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The geophagic nature of financial dominance in the Brazilian real estate market

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Abstract

Since the 1980s, following the re-concentration of economic activity in metropolitan regions, the urban real estate market in Brazil has been emerging as a sector that is capable of profitably absorbing the surplus produced in an economy that is facing a crisis. Initially, it is organized around the demand that is concentrated, in terms of space and sector, in the new business centralities. After the sector established a more dependent bond with the capital market, a relationship represented by a wave of Initial Public Offerings (IPOs) by major real estate companies, the effects of the North American mortgage crisis were not trivial. An important movement of capital flight took place in the Brazilian stock market from thenceforth. The largest public housing program in the history of the country, the *Minha Casa Minha Vida* (MCMV, 'My Home My Life') program, was launched during that period, less than a year after the 2008 crisis. The targeted production of real estate that followed had new characteristics in terms of geographic behavior and its relationship with land. This paper aims to shed light on some critical events that led to this scenario and discuss some aspects of this change that are essential for the real estate business to maintain its position as one of the most profitable and promising investments in Brazil. The geographical behavior of real estate investment, considering its tendency to expand and intensify, plays a decisive role in this context.

Keywords financialization, real estate market, public fund, ground rent, production of Brazilian urban space

1. Introduction

Since the end of the last century, society worldwide has seen profound transformations in the relationship between accumulation mechanisms and the processes of the production of space. According to *Chesnais* (2010), the prominence of finance in the core of capital, in general, seems to play a relevant role in this scenario, especially considering the non-trivial participation of the real estate sector in this picture. In

addition to its unbreakable bonds with the production of space, the real estate market cannot be compared to the other segments affected by financialization, as pointed out by *Manuel Aalbers* (2017). More precisely, this is because its role is remarkably active due to its unparalleled potential to attract capital. *Rolnik* (2013: 1059) argues that "housing represented one of the most dynamic new frontiers of late neoliberalism during the decades of economic boom, and at the outset of the crisis was converted into one of the main

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Keynesian strategies to recover from it". However, one must consider its specific characteristics in each sub-space of a globalized economy.

This paper aims to cast light on some of the points where economy, in its highest strata, and urban dynamics intersect. It highlights the most recent adjustments that define the behavior of the economic activity that guides real estate production in Brazil. To achieve this goal, this paper provides some research results to briefly examine the elements of the recent discussions on this topic in Brazil. The empirical material has been collected from fieldwork, institutional interviews (with managers, researchers and financial advisers), accesses to official databases and from considering the current specialized literature. Theoretical and conceptual frameworks are defined based on the new Marxist-inspired critical approaches in geography, using the works of authors such as *David Harvey* (2006), *Neil Smith* (1984), *Ana Fani A. Carlos* (2004), *Rosa Tello* (2005), *Manuel Aalbers* (2015) and *Tom Slater* (2015), among others.

The hypothesis guiding these reflections is based on the role of 'financial dominance' (*Paulani* 2008) in real estate production, which has led to recent changes in the urban dynamic, taking into account the impact of the largest housing program in the history of the country as a structuring element. In this sense, this article aims to discuss some new trends in geographical behavior, which are presented here using the idea of a 'geophagic' structure. This notion, which refers to the psychological or functional disturbances of an organism, is not linked to an organicist perspective here. It was taken from *Droulers* and *Broggio's* (2001) work in order to try to capture, in a powerful metaphor, the geographically expansionist trend that has been recently reactivated in a context resulting from a convergence of interests between the capital market and the real estate segment. This situation has been supported by the political framework that resulted in the largest housing program in Brazilian history, the *Minha Casa Minha Vida* (MCMV, 'My Home My Life') program. In this complex convergence, the current geophagic behaviour of real estate is ultimately related to a strong purpose of reducing the costs linked to ground rents.

To formulate the conceptual tools and create the general conditions for achieving the aforementioned objectives, this article first refers to the geographic centralization of capital and investment. The second

part aims to simultaneously present some aspects of the financialization process of the real estate segment in Brazil, the limitations of a process with these characteristics in a centralized geographic dynamic and the relation that this process initially demanded and established with the MCMV program. The main argument in the conclusions is drawn from the third part. In this part, the so-called geophagic nature is presented both as a kind of solution and a support for the financialization process, as well as the formal result of a confluence of simultaneous determinations from the capital market, the housing program and the real estate segment.

With this analysis, this article intends to contribute to the understanding of a long-term adjustment in Brazilian economic geography, pointing out the recent role of the real estate market and the production of urban space in this process. The central element of the hypothesis presented by this article concerns the observation of an inverse relation between the accounting of real estate developers and the rentier land factor: a specific circumstance resulting from the confluence of the capital market, the housing program and the real estate segment.

2. The centrality of urbanized space: the other side of the frontier

There is extensive literature on the relationships between the production of urban space and capital accumulation in Brazil. It is nonetheless necessary to emphasize that the geographical dynamics of accumulation respect at least two different major spheres of relations between accumulation processes and spatial dynamics, especially when it comes to the New World.

On the one hand, there are the processes of 'urban space production' *stricto sensu*; i.e. the transformation, conversion and development of previously non-urbanized spaces into the scope of urbanizing society and the territory. Here, there are possibilities of accumulation based on the urbanization of space. Due to the relationships between the urbanization process and the progress of forms of capital accumulation, mainly experienced after the expansion of the industrialization (*Lefebvre* 1991, 1999), links could be created between the territorial dynamics of expanding urbanization and the ways of using previously non-capitalist lands in the processes of capital accu-

mulation (Harvey 2004; Tello 2004). In this sense, the production of urban space was not the only source of surplus value. In Brazil and in the Americas in general, the incorporation of new territories in the realm of capitalist valuation was accompanied by the previous work incorporated in the land (Oliveira 2003).

On the other hand, the processes of space production *latu sensu* involve a set of mechanisms that can be grouped together in the field of 'reproduction of urban space'. It is not about production in its first stages; it is not about granting an urbanized status or incorporating fragments or extensions into the realm of urbanized space. What can be observed in these conditions is the reoccurrence of processes of production of space in areas that are already urbanized, in areas that were already urban in nature and content. Such processes usually prove profitable for those who specialize in and are employed by this very particular sector of the economy. The reproduction of urban spaces, e.g. in areas where there has been intense urban revitalization, leads to the emergence of ways to concentrate capital, which work as an entropic factor that increases geographic concentration, which in turn is treated in these conditions as 'geographical centralization' (Lencioni 2008). The processes of geographic intensification of capital are frequently associated with this universe, as opposed to the dynamics often related to the processes of geographic expansion of capital (Harvey 2004).

The reorganization of the flow of investments in the Brazilian territory observed from the 1980s onwards suggests an increasing participation of consolidated urban spaces in the processes of accumulation. The collapse of the developmentalist pact and of its territorially expansionist nature affected a major part of the investments, which were previously channeled into and focused on the fringes of occupied land, to be redirected towards the old metropolises, redefining their function as a new internal frontier of accumulation (Santos 2013). This dynamic was also identified by Smith (2002) in the case of USA. The previous concentration turned into the geographically localized resource that is now the object of new cycles of investment. The centralization of capital resulting from the re-composition of companies' assets during that period (Miranda and Tavares 1999) greatly strengthened this trend. At a time when production is losing its importance in the economy, the fact that financial mechanisms, higher wages, the most and largest warehouses, banking headquarters, highly-specialized service

providers, and other companies are located in major metropolises not only reinforces the geographical concentration of capital in large metropolises, but also increases the impact of this concentration on the profitability of investments.

