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**RELATIONALITIES OF FINANCIALIZATION  
ACTORS, PRACTICES AND POLICIES OF HOUSING  
PRODUCTION IN SOFIA, BULGARIA**

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## **RELATIONALITIES OF FINANCIALIZATION**

### **Actors, practices and policies of housing production in Sofia, Bulgaria**

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#### **ABSTRACT**

Gated Communities are often considered as symbols of segregation, privatization of housing or wider process of socio-spatial polarization in different urban contexts (Davis 1999, Low 2001, Rosen und Razin 2009, Kovács 2014). This paper will extend this perception by arguing that gated communities can be also seen as outcomes and symbols of financialization (of housing/urban production). By taking the example of Sofia's gated communities I will explore a few aspects of the relationalities<sup>1</sup> of financialization. This includes a look at the transnational character of urban policy making and housing production as well as an analysis of the materiality and socio-spatial dimension of financialization. Moreover, this paper reveals the involvement of European institutions within the capital circuits that shape the financialization of housing in the case of Sofia's gated communities. Major financial institutions are deeply involved as well and have become the new (global) landlords.

**KEYWORDS:** financialization, housing, Eastern Europe.

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<sup>1</sup> Relationalities refer to a conceptualization of relations and connections which comprises different actors, practices and motifs at different spatial and temporal scales.

## **1. RELATIONALITIES OF FINACIALIZATION**

Gated Communities are often considered as symbols of segregation, privatization of housing or wider process of socio-spatial polarization in different urban contexts (Davis 1999, Low 2001, Rosen und Razin 2009, Kovács 2014). This paper will extend this perception by arguing that gated communities can be also seen as outcomes/symbols of financialization (of housing/urban production). By taking the example of Sofia's gated communities I will explore a few aspects of the relationalities<sup>2</sup> of financialization. This includes a look at the transnational character of urban policy making and housing production as well as an analysis of the materiality and socio-spatial dimension of financialization.

### **1.1 Urban policies and urban planning in a neoliberal era**

When looking at the last two decades of housing and urban development in Sofia in particular and in Eastern Europe in general one can see that many cities have been following similar neo-liberal models (Hirt et al. 2013). In the beginning of the 1990s this meant deregulation of the land and housing market, privatization of housing, housing construction and social services for housing as well as entrepreneurial approaches concerning urban policy making (Tsenkova 2009, Stenning et al. 2010, Hirt 2015). The roots of this (urban) policy model have been promoted since the early 1990s by international institutions, such as World Bank, International Monetary Fund, EU institutions and programs as well as other transnational actors (consultancies, think tanks, etc.) at national and at urban scales (World Bank 1993). Moreover, neoliberal restructuring was intensely shaped by local and national elites. In terms of urban planning these glocal relationalities led to a heterogeneous mixture of an adoption of urban visions promoted by external experts, unprecise planning documents and dozens of investor-led “revitalization or regeneration” projects that all have provided conditions for a commodification of urban space.

### **1.2 Commodification of urban infrastructure**

Since the early 2000s neoliberal urban restructuring has entered a new stage. In terms of housing this resulted in an intense wave of construction in the suburban zones. Institutionally speaking one could observe the following novelty: while the 1990s had seen destruction of old (state-socialist) structures and a rather passive role of new (local) institutions (decentralization) as well as a general legitimacy crisis of planning at different scales (Hirt 2015: 189), local urban policy actors are playing a much more active role in processes of privatization and commodification in recent years. This regards the production of housing but also the construction and renovation of urban infrastructure such as new underground railway lines, highways, sewage systems, water supply or energy networks as we can observe it from Prague to Tirana and from Bucharest to Sofia. In many cases public assets have been transformed into financial assets which includes a prominent role of local authorities and institutional investors (Halbert and Attuyer 2016: 1348). This includes the leasing of public infrastructure to global investors. What connects most of these heterogeneous cases is the diffuse and highly complex structure of how global financial capital is involved in terms of public-private partnerships, networks and flows. In Sofia, for example, water supply has been “privatized” and belongs now to Veolia

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Environment.<sup>3</sup> Electricity supply is provided by a joint-stock company that is called CEZ Distribution Bulgaria AD.<sup>4</sup> CEZ Distribution Bulgaria AD mirrors the complex relationalities of public-private partnerships in Eastern Europe's urban infrastructure since it is a joint-stock company which involves the Czech state, private minority owners and different institutional investors.

