ARTICLES

FINANCE, HOUSING, AND THE CITY: NOTES ON RECENT TRANSFORMATIONS IN THE SPANISH REAL ESTATE-FINANCIAL CIRCUIT

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Abstract

This article analyzes the recent transformations within the Spanish real estate-financial circuit. We argue that, during the post-crisis period (2007-2008), economic activity in Spain has been reorganized by the emerging logics and dynamics of financial accumulation. This shift has largely been driven by the entry and operations of international real-estate investment funds in Spain's major cities, facilitated by reforms in the regulatory framework for finance and urban legislation. The evidence highlights a broadening of the way in which social housing is treated as a financial asset, resulting in the eviction of hundreds of residents and the transformation of the built environment and urban life.

Keywords

Right to the City; Financialization; Housing; Urbanization; Real Estate Financial-Circuit; Spain; Madrid.

ARTIGOS

FINANÇAS, HABITAÇÃO E CIDADE: NOTAS SOBRE AS TRANSFORMAÇÕES RECENTES NO CIRCUITO FINANCEIRO-IMOBILIÁRIO ESPANHOL

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Resumo

Este artigo analisa transformações recentes no circuito financeiro-imobiliário espanhol. Defendemos a hipótese de que a atividade econômica se reorganizou, no contexto pós-crise (2007-2008), em função de novas lógicas e dinâmicas da acumulação financeira, protagonizadas pela entrada e pela atuação de fundos de investimento imobiliário internacionais nas grandes cidades do país, amparadas por mudanças no marco regulatório das finanças e da legislação urbanística. As evidências apontam para um aprofundamento no tratamento da habitação social como se fosse um ativo financeiro, resultando no despejo de centenas de moradores e na transformação da paisagem construída e da vida urbana.

Palavras-chave

Direito à cidade; Financeirização; Habitação; Urbanização; Circuito Imobiliário; Espanha; Madri.

FINANCE, HOUSING, AND THE CITY: NOTES ON RECENT TRANSFORMATIONS IN THE SPANISH REAL ESTATE-FINANCIAL CIRCUIT[1]

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Introduction

This text explores a crucial chapter in the recent history of real estate booms and bubbles, epitomized by the global financial crisis of 2007–2008, with the United States at its epicenter. In our view, understanding the real estate bubble in Spain, and how it burst, holds particular relevance, since it reveals the intricate interplay that became established between financial investment, housing, and the city. This produced a specific form of "real estate capitalism" (Capel, 2013) and an "urbanization tsunami" (Durán, 2006, p. 13) with profound social consequences, including the dramatic transformation of daily life and the eviction of hundreds of residents.

Examining real estate bubbles has firmly placed the issue of housing and urban social struggles within the debate on the financialization of the economy, understood by the French economist François Chesnais as "the pervasiveness of features of interest-bearing capital identified by Marx in Part Five of Volume III of Capital" (Chesnais, 2016, p. 16)[2]. While the globalization of finance and the growing

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1. This article presents the results of a master's degree thesis by Bruno Pereira Reis, conducted between 2016 and 2019 within the Postgraduate Program in Economic Development at the Institute of Economics, Unicamp, under the supervision of Mariana Fix, with funding from CNPq (Process No. 130542/2016-4). Part of the research activities was carried out during a research internship abroad, conducted from February to June 2018 at the Department of Geography, History, and History of Art at the University of Lleida, Spain, under the supervision of Carme Bellet Sanfeliu.

2. The debate on financialization encompasses various perspectives as well as objections. Its full examination goes beyond the scope of this article. For further reading, please see works such as *Financeirização: crise, estagnação e desigualdade* [Financialization: crisis, stagnation and inequality], which brings together 66 contributors from diverse disciplinary fields (Lavinas et al., 2024). Leda Paulani, for instance, in an article included in this collection, defines financialization as "just one of the facets, certainly the most striking, of an accumulation process dominated by rentier imperatives, where capital as property, a mere legal relation, prevails over capital as a relation of production" (Paulani, 2024, p. 96. Our translation).

accumulation of financial wealth compared to the expansion of real wealth are well-established phenomena, they invite a range of interpretations. This analysis adopts a historical perspective on transformations within the real estate circuit, paying close attention to how these overarching dynamics have unfolded across different socio-spatial formations.

Ample evidence highlights the critical role of housing and urbanization in the financialization of the economy. While the most well-known example is possibly the securitization of real estate-based financial assets, such as the subprime loans in the United States, significant variations emerge when the phenomenon is analyzed across different countries or regions within each country. If the integration of interest-bearing capital into the fabric of social life, a hallmark of financialization, finds one of its most significant expressions in public and household indebtedness (Paulani, 2024), it is crucial to recognize housing production and circulation as a key front of transformations, given the important role of credit in this market. However, the constitution and expansion of credit systems differ substantially between countries, as do the changes brought about by financialization since the 1980s. This variability underscores the importance for careful empirical research that situates the case under investigation within the broader context of the global economy.

Moreover, we view the changes within the real estate circuit as being integral to broader economic transformations, in other words, interwoven with these shifts and marked by their own contradictions, rather than merely reflecting or observing changes in the forms of accumulation. Consequently, our investigative efforts have focused on identifying the interests at stake and their associated agents, drawing on perspectives such as those of Logan and Molotch (2015), who conceptualize the city as a growth machine, as well as the contributions of Carlos (2005), Simoni-Santos (2006), Botelho (2007), and Fix (2001; 2007), in their analyzes of urban entrepreneurialism and the thesis of the city as a business enterprise.

We argue that empirical research should compel us to critically reassess theories in light of their main findings. We believe that this investigative approach is able to help address certain misunderstandings and impasses in the debate on financialization, emphasizing the need for more precise connections between housing and global finance while accounting for certain mediations. How do the contemporary forms of speculation relate to the phenomenon conventionally described as financialization?