Taking a closer look at the city of São Paulo, some data show a more precise view of the magnitude of this phenomenon. In 1989, for instance, the São Paulo Stock Exchange (BOVESPA) exceeded the volume and importance of the trading that took place in the Rio de Janeiro Stock Exchange (BVRJ), and the Commodities and Futures Exchange (BM&F) acquired the BVRJ stock exchange memberships in 2002. In 2008, following the consolidation of the two largest stock exchanges located in São Paulo, the BM&F/BOVESPA was created and became the most important stock exchange in Latin America. In 2017, the consolidation of BM&F/BOVESPA and the Center of Custody and Financial Settlement of Securities (CETIP) resulted in the fifth largest capital and financial market stock exchange in the world in terms of market value, with assets amounting to USD 13 billion. It is also important to cast light on the concentration of bank capital and its decision-making structure. In 2001, 19 out of 30 financial institutions in the country, as well as 49 out of 100 headquarters of the largest private companies in Brazil, were located in São Paulo. Additionally, the headquarters of 104 banks operating in Brazil (out of 177) were located in São Paulo, accounting for 59 % of the total. In terms of profit related to banking activities in the country, 87 % were concentrated in the city of São Paulo (Carlos 2004: 57). According to the Data Analysis System of the State of São Paulo (SEADE 2013), the share of the service sector in the total number of jobs in the city of São Paulo increased from 50.04 % in 1991 to roughly $\frac{2}{3}$ of the total number of jobs in 2010 (64.04 %) and reached 65.1 % in 2012. When it comes to the participation of services in the total value added, the figures are even higher. In 2009, it accounted for over $\frac{3}{4}$ of the total value added in the city of São Paulo, reaching 79.27 %.

One activity followed this movement closely: the real estate sector. It started to restructure itself by offering products to the higher strata of this recomposed economy, simultaneously taking advantage of the concentrated demand and the savings accounts that were captured and gathered by leading financial institutions or managed by large pension funds (usually tied to major state-owned companies, such as Companhia Vale do Rio Doce/CVRD, Petrobras, Banco do

Brasil etc.). Initially, these were the funds that became the main owners of the large buildings made for the offices of highly-specialized service providers, production management companies and financial market agents, in the largest and newest business centrality of the city of São Paulo (Melo 1990).

The internal reorganization of major Brazilian business groups suggests that the territorially expansionist dynamic is being reversed. As outlined by Fix (2007: 55), “companies traditionally associated with large infrastructure construction projects – e.g. Camargo Corrêa, Mendes Junior, Odebrecht, CBPO, OAS, and Constran – tried to gain ground in the building construction business from 1985 onwards due to a decrease in major public works caused by the 1980s crisis”. This movement continued and attracted capital from other fields that are also linked to the expansionist dynamics of the 1960s and 1970s. Rodobens, which began operations in the real estate market in the 1980s, left truck sales and dealerships and was considered the 6th largest construction company in the country according to the 2011 ITC ranking. Even Brascan, which already had experience in the São Paulo real estate market, withdrew from the Brazilian market and later returned rebranded as Brookfield to operate directly in the construction business after its merging with Company.

3. The geographic centralization of investments and short-range speculative expansion

If geographic centralization is initially based on higher capital density, on channeling profits and, therefore, on grouping demands, one may assume that investments tend to be concentrated accordingly. Since the 1980s, this dynamic has been linked to the processes of reproduction of central spaces within the major Brazilian metropolises due to the new value attributed to old centers, the displacement of old centers or the creation of new centralities. This pattern of space production was also reproduced in the offer of residential real estate, since young people working in the so-called ‘advanced tertiary’ sector and in management positions, which helped promote hyper-concentration in some metropolises (Sassen 2006), along with their superiors, were a large part of this effective demand and moved closer to their jobs.

The effects of the concentrated economic dynamic on a portion of the real estate business led the largest companies in the sector to issue their IPOs (Initial Public Offerings) around 2006. One special characteristic of the segment, together with the particular behavior of this business niche and the moment the Brazilian economy was going through, sent the markets into a frenzy. In the stock exchanges, a universe dominated by commodity prices (oil, soybean, iron ore etc.), the real estate sector seemed to be the only one capable of capturing the upward trends in the domestic market.

The focus on the effective demand represented by the highest-income strata also meant that the real estate business would be constrained by the scarcity and high costs of acquiring land bank in high-end locations (Botelho 2007). A solid barrier then started to emerge between the sector’s activities and the capital market. Despite interventions by the State to make some parcels of land available for construction under these conditions in metropolitan regions, the speed of their actions and the space made available fell short of the expectations raised among investors. This sent the publicly-held companies into a race to purchase land. The initial problem directly associated with the race to form a land bank was the fact that it exacerbated the problem it intended to solve: the scarcity increased at the same rate as the land prices did.

As the size of the land bank was used by the capital market as a valuation tool, its role in developers’ operations and accounting shifted. Land bank slowly ceased to be in the realm of pipeline planning and production, in which it works as part of the constant circulating capital in construction, to become a guarantee securing the portfolio that companies present in their quarterly earnings results: the core element developers showcase in the stock market. In this context, the land bank race left behind its commitments to the real economy and advanced upon cheap lands on the city outskirts.

Two factors fueled this movement. Firstly, the competition that had been partially transferred to the business environment of the stock exchange led to increased efforts to expand land bank, which was directed towards lands not located in central areas. Secondly, relying on the sector’s ability to capture the growth in the domestic market, often called the class C phenomenon (Neri 2007; Salama 2014), a line of discourse was created that validated the purchase of peripheral lands. However, there was no actual de-

mand to match the amount of growth in land banks. It is worth noting that this is not real estate speculation, but rather a process of financial speculation using land, in which the land bank in companies' balance sheets operate as an element of stock market speculation and as part of developers' fictitious capital (Santos 2013).

This is a result of a particular feature previously described in the specialized literature:

While securitization is probably the most explicit example of financialization, it is important to stress that this technique has not become a widespread practice across housing markets globally. Despite the introduction of enabling legal frameworks in several countries in the wake of neoliberal reforms, securitization has reached a significant scale only in specific places. (Pereira 2017: 5).

In Brazil, the real estate financialization process did not develop primarily through speculation mechanisms related to the mortgage system, as it did in the USA. In Brazil, the most significant operations were carried out in a more direct relationship between the real estate developers and the capital markets. (Santos and Sanfelici 2015: 6).

Due to the strategy adopted by the real estate developers that had issued their IPOs, when the 2008-2009 crisis erupted, and the stock exchange witnessed a significant capital flight, a large part of the segment's

capital was fixed on land with poor economic viability, which made those companies more vulnerable to market fluctuations. If it were not for the largest housing program in the history of the country, launched on an emergency basis, the low economic viability of peripheral lands brought into developers' accounts would have turned their land banks into white elephants so great that they could, in a short period of time, undermine the relationship of the sector with the capital market.

Thus, the MCMV program emerged with a commitment to save real estate developers (Arantes and Fix 2009), which had become an important gateway for foreign investments in the Brazilian economy. That commitment turned the program into a mechanism to convert fictitious capital confined to land banks, absorbing the critical potential of the relationship established between the sector and the capital market. The lack of economic viability of land banks diminished given the potential to engage a social stratum that had not yet participated as a demand of the economy created by the real estate/financial complex. Having shown little effectiveness in the fight against the housing deficit that had justified its creation,¹ the nature of the program gradually abandoned the realm of anti-cyclic policies to take on the difficult task of mediating the relationship between the sector and the capital market.

The overall behavior of the share prices of the main companies listed on the stock exchange clearly reveals these two moments in the sector (Figure 1).

