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**4 - 6 ABRIL 2023**

# **Subordinate financialization of real estate development in the semi-peripheries of the global capital The case of Romania**

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**REDURB – Class formation and re-urbanization through real estate development at an Eastern periphery of global capitalism (UEFSCDI, PN-III-P4-ID-PCE-2020-1730)**



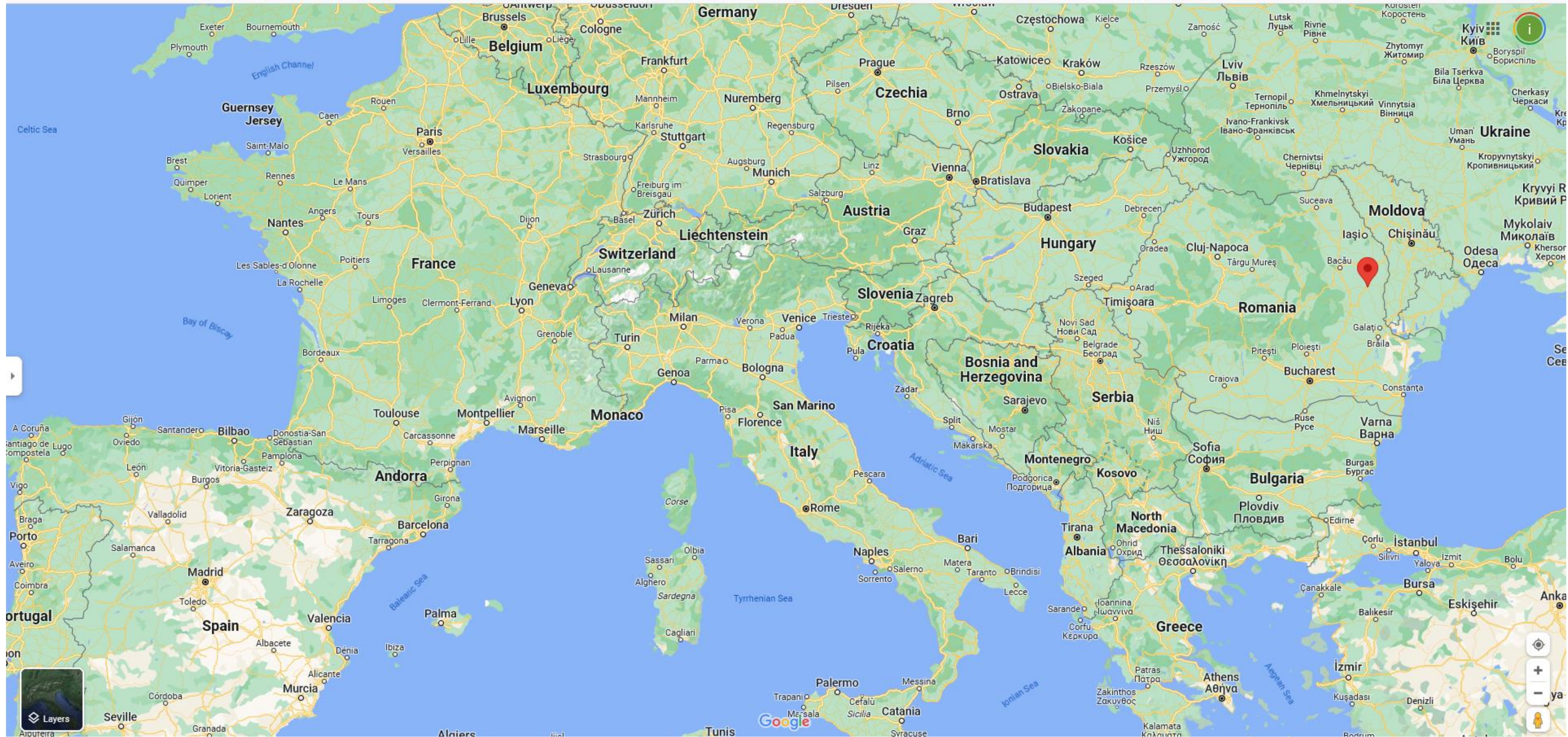
- **Addressing the subordinate financialization of real estate development in Romania**

