB*¹ which was established during the bank bailouts in 2012, the National Stock Exchange in Madrid and the Orbis business data base. This contextualises the reconstruction of Blackstone's and other institutional investors' strategies in Spain. Moreover, in-depth analysis was also informed by two focus groups and semi-structured expert interviews with representatives of local government institutions such as elected councillors, professional assessors, and chief executives of the Municipal Housing Corporation. Finally, household research included in situ observation, participation in neighbourhood assemblies, and the conduction of three focus groups with housing activists and twenty in-depth interviews with households in properties owned by *Fidere*.

¹ *SAREB* is the asset management company that took over so-called 'toxic' assets such as non-performing loans, repossessed housing, garages and land from Spanish savings banks' during the 2012 bank rescue. The abbreviation corresponds to its Spanish name, which is: *Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*.

2. Housing financialisation and the transnationalisation of real estate

The notion of financialisation refers to the growing importance that finance has gained in contemporary societies, especially with regard to political or economic governance. Debt is the principal mechanism of financialisation, and this is either reflected in the form of specific contracts such as loans, bonds and mortgages or by the proliferation of financial tools like securities or derivatives. The most dominant approaches to financialisation understand this process as taking place in three different domains:

- (i) On the aggregate economic level, as a new regime of accumulation that is based on finance, with investment shifting from the spheres of production and manufacturing to finance because of the expectation of higher capital returns (Krippner, 2005; Lapavistas, 2014);
- (ii) On the corporate level, with the generalisation of the principle of maximisation of shareholder value for corporate governance (Boyer, 2005; Lazonick & Sullivan, 2000);
- (iii) On the individual level, as the financialisation of everyday life conceptualising the citizen as an investor able to contract into the consumer logic of credit and debt by accessing 'democratised financial markets' (Martin, 2002; Pollard, 2013).

Recent research has addressed how financialisation unfolds in cities, offering nuanced understandings on new forms of uneven development (Hendrikse and Sidaway, 2014; Sokol, 2017). Financialisation may be grasped in the way the flows of capital in and through space change the perception of land and real estate from being productive and socially reproductive towards being a purely financial asset (Harvey, 1982). A central guiding figure in the political shift towards productive 'operations of finance' (Marazzi, 2011; Mezzadra and Neilson, 2015) is exactly mirrored by this tendency. It includes the creation and release of value through debt financing, which is materialised by the prioritisation of exchange values, and most importantly in the abstraction of 'newly constructed' exchange values out of existing use values (Christophers, 2010).

The politics of housing financialisation have become crucial for understanding recent urban transformations. Prior to the crisis, the expansion of loans and mortgages intensified capital circulation through personal debt (Garcia-Lamarca & Kaika, 2016). This was supported by policies targeting securitisation, assuming that splitting commodities into securities enhances the exchange value of the mortgage and enables banks to support economic growth with more liquidity. However, mortgage securitisation also transformed the logics of capital accumulation by converting illiquid assets into liquid and exchangeable products. Hence, public and private actors could better finance property development, eliminating spatial and temporal barriers to the realisation of exchange values out of real estate assets (Gotham, 2009). This method triggered substantial increases in mortgage liquidity and growth of secondary mortgage markets where securities were exchanged and sold, often based on the

assumption of an infinite rise of housing prices (Wyly et al, 2009). Moreover, housing policies guided the decisions of households either directly, by promoting homeownership, or indirectly by dismantling laws protecting tenants. With the expansion of the financialisation rationale, states became increasingly interested in promoting mortgaged homeownership to keep financial markets and the aggregate economy growing (Aalbers, 2016). But this cycle came to a halt when property prices started to fall during the global financial crisis.

Consequently, the economic reverberations of the crisis triggered novel policy mechanisms addressing housing. A plethora of studies demonstrated how policies targeting the financial sector have triggered the recovery of housing markets (Aalbers, 2016; Beswick et al., 2016; Dymski, 2016). For instance, research about mortgage and housing crises in the US, Ireland and Spain has similarly addressed how the recent restructuring of the sector is shaping additional rounds of financialisation, with mortgaged defaulting properties being first nationalised and then again reprivatized and sold to international investors (Byrne, 2015; Fields, 2017; Méndez & Plaza, 2016; Palomera, 2014; Sabaté, 2016; Waldron, 2018). According to Fernandez and Aalbers (2016) housing acts in the post-crisis scenario as a recipient and absorber of the 'wall of money' produced by the generalisation of loose monetary policies, the expansion of financial operations and growing surpluses of pension funds and institutional investors. By seeking investment opportunities with high yields and fast returns, these investors transform the acquired property stock into profitable assets, especially in the rental market. This process is often accompanied by rent increases, which may cause the subsequent displacement of lifelong residents (Fields, 2017). Transnational investors also assume halted urban regeneration projects through public-private partnerships that further generalise urban entrepreneurialism and gentrification. Subsequently, the entrance of transnational investors signifies a crucial qualitative transformation in the city, entangling housing with finance to create new enclosures (Hodkinson, 2012; Beswick et al., 2016).