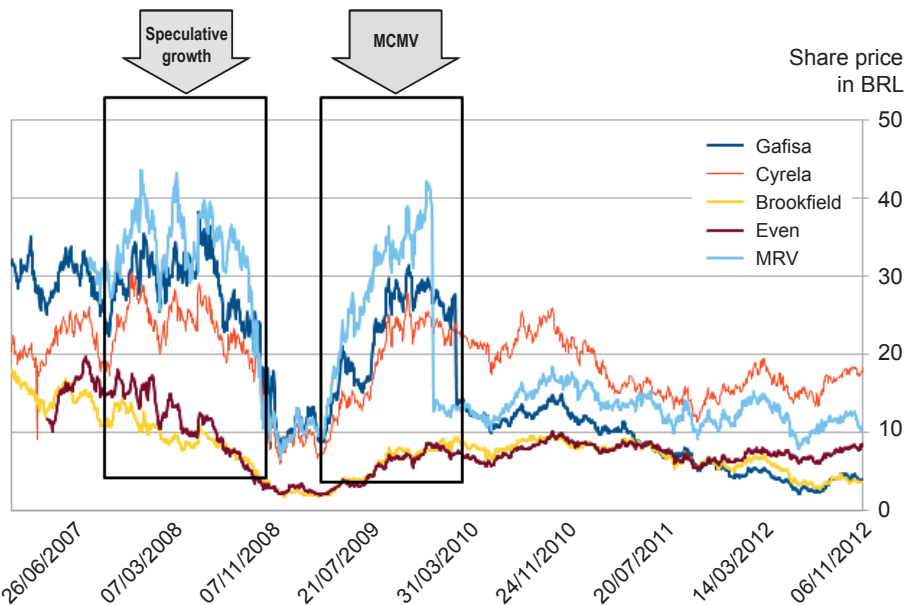


Fig. 1 Share price variation for some real estate companies listed on Bovespa. Source: data adopted from Infomoney (2017)

4. The geophagic nature of financial dominance

After forming an inventory, or part of it, and restoring the relationship with the capital market, especially after the sharp drop in stock prices, the program worked towards two standards of real estate production (for housing). On the one hand, the developers continued to ‘prospect’ for land, produce and launch, in central areas (in new and old centralities), the high-end residential buildings that had been the foundation of their business before. This was justified by the fact that, in addition to a concentrated effective demand, the profile of the real estate developments in those regions, which were usually higher income projects, allowed for a higher overall sales value (OSV) with fewer operations. Therefore, both the effective demand, which did not require intermediation, and the price per unit sold contributed to a simultaneous increase in the OSV and the sales over supply (SOS – a rate that is closely linked to the speed at which investments are realized). These indicators, at that moment and due to well-known reasons, became stronger than the land bank in the relationship with the capital market.

At the same time, one of the most important elements in restoring trust in the sector only became possible with the production of real estate in areas that are markedly different from those previously found in the core projects of major developers. In a way, the stabilizing role played by the program in the relationship between the sector and the capital market was founded on principles that became increasingly important. Although projects launched in central regions were still in the picture, the emergence of new markets and the guarantees related to the flow of housing financing promoted by the MCMV program were essential for redefining the post-critical parameters.

After a certain point in 2013, the program started to take on a significantly more important role than it had up to that moment. Besides channeling resources to maintain a minimum level of operation, the program began to build the basis of the main market for some of the listed companies. That moment represented a point of inflection in the geographical dynamics of the real estate-financial complex: a considerable part of the real estate production will later meet the program’s criteria.

4.1 The inflection of 2013

To a significant extent, in addition to provisional increases, the behavior of interest rates helps explain the change in the role the program took on in the relationship between the sector and the capital market. The widespread increase in interest rates that came with base rate variations emphasized the role of the program in the realization of real estate investments. Although the base interest rate was close to 10 % p.a. in 2017, from March 2013 to July 2015, it climbed from 7.12 % to 14.15 % p.a. (according to *Banco Central Do Brasil* 2017). During that period, the demand created by the MCMV program was closely followed by investors and their capitals in the stock exchange, since it was less exposed to the effects of austerity. Thus, the housing deficit figures, which did not change significantly, justify the same program that continues to work as an important device to realize and transfer the surplus value extracted through tax mechanisms or as part of the new mortgage obligations.

The program is organized based on a division that combines the origin of the resource, the payment conditions and the final maximum price of the unit with the income level of those who ‘benefit’ from the program. Initially, the program was organized according to three levels of household income: Level 1 (up to BRL 1,800); Level 2 (up to BRL 3,100); and Level 3 (up to BRL 6,200). In the third edition of the program, these amounts increased, and an intermediate level was created: Level 1.5. Considering the growth in the number of units contracted at each level of the MCMV program, one can see a point of inflection in 2013. At that point, Level 2 became the leader in terms of the number of units contracted (*Table 1, Figure 2*). The creation of Level 1.5 should reinforce the trend of concentrating launches on intermediate levels.

Table 1 Units contracted in the MCMV program (Minha Casa Minha Vida, ‘My Home My Life’ program) (x 1,000 BRL) per year and per level. Source: data adopted from Caixa Econômica Federal (2017) and JP Morgan (2016)

	2009	2010	2011	2012	2013	2014	2015
Level 1	44	103	78	98	94	38	41
Level 2	99	277	326	312	289	290	345
Level 3	144	339	104	389	558	175	17

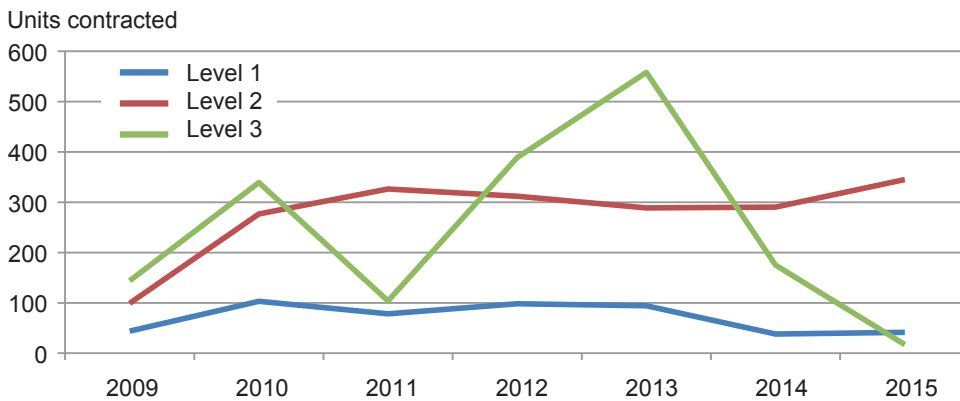


Fig. 2 Units contracted in the MCMV program (x 1,000) per year and per level. Source: data adopted from Caixa Econômica Federal (2017) and JP Morgan (2016)

Two characteristics arise from this scenario. Firstly, this movement secures the close relationship between the program and the levels served by the major publicly-held developers, strengthening the bonds between the resources invested to solve the housing problem and the results in the stock exchange. Secondly, the characteristics of the intermediate levels meet the interests of publicly-held developers; however, differently from Level 3, they require conditions that cause developments to scatter geographically, on the city, metropolitan or national levels, due to the impact of the price of land on the limited accounting imposed by the program.

Taking a closer look at the data related to the metropolitan region of São Paulo (RMSP), after a period in which the capital city was the absolute leader in terms

of units launched in comparison with its neighbors, this was also the moment when the curves showing the number of units launched in the city of São Paulo (MSP) and those in the metropolitan region, excluding the capital (RMSP without MSP), intersected. Since the creation of the program, the curves had shown a slight trend towards one another, but they had never converged or even touched (Figure 3). In terms of OSV, 2013 was the year when the growing curve of the capital city reversed, bringing the results achieved in São Paulo closer to those obtained in the other cities in the metropolitan region (Figure 4). Meanwhile, the difference between the price per square meter of the projects launched across the entire metropolitan region compared to those launched in the capital city stopped growing in 2014 (Figure 5).