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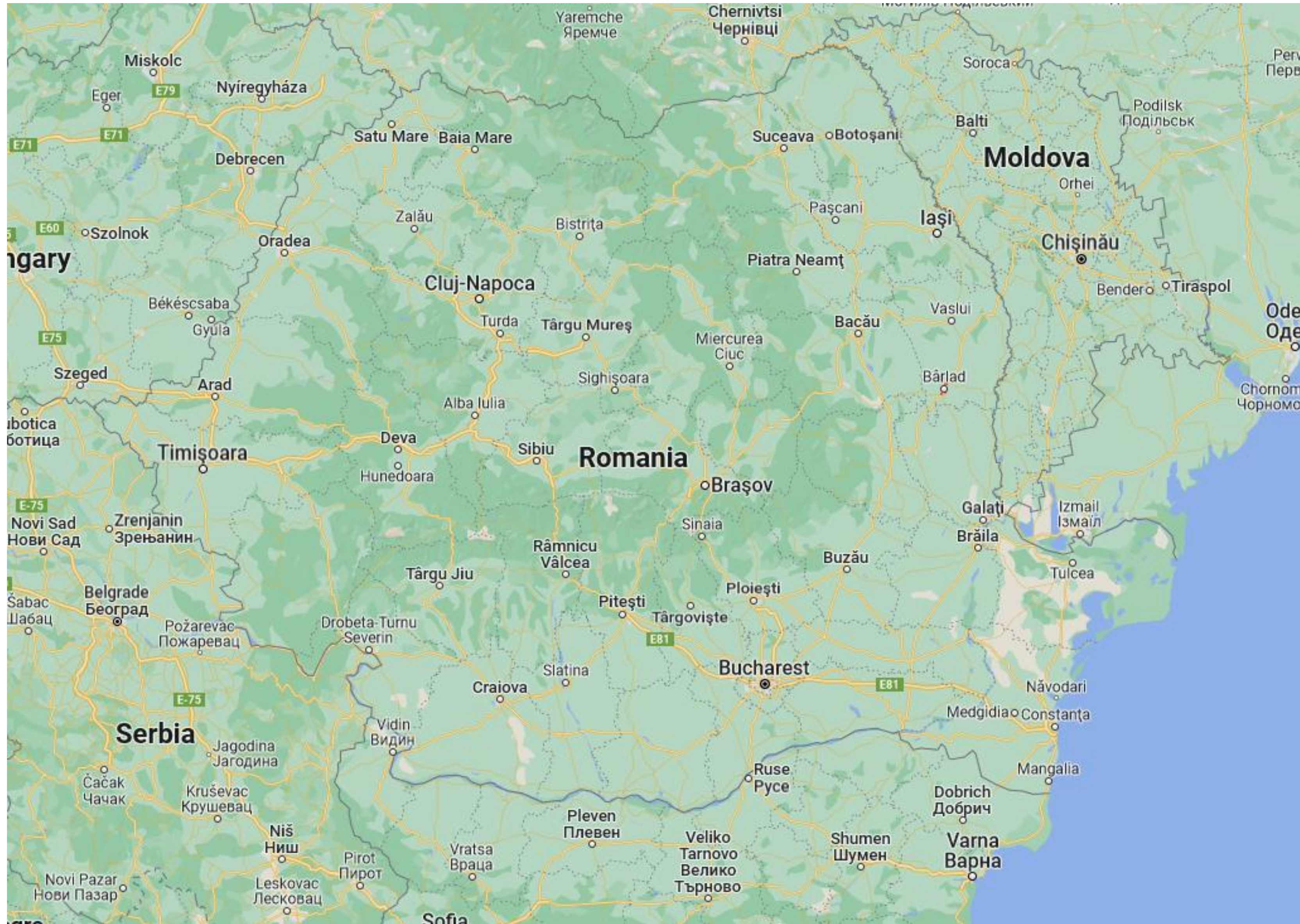
When addressing the subordinate financialization of real estate development in Romania, we stress three basic information

**(3)** Romania is a good country for foreign investments, because of its fiscal system which requires a corporate income tax of 16%, a standard VAT of 19%, a dividend tax of 5%, and no tax on reinvested profit. Foreign direct investment flow grew with 22% in the first half of 2022 compared to the same period in 2021. Constructions and real estate transaction accounted for 16% of the total FDI In December 2020, ranking third in importance after manufacturing and trade.