In order to better grasp the complex socio-spatial restructuring that attaches every single place to the abstract world of finance, we subsequently consider the notion of 'financial chains' as a useful analytical tool (Sokol, 2017). By identifying the effects of finance for daily lives, this concept refers to the channels of value transfer between people, places and institutions while relying on credit and debt. As stated by Sokol (2013), the value transfer from the debtor to the creditor actually reproduces social and spatial inequalities in cities. This means that debt has become a chief mechanism of income redistribution that intensifies the mechanisms of economic exploitation (Lazzarato, 2012). The notion of the financial chain has the potential to explore beyond the ways actors are connected to each other through financial means, yet including also the way they are literally chained to each other in unequal social and spatial relations (Sokol, 2017: 679). As the new uses and exchange values driven by the financial imperative of profit are establishing themselves upon pre-existing social and spatial relations, this may essentially link to the notion of creative destruction (Schumpeter, 1942). By focusing on financial chains, the subsequent discussion will

connect the global sphere of real estate and finance with people's lived experiences. More precisely, by offering an empirical exercise to this theoretical framework and drawing our attention to the processes of housing restructuring and financialisation in Spain, we reconstruct and visualise the financial chains that connect the transnational investor Blackstone with the inhabitants of Madrid's *Carabanchel* neighbourhood as an example of urban change driven by real estate transnational investment.

3. The political economy of housing in Spain: Post-crisis restructuring, transnationalisation and the rise of the Blackstone empire

Housing financialisation is not a standardised process that follows concrete forms or norms; it is influenced by specific legal, political and social contexts; hence in each case it is as different as the political economies of housing (Fernandez & Aalbers, 2016). From this perspective, it is crucial to recall some key characteristics defining the political economy of housing in Spain. In policy cycles, the promotion of homeownership was a long-term and twofold strategic mechanism pursued since the late 1950s, aiming simultaneously at boosting effective demand and settling property as an extractive means (Coq Huelva, 2013; López & Rodríguez, 2011). Subsequently, tax breaks and other incentives for consumers on one side and direct subsidies to developers on the other side allowed especially working-class households to buy properties below the market price (García Pérez & Janoschka, 2016). Since the mid-1990s new financial policies and legislation boosted the scope of mortgaged homeownership (for more detailed analysis see Alexandri & Janoschka, 2018; Garcia Lamarca & Kaika 2016). Moreover, urban rent laws eventually removed rent controls and tenants' protection (Palomera, 2014). As a result, supply-oriented policies supporting homeownership triggered an over-exposure of the Spanish economy to the construction sector yet motivating a widespread normalisation of homeownership across most social strata, peaking at about 85 percent in 2007 (Janoschka, 2015).

In the aftermath of the economic crisis, non-performing loans (NPL) emerged as a fundamental problem –for individuals whose mortgages had been securitised², for construction companies and land developers that went bankrupt, but also for local and national politics– affecting the aggregate economy. Rising NPL rates triggered intense liquidity problems to the banking sector, with regional savings banks at the edge of collapse. The subsequent rescues were managed by the Fund for Orderly Bank Restructuring *FROB*³, which is the government agency supervising since 2009 the restructuring processes of the Spanish banking sector. However, in June 2012, the *FROB* dried up, steering the Spanish government to subscribe to a 99 billion € rescue credit programme granted by the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) for the sanitisation of the

² According to the Spanish mortgage association, the gross provisions of mortgage credit between 2000 and 2006 amounted to 1,166 billion euros, while the aggregate of mortgage securities reached 214.2 billion euros, equivalent to 18.4 % of all mortgages (Martín, 2013).

³ This is an abbreviation for the Spanish name '*Fondo de Reestructuración Ordenada Bancaria*'.

banks' portfolios. Since then, bank mergers accelerated, and a set of technocratic mechanisms were established to organise the clearing up of 'toxic' real estate assets (Alexandri & Janoschka, 2018). This restructuring allowed transnational investors to permeate the Spanish real estate market.