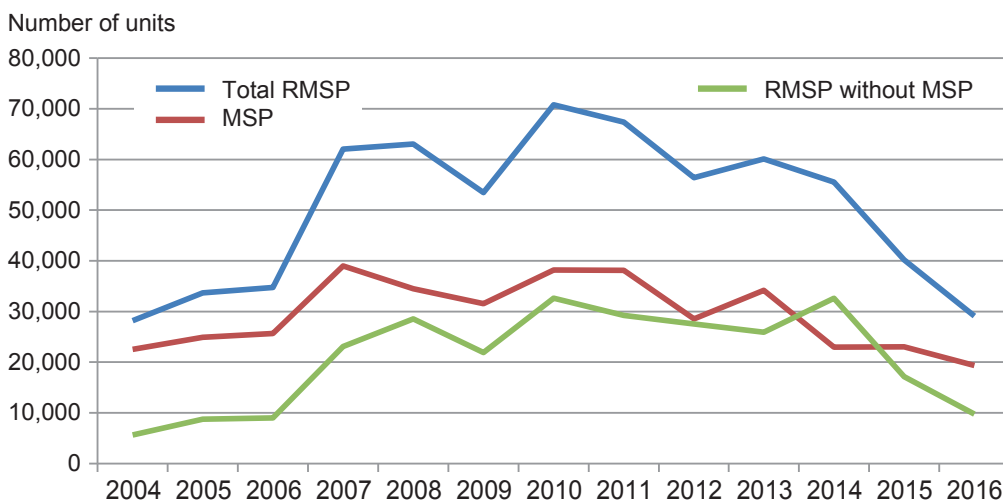


Fig. 3 Number of residential units launched in the RMSP (2004-2016). Source: data adopted from Embraesp (2017)

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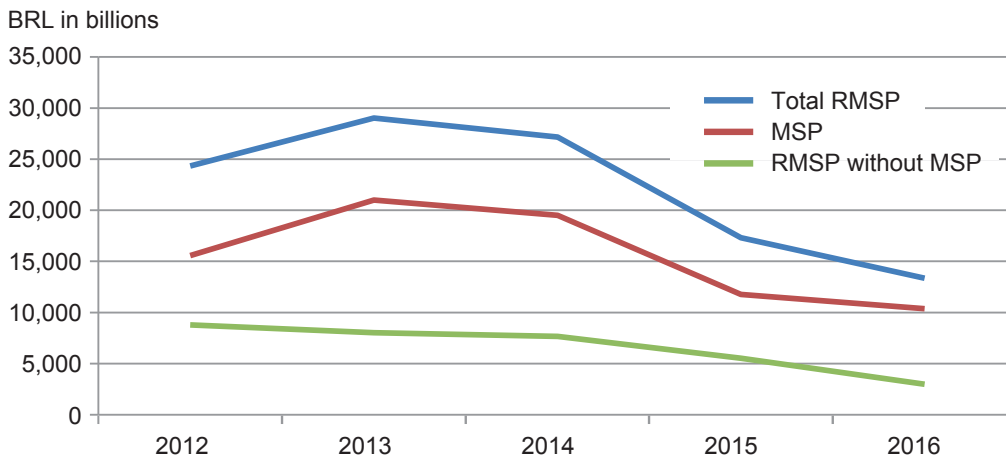


Fig. 4 Overall sales value in billions of Reals in the RMSP (2012-2016). Source: data adopted from Embraesp (2017)

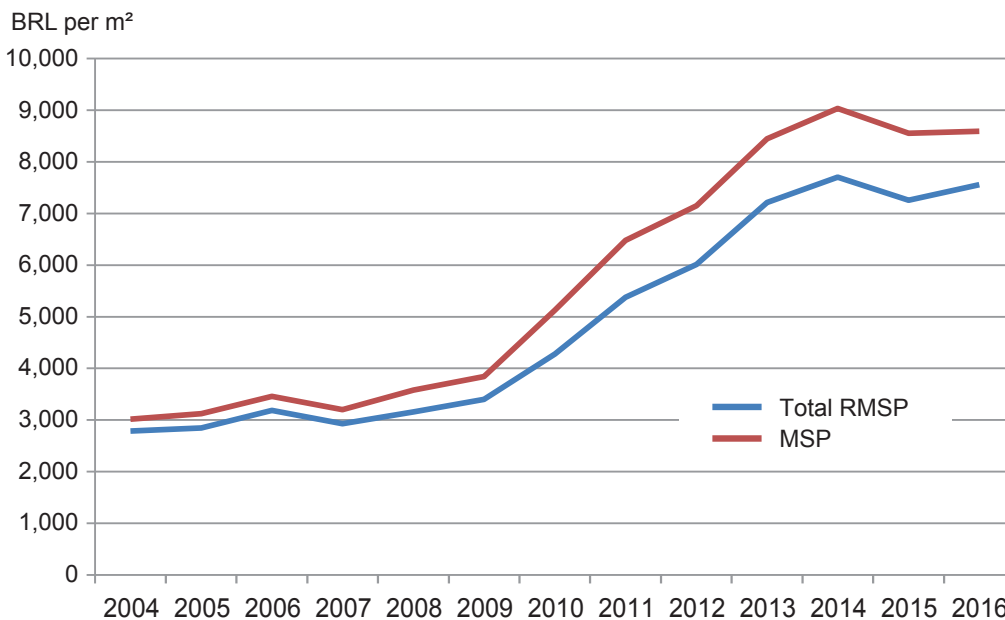


Fig. 5 Real estate price per square meter in the RMSP (2004-2016). Source: data adopted from Embraesp (2017)

In a way, until 2013, the program seemed to extend the life of a pattern of investment that had been developing since the 1980s. In this sense, the circumstances that lasted from 2009 to 2013 represented, in many aspects, the necessary condition for the growth cycle to continue, a cycle that made construction and, more importantly, real estate production an alternative to the crisis in the previous growth patterns. According to *Gonçalves and Castelo (2017)*,

in 2009, when the country suffered from the impacts of the international financial and economic crisis, construction counterbalanced the domestic effects of the crisis. This time, however, the picture was entirely different. Until 2009, the sector had been growing strongly. The announce-

ment of the Minha Casa Minha Vida Program and the reinforcement of the Growth Acceleration Program not only maintained the sector in that position, but also gave new momentum to the cycle, which continued until 2013. (*ibid.*: 19).

The current critical scenario is markedly different from the one that lasted until 2013. Up to that moment, the economic crisis had not only created investment and growth opportunities for the real estate development and construction businesses in consolidated urban spaces. It had also put expectations on the sector in the sense that it could sustain the continuity of the accumulation cycles, even in an unfavorable situation and a harshly critical scenario that had been taking shape since the 1980s. What is happening

today is that the sectoral restrictions observed in the previous period are now internal to the real estate production segment itself, signaling to the market that the opportunities are concentrated in the field of real estate development in association with the stock market and the MCMV program simultaneously.

In the 12-month period ending in February 2017, while the medium- and high-end projects (one of the mainsprings of the post-developmental economic activity) dropped by 10.1 % and the GDP fell by 7.2 %, the MCMV projects grew by 12.9 % and accounted for 80.1 % of the total number of launches in the same period (*Abrainc e Fipe 2017*). Considering the behavior of two companies that have recently been in economy newspapers in Brazil, Tenda's position stands out. Tenda is a low-income brand that works on MCMV projects and has recently parted ways with Gafisa. It is now delivering clearly better results than those of its former parent company, according to the companies' 2017 reports (*Gafisa 2017a,b,c; Tenda 2016, 2017a,b*):

- Tenda had a higher OSV in the first half of the year (BRL 748.5 MM against BRL 744.9 MM);
- Tenda had a higher adjusted gross profit in 2017 (BRL 108.8 MM against BRL 12.421 MM), presenting growth year on year. The company's adjusted gross profit in the first half of the year also increased on the year-on-year comparison. Gafisa, on the other hand, saw drops in both figures.
- Tenda's net profit amounted to BRL 20.8 MM, a growth of 196.3 % p.a., while Gafisa's losses increased, totaling BRL 134.6 MM in the second quarter of 2017.
- Tenda's net sales grew by 14.2 % quarter on quarter and 19.1 % year on year (reaching BRL 387 in sales in 2017). Comparing the first half of 2017 against the same period of 2016, Tenda's net sales increased by 22.7 % (totaling BRL 725.9 MM in the first half of 2017), while Gafisa had negative results in the three scenarios (with BRL 127.1 MM in 2017 and BRL 244.5 MM in the first half of the year).