First and foremost, it is essential to clarify that we do not interpret the so-called real estate speculation within the context of the city as a phenomenon confined solely to the sphere of circulation, that is to say, as profits derived from the purchase and sale of houses. Instead, we prefer to adopt the concept of the real estate-financial circuit, which encompasses a comprehensive set of operations related to the valorization and transformation of capital in the production of urban space. This concept spans the various stages of the production, circulation, and realization of value (Lessa, 1981, apud Fix; Ventura Neto, 2021).

Second, we highlight that real estate activity, driven by the need for financing in both production and consumption, maintains a direct, longstanding relationship with the financial market, which is not a new phenomenon. Furthermore, land – the foundation of this activity – has its price determined in a manner akin to financial assets, i.e., by the present value of anticipated future incomes (Fix; Paulani, 2019). The valorization of capital in construction is "historically potentialized by the capitalization of land rent, which cannot be mistaken for the mere speculative fluctuation of prices"[3] (Pereira, 2018, p. 73). Thus, we will investigate how the financialization of the economy impacts a market already directly linked to financial issues. Our hypothesis is that these shifts create additional challenges in the struggles for the right to the city.

The article is structured into three main sections, in addition to this introduction and the conclusions. First, we provide a historical overview of real estate dynamics in order to comprehend the real estate boom that occurred between 1998 and 2008. Next, we examine the territorial dimension of the international financial crisis in Spain, paying particular attention to the reorganization of the financial and real estate markets. Lastly, we assess the ongoing socio-spatial transformations linked to housing financialization in Spain, using a specific case study on the privatization of social housing in the city of Madrid.

1. Real estate dynamics in the context of the "brick economy": from the welfare state to neoliberal urbanization

The historical disputes between economic models with varying degrees of State involvement have frequently manifested in housing policies, often presenting a dichotomy between two approaches: one that addresses housing challenges through the implementation of public policies, and another that advocates for non-intervention by the State. In practice, however, the interplay between the State and market is far more complex, involving diverse coalitions, conflicts, and disputes. Broadly speaking, it may be said that urban policies implemented in Spain have oscillated between these two perspectives: (i) State-led urban policies that dominated until the early decades of the twentieth century, and (ii) a gradual shift towards housing production and consumption "driven by the market", thereby legitimizing a "proprietary culture" across the country.

3. This and all other non-English citations hereafter have been translated by the authors.

The first model prioritized housing policies centered on the construction of public social housing estates, in which rental income became a significant component of real estate market earnings. In contrast, the second model stigmatized renting and pursued the continuous expansion of new housing units for sale, thereby facilitating the realization and appropriation of surplus value through the advancement of the urbanization process (Colau; Alemany, 2012; Capel, 2013).

In the 1940s and 1950s, amidst a context of crisis and post-war recovery, Spain's real estate market remained relatively underdeveloped (Vilagrasa, 1997). Housing production levels were modest, with around 50,000 units constructed annually. During this period, approximately 51% of the Spanish population lived in rental properties, a figure that rose to 90% in major cities such as Madrid and Barcelona. This scenario underscores the predominance of an urban policy centered on the rental market.

This situation began to shift in 1957 when Housing Minister José Luis Arrese,[4] delivered a statement with profound implications for Spanish society: "*We want a country of proprietors, not proletarians!*" This declaration alluded to the proprietary agenda that would soon emerge under Francoism.[5] This had two main objectives: (i) on the one hand, property ownership served as a mechanism of "social control," preventing potential conflicts between property owners, tenants, and the State; (ii) and on the other, the mass production of housing was also used as an anti-cyclical economic policy tool, i.e., a Keynesian measure aimed at combating unemployment and stimulating domestic demand during periods of crisis and recession (Colau; Alemany, 2012).

The retreat of the state and the growing role of the market brought about significant changes to the legislation governing access to housing in Spain. For example, Madrid's Social Emergency Plan, implemented by a national law on November 13, 1957 (Spain, 1957), enabled greater private sector participation in the provision of housing. This spurred the expansion of private housing supply, and became a cornerstone of an economic project heavily reliant on the construction sector, particularly housing. This shift marked a departure from the previous model and led to the "first boom" in Spanish construction activity (Vilagrasa, 1997).

It is important to note that the result of these transformations was the expansion and consolidation of construction and real estate companies on a national scale. From this period onward, a set of economic agents emerged in

4. Spanish architect and politician (1905-1986) who played a direct role in Francoist policies.

5. Francoism was a dictatorial political regime that ruled Spain from 1939 to 1975.

Spain that structured a more complex real estate circuit, which was shaped both by political alignments and closer ties to the financial market. This connection was forged through the banking system, with many construction company directors joining the boards of the *cajas de ahorros*[6] and banks to safeguard their interests (González; Mantiñan; Miró, 2016).

Between 1964 and 1973, investments in construction and real estate sales grew at a cumulative annual rate of 17%, outpacing the cumulative growth of the GDP (13.2%) and total investments (12%) during the same period (Vilagrasa, 1997). However, starting in 1976, amidst a context of political and economic crisis in Spain, the production of new housing units declined substantially, bringing an end to the expansionary phase of the "first national real estate cycle". A major legacy of this period was a shift in the relationship between proprietors and tenants, which changed from five in ten people during the early twentieth century, to seven in ten by 1985 (Colau; Alemany, 2012).

Between the end of the Franco dictatorship and the beginning of the democratic transition, housing remained a cornerstone of the country's economic policy. This "continuity", as noted by economist Naredo (2004; 2009; 2010), further reinforced the property ownership regime at the expense of renting, while simultaneously dismantling the existing public housing stock. During this period, Spain earned the title of "European leader" in real estate business.