One key instrument was the establishment of the asset management company *SAREB* to secure the long-term economic strategy of financial and real estate recovery. This 'bad bank' was designed to absorb NPL portfolios, repossessed housing, land and other assets to later place them back to the real estate market. The titanic size of this task transformed the *SAREB* at least temporarily into one of the most important real estate actors in Europe (García Pérez & Janoschka, 2016). Moreover, it performed the role of a 'market maker', generating an institutional environment that encourages and directly negotiates real estate transactions and investments, preparing the ground for new rounds of accumulation through the housing market (Alexandri & Janoschka, 2018). The *SAREB* has been widely selling and outsourcing the management of NPLs and repossessed houses to transnational investors, for instance under newly structured assets named as *FAB*⁴. These are funds comprised of assets and liabilities transferred from the *SAREB* under advantageous tax rules to private equity companies. Under the scheme the *SAREB* groups assets, for instance by its nature, credit condition or geographical location, to facilitate 'disinvestments'. For example, in 2016 the *SAREB* sold the *FAB Corona* comprised of office spaces in Madrid to Blackstone and the *FAB Crossover* consisting of land with building permits in Madrid, Catalonia and Valencia to Neinor Homes (participated by Lone Star Funds). Other *FABs* such as *May*, *Teide* and *Bull* were sold to the equity firms Fortress and HIG Capital.

Additionally, three more policies and schemes addressed the profound re-articulation of the Spanish real estate market, easing transactions between banks, public administrations and transnational investors:

1. Real Estate Investment Trusts (REITs⁵), which were granted zero corporate taxation if they focus on rental properties.
2. The debt management companies called '*servicers*' constituting of ventures between bank subsidiaries and private equity funds, managing the value recovery from NPL and the corresponding properties.
3. The amendment of the Urban Rent Law focusing on de-regulating the rental sector to improve its attractiveness for institutional investors.

The purpose of REITs is the purchase, promotion and rehabilitation of urban assets (i.e., flats, offices, commercial premises and shopping centres, logistics) either for rent or as a participation in the capital of another REIT. They act as the node that

⁴ This is an abbreviation for the Spanish name '*Fondo de Activos Bancarios*'.

⁵ Real estate investment trusts (REITs) are financial entities that invest in real estate through property or mortgages. Habitually traded on stock exchanges, they receive special tax considerations and offer high yields. In Spanish language, REITs are named *Socimis* as abbreviation of: "*Sociedades Anónimas Cotizadas de Inversión Inmobiliaria*".

links transnational investors with local real estate markets, generating networks and knowledge exchange about the condition of real estate and identifying in many cases hidden rent gaps (Gotham 2009; Waldron 2018). REITs were established in Spain in 2009 (Law 11/2009), and the legislative framework was amended by the Law 16/2012, allowing more flexibility and establishing a zero corporate tax rate. According to this reform, REITs should allow at least 80% of the value of their assets for leasing. However, the novel framework allows them to opt for special fiscal regime and benefit from tax advantages even if they do not meet these requirements provisionally. The number of REITs listed at the National Stock Exchange in Spain expanded from 3 to 58 in only five years, and it has been estimated that REITs are controlling now approximately half of all residential and 80 percent of commercial property market transactions (CBRE, 2017). In 2018, the SAREB inaugurated its own REIT called *Témpore Properties*, placing a portfolio of nearly 1,400 rental homes in Madrid and Barcelona valued at 175 million €.

The so-called '*servicers*' constitute ventures of bank subsidiaries with institutional funds that manage the process of recovering value from NPL and the real estate that backs them. Offering a flexible scheme of direct management of NPL and mortgaged properties, the assets managed by servicers have expanded to 267.3 billion € (Axis Corporate, 2016). This market has strongly attracted transnational institutional investors. It is considered as a segment with high yields, especially since economic recovery gradually transforms non-performing into re-performing loans. For instance, in December 2014 the SAREB finalised the *Proyecto Ibero*, which allocated the management of repossessed houses and mortgages of a value of more than 49 billion € to the four *servicers* Solvia (belonging to Sabadell Bank), Altamira Asset Management (belonging to Apollo Global Management), Servihabitat (belonging to Texas Pacific Group Capital), and Haya Real Estate (belonging to Cerberus Capital Management). This transaction delivered the management of 126,300 assets for seven years to transnational investors and was by then the largest single internationalisation that had ever taken place in the Spanish real estate market. However, there were more than 40 other transactions of this kind over the last five years transferring assets to different management companies.

Parallel to this financial and real estate restructuring the amendment of the Urban Rent Law in 2013 focused on making rental properties more flexible and attractive, by removing rent controls and tenants' protection. Amongst others, the amended Law lowered the duration of contracts to three years (from five years set earlier), after which the owner may adjust rents discretionary or terminate the contract. Moreover, it permitted the imposition of rent increases of up to 20% in case of repairs and improvements at any time, and it eliminated the pre-emption purchase right for the tenant, which has allowed the direct sale of flats and entire buildings to institutional investors.