Additionally, Gafisa's stock performance, which has not been good for some time, plunged (by approximately 50 %) after it announced Tenda's spin off, one of the leading companies in the MCMV program (depreciation, however, remained close to the value of the spin-off shares). Different behavior can be seen in Cyrela's shares. The company has kept a close relationship with Cury, which has also held a leading position

in the MCMV market since 2007, when Cyrela acquired 50 % of Cury's shares in a joint venture. MRV, the main MCMV program developer, has also performed well in the stock market, with over 100 % accumulated in less than a year (*Infomoney 2017*).

This time, there is no anti-cyclic measure expected or possible apart from what has been experienced before, due to the compromised budget and the ability to mobilize surpluses from the state structure itself: the whole arsenal is already in use. In this scenario, the level of overall economic activity and activity in the sector became dependent on a program that has already proved inefficient when it comes to its declared goals and that, precisely because of that, is at the risk of fully losing its legitimacy. According to data from *IBRE-FGV (2017)*, the National Indicator of Civil Construction Activity dropped continuously by over 40 % from 2015 onwards, decreasing by 8.5 % in the 12-month period ending in March 2017 and by 10.5 % in the first quarter of the same year. The construction GDP fell by 6.5 % in 2015 and 5.2 % in 2016. The crisis in commodity exports and the rise in interest rates are also regarded as decisive factors. Under these conditions, including a widespread crisis, the real estate development business has begun to suffer as well, retaining, however, a share of the market that is responsible for the activities that prevent both the sector and the national economy from stalling completely.

It is in this context that a very particular dynamic starts to emerge in relation exclusively to land. Despite the critical conditions experienced in the 1980s and 1990s, the crisis in the sector that defines this new internal stratification is the element that structures the new parameters.

4.2 Capital productivity: real estate and land

Since the beginning of the new stage in real estate development, starting with the collapse of the expansionist strategy around the 1980s (*Santos 2013*), investments had been committed to launches in central regions and the production of new centralities (*Carlos 2004; Lencioni 2008*). This happened due to the concentration of the effective demand in one particular social group and in one group of companies. Thus, not only did the projects launched have to observe minimum standards in terms of finishes, floor plan and size, but they also had to factor in aspects related to location (*Botelho 2007; Carlos 2001; Fix 2007*). These

conditions were instrumental in the realization of investments in a context involving income concentration, high interest rates and deficiencies in housing policies. The fact that the speed and overall amount of sales had become a decisive factor in the relationship with the capital market also helped retain a major part of real estate investments in central regions. The recent changes in the geographical dynamics of investments and real estate production seem to be accompanied by profound modifications in the relationship of the sector not only with location, but also with land as a whole.

According to this hypothesis, the type of arrangement that emerges reconfigures its bonds with the presence of the ground rent factor and shows some impermeability in regard to the landed element. Since this relationship involves the modalities of differential rent, rent gap and the reproduction of land ownership rights through verticalization, which are usually seen as factors that bring income to businesses' accounts, it is possible to assume there is an inverse relation between the segment and the presence of ground rent, especially when it comes to the participation of the MCMV program in the real estate-financial complex: the categorial determinants of the construction industry and the effects of financial dominance under the program's regulation brought together here.

Firstly, considering the issue pertaining to the relationship of differential rent with the real estate segment, one may wonder about the effects of location on cost, return and efficiency of non-landed capital. According to this principle, lands that, due to their location, are capable of contributing to returns of productive capital, which benefit from privileged conditions, would be those capable of generating this differential rent. Since rent factor is a structural component of extraordinary profit, one may deduce that an additional component emerges from the monopoly on special conditions in a competitive environment. This is the reason why capitalist activities of a particular capital or a specific set of capitalist entrepreneurs gain advantages and stand out against the social average of production (Singer 1982; Jaramillo 2010). Since this component only comes into play in comparison with average conditions or with a range of specific conditions in the current production in the market situation, it becomes the field for verifying and validating differential rent.

In the specific case of the real estate-financial complex activities, this assumption may be based on previously discussed ideas, for example, the advantages of locations of projects launched in central regions that translate into good OSV and SOS outcomes. However, since differential rent usually expresses itself in monetary terms in the price of land, as capitalized rent, and the land itself works as constant circulating capital for construction activities, the lands that provide higher income are also the ones with higher costs and higher potential for depreciation adjustments according to the profit rate based on changes in the organic composition of capital. The high costs of materials and particularly of land in these conditions substantially increase the participation of constant capital in the total amount invested (Lefèvre 1982). Despite the advantages suggested, and considering only the interference of differential rent, the organic composition of capital in developments of this sort increases significantly without being counterbalanced by a corresponding increase in work productivity. Additionally, the price of the best located lands is not only an issue from the perspective of the relationship that defines the composition of capital in a project, but also the impact that it has on the profitability of the total capital, considering the long turnover times that are typical of real estate production. The depressing effects of high composition in the context of slow capital turnover become even more important.

The pressures on the rate of capital profitability of developments under these circumstances always encourage the search for alternatives in terms of typology and location. The development of projects in central regions has been fundamentally associated with the presence of an effective demand since the 1980s and 1990s, due to the convergence between the collapse of the developmentalist housing program (the widely-known National Housing Bank 'BNH'), the crisis of the expansionist trend and the beginning of the pressures caused by monetarist austerity. When such a large housing program with the characteristics of the MCMV program comes into play and, more importantly, from the moment that it is able to drive a large part of the capital market investments, the segment then becomes relatively independent from launches in central regions. Thus, besides tending to be geographically scattered, construction capital sees little differential advantage in each particular piece of land, especially in regard to ground rent.

Second, considering the shift of an important part of the activities of the real estate-financial complex towards peripheral areas of urbanized space, a legitimate inquiry regards gains with land valuation. During a large part of the urbanization process in Brazil, the actual territorial advance of the urban phenomenon commonly promoted inclusion, and with it, the valuation of areas that changed their position within the scope of inputs from the accumulation process, however, not without accounting for the strong impacts on workforce reproduction costs. The renowned practices of landowners and developers, that for a long time extracted and still extract fabulous income from the territorial advance of the urban phenomenon and from the space production process, in general terms, are good examples of the importance of peripheral spaces for the production, extraction and distribution of surplus value. The Brazilian critical literature is full of examples, analyses and considerations in this regard (Bolaffi 1982; Kowarick 1979).

The problem for some strategies that aim to take advantage of a 'rent gap' (Smith 1996, 2002) inside the real estate-financial complex is the temporal inconsistency that potentially generates conflicts between the speed of land valuation and the response time required by the capital markets: the contradiction is presented here in the dysfunctional nature of prolonged land retention. Within the context of reconciling the expectations of increasing OSV and sales over supply, which led to even more pressure on the capital turnover time for incorporation, with the gains associated to lower peripheral land costs and the demand produced by the program, the rent gap loses centrality and becomes sporadic in the race to appropriate public funds. Therefore, the time needed for land valuation differs from the speed required by the stock market.