**(1)** Romania is a country in Central and Eastern Europe that has undergone a major transition from state socialism to capitalism over the last three decades, so in a period when capitalism was neoliberalized and financialized globally. Among the conditions for the formation of real estate development as a new sector of capital accumulation, the creation of a market-dominated housing regime, privatization and deindustrialization must be mentioned.

**(2)** We deal with financialization as a process that increases the dominance of financial actors. The financialization of real estate development occurs when financial and real estate markets intersect, a process that has evolved unevenly worldwide. We consider that a country's subordinate financialization in real estate development is a translation of its semi-peripheral status, transforming the country into a location that absorbs mobile real estate capital from core countries. Such a process is the result of the convergence between the interests of foreign capital accumulation and local historical and current dynamics.

- **REDURB cities on the map of unevenly developed Romania**



What we present today is a small part of an ongoing research project called REDURB

Cluj-Napoca: a city in the NV development region of RO, the 2nd most economically-developed region in RO after the capital-city; it has more than 400.000 people together with its metropolitan area serving the city (it has constantly grown to this number until today); it is a center for the IT industry, and an example of advanced financialized development.

Bârlad: is a town in the NE development region of the country, one of the poorest regions of Romania and of the EU; it has a population of less than 60.000 inhabitants, constantly diminishing in the last 30 years, with many people migrating to other cities and abroad.

Romania joined the EU later than Central European countries, in 2007, but the pre-accession process marked the entire decades of the 1990s and the 2000s. This required the creation of markets in all economic domains, and the privatization of industries, of lands, and of housing.

To get an idea of the impact of such transformations, Romania it is to remind that it has a bit less than 20 million people, out of which around four millions work abroad.

For the REDURB project, we researched eight cities as case studies, all around the country, very different cities in terms of size and economic development, and their locations on Romania's map.

Today we will only talk about two of our case studies, that illustrate well regional inequalities, as well as inequalities among cities of different sizes. They also illustrate well how subordinate financialization links them all, and builds-up on these inequalities.

- **Bârlad: a case of periphery at the semiperiphery of the EU**



# Pre-2008 real estate development/ disinvestment



Bârlad used to be quite a **strong industrial city before 1990**, with huge state-owned factories, where tens of thousands of people were employed.

The story of Bârlad from 1990 to the 2008 crisis, was essentially marked by the **privatization of these factories, followed by their slow decay and insolvency**. The national authorities played an important role in this process, as privatizations were done through political decision that implemented the EU accession-condition.

The terrain and the production halls of the former factories became empty real estate, left to decay, as the local authorities also disinvested in them.

The local real estate market was only fueled by **individual housing projects**, and small construction projects. In the 2000s, when the private credit market was opened in Romania, some households could afford to take on bank credits in order to make home-repairs, and small investments.

This **small-scale financialization of housing** had from the start a class aspect, as poorer households could not afford the mortgage-programs offered by banks!

# Post-2008 “medium size retail” real estate development



In the aftermath of the 2008 crisis, the **population of Bârlad experienced massive labour-migration abroad**. In this process, households slowly saved money to self-build new homes, or to repair and enlarge older homes. Since 2011, a new credit program guaranteed and subsidized by the state, allowed **low-to-middle income households to afford mortgages**. In this way, the small-scale financialization of housing continued, facilitated by state policies.

In this post-crisis period, the small shops existing in all neighbourhoods died out. Instead, a **few multi-national retail chains entered the market**. More recently, some of them developed on former industrial sites (such as this Lidl shop in the photo). With them, Bârlad transformed even more from an ex-industrial town into a consumer town.

And we must say that **this consumption is also financialized**: through the consumer credits taken up by households, and, through the multi-national retail chains that use their properties as collateral for credit, in order to develop properties in new locations!

# 2019-2023: “strip mall” “large retail” real estate development



In 2019, an international investment fund bought a large part of the former industrial area; and very quickly developed a retail park there [called **Bârlad Value Center**].

The same investment fund has recently developed retail parks in other towns. And, with this enhanced portfolio, it was able to gather capital for more expensive office and residential projects in Cluj, and in a few larger cities that we studied. Their real estate projects are usually developed in partnership with lending banks and other financial actors such as foreign pension funds. So these are **part of a large-scale financialization scheme**.

On the local scale, the authorities gave permits very quickly for the retail park in Bârlad and were even present at its inauguration in the year 2021. They supported this development, because they considered that there is “a need for modern commerce” in their town. And, indeed, there is a need, or better said desire, that is actually **fueled by middle and low-to-middle income categories who want to shop in shopping malls**. In Bârlad, just as in many other small towns around the country, where **inhabitants** aspire to shop like in the big cities.