Blackstone and the creation of a real estate empire in Spain

In only five years since 2013, the private equity firm Blackstone has literally created a real estate empire in Spain, consisting of more than 120,000 assets that include rental flats, mortgages, offices, hotels, and land ready for real estate development. With an overall investment of about 23 billion €, Blackstone has now become the most important single actor in the Spanish real estate market, surpassing the value of assets managed by the *SAREB*. However, this rapid expansion occurred rather silently through a nested strategy of subsidiaries and was phased as follows:

Step 1 – a polemic market entry. Blackstone's first investment into Spanish real estate is related to a highly polemic privatisation initiative carried out in 2013 by two Madrid based public companies liable to the local and regional governments: the Municipal Company for Housing and Land (EMVS⁶) and the Institute for Housing of Madrid (IVIMA⁷). At the height of the economic crisis and just after the 2012 bank rescue programme, both institutions launched tenders to sell 4,795 social housing units plus the corresponding garages and storage facilities to private investors, benefiting Goldman Sachs (under its local subsidiary *Azora*) and Blackstone (*Fidere*) with respectively 2,935 and 1,860 housing units. Arguing over the need to reduce costs, minimise deficits and rescue public budgets from assets that allegedly produce financial burdens, this action provoked strong public opposition. The tenders were criticised by the supervising institutions as opaque, irregular, badly documented and economically unnecessary (Cámara de Cuentas de la Comunidad de Madrid, 2016). Legal causes have been ruling out the illegality of the divestment, and they have been accordingly scrutinised to be treated at European courts. However, this privatisation of social housing implicated the launch of Blackstone's real estate investment under the brand *Fidere*, which was later listed at the National Stock Exchange as the REIT *Fidere Patrimonio SOCIMI SAU*. The REIT managed its operative business initially through three sub-companies, expanding its structure by 2017 to eleven sub-REITs. On the other hand, it belongs to the *Spanish Residential REIT HOLDCO SARL*, which is in turn owned by *Blackstone Real Estate Europe IV LP* and *Blackstone Real Estate Europe VII LP*, direct subsidiaries of *Blackstone Group LP*. The real estate portfolio of *Fidere*, initially consisting of the social housing units stemming from the 2013 privatisations, has in the meantime risen to approximately 6,500 housing, 96% of which are located in the Madrid metropolitan region.

Step 2 – asset purchases from SAREB. Initiating in 2014, direct purchases of different real estate portfolios from the *SAREB* were carried out, with a strong geographical focus on the metropolitan areas of Madrid and Barcelona. More specifically, Blackstone acquired the *Dorian* portfolio consisting of 620 socially protected housing units⁸ along with 1,200 garages and storage facilities (43.7 million €). Late in

⁶ In Spanish: *Empresa Municipal de Vivienda y Suelo*, EMVS.

⁷ In Spanish: *Instituto de la Vivienda de Madrid*, IVIMA.

⁸ So called "Vivienda de Protección Oficial", or VPO, which consists of a publicly subsidised scheme allowing lower-middle income households to purchase properties.

2014, it bought the *Aneto* portfolio consisting of 39 NPL valued at 237 million €, backed by 29 property developments and land ready for construction, located mainly in Madrid. Additionally, Blackstone paid an estimated 81.3 million € for the *FAB Corona* with four office buildings in Madrid.

Step 3 – asset purchases from savings banks. Between 2014 and 2015, Blackstone significantly advanced its position purchasing assets from the state-rescued savings banks. For instance, for 30 million € participations in socially protected housing units (VPO) were obtained from the Madrid based *Bankia* institution. But the most important transaction was the purchase of the NPL portfolio from *Catalunya Banc* – which merged out of three heavily indebted Catalan savings banks- with a discount of almost 40% of the portfolio's book value. The operation transferred the 'toxic' portfolio of more than 40,000 NPL for a theoretical book value of 4.187 billion € to the Fund for Securitisation of Assets (FTA 2015). Blackstone participated in the FTA 2015 with 3.615 billion €, with the remaining awarded to the FROB. However, profits and losses of this joint venture have been unevenly shared: any mortgage defaults principally affect the FROB, while profits have been shared equally. This transaction inaugurated the brand name of the servicer *Anticipa Real Estate*, responsible for the management and administration of the NPLs originally belonging to *Catalunya Banc*. Blackstone has further continued to acquire NPL portfolios from different entities merging them under the umbrella of the *Anticipa Real Estate*, for a total value of approximately another 3 billion €. Stemming from the resulting foreclosures of the acquired NPL, *Anticipa Real Estate* has now built up a portfolio of 12,000 properties that are mainly rented out.

Step 4 – further creation of REITs out of purchased assets. Beyond the REIT *Fidere*, Blackstone has created three other REITs, which are managed by *Anticipa Real Estate*. The REITs *Albirana Properties*, *Pegarena* and *Tourmalet* account for more than 10,000 rental housing units and allow Blackstone to maximise benefits from the tax exemptions granted for REITs. Following an asset restructuring, the REIT *Tourmalet* was integrated in 2017 into the portfolio of *Fidere*.