At the same time in which the capital market requirements impose their speed on development activities, the liquidity compensation levels, established by the interest rate, among other things, discourage capital immobilization. This combination resulted, within the business environment of the real estate-financial complex, in a shift in former real estate speculation practices that depended on appropriating the rent gap based on land retention. Moreover, the deflationary behavior that has been seen, clearly at least since 2016, affects not only basic materials, but also the price of land and units ready (FipeZap 2017 and SindusCon 2017). Here, there is another important fac-

tor for redefining the relationship standards of real estate activities with the exclusively landed element and the pressure on capital circulation periods and total turnover. Considering, within this context, the commitment of launches in central areas to the acquisition of valued land, the tendency of the rent gap to disappear as a compensation factor is reinforced here. This scenario is very different from the one in which there was a production of new centralities during the implementation of monetary austerity in the 1990s.

Third, it is worth noting that a strong argument to reinforce participation of a landed-rentier component in the composition of profits in the real estate-finance complex is made according to the potential of employing verticalization techniques. This is because verticalization would join two areas defined within the 'urban ground rent theory' (Jaramillo 2010).

Considering the original treatment given to absolute rent by Marx, one can say that it interferes in the moment of surplus value distribution. According to this theory, the monopoly or ownership of fragments of urban space is the origin of a right to rent, which is the result of appropriating surplus value produced elsewhere. Since land is part of the constant circulating capital in production activities in the construction sector (Lefèvre 1982), land is considered to be a cost passed on to the final price of real estate. The construction of buildings with several floors vertically reproduces in part the original monopolizable size. This is done by multiplying a part of the right to rent that the original size of the property had granted to the owner by the number of floors built. This suggests that, in addition to the immediate results of specific work carried out on a given development of this kind, the owner (developer, principal or even the builder) appropriates a bulk of surplus value greater than that which would be based solely on the work process embodied on the land. From this point of view, without leaving the field of accumulation interests, not everything that results from the work process can be identified as surplus value produced directly and specifically by the particular work carried out on a given production development.

However, according to this view, more than the right to income provided exclusively in the field of surplus value distribution, the monopoly of the specific conditions defined by the location of land constitutes the foundation of a higher return on variable capital

The geophagic nature of financial dominance in the Brazilian real estate market

connected to increased productivity of the workforce verified in the terms of valuation. This additional element grants the possibility of obtaining extraordinary profits for private developments, which benefit from exceptional conditions for production in the scope of so-called differential rent (Jaramillo 2010; Singer 1982).

As we know, the sale value of well-located real estate property is noticeably higher than property that is not, regardless of formal aspects and type of building. When reproducing the aspects and rights connected to the monopoly of certain fragments of space (reproducing part of the original size and the rights to extract absolute ground rent), vertical construction also reproduces the monopolizable characteristics that constitute the foundations of differential rent: the location. From this point of view, the highest values of the results of this work, which in this case, includes a housing unit, could be interpreted as the results of higher productivity under the specific conditions combined in that specific location. The verticalized building, when observed based on these assumptions, and considering its ability to reproduce the benefits of location, defies the unrestrained adoption of Lefèvre's (1982) reasoning, according to which, for the construction industry, the ground rent factor would essentially play a reversed role, being accounted for solely as part of the constant circulating capital of the segment.

According to the reasoning presented, verticalization is more than just the possibility of extending variable capital participation in the capital composition of a specific development; it is more than an increased share of productive capital on the burdensome land base. When reproducing land area vertically (or part of it), the productive capital does more than decrease the landed factor share in the constant circulating capital, it does more than produce surplus value by

producing units of real estate merchandise. Often in these cases, in addition to the valuation resulting from the production process that produces real estate merchandise, the vertical reproduction of a location, as well as the inventory of property, emerges as a source of income and is simultaneously the source of increase in construction capital. This means that the characteristics which act as the foundation for the high cost that the land base represents for capital of construction, in these conditions, could be reproduced and extended in the production process, but no longer as a capital production cost, but rather as property and, therefore, a source of profits that result from the verticalized reproduction of the right to rent. This is, along with the others, part of the justification for the actual verticalization in central areas. Nonetheless, this mechanism only starts to work if there are conditions in which there is a demand for high-end developments that could simultaneously realize the construction capital and, at least the early income expected from only the land portion.

It is not about determining whether said demand still exists or not. Surely it does. However, the important fact is that a significant part of real estate-financial complex activities was shifted to areas with low values per m², also significantly reducing the number of floors in buildings. The monotonous repetition of large one-story home communities and blocks with a maximum of five floors (height justified by not having to spend on the implementation of elevator systems and other standards) points to the little importance that the landed factor has had in a segment that is gaining headroom in the real estate production arena. Additionally, the pressures connected to the turnover of construction capital, together with the conditions that the program has imposed upon the market, especially considering the speed of the investment cycle and peripheral direction of real estate production activities, have also resulted in adjusting the typology that does not favor



Photo 1 MCMV ('My Home My Life' program) Level 1: On the borders of urbanized space (São Carlos-SP, Brazil). Photo credit: Renan Santos Gomez



Photo 2 MCMV ('My Home My Life' program) Level 2: On the borders of urbanized space (Bebedouro-SP, Brazil). Photo credit: Marília Fernandes

large buildings with many floors (see *Photos 1* and *2*). A dual determination comes into play under these terms. One-story homes and small apartment blocks have become more common as result of the need to produce low-cost units, simultaneously required by the capitalist accounting of the business and by the scenario of a market sustained by a program such as the *Minha Casa Minha Vida* (MCMV) Program. At the same time, this is also the reason for searching for locations where there is a weak presence of the ground rent factor, thus eliminating part of the differential component of capitalized rent from the total capital production price. On the other hand, the low floor constructions tend to be more feasible with a weak presence of ground rent factor conditions. This convergence suggests a mutual reinforcement between building typology and land price, which does not favor the trend of capturing the ground rent factor within the scope of an important share of the financial-real estate complex activity.

Whether in the case of block communities (which also reserve open areas for automobiles, playgrounds and common areas) or one-story homes, we must consider that there is no absolute or significant increase in the initial land size resulting from construction. This means that, under these conditions, it could be more profitable to acquire fragments of space in peripheral areas than bear the burden of techniques and materials required in more complex building procedures. Contrary to what one would believe based on the history of real estate production in Brazil, it is about choosing a lower presence of the ground rent factor in the makeup of the accounting in the development segment. The overall market behavior, mainly considering the higher share of business in this field, has moved the bulk of activities from areas deemed capable of providing the largest amounts in terms of ground rents. At the same time, based on the pressure of the arrangement that meets the standards of the program and the requirements of the capital market, the share of the rent gap also presents a downward trend in the composition of the profits of the real estate-financial complex.

This circumstance has suggested a very favorable situation for earnings in this share of developments simultaneously connected to the capital markets and the MCMV program. A set of requirements coming simultaneously from both ends has encouraged a chain of technical changes to work processes. Based on research carried out by *Baravelli* (2014), it is pos-

sible to record an increase in the share of the technical composition in the capital composition of companies connected to the MCMV program. Nevertheless, the technical composition is just one component of the total number of factors required in the organic composition of capital; it is not legal to extract from this record determinations about the total capital composition through a simple deduction. Therefore, the reasoning is that a high technical composition does not necessarily result in a high organic composition as the other components can work to offset the recorded upward trend. Accordingly, the confluence of results observed in the field of technical composition with those taken from the considerations about the decrease in participation of the landed-rentier element, or capitalized rent, as a component of the constant circulating capital in the accounting of real estate production suggests some level of tradeoff that should be reflected in the results of the organic composition of these capitals. The final result, for this share of the real estate segment, is the increase in labor productivity, resulting from the increase in the technical composition of capital, without a corresponding increase in terms of organic composition. In other words, the profitability of total capital, as the share of constant capital components is reduced, remains closer to the variable capital productivity, which becomes more productive. From a Marxist perspective, this very particular scenario is full of the anti-tendency potential that currently acts against the permanent and long-term effects that tend to pressure the profit rate downwards. Thus, the convergence enabled within the scope of activities connected to the MCMV program introduces a special potential to increase the profitability of capital invested in construction: the program helps to create, in a certain share of the real estate production market, an efficient mechanism that contradicts the tendency to reduce profit rates and encourages the increase of surplus value production, in turn, making this share a promise for capital profitability in times of crisis.