- **Cluj-Napoca: a case of the advanced financialization of real estate development**





In an effort to attract more investors, the entrepreneurial local authorities sustained by World Bank experts, branded the city as "**Silicon Valley of Romania.**"

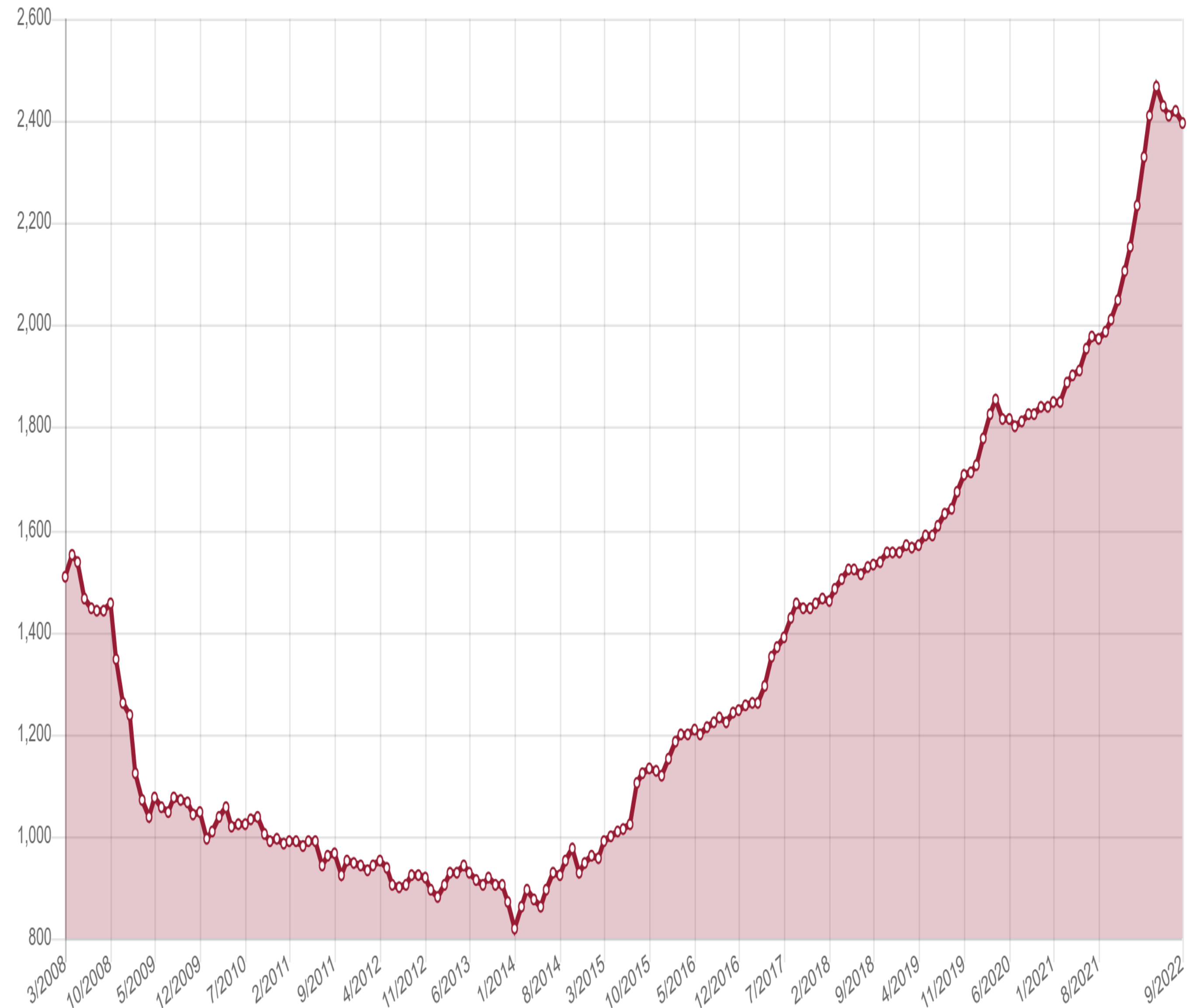
The slide shows images of three new real estates: "**The Office**," one of the largest office buildings of Cluj, built on the site of a former textile factory; "**Platinia Mall**", a mixed real estate project with retail, residential, and hotel facilities built within the perimeters of a former bear factory; and "**Maurer Panoramic**", one of three 25-story buildings under construction on the location of the city's demolished slaughterhouse.