It should be noted that the final push for the dismantling of housing policies focused on the rental market came with the reform of the Urban Leases Act (*Ley de Arrendamientos Urbanos, LAU*) in 1985 (Spain, 1985). This legislation, known as the "Boyer Decree," completely liberalized rental prices, making renting an increasingly expensive, unstable, and precarious option. The transition from an urban policy based on the rental market to a proprietary model enabled the consolidation of a real estate circuit aligned with the interests of the financial system and urban planning. This real estate-financial circuit established a network of relations that laid the groundwork for integrating real estate into the dynamics of the European Union (EU), at a later stage.

Spain's integration into the European Union occurred progressively from the 1980s onward, with the country formally joining the bloc in 1986 and entering the Eurozone in 1999. These agreements between Spain and the EU led to a profound

6. According to Fernandez (2014), these are fully-fledged credit entities with operational freedom comparable to other institutions within the Spanish financial system. They are established as private legal entities, operating under market criteria, yet with a social purpose. FERNANDEZ, A. F. J. *La repercusión de la crisis en las entidades financieras*: el caso de Lleida. 2014. 114 f. Trabajo de fin de grado (Grado en Geografía) – Departamento de Geografía y Sociología, Universitat de Lleida, Lleida, 2014.

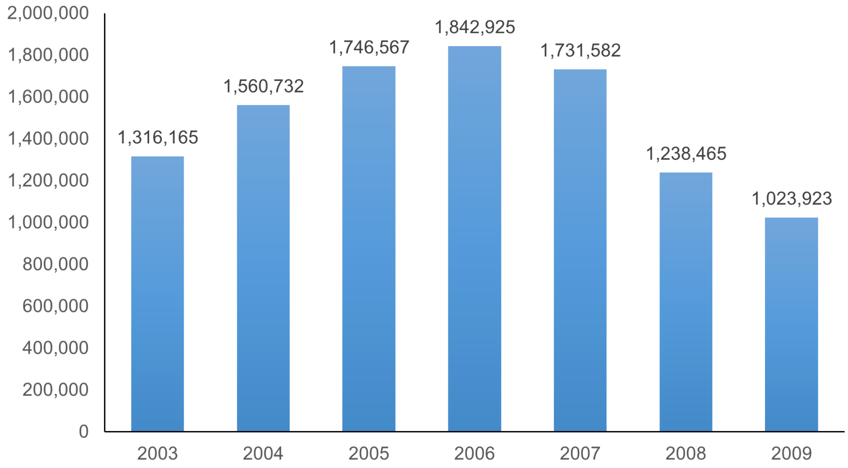
liberalization of the Spanish economy, primarily guided by a neoliberal logic that aligned the interests of the Bank of Spain, the European System of Central Banks (ESCB), and the European Central Bank (ECB) (Calvo et al., 2014).

This context of integration created favorable conditions for structuring a real estate circuit aligned with international financial interests. In other words, integration into the bloc facilitated an increase of capital flows into Spain, which, supported by new connections between the financial and real estate sectors, elevated housing production to a new level. This growth was driven both by increased domestic demand for real estate, due to favorable economic conditions, and by the emergence of external demand enabled by European integration. The latter was particularly represented by the market for second homes, especially along the Mediterranean coastline – one of the most emblematic areas of this capital flow within the country (Reis, 2019).

In the Spanish context, market integration manifested as a “wave of liquidity” ready to be channeled into the real estate sector. This phenomenon consolidated a cycle of economic growth in Spain – captured by the slogan “*España va bien*” (“Spain is doing well”), which allocated significant volumes of capital to the real estate market. According to González (2016), this process intensified lobbying efforts among property owners, real estate companies, banks, *cajas de ahorro*, and construction companies. As Naredo (2010, p. 3) notes, it was these groups that were: “[...] responsible for reinforcing this kind of speculative scaffolding of real estate-financial banking that enabled the spectacular duration and intensity of the real estate bubble that swept across the country between 1997 and 2007”.

Considering that financial institutions conduct loan operations at a certain price determined by the interest rate, as the “cost of money” decreases, these institutions, leveraging available liquidity, tend to increase the total volume of contracts to sustain high profit margins and remain capitalized. In Spain, as the European integration of capital markets solidified, there was a parallel surge in mortgage contracts[7] (Graph 1), often issued with minimal or virtually no criteria and extended amortization periods. This led to the creation of a form of “financial engineering” aimed at maximizing the commercialization of mortgage-backed securities across diverse profiles (Colau; Alemany, 2012).

7. A mortgage is the guarantee of a debt in the form of a property. The term is commonly used to refer to the type of financing that uses a property as collateral.



Graph 1. Spain: total mortgage contracts in urban areas (2003-2009)
Source: Own elaboration, based on the Instituto Nacional de Estadística [National Statistics Institute] (INE) (Espanha, 2023a).

Changes in the financial sphere potentially facilitated the growth of construction activities in the country, but their realization was only made possible through a significant relaxation of the existing urban planning legislation, which provided the land required for the market-driven construction activities. The conservative economic discourse – that high real estate prices (both land and built properties) were closely tied to the low supply of land – gained traction, leading to the view that liberalization was the most effective path to economic growth (Burriel de Orueta, 2008).