The dynamic spatial morphology of this very particular composition involves the revitalization, in some aspect, of strategies for territorial expansion. Thus, this represents an attempt at a new arrangement of a geophagic nature in the real estate segment, however very different when compared to what was previously attempted during the years of developmentalism. Currently, this dynamic must be observed within the adjustments of converting Brazilian territory into platforms of international financial valuation (*Paulani* 2008).

5. Financial architectures in expanding markets: Brazil in the continent

The Brazilian real estate market is characterized by the combination of two important features. First, we observe the type of association between a public program of housing provisions in the scope of MCMV and the capital market. Second, we emphasize the continuity in the successive opening of new frontiers of investment and the lucrative absorption of capital in the real estate market. This process is ensured due to a constant reinvention of the accounting and urban forms that enable the segment to maintain their prominent position in the process of accumulation in the Brazilian territory.

Upon observing significant experiences in Latin America, many elements present in the composition of the Brazilian real estate market are noticeably part of a set of characteristics that define the dynamics of the real estate market in other countries as well. However, despite the frequent analytical proximity between the models in Argentina, Brazil, Chile, Colombia and Mexico, it is also worth noting some specific features that set them apart.

In Mexico, the connections between real estate production with the capital market and with the financial segment are dually defined: this occurred by opening capital in the major companies of the segment as well as by issuing residential mortgage-backed securities (RMBS). Between 2004 and 2014, the real estate industry was responsible for around 30 to 40 % of all IPOs made in the country, while second place went to the giants in the transportation and construction industry, accounting for approximately 25 %. On the other hand, since 2003, issuing RMBSs is regulated and, while it did not fulfill the promise of broadly expanding the credit supply, providing access to housing for the poorest classes, securitization played an important role in developing a context that would also include the participation of the State, developers and financial capital shareholders.

This last aspect seems to be a distinctive element of Mexico's position in this context. "Total issues of RMBS reached over US\$ 6 billion in 2006 – tripling in volume since 2004 and making Mexico the largest RMBS market in Latin America" (Soederberg 2014: 11). Despite the Brazilian legislation for regulating *Certificados de Recebíveis Imobiliários*, also called CRIs ("Real Estate Receivables Certificates" in English and the instru-

ment most similar to the Mexican RMBS) dating from 1997, they did not become an expressive part of financial transactions in the real estate segment until very recently. The record for the total amount invested in CRIs was reached in 2016 with a volume of R\$ 17.781 billion (ANBIMA, 2017), the year in which the dollar was consistently over R\$ 3.00.

In addition to the slow progress in the circulation of the CRIs, the lower relative number of securitized mortgages in the Brazilian context and the currency crisis have committed the market to institutional investors with little internationalization. This made the pension funds themselves, linked to major state groups and some public banks, the main buyers of these stocks in Brazil. However, this distinctive behavior, which by 2016 appeared to have left the Mexican system more exposed to the effects of the economic crisis and the fluctuations in the investor confidence, worked in Brazil like a type of damage-reducing protection. The heavy system of public coordination helped maintain greater stability until the outcome of the current political crisis.

The first experience connecting a major state program to developers and private financial agents happened in Pinochet's Chile. In addition to this, it definitely appears to have influenced several other experiences in Latin America. The liberal reforms that gained strength in 1976 gave rise to two forms of housing financing that included the combined public-private system, which constituted the essence of the experiments done in the Chilean neoliberal test tube. Mortgage-backed bearer bonds, referred to as *letras de crédito hipotecarias*, and negotiable mortgage loans, referred to as *mutuos hipotecarios endosables*, have been backed by private investors and major institutional investors, such as large life insurance companies and pension funds. Moreover, a wide range of programs and lines of subsidies for housing were created such that they frequently operate sequentially, some substituting others, or even simultaneously.

Some studies have been emphatic in noting that the operation of these means, apparently forged in the free initiative environments, are dependent on heavy public subsidy programs (Freitas et al. 2013; Roch 2017). This complementarity has enabled the inclusion of a significant portion of the population into the scope of new financial products, such as RMBSs, and the real estate market itself, which are combined here.

In Chile, in the 1980s, 330,000 families received some kind of subsidy, and in the 1990s this number rose to 515,000. From 1976 to 2009, 1,440,182 families received subsidies from some program coordinated by the national housing policy (Freitas et al. 2013: 193-194). This previous Chilean experience, however, involves the dimensions of a controlled environment typical of a laboratory, with a very restricted sample compared to other cases, mainly those that were inspired by it. More than one third of all subsidies provided in the 33 years of the Chilean experience amounts to the total number of houses built in 2011 alone in Mexico, which surpasses the figure of 503,000 (Soederberg 2014: 3). In the first seven years that the MCMV was in operation, more than 4.2 million houses had already been contracted, with 2.6 million having been delivered, according to data from the *Caixa Econômica Federal* (2017) (Federal Economic Bank), all involving some type of subsidy.

In Colombia, the new National Development Plan, in operation since 2010, adopted new strategies to provide one million new houses by 2014. To achieve this goal, housing subsidies were adapted to encourage the production segment in building social housing (PND 2010). Additionally, in 2012, the Housing Law 1537 was passed. This law included the poorest population in the market in a very strong way. Despite the positive scenario, only “around 30 percent of the mortgages originated in 2016 were subsidized” (Roch 2017: 7).

As a consequence of favorable external conditions, strong fundamentals and mortgage credit subsidies, real mortgage credit has grown by an annual average of 13 percent since 2011. The expansion in mortgage credit is in line with the growth of the construction sector (...). However, despite the rapid credit growth, mortgage credit in Colombia is still low and stands at about 5 percent of the GDP, below the levels of other emerging economies. (Roch 2017: 7).

Upon observing the countries in question, this claim has been confirmed. In 2013, Chile presented a mortgage credit/GDP relation of 18.7 %, while Mexico had a result of 9.8 %. Even Brazil, which could be compared to the Colombian experience for not having advanced in the segment of mortgage securitization, remains closer to Mexico, making up around 9.3 % between 2011 and 2015. In Latin America, a case that stands out on the low end, however, is Argentina, with 0.6 %. Central economy countries have normally maintained

rates over 40 %, according to data from the Brazilian Central Bank (Bacen) and the Brazilian Association of Real Estate Loans and Savings Companies (Abecip).

Some theoretical perspectives indicate the mortgage credit/GDP relation as a foundation of the increase in risks in determined markets based on a direct correlation between the rate and the tendency to form bubbles. However, countering this view, some authors have identified the formation of a bubble in the Colombian real estate market based on the relation between the strong demand and the slow reacting supply. “It has been documented that low interest rates and enhanced mortgage access have accelerated the demand for housing by Colombian families. On the other hand, regulatory restrictions and speculative behaviour by landowners have prevented a faster supply of new housing” (Gómez-González et al. 2015: 218). Therefore, the formation of bubbles in the Colombian real estate market, despite the low participation in mortgage credit, also differs from the type of deviation that can be found in the Brazilian market.

In Brazil, the speculative nature of the investment manifests as a function of production given the role that it plays not in providing the housing units, but in its capacity to attract and capture capital money that circulates in the financial sphere, whether in the stock market, or the mortgage market. In the recent history of the Brazilian real estate market, this phenomenon can be initially understood according to land speculation, as explained in Section 3, and, secondly, according to the construction of housing units as an activity with a purpose in itself, with the simultaneous and exclusive aim of presenting results to the shareholders and capturing public and private savings. The expression of this detachment between the production of housing and the function of the product delivered by this industry is demonstrated in the enormous amount of houses built in regions where the housing deficit is very low or almost non-existent (since the housing deficit is much more important in metropolitan areas), or in areas in which difficult access transforms all the construction work into a dead stock of units not being used.