The Property Forum website promoted Cluj-Napoca in 2022 as follows: The city is attractive to investors in both **the commercial - office and retail - and residential sectors**. Office buildings are a good investment option, as they provide a high **yield of 8%** and the demand for office space is constant because the city is the most important regional hub for IT companies.

Cluj-Napoca ranks first on **the highest average rental prices**, surpassing Bucharest for one- and two-bedroom apartments. The city remained the **most expensive housing market in Romania**: the average prices grew to over 2,400 euros per sqm in May 2022.

# Real estate transactions and residential market prices

## Evolution of the real estate market in Cluj-Napoca 2013 - 2020



**Foreign-capital investment funds** have recently claimed more space in the residential real estate sector, which was previously dominated by Romanian developers: among them are the South African developer-investor-operator Prime Kapital, the American White Star Real Estate, the Belgian Speedwell, and the French Bina Real Estate. All the well-known **retail companies with foreign capital** are present in Cluj-Napoca, and they are also important real estate players. **IT, consulting, and financial foreign companies** rent office spaces in the city's buildings. Star Residence Invest, Romania's first **Real Estate Investment Trust**, listed on Bucharest stock exchange market, was formed by the collaboration of Impact Developer Bucharest and Reit Capital Cluj.

Due to the high housing market prices, Cluj-Napoca is marketed as a city where it is worthwhile to invest, so the process of **rentierization** is widespread among physical persons who use their second or third home to generate income through rents. In terms of the number of mortgages, Cluj ranks second after Bucharest. Furthermore, the first real estate transaction companies were registered in this city in 1990 (17 in number), whereas no similar companies were registered in the other REDURB localities that year. Since 1993, Cluj-Napoca has been the city with **the highest number of newly registered companies on real estate transactions each year.**

**Cluj- Napoca's advanced financialization in real estate development is reflected, among others, in some famous transactions involving foreign investment funds.**

For example, in 2019, Colliers International facilitated the acquisition of Maestro Business Center by the British Investment Fund First Property from a local businessman.

In the same year, BlackRock, through NEPI Rockcastle, sold The Office building to Dedeman Grup, a transaction mediated by the international real estate consulting firm JLL.