Step 5 – real estate portfolio purchase from Banco Popular: Pursuing further restructuring of the banking sector, the largest Spanish bank *Banco Santander* absorbed by mid-2017 in an emergency acquisition the *Banco Popular*, which was facing bankruptcy. This transaction motivated Blackstone to negotiate the purchase of a majority stake of 51% of the real estate portfolio of *Banco Popular*, which includes housing, commercial premises, land and mortgages of an initial gross book value of 30 billion €. Various technical adjustments reduced the book value to 10 billion €, allowing Blackstone by reimbursing 5.1 billion € obtaining the operational control over the servicer *Aliseda* managing these assets. The assets have then been transferred to the fund Quasar -legally constituted in Caiman Islands- owned at 51% by Blackstone *Real Estate Partners Europe V* and at 49% by *Banco Santander*.

Step 6 – Hotel investments. The purchase of the real estate portfolio from *Banco Popular* included hotel participations valued at around 800 million €, offering

Blackstone access to another market segment. Shortly after, in October 2017, Halley Holdco, which is controlled by subsidiaries of Blackstone, purchased the hotel management platform HI Partners from the Spanish *Banco Sabadell* in a 630.73 million € transaction. This portfolio comprises 14 large hotels with approximately 3,700 rooms located mainly in Madrid and in Mediterranean coastal destinations. During spring 2018, Blackstone lost a bidding competition against the Thai investment fund Minor to control the NH hotel group. But shortly after this, its Luxembourg-based subsidiary Alzette launched successfully a takeover bid of 90.55 % of the REIT *Hispania* at a price of 2.62 billion € which was completed in July 2018. This transaction allowed Blackstone to become the first hotel operator in Spain with more than 20,000 bedrooms, alongside with gaining control over the management of another 650 flats and 180,000 square metres of office space.

Step 7 – further asset diversification. During 2018, Blackstone further diversified its investment strategy by pursuing several acquisitions. For instance, 120 million € were spent for the purchase of 344,000 square metres of logistics and industrial warehouses and land for developing such uses from the REIT *Lar España*, located in the outskirts of Madrid and Valencia. The fund invested also 2 billion € to acquire *Cirsa*, a company operating from its headquarter in Spain 155 casinos, 68 bingos, 40,000 slot machines, 2,500 premises offering sports betting services, 3,200 lottery premises, and online gaming sites in more than 70 countries. In September 2018 Blackstone used its branch *Tropic Real Estate Holding LLC* for the purchase of a 50.1% share of the REIT *Testa Residencial*. With an investment of 948 million €, it gained operative control over an additional 10,600 rental housing units located mainly in Madrid.

Table 1: A timeline of Blackstone investing in Spanish real estate

Year	Acquisition
2013	Social housing units from Madrid's Municipal Housing Company <i>EMVS</i>
2014	Socially protected housing -VPO- and Non-Performing Loans -NPL- (<i>Dorian & Aneto</i> portfolios), offices (<i>FAB Corona</i>) from <i>SAREB</i>
2015	VPO and NPL from savings banks (<i>Bankia</i> , <i>Catalunya Banc</i>) and different private banks, merging into the management company <i>Anticipa Real Estate</i>
2016-17	Asset restructuring: Creation of new REITs out of assets managed by <i>Anticipa Real Estate</i> : <i>Albirana</i> , <i>Pegarena</i> , <i>Tourmalet</i>
2017	Different asset classes out of bankruptcy estates from <i>Banco Popular</i> , operational control over the management company <i>Aliseda</i>
2017-18	Hotels from <i>Banco Sabadell</i> and REIT <i>Hispania</i>
2018	Industrial warehouses and industrial land from <i>Lar España</i>
2018	Gaming and gambling assets (Casinos, Bingos, slot machines etc.) from <i>Cirsa</i>
2018	Rental housing from <i>Testa Residencial</i>
2019	Start of the process to disinvest: Tenders to sell land for real estate developments

Source: own elaboration.

The reconstruction of Blackstone's investment strategies demonstrates the swift and deep transformation that the Spanish real estate market has undergone by opening up to transnational private equity firms. The novel policies and management structures arising from the disinvestment of mortgages and properties allowed Blackstone alongside with other international firms to evolve within only a five years' time as chief players in a rapidly changing environment. The Spanish market represents now one fifth of Blackstone's worldwide investment in real estate. Blackstone alone executed more than 23 billion € of investment into Spanish real estate, and alongside with additional two-digit billion € invested by other private equity firms, the structure of the Spanish real estate market has been literally been turned upside down. But the first tender to sell land ready for real estate development as announced by Blackstone in October 2018 demonstrates that the moment for disinvestments may be approaching rapidly, with uncertain consequences. However, in the meantime it is important to better grasp the economic, social and spatial consequences of the described restructuring in the country's capital Madrid. This question will be addressed in the following section, by shifting attention to the social and spatial links and the financial chains that connect Blackstone's investments with the residents in the *Carabanchel* neighbourhood in the south-western periphery of Madrid, location of the former social housing stock privatised to *Fidere*.