The weakest link of the segment with the capital market in Argentina did not allow for the widespread standard of real estate production and urbanization² to make geophagic behavior a significant source of gains for international capital to the same extent in which it occurred in Brazil. Moreover, the Argentinean

real estate market slowly moved away from the realm of solutions that kept it in a reactive, more passive position. The use of real estate assets as a sort of hedge against inflation and against economic instability was reactivated after the crisis in 2001. A good part of the reserves in dollars were channelled to the purchase of units with the purpose of profits coming from rent. This process helps explain the reversal that resulted simultaneously in a fall in the amount of bank deposits and a rise in real estate investments. As a response to the low solvency of demand, the Argentinean market also diverged from the Brazilian path by keeping the production of units lower and more luxurious, according to an analysis by Juan J. Cruces (2016: 02-03).

The expected relaxation upon introducing a mortgage credit program for housing financed by the National Pension Fund (Procrear) was not strong enough to significantly change the weight of old practices in the realm of the Argentinean real estate investment market. Moreover, the relationship between mortgage loans and the GDP in Argentina, which remained around 4 % just before the end of the 1990s (Central Bank of Argentina), is currently closer to 0.5 %, as seen above. And, if initially (2012-2016), when it was still aimed at serving the more important classes for comprising the housing deficit, the Procrear program did not have the same impact as the MCMV had on reorganizing the Brazilian real estate market, after 2016, with the increase in interest rates and the rise of the income ranges served by the program, it would be unlikely to create a secondary market of mortgage debt, similarly to what happened in the USA, Chile, or even in Mexico. The return rates of almost 25 % on Treasury Bonds in the Province of Buenos Aires, for example, make it impossible to develop a market linked to issuing and securitizing mortgages. Therefore, the acquisition of high standard units previously built or under construction (in the old dynamic city centers of Argentinean real estate activity, as in the case of the region of Puerto Madero, as well as in luxury gated communities established in peri-urban areas) and the investment in land that can be incorporated into the urban fabric continue to be of greater relative importance in capital transactions, which circulate in the real estate segment, compared to what we see in the Brazilian case.

Observing these cases, “perhaps it is not very precise to generalize a housing policy built on subsidies as a claim in the region” (Bosc 2013: 343). But the problem of interpretation is not resolved when one

begins to understand subsidies as part of a strategy that strengthens mortgage credits exclusively. In Argentina, Brazil, and even in Mexico, subsidies and the participation of major state programs have had an important role as a device for promoting a demand that impacts construction. This does not mean, however, that this architecture is unrelated to the major circuits of financial valuation.

This new period of organizing the real estate market, if observed since the 1990s, will find in its origins a set of legal and political reforms that present the characteristics of the connection between the purely private forms of enabling and those that result from more modest efforts segmented by the States. The major housing programs that result and are derived from this context provide continuity to the innovation originating in Chile, upholding the option of subsidies for demand as a way to promote and revitalize a housing market linked to the production of the private real estate sector. The ‘Chilean model’ has thus become the precursor of “an enabling housing policy of development from the private sector” (Bosc 2013: 343).

Therefore, something more may suggest a level of alignment between the set of reforms, the adaptations and the new devices created for the purpose of increasing the capacity of the real estate segment to absorb capital. The redesigned policies and instruments for financing and stimulus to construction, together, seem to point in the same direction in all locations in which they occur: a shift of housing policies from the field of revitalization, acceleration and growth of national economies, sometimes appearing as a defining element of a policy of an anti-cyclical nature, to the field of international accumulation of financial capital.

6. Conclusion

In conclusion, taking into consideration the overall tendency towards the financialization of the real estate markets (Aalbers 2008, 2017; Sassen 2012; Soederberg 2014; Wainwright 2012), we have observed some particular characteristics that define the experience in Brazil. On one hand, “the financialization of the real estate market did not advance on the demand side through mortgage lending, but it occurred instead through developers’ closer ties with the stock exchange” (Santos and Sanfelici 2015: 4) based on the wave of IPOs that started around 2006. On the other hand, the decrease in levels of economic activities and

the launch of the largest housing program in the country, in part as a way to reduce the impacts of the crisis, ended up redirecting practices that were relatively well-established in the segment. Since the program has established itself as one of the most important sources of demand and for doing business in real estate and construction, many developers that had filed their IPOs started to adapt to the institutional norms of the MCMV. The shift of the main market of the construction segment from the higher income strata to the middle and low-middle income strata also led to an adjustment in the end prices of housing units and, consequently, in the typology and the accounting of projects (Rolnik et al. 2015). To meet the requirements of both the program and the capital market, developers started to move towards peripheral areas, where the land is cheaper and, under these conditions, the capital turnover can occur more quickly. Therefore, the gains directly related to land ownership are widely substituted by the advantages derived from the flow guaranteed by the existence of the program, which start to drive the interest and gains shared with the capital market.

This experience presents elements of a rarely considered situation in the widely circulated literature, thus providing a contribution to the debate. The important legacy of the debate on the processes of gentrification (Smith 2002; Wyly 2015) ended up directing the attention of most social critiques to spaces located in central areas of major global metropolises and even got excluded from critical perspectives, as noted by Slater (2006). A powerful conceptual theoretical apparatus, such as the one derived from the *rent gap* (Smith 2002; Slater 2015) or from absolute and differential ground rents (Deák 1985; Jaramillo 2010; Lipietz 1974; Lojkine 1971; Singer 1982) was also mobilized in this context. What this analysis intended to show was that, despite the interference of the rentier factor in guiding and shaping the activities of the real estate segment under the conditions described, the developers, due to interests specific to the business environment in which they are involved and focused on their own return on the total capital invested in the segment, did not always aim to appropriate additional differential gains of property derived from land, even in a situation of typically expansionist activities.

The conceptual field of ground rent was, for many, and for a long time, the crucial element connecting the Marxist theory of value and the possibility of observing spatial dynamics from a critical stance, as the

way to revalue space in the social critical theory. It is important to emphasize that the set of hypotheses upheld here do not obstruct this path, but instead, point to the fact that this element cannot be considered on its own and that its participation varies in power and form throughout history. With this, we hope that the path outlined here opens new horizons to observe the importance of space and spatial dynamics within the field of critical social theories, deeply related to the theory of value.

Notes

¹According to data from the *João Pinheiro Foundation* (2018) and the basic data from the National Household Sample Survey (PNAD) of Brazilian Institute of Geography and Statistics (IBGE 2015), the total deficit increased since the program was created. Since 2011, while the excessive burden caused by rent contributed greatly to the rise in the overall rate, the other causes of the housing deficit tended to keep up with the high or did not vary greatly. Even cohabitation, which had been dropping until then, began to climb again. Moreover, the program did little to curb the deficit in the areas in which it was most significant, i.e. the most populous metropolitan regions in the country. There was a reduction in the total deficit only in the North (2 %) and Northeast (2.6 %) regions. This decrease was small in comparison to the increase in percentage terms (18.3 % in the South, 12 % in the Southeast and 8.1 % in the Midwest) and even less significant when compared to the deficit increase in absolute terms in these regions. The result was a 5.9 % increase in deficit since the creation of the program until 2015.

²Considering the major relative importance of private and public projects that conform to so-called *urbanizaciones cerradas* ('gated communities'), the urban sprawl continues to be a characteristic of the spatial dynamics in Argentina. As a result of this, the consumption of urban land in these areas greatly surpasses that of plots in traditional cities, keeping occupation densities at less than that of 40 inhabitants per hectare. The approximate area incorporated by this type of enterprise in the first decade of the 21st century in all of Argentina reaches 40,000 hectares, "a figure equivalent to double of the surface of the autonomous city of Buenos Aires" (Vidal-Koppmann 2011: 114).

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