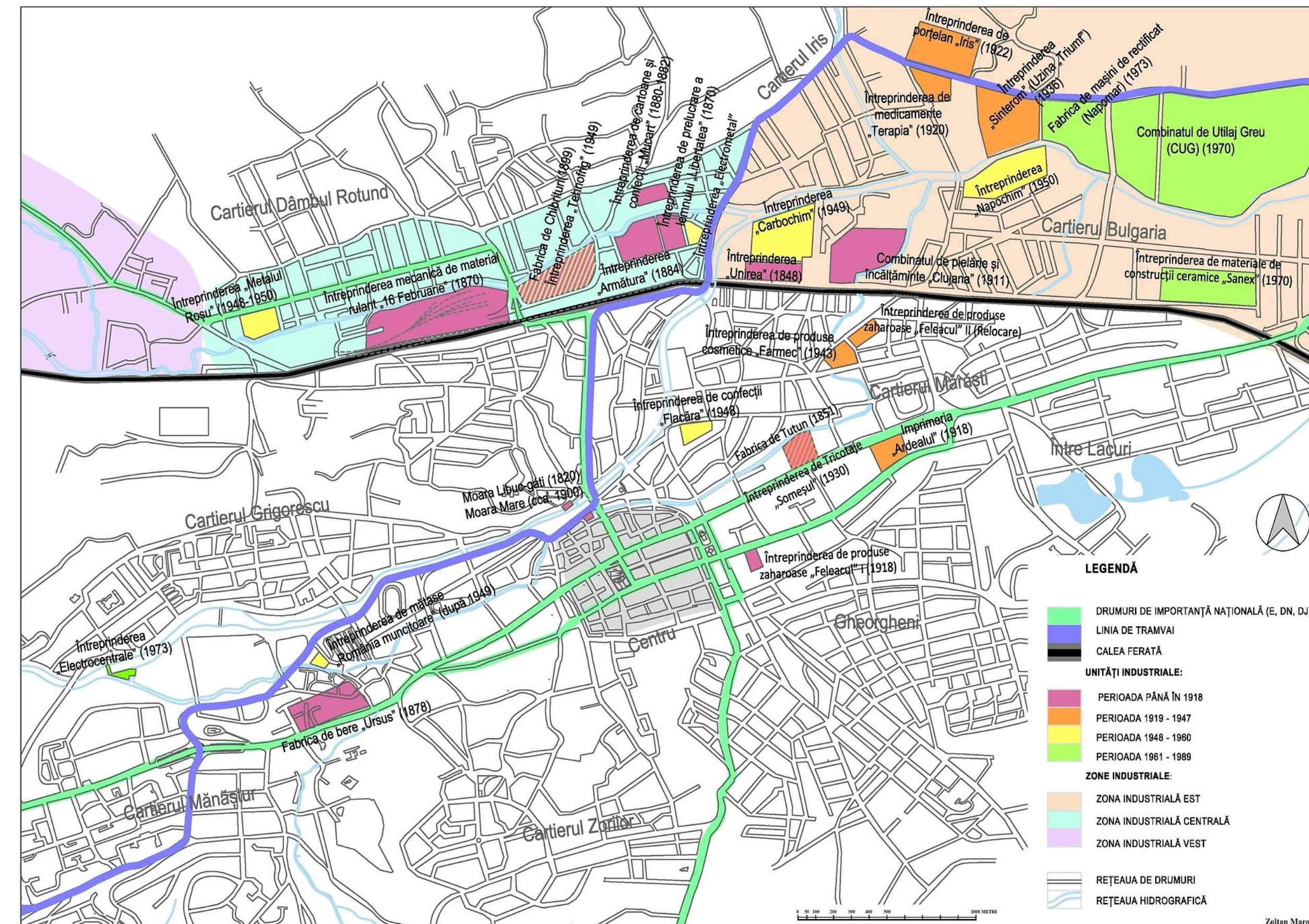
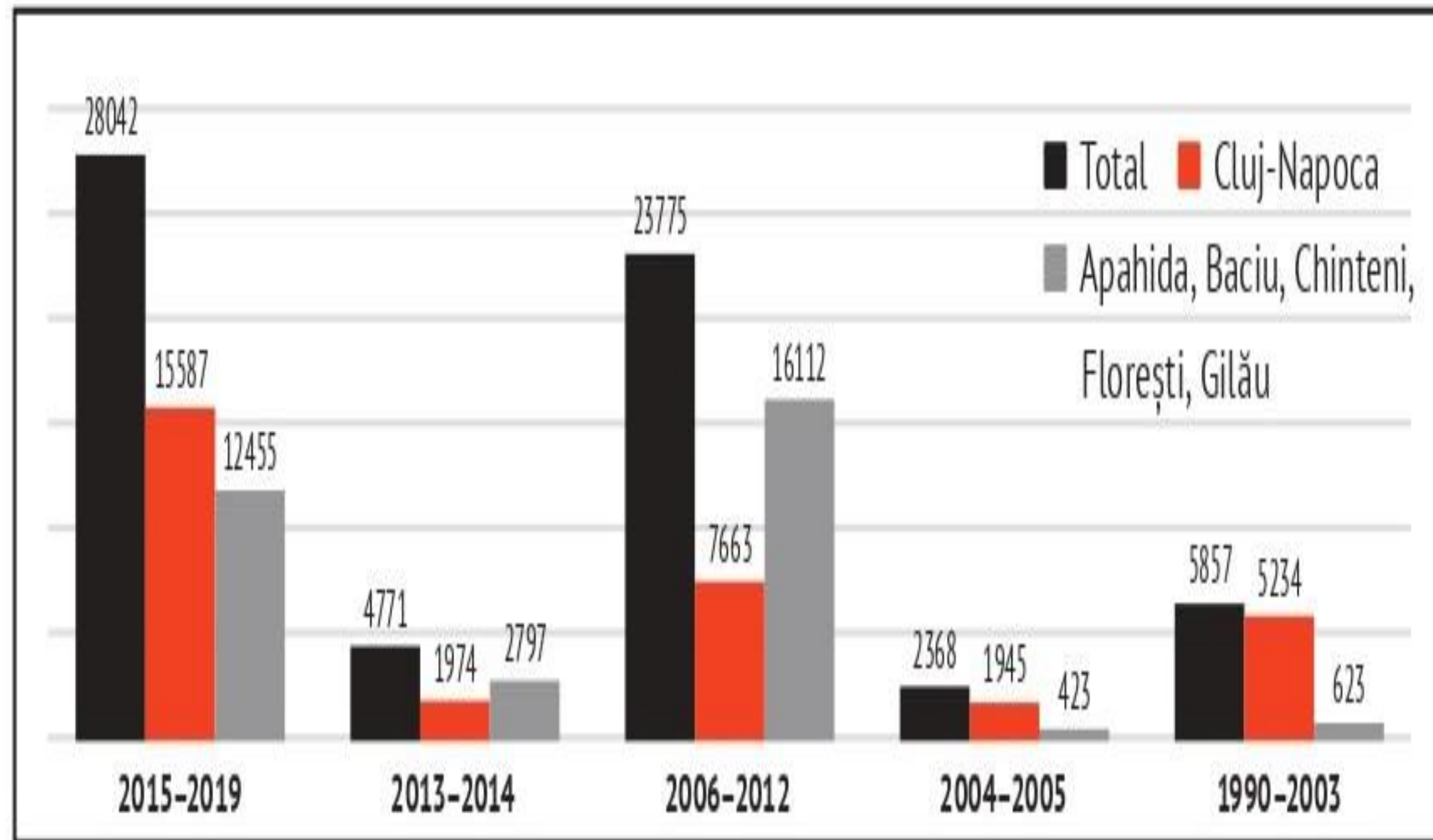
White Star Real Estate, an American real estate and property asset management investment fund, purchased the Liberty Technology Park office-building from the original developers. Revetas Capital, a CEE-focused investment firm announced its intention to buy the residential real estate tower Maurer Panoramic in 2022.