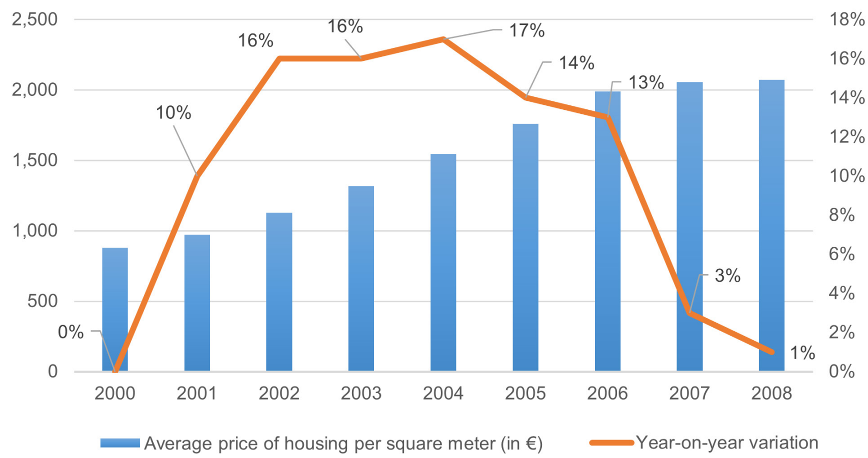
The *Ley Nacional de Suelos* [National Land Law] (Espanha, 1998), implemented by the People's Party (PP), fits within this context, since it reclassified thousands of hectares of previously protected areas as developable land, with either minimal or no oversight of this process across the national territory (Burriel de Orueta, 2008; Naredo, 2010; Capel, 2013; Olazabal; Bellet, 2018).

The areas surrounding Madrid were the first to undergo this intensive, extensive urbanization process, although they were not the only ones. The Spanish Mediterranean coastline, driven by its tourism-residential function, soon became part of the "urbanizing tsunami" that swept across Spain (Durán, 2006), encompassing small and medium-sized cities where land availability was greater, and prices were lower (Reis, 2016).

By promoting a continuous rise in real estate prices, these policies to relax urban legislation and for market liberalization proved inherently contradictory. On one hand, they stimulated the capital market, and on the other, they consumed an increasingly larger portion of the population's wages, since people were forced to pay ever more expensive mortgage installments, inevitably leading to widespread indebtedness. During this period, the percentage of income that workers had to allocate to mortgage payments rose from 37.6% to 51.2% of household income (Colau; Alemany, 2012).

Despite widespread societal distrust regarding the sustainability of the chosen path, the narrative promoted nationwide by so-called experts and politicians was quite different: that real estate prices would not drop and that buying property would always be the best way to supplement retirement pensions. Information indicating that real estate prices in Spain were overvalued by 30% to 40% in 2004, according to reports by the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), was insufficient to curb the euphoria fueled by the wealth effect. Moreover, highlighting the existence of a real estate bubble was often dismissed as a pessimistic stance and, at times, even deemed "unpatriotic" (Colau; Alemany, 2012).

The historical evolution of the average price of housing per square meter between 2000 and 2008 in Spain, presented in Graph 2, indicates a continuous increase in price levels, also reflected in the positive year-on-year variation during this period.



Graph 2. Spain: average price of housing per square meter (in euros) (2000-2008)
Source: Own elaboration, based on the Transport Ministry, Movilidad y Movilidad Urbana (Espanha, 2023b).

The real estate-financial dynamics that were thus established created a mismatch between the production and the actual demand for housing in Spain, while also enabling a significant increase in foreign real estate investments, thereby making Spain the EU country with the highest number of housing units per capita. Furthermore, in 2002, real estate-based assets accounted for 80% of Spain's total financial assets (Naredo, 2004), an emblematic dynamic of what became known as the "Brick Economy", marked by Spain's growing dependence on international capital to finance its activities, largely fueled by large-scale real estate production, which provided "glorious" years of economic growth.

A study conducted by González (2016) indicated that, in 2006, real estate-based assets in Spain accounted for approximately 70% of the total wealth of the economy. For every three euros of debt, two corresponded to mortgages, signifying that household indebtedness in the country rose from 55% to 130% of disposable income in the decade from 1997 to 2007 (Colau; Alemany, 2012). This contributed to the outbreak of the global financial crisis between 2007 and 2008, when the Spanish real estate boom reached its limits, generating a series of social consequences that turned Spain into one of the emblematic cases of the "crisis of planetary urbanization" (Harvey, 2015, n. p.).

2. From boom to crisis: the reorganization of the financial and real estate markets and the widening of socio-spatial inequalities in Spain

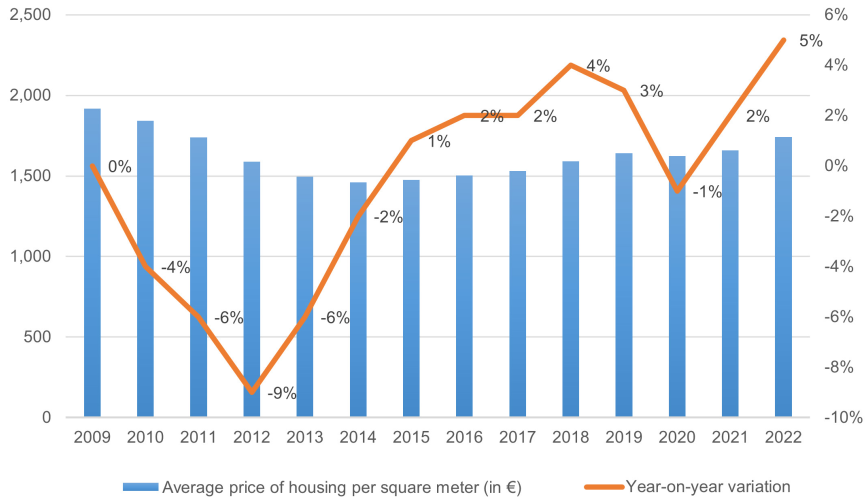
The financial crisis, which originated in the United States, particularly within the mortgage market, quickly spread and amplified economic instability across numerous countries, reducing international liquidity. Within this context, many banks ceased renewing loan contracts, especially short-term contracts. This had a profound impact on the Spanish economy, which was heavily dependent on international capital to sustain investments. This was reflected in the external indebtedness of national banks, which surged from 148 million euros in 1999 to 1.1 billion euros in 2007, marking an increase of 630%.