4. The collaterals of reinvented real estate markets – insights from Madrid's periphery

With the outbreak of the economic crisis a decade ago, more than one million repossessed assets including mortgaged houses, semi-built spaces, garages, land and others had been piling up in the spreadsheets of the Spanish banks. Following the agreements of the 2012 bank rescue and the changing equity capital rules implemented under the Basel III post-crisis regulatory reforms for the European banking sector, most real estate assets shall be disinvested by latest at the end of 2019. This imperative has significantly influenced privatisation policies of the *SAREB* but also disinvestment strategies of most banks, generating amongst others a remarkable increase of the REITs and the perpetual activity of the servicers in Spanish real estate. As analysed in the previous section, transnational equity firms and hedge funds now hold the ownership of numerous assets and manage securitised mortgages and NPL portfolios, with Blackstone being the most prominent investor in the country. And since government policies were heavily boosting the lease of properties, most assets have now become part of the rental market, with the market share of renting having doubled within a decade.

At the same time, the conditions in the residential real estate market have dramatically shifted. For instance, in Madrid, the 2008-2013 economic crisis triggered a decline of the average housing prices of about one third; falling approximately 25% in

the most affluent neighbourhoods and more than 50% in the poorest districts⁹. Rents also dropped between 18 and 35%, with the strongest decreases occurring in less affluent neighbourhoods. Since then economic recovery going hand in hand with the financialisation and liberalisation of the real estate market has prompted dramatic increases. Nevertheless, the upswing of property prices is highly selective across the city, with the upper market range exceeding by 20% the pre-crisis peaks, while less affluent neighbourhoods still have prices nearly 40% cheaper than a decade ago. This geographically uneven boom exemplifies the rising polarisation and inequalities in the Spanish society, with lower-income households suffering from squeezing incomes and the tightening of mortgage access. The price gaps have been exploited in affluent neighbourhoods for the last five years, while poorer areas have only started to gain track during 2017-18.

However, the most striking changes are related to the rental market which has become the main focus of capital accumulation. Since 2014, rents in the city went up on average by 47%, exceeding the pre-crisis levels now by 19%. This situation has been appealed by social movements and mainstream media as a new housing crisis. The increase has been relatively similar in all districts, covering a range of between 40 and 59%. Interesting enough is that the steepest rise has been witnessed in the city centre, which experiences strong rent pressures due to the competition of residential rents with tourism and other short-term rentals providing significantly higher income. On the other hand, rent increases have also been extraordinarily high in several peripheral neighbourhoods, with the working class districts of *Vallecas* and *Carabanchel* ranking immediately after the city centre. Both areas were part of the municipal urban expansion schemes designed in the late 1990s to accommodate about 75,000 inhabitants, mainly from lower and lower-middle class economic backgrounds. In both areas, the municipal and regional housing companies EMVS and IVIMA built a significant stock of social housing which however was entirely sold to Blackstone and Goldman Sachs in 2013 (see Figure 1).

⁹ All values considered in this section have been processed and calculated from raw data published by *Idealista*, which is the largest Spanish online real estate platform. Idealista provides detailed overview about prices in the real estate market on an aggregate and detailed level, with the latest data stemming from 30 September 2018. Raw data is available at: <https://www.idealista.com/informes-precio-vivienda>.

Figure 1: Spatial distribution of privatised social housing units in the municipality and the metropolitan region of Madrid.



Source: Own elaboration and data compilation.

The previous analysis may suggest a possible correlation between market performance and private equity investment in Madrid’s peripheral working class neighbourhoods. This is why we will subsequently focus on an in-depth exploration how finance connects with and affects the daily living conditions in specific places by focusing on the *Carabanchel* neighbourhood. As indicated by the CEO of the Goldman Sachs subsidiary Azora, ‘the real business is now in the periphery; that is, renting to households that are not granted mortgages by any bank’ (citation translated from Gabarre & Martínez, 2018). In this regard, the profitability of the social housing units acquired from the municipal housing corporation in *Carabanchel* (see Figure 2 for a spatial overview of the neighbourhood) may indicate us how rent gaps have been strategically exploited by the investor. Between 2014, the first full year of management by *Fidere*, and 2017 rental turnover from the seven purchased blocks in this

were emptied and walled with bricks. The atmosphere of abandonment created by the lack of maintenance had important effects, triggering a psychological setting pushing tenants out of their homes, proving the symbolic dimension of displacement as a crucial element of socio-spatial restructuring.