# Trends in residential real estate development

The extension of residential real estate development beyond the inner city and administrative boundaries

The transformation of privatized industrial platforms into sites of new real estate development

Figura 8. Evoluția numărului de locuințe finalizate în Cluj-Napoca și 5 comune învecinate, INS, 1990-2019



The development of residential real estate in Cluj-Napoca revealed several spatial trends.

Another significant trend was the transformation of privatized industrial platforms into new real estate development sites.

It began slowly after 2005, with a few reconversions, but was slowed by the 2008 financial crisis. After 2015, the trend accelerated to the point where only a couple of former industrial areas on the city's north-eastern outskirts are still used for productive or warehouse purposes.

One of the most significant was the expansion of the inner city and its administrative boundaries.

Cluj occupied 3978 hectares in 1977, 6470 hectares in 2000, and 10471 hectares in 2016.

Furthermore, the transformation of neighbouring villages from Cluj Metropolitan Area's first ring into dormitories affordable for the low middle class attracted by the city, began before 2005, but it peaked between 2006-2014, however it is a trend that continues today as well.

- **Concluding discussion**

With our two case studies, we wanted to demonstrate how the financialization of real estate development in a semiperipheral country like Romania evolved in the context of territorial and class inequalities, and how political decisions supported the interests of foreign and national capital accumulation.

2.

Nonetheless, we are seeing a **re-contextualization** of subordinate financialization in real estate development within the frames of local daily life. The involvement of public authorities, the ambitions of Romanian real estate capital, and the aspirations of emerging local middle classes all contribute to this re-contextualization. This process unfolds unevenly in the context of territorial inequalities at various scales, fueled by intense intercity competition for capital investments and a fascination with consumption patterns available in so-called magnet cities.

1.

Subordinate financialization is about the dominance of actors and processes beyond the local level in subordinate financialization: international banks, multi-national retail chains, international investment funds gathering capital from banks and pension funds, local land used as collateral for investments elsewhere, and local developments used to enlarge the investor's portfolio to gather capital for more profitable investments in other parts of the globe.

This is an aspect of what Savini and Aalbers refer to as "**de-contextualization**" in their article about similar transformations in Milan, Italy.

► The REDURB research project looks into subordinate financialized real estate development in Romania to illustrate global processes that are mediated locally by specific current political economy factors and path dependencies.

► The semiperipheries of Southern and Eastern Europe (for example, Portugal and Romania) reveal some similarities and differences in their roles in the global financialization of real estate development, which require further investigation.