If during the boom of the previous decade the increase in real estate prices had intensified the wealth effect, the financial crisis reversed this trend, leading to an immediate drop in real estate price levels, as demonstrated in Graph 3.

The scale of the crisis is also evident in the incompleteness of numerous large urban projects. This landscape expresses Spain's recent urbanization, which was both intensive – characterized by a large volume of development produced over a short period of time – and extensive, given the significant expansion of the Spanish urban fabric (Olazabal; Bellet, 2018). The crisis in Spain gave rise to spaces with a "vacant urbanism",[8] understood as "[...] areas devoid of buildings

8. The interactive platform Mapa de Cadáveres Inmobiliarios [Map of Real Estate Corpses] allows users to visualize the spatial distribution of these urban projects across the country. For more information, visit: https://montera34.com/project/cadaveres-inmobiliarios/mapa-de-cadaveres-inmobiliarios/.

and population, but where the land is completely artificialized through subdivision and urbanization" (Burriel de Orueta, 2014, p. 122).



Graph 3. Spain: average price of housing per square meter (in Euros) (2009-2022)
Source: Own elaboration, on the Transport Ministry, Movilidad y Movilidad Urbana (Espanha, 2023b).

Another crucial aspect of understanding the effects of the crisis in Spain lies in the interactions between the State and the market during this period. At the onset of the crisis, governments in several affected countries implemented policies involving loans and grants to "undercapitalized" financial entities, as highlighted by Morell (2013). In this context, the Spanish government and the Central Bank believed that the regulatory framework established in 2000 by the Bank of Spain would be sufficient to mitigate the effects of a potential crisis. They were convinced that their financial institutions could withstand a downturn, particularly because Spanish banks had recorded some of the highest profit margins in Europe over the previous decade. However, as Missé (2016) observed, the Spanish government's critical error was assuming that the financial entities faced a liquidity problem rather than one of solvency – a misconception that banks and *cajas* systematically concealed.

In response to this situation, a meeting of the Eurogroup was held in October 2008 in Paris, during which members recommended that the Spanish government implement a series of policies to address the escalating crisis. From this point, four key measures were outlined to ensure the continued provision of credit by banks and *cajas*: (i) the creation of the Fund for the Acquisition of Financial Assets (Faaf), with an allocation of 30 million euros and public guarantees for financial institution issuances of up to 100 million euros; (ii) the establishment of the Fund for Orderly Bank Restructuring (Frob) in 2009, with an initial capital of 9 million euros and an additional borrowing capacity of 90 million euros; (iii) the approval in July 2010 of a reform to the law governing *cajas*, aimed at encouraging the integration or merger of *cajas de ahorro* facing economic difficulties or high real estate risks, known as cold or low-intensity mergers; (iv) the approval in February 2011 of the Royal Decree, which effectively accelerated the ongoing processes of mergers and acquisitions of *cajas*.[9]

In addition, in 2012, the Asset Management Company for Assets Arising from Bank Restructuring, commonly referred to as Sareb, was established. It quickly became popularly known as the "bad bank." It was tasked with receiving real estate assets, housing units, land, other properties, and non-performing loans held by private entities, including Bankia, Catalunya Caixa, Novagalicia, and Banco de Valencia. This effectively resulted in the nationalization of losses. The implications of this process will be further analyzed in the next section through a case study on the sale of public housing by the Madrid City Council to the Fidere Group and Blackstone.

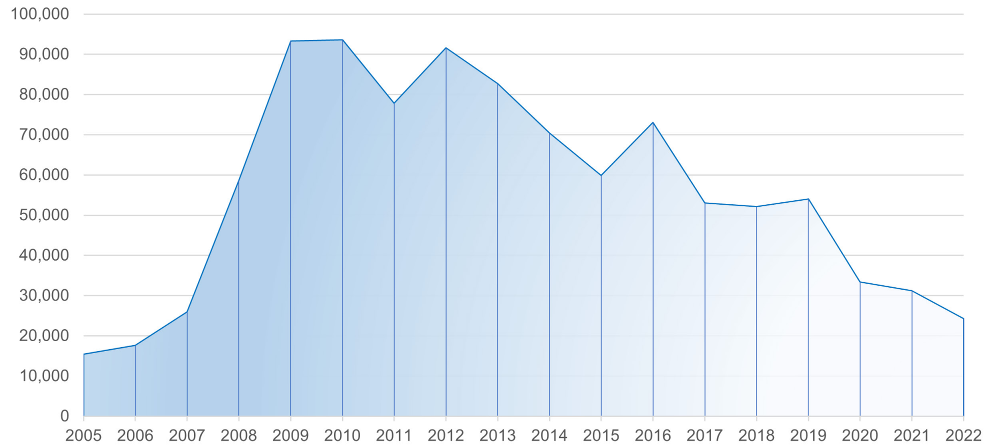
In summary, all these measures were designed to serve a single objective: to enforce the austerity policies mandated by the EU. Thus, the government's crisis response prioritized the interests of financial institutions, exacerbating social conflicts across the country, while the population bore the brunt of the recession's effects, with their rights receiving comparatively little protection.

This process had a profound impact on the labor market, especially because, as mentioned above, the construction sector played a significant role in the national economy. Between October 2008 and March 2009, the number of unemployed people in Spain rose by 1.4 million. However, the labor crisis reached its peak in March 2013, with approximately 6.2 million people unemployed (Missé, 2016) – The most severe unemployment situation in Europe at the time (Caravaca, González-Romero; López, 2017).