Strategy 2 – Increases of utility costs. The change of ownership had nearly immediate effects on utility costs and other charges applied to tenants. For instance, new contracts with energy providers allocated substantial additional costs to households. Similarly, property taxes were now individually billed, as well as associated costs for garages and storage spaces previously included in the rents. These modifications affected especially the least affluent households unable to afford new costs, being consequently forced to move out.

Strategy 3 – Contractual uncertainty. Since the change of ownership implied the transfer of existing rent agreements from the public domain to private hands, contracts were also subject to review. However, *Fidere* initially did not let tenants know what the practical implications of the ownership change would be, creating a long-standing uncertainty. For instance, changes in the criteria of how rent arrears would be practically handled or how public subsidies to rents would be managed aggravated the fragile position of tenants. And subsequently, the content and duration of contracts were modified, strictly applying the 2013 Urban Rent Law to increase the benefits of the new owner. After several years, this strategy has now generalised contractual uncertainties amongst the tenants. As acknowledged in *Fidere's* 2017 annual results, more than 40% of all tenants have now contracts of duration of less than one year.

Strategy 4 – Atomisation and individualisation. Furthermore, many tenants experienced also individualised strategies of pressure in manifold ways. Soon after the sale, a residents' platform to struggle against the speculative reorganisation of their homes into financial assets surged. Especially those who mobilised in the neighbourhood assembly created to negotiate collectively with the fund were targeted by the new owner. For instance, rumours were spread that assembly members would be excluded from the municipality's waiting lists for social housing if they did not accept the new contractual conditions applied by *Fidere*. This threat affected especially households who were considering applying for social housing again. Other actions implied social workers employed by the company to pressure neighbours individually on renegotiating the contracts. In this regard, intimidations raised further sentiments of fear and feeling literally out of place. Fear and anxiety as micro-political strategies were moreover pursued by the continuous rumours on changes in contract details, constant discussions about possible rent increases, the proliferation of added costs and incessant pressures to adjust to new norms applied by the private equity firm. The raised housing insecurity proved eventually an efficient means of an individualised psychological control capable to suppress collective action against the fund, but indirectly also inciting displacement. As a consequence, protests against the fund's management strategy proved ineffective.

Strategy 5 – Selected evictions. Selective evictions were also affecting the social composition of tenants in two diverging manners. On the one hand, selective eviction relates to population in precarious economic conditions. For instance, households with economic deficiencies and in rental arrears were the first ones to be directly displaced. When facing substantial rent increases, many households were forced to seek alternative housing options, either applying back for social housing or occupying empty houses elsewhere in the same or other neighbourhoods. On the other hand, selective eviction has proved to be also a meaningful way to pressure residents who actively engaged in collective action. Several assembly members were not offered new contracts and asked to move out, with the spokesperson of the neighbourhood assembly being the most prominent target.

Strategy 6 – Tenant replacement through the renegotiation of contracts. Finally, a key strategy consisted of seeking tenant replacement whenever contracts expired. Eventually rent increases equalised the rents to the market average. Taking into consideration that many households were rather underprivileged tenants, often unemployed and on minimum wage or supported by state transfers, the applied rent increases immediately made them leave their homes and move elsewhere. On the other hand, those who could afford the new rents alternatively also began to seek other privately rented housing certifying better conditions. This kind of displacement eventually eroded spatial as well as social relations that had evolved over time. Distrust became accompanied by an abstract belief shared by previous social tenants that they would eventually also be displaced and that more affluent households will become the only residents of the reinvented housing stock. While some residents with more stable working conditions managed to renegotiate their contracts and maintain their homes, others simply put up with rent and the living cost increases. At the same time, younger and more prosperous tenants appear to have replaced those directly displaced.

The analysis of the investor's strategies and the immediate consequences upon the social and spatial configuration of the neighbourhood may trigger a discussion about how the social costs of the privatisation of municipally owned housing have been allocated. For instance, many households who have been eventually displaced from their home are still eligible to apply for social housing, similarly to many of those who managed to cope with rent increases. However, the radically diminished social housing stock in the city means that even though they have directed themselves back to the social services, the chances to be reallocated to public housing estates are low. More than 24,000 households with approved claims for social housing are in Madrid on ever increasing waiting lists, against a fully occupied social housing stock of only 7,500 units. In other words, the social consequences of the displacement originated by the privatisation of social housing have been externalised to the public sector, instigating a seesaw between the economic transactions and social implications related to housing financialisation and privatisation. There is clear evidence that the new investor is able to generate profits and surpluses from rent increases and displacements without any further investment to upgrade flats, while social con-

sequences remain to be addressed in the public sphere. The outsourcing of negative effects is either directly expressed by the recent demand for social housing, indirectly indicated by the pressure for explicit use of welfare services or tacitly demonstrated by rising levels of deprivation and the related social and spatial conflicts that contour the origins of a new housing crisis.