The rise in unemployment directly contributed to an increase in default rates across the country, particularly on mortgages, resulting in a wave of evictions through foreclosure proceedings (Graph 4). On the other hand, this situation also mobilized parts of Spanish society, especially those connected to social movements focused on housing issues, which gained strength during this period. The *Plataforma de Afectados por la Hipoteca* [Platform for People Affected by Mortgages] (PAH),

9. The approval of this measure maintained the required capital ratio for banks at 8% and increased it to 10% for the *cajas de ahorro*, which, in a context of significant difficulties in raising funds, eventually became banks.

for example, played a significant role in this context, rapidly expanding its organizational structure across the territory. Its main leader, Ada Colau, went on to become the mayor of Barcelona in 2015.



Graph 4. Spain: number of foreclosure proceedings initiated (2005-2022)
Source: Own elaboration, based on Consejo General del Poder Judicial [General Council of the Judiciary] (CGPJ) (Espanha, 2023c)

According to Gutiérrez and Delclós (2017), evictions can be characterized as a process of "accumulation by dispossession" (Harvey, 2003, p. 133), especially because:

> [...] evictions through foreclosure proceedings took place within a financial system that, simultaneously, received a substantial amount of public money. Furthermore, the financial institutions responsible for the highest number of evictions were precisely those that had been bailed out and had absorbed most of the public financial aid (Gutiérrez; Delclós, 2017, p. 12).

According to these authors, this process of accumulation by dispossession deepened the concentration and centralization of capital in the financial and banking sectors, thereby granting these agents a strategic position in the national real estate market.

The crisis, therefore, extended beyond the economic realm, deeply affecting cities and the daily lives of thousands of Spaniards. The implemented policies led to an increase in the concentration and centralization of capital. This conjuncture, in turn, paved the way for the entry and operations of Real Estate Investment Funds (REIFs) in the country's major cities, accelerating the ongoing process of housing financialization and widening socio-spatial inequalities, thus generating new challenges for the housing issue and the right to the city.

3. The financialization of housing and the new challenges in the struggle for the right to the city: the case of Blackstone in Madrid

As we have seen, the set of measures taken by the Spanish government during the crisis prioritized the country's main financial institutions at the expense of the population. In addition to the previously mentioned measures, other policies were crucial in facilitating the connection between the real estate and financial sectors, which took place with no major obstacles, particularly regarding the operations of REIFs in Spain, known as the *Sociedades de Inversión Inmobiliaria Cotizadas* [Listed Real Estate Investment Companies] (Socimis)[10]. The first regulation was introduced in 2009 as a response to the crisis. Although the goal of this regulation was to inject liquidity and continue boosting the real estate market, the practical results were meager, since no Socimi was established between 2009 and 2012 (Gil García; López, 2023).

Thus, the pressure exerted by the European Property Real Estate Association, aligned with the interests of the Spanish government itself, led to the establishment of new regulations. This time, the reform introduced two mechanisms aimed at attracting even more foreign capital into the country's financial-real estate circuit: (i) increasing investment returns through tax exemptions; (ii) reducing the time companies had to hold their properties on the balance sheets before being able to sell them, thereby facilitating the mobility of this capital.

The first cornerstone of the reform was to eliminate corporate tax on the Socimis, which, according to García and López (2023), resulted in a 95% reduction in the tax obligation for acquiring houses for rent and land to develop rental housing. These authors estimated a loss of over 200 million euros per year for the public treasury due to the reduction in corporate tax (ibid.).

The second cornerstone of the reform was to reduce the holding period of the asset before it could be sold, from a minimum of seven years down to three, a change that reflected how the 2013 reform was designed to attract speculative investments, rather than to stabilize the rental market (Gil García; López, 2023). This law is still in effect.

The (de)regulation of the rental market, also carried out in 2013 with the amendment of the National Urban Rental Law (LAU) (Spain, 2013), aimed to promote a deep relaxation in the sector, paving the way for the greater internationalization of the Spanish real estate market, making rental properties more attractive by removing price controls and tenant protection. The duration of contracts was

10. Socimis are listed companies on the stock exchange whose main activities include the acquisition, promotion, and rehabilitation of urban assets for rental purposes.

reduced from five to three years, after which the landlord could adjust rents discriminately or terminate the contract. Additionally, rent increases of up to 20% were allowed in cases of repairs and improvements at any time, and the tenant's right of first refusal was eliminated, which "allowed the direct sale of flats and entire buildings to institutional investors" (Janoschka et al., 2020, p. 130).

In summary, when the financialization of housing through mortgages for proprietors and property developers collapsed, banks and global funds sought favorable conditions to become proprietors, particularly by accelerating tenant evictions (Gil García; López, 2023).

It was amid the gradual devalorization of real estate assets and efforts to revive the sector through a series of measures designed to further globalize the real estate market that a wave of social housing privatizations emerged, undertaken by regional and local governments across the country. Notably, the Madrid metropolitan area "served as a spearhead for other neoliberal regional governments" (Gil García; López, 2023, p. 8).

In March 2013, the Madrid Municipal Land and Housing Company, which had already been grappling with economic difficulties for several years due to the crisis, enlisted the consulting firm PricewaterhouseCoopers (PwC)[11] to draft an Economic Viability Plan. Broadly speaking, it was concluded that the most effective path to restoring the institution's financial "balance" would be the immediate sale of certain officially protected properties – commonly referred to as public housing – to private entities.

The document encouraged the need to reduce costs, minimize deficits, and relieve public budgets of assets that supposedly generate financial burdens (Janoschka et al., 2020). On June 20, 2013, the administration of Mayor Ana Botella[12] approved the sale of 1,860 social housing units to the Grupo Fidere, Blackstone's subsidiary in Spain,[13] for a total value of 128.5 million euros (Figure 1). That year, 5,000 units from the social housing stock in the metropolitan region of Madrid were sold to the international private equity firms Blackstone and Goldman Sachs at below-market prices. According to the court rulings on the case, the sale was marked by a lack of transparency:

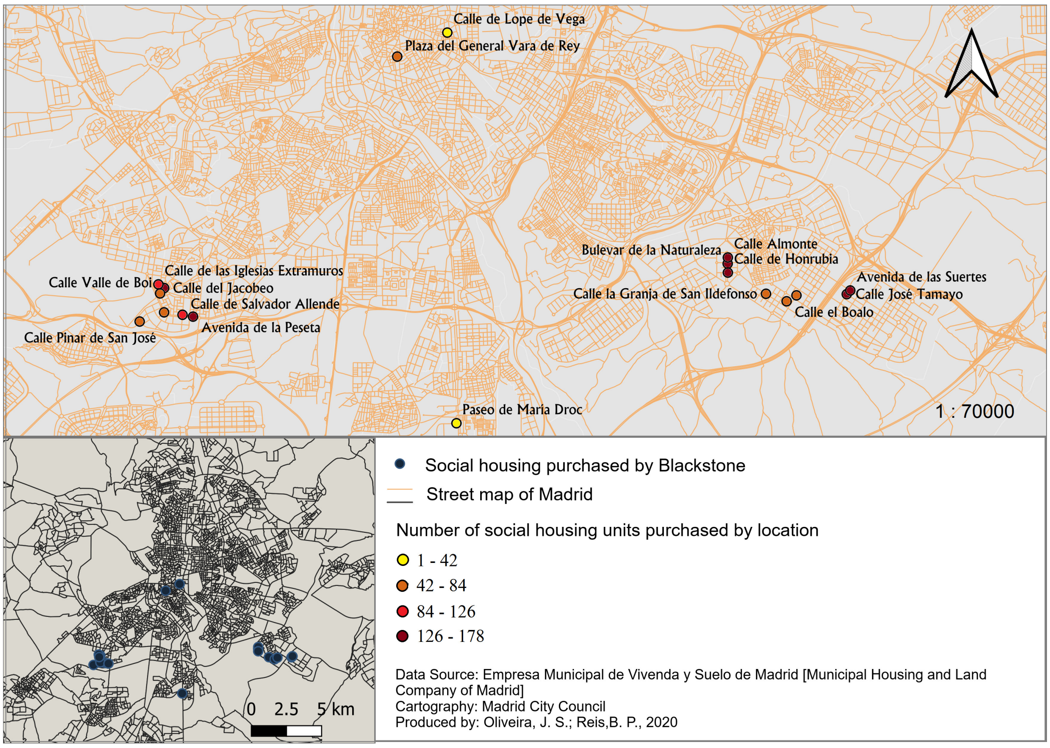
11. PricewaterhouseCoopers, also known as PwC, is one of the largest professional service providers in the world, specializing in auditing, consulting, and other business services. It was founded in 1998, and its headquarters are located in London, United Kingdom.

12. Mayor of Madrid from 2011 to 2015, representing the *Partido Popular* [People's Party] (PP).

13. Grupo Fidere presents itself as a specialist in advisory, consulting, risk management, and insurance services.

(1) the sale "violated the most basic rules of good management" (Caballero 2018), (2) the sale price was set by the prospective investors and was below market price, (3) the city council provided privileged information on the terms of the sale to Blackstone and (4) the mayor of Madrid and seven members of her government were responsible for serious negligence because they did not prevent the damage to the public treasure (León, 2018 apud Gil García; López, 2023, p. 9).

The 1,860 housing units acquired by Blackstone are located on the southern periphery of Madrid, in the districts of Carabanchel, Villaverde, and Vallecas (Map 1), a region historically characterized by a concentration of public housing estates.



Map 1. Madrid (Spain): public housing units acquired by FII Blackstone (2020)
Source: Empresa Municipal de Vivienda y Suelo de Madrid (Madri, 2020).

This transaction garnered significant attention, and it was soon revealed that PwC also had a history of providing services to Grupo Fidere. Nevertheless, by October 2013, four months after the transaction, the transfer of ownership of these properties had already been finalized, and tenants stopped paying rent to the Madrid City Council, paying it directly to Grupo Fidere instead.

When Fidere went public on the Mercado Alternativo Bursátil [Alternative Stock Market] in 2015, offering its shares to the public (Initial Public Offering), the company announced that it would focus on managing its housing portfolio "with the aim of increasing returns for shareholders".[14] The rental policy became the policy defined by the company, aligned with its financial valorization parameters. This policy is based on the "selection of clients with financial solvency and visibility of long-term income" to raise the occupancy rate of its properties (Europa Press, 2015, n.p.).

Figure 1. Exemples of public housing units acquired by FII Blackstone

Legend: 1. Madrid (Carabanchel): housing units located on Avenida de la Peseta, No. 95 to 99 (103 housing units); 2. Madrid (Carabanchel): housing units located on Calle Valle de Boí, No. 2A to 2D and 8A to 8F (208 housing units); 3. Madrid (Vallecas): housing units located on Bulevar de la Naturaleza, No. 1A to 1N (132 housing units); and, 4. Madrid (Vallecas): housing units located on Calle Almonte, No. 9A to 9H and 16A to 16H (156 housing units).

Source: Author's fieldwork (2023).

The shares were priced at around 21 euros, and the expected valorization was approximately 165%, according to a report by *El Mundo* (2015). Thus, it was anticipated that, with the sale of these shares on the Alternative Stock Market,

14. Blackstone was founded in 1985 by Stephen A. Schwarzman and is now one of the largest investment firms in the world, with approximately 2,500 employees across 23 offices worldwide.

the 128.5 million euros paid to the Madrid City Council could result in a total of 212 million euros (Europa Press, 2015). This is an episode of reaffirming the claims of financial agents, with the weakening of the position of workers, characteristic of financialization (Auvray et al., 2024), marked by the contradictions inherent in the social production of the built environment.