5. Socio-spatial logics of transnational real estate investment – a discussion

Evidence from transnational real estate investment in Spain clearly demonstrates how post-crisis market recovery has been intrinsically linked to public policies elevating the profitability of real estate. More precisely, the financialisation of housing in Madrid picturesquely illustrates the manifold manners by which global capital was facilitated to reshuffle national and local real estate markets. For instance, debt management and crisis policies established pathways generating more liquidity, mainly served through novel financial schemes and rounds of privatisations. Financial restructuring allowed new actors such as private equity firms to exploit assets through REITs and servicers; buoyed by legislative amendments that gave decisive impetus to the extraction of surplus values from space in the form of rent. Eventually, transnational investors such as Blackstone have been establishing fresh channels of value transfer between people, places and financial institutions.

From another perspective, this transfer of value also illustrates the way debt is revised as financial mechanism and how debt relations shape the concurrent social and spatial conditions. The pre-crisis accumulation cycle was primarily focusing on the expansion of debt, for example in the form of mortgages and mortgaged homeownership, normalising financial exploitation of most social strata. Contrary to this, the post-crisis accumulation cycle has been concentrating on establishing novel mechanisms of extraction, especially in the form of rents. While debt may still maintain the value transfer between people, markets, institutions and places, it is moreover endowed to expand into new practices that intensify wealth and income redistribution sustaining and deepening economic and social inequalities as well as spatial segregation. With mortgages being more strictly regulated in scope and extent, a significantly bigger share of households is left with scarce housing alternatives. Simultaneously, the rental market has become increasingly structured by business practices of financial investors that have accumulated sufficient market power to raise rents and generate higher profits. Our research has demonstrated that unlike individual owners and locally rooted companies and banks, the global financial actors do not include personal ties or social relations in negotiations, consenting more easily to violent spatial processes such as displacement in order to satisfy profit calculations.

In this regard, our analysis has provided with clear insights into corresponding attitudes as pursued by the private equity firm Blackstone affecting the social composition of privatised former social housing estates in Madrid's periphery. The faithful application of market rules has now become one of the prime mechanisms of private equity real estate management. Additionally, the quest for surplus values in the pe-

riphery of Madrid considers important rent increases as well as distinctive forms of displacements. And this practice is also assumed by other actors who have significantly tightened up negotiation strategies with eviction procedures for non-profitable tenants. By connecting the nodes of the financial chain between Blackstone's investment strategies and the residents of former social housing in the periphery of Madrid, our research has clearly demonstrated how the financialisation of public assets serves unequivocally the extraction of surpluses from emerging rent gaps.

Moreover, by focusing on the newly constructed financial chains that connect local rental markets to transnational investors, the distinct dynamics of an emerging housing crisis may be better grasped. The exercise of economic control through rent increases eventually evolves into control against tenant claims and mobilisations. This is also expressed in different forms of displacement, which may be conceived as a simultaneously spatial, economic, symbolic and psychological process that unveils the intrinsic violence of contemporary capitalism (Janoschka, 2018). Psychological distress and selective displacement of the most deprived and/or the politically active, symbolic displacement due to declining living conditions and loss of social ties and economic displacement also demonstrate the harmful social consequences of privatised social housing stocks. The other side of the same coin is the extracted financial profits that reflect the displacements of the vulnerable who then return to social services as applicants for housing.

Shrinking of social housing, restrictions in mortgages and persisting rent increases for those who are constrained to rent are pinpointing a new housing crisis that yet again was politically engineered. Rather than transforming the 2008-13 housing crackdown and the resulting bank rescues into a chance to expand the social function of housing, i.e. by transferring several hundreds of thousands of assets into a spatially dispersed and publicly owned and managed housing stock that protects vulnerable households from evictions and displacements, it was exclusively used to establish a base for the next speculative round of accumulation and dispossession. This comes as no surprise considering the symbiotic relationship between transnational financial actors and politicians orchestrating the 2012 bank rescue and the subsequent policy restructuring in Spain¹⁰. The consequences of this have now reached the headlines of newspapers: Households unable to keep up with increasing rents in central areas move to peripheral locations, such as *Carabanchel*, triggering chain effects of displacement; while former social tenants displaced by transnational investors seek housing in the further periphery. Local governments (at least in Madrid and Barcelona), housing activists and citizen's participatory platforms underline the emergence of this new housing crisis by calling for better monitoring of financial practices. However, whether these voices are heard and negotiated becomes another research question. Conceivably future research may shed light on the conflictive

¹⁰ For instance, the Ministry of Economy of the Spanish government was held from 2011-2018 by the same person that had acted as the regional director for Spain and Portugal of the infamous investment bank Lehman Brothers until it ceased its activities during the global financial crisis.

character of this socio-spatial restructuring that financial chains provoke as well as on the way housing may be reinvented by those affected from exclusionary governance as exercised by the rule of private equity and finance.

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