Following this theoretically "successful" case in the capital, there was a surge of similar real estate deals across the country's bigger cities. Real estate investment funds – predominantly, but not exclusively, from the United States – began operating more frequently and intensely in Spain's major cities, which led to large international property owners gaining prominence in the urban dynamics of the post-crisis period: "[...] the funds that direct all or part of their activity towards the real estate sector, or more specifically housing, manage it like any other asset, as a commodity from which they can extract income through rents or sales" (Méndez, 2019, p. 231).

The strategy of these investors was to raise rents and then evict tenants, thereby enabling the properties to be sold at higher prices over a short period of time. This is precisely what transpired, according to Gil García and López (2023). The influx of these funds led to a veritable "dance of the giants" in the Spanish real estate market, seriously undermining social rents and leaving many citizens without protection, as highlighted in the article "Vulture Funds Reign in Spain," published in *El País* (Doncel, 2018).

The gradual shift toward private housing management in Spain has had severe consequences for the population, especially for those on low incomes, who, under public housing management, paid symbolic amounts for social rent but saw significant rent increases. Since 2014, rents in the city have risen by an average of 47%, surpassing the pre-crisis levels of 19%. Although the increase was more pronounced in the city center, where housing rents compete with tourism, substantial rent hikes were also recorded in several peripheral neighborhoods (Janoschka et al., 2020). Many tenants reported having been notified that their rent would be drastically adjusted coupled with eviction threats if they failed to comply, according to a Reuters report (2014) based on interviews with more than forty families.

The legislation introduced in 2013 can be considered a success from the perspective of capitalist interests, particularly given that 73 Socimis[15] were created between 2013 and 2019. It should be noted that Spain ranked second only to the United States in absolute terms (Gil García; López, 2023). According to these authors, half of the Socimis created focus on rental housing in the country's

15. Further information can be found in the work of Ricardo Méndez (2019), which includes a table detailing the number of Socimis and the value of their assets in Spain between 2013 and 2019.

major cities, 41% of the investors are foreign investment funds and companies, and 21% of the companies are Spanish. Between 2013 and 2017, these companies accounted for half of the Initial Public Offerings (IPOs) and achieved a profit growth rate twice that of the companies listed on the IBEX 35, the benchmark index of the Madrid Stock Exchange.

In summary, these recent transformations in Spain's real estate circuit reveal that, starting in 2013, the (de)regulation introduced marked the beginning of a new phase in the interplay between public authorities, banks, and international financialized capital. Between 2014 and 2018, the Spanish real estate market attracted more foreign investment than any other economic sector.

Blackstone's involvement in the Spanish real estate market stands as one of the most representative cases of housing financialization in the country. After acquiring social housing in Madrid, the fund began purchasing other properties from Spanish banks that had been bailed out with public money, as well as from Sareb, consistently at prices below market value.

In just five years, Blackstone established a veritable "real estate empire" in Spain, comprising over 120,000 assets, including rental apartments, mortgages, offices, hotels, and land ready for real estate development (Janoschka et al., 2020). With a total investment of approximately 23 billion euros, the fund has become the most influential player on the Spanish real estate market, surpassing the value of assets still managed by Sareb.

Conclusions

The discussions presented herein have underscored the significant role of real estate ventures in Spain from the late 1950s onward, with various turning points highlighted throughout the text. The internationalization of Spain's economy, marked by its integration into the European framework, further entrenched neoliberal principles, characterized notably by the relaxation of legislation. This legislative shift exemplified what Stein identified as the normative framework tailored to finance (2011, cited in Van der Zwan, 2014).

The relaxation of the National Land Law (Spain, 1998) opened extensive new opportunities for real estate expansion in Spain. Simultaneously, the liberalization of the mortgage market accelerated the transfer of capital between economic circuits, exemplifying what Harvey (1982, p. 94) had described as "capital switching". Moreover, cross-collateralization (known as Spanish subprime mortgages) enabled a significant leap in the accumulation of fictitious capital within the country's secondary mortgage market, whereby the real estate boom provided the necessary fuel for the mortgage market boom and vice versa.

The international financial crisis laid bare the inherent contradictions of the Spanish model, which, like others, produced houses without people and people without houses, leading to a continuous rise in prices that eventually became unsustainable. The subsequent decline in real estate prices, the interruption of numerous urban projects, and the surge in unemployment, mortgage defaults, and foreclosures exacerbated socio-spatial inequalities across the country. Furthermore, the economic recession spurred a restructuring of the financial and real estate sectors, leading to a marked increase in the concentration and centralization of capital within these sectors.

The arrival and operations of real estate investment funds in major Spanish cities further intensified the ongoing process of housing financialization, restricting access to housing for the working class and posing new challenges to the right to the city. The sale of public housing in Madrid serves as a particularly illustrative example of this process, revealing the unique interplay between the financial and real estate sectors. Simultaneously, it is emblematic of a broader metamorphosis in social policy, as discussed by Lavinas (2017) and revisited in Lavinas and Gonçalves (2024), encompassing various modalities of the expropriation of rights.

In conclusion, the case under investigation reaffirms the critical importance of examining the production of the built environment, including urban legislation and the real estate circuit, for the political economy of financialization, given its significant impact in Spain. Changes to the National Land Law (Spain, 1998) and the regulatory framework for mortgages were pivotal in broadening the circulation base of inter,est-bearing capital, with enduring repercussions on the urban landscape, transformations in the daily lives of the population, and widespread evictions. Examining these aspects is, therefore, essential for understanding the transformations in the financial sector and their far-reaching economic and social implications.

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