### **1.3 Political economy of financialization**

Before analyzing the actors and structures of financialization of housing let's have a short look at some general aspects of Bulgaria's political economy. Similar to other Eastern European economies Bulgaria is highly dependent on foreign capital investments. This is due to the introduction of a economic and fiscal (austerity) policy in connection with the currency board in 1997. Commentators have called it a new kind of accumulation regime since the Bulgarian currency has a fixed exchange rate with the EURO which has increased the prices of Bulgarian products and has triggered wage and social dumping (Ivanova 2009: 171).<sup>5</sup> Consequently, foreign direct investments have become an important issue. Therefore, investment in real estate has been an important source of revenue for the Bulgarian economy and has been strongly supported by all types of national and regional governments. In fact, foreign direct investment amounted for almost 30% of Bulgaria's GDP in several years. The major part of it (up to 30%) was investment in real estate.<sup>6</sup>

### **1.4 Local political economy of financialization**

Sofia has been the core of investment where more than 50 per cent of the foreign direct investments have been taking place since the early 2000s. This massive inflow of global capital has been predominantly provided by private equity funds (open and closed real estate funds) in terms of real estate and construction. These new types of financial actors have been also the major force of gated community production in Sofia in the last decade with a total volume of more than one billion Euros. More than 80 per cent of Sofia's gated communities belong to these global landlords. However, gated communities did not start as a "global financial product". Especially until the early 2000s Sofia's gated communities were produced mainly by entrepreneurs of Bulgarian origin who invested in housing in order to solve over-accumulation. All of them used to be active businessmen/women who were running other kind of businesses before (food business, agriculture, sanitary products). In fact many interviewed developers reported that a major reason for shifting capital from the primary to the secondary circuit of capital was a *spatially and temporally fixing* of capital (Harvey 2001).

### **1.5 "Financialized landscapes" and networks of financialization**

The production of "financialized landscapes" has started in the mid-2000s and is closely connected with strategic alliances and partnerships between real estate funds, financial institutions and (transnational, national and local) public authorities. Moreover one can observe a growing interdependency between these different actors. This concerns material relationalities as well symbolic arrangements that have been introduced in order to support

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<sup>3</sup> Officially, Veolia closed a 25-year contract with the municipality of Sofia that grants operation and maintenance to a newly established company that belongs to Veolia. <http://www.sofiyskavoda.bg/en/about/default.aspx>

<sup>4</sup> <http://www.cez-rp.bg/en/about-us/companys-profile.html>

<sup>5</sup> "Bulgaria's exports consist mostly of low-value-added unskilled-labor-intensive products that are susceptible to competition by other lower-wage countries. The country is also heavily dependent on imports of capital machinery and raw materials." (Ivanova 2009: 170)

<sup>6</sup> Although foreign capital inflow has been reduced drastically since the beginning of the crisis in 2008/2009, it still remains the major source of investment in Bulgaria.

the general standing of gated communities.<sup>7</sup> In terms of material relationalities globally operating real estate funds received state-funded subsidies in order to be able to complete their real estate projects.<sup>8</sup> Urban Planners are even considering them as the “natural partners/drivers of urban development”.<sup>9</sup> Moreover, the Sofia municipality started to build public bus stops for these private housing complexes. And recently two gated communities have even become independent urban quarters which offers privately governed complexes an administrative status that could lead to a kind of political independency.

The networks of financialization go far beyond the local frame and include also transnational public institutions. A major actor is the European Bank for Reconstruction (EBRD) which has financed several gated communities by credit loans in Sofia<sup>10</sup> as well as in other Eastern European cities.<sup>11</sup> Furthermore individuals who have worked for EBRD are central figures within the complex network of gated community production as the following figure shows.

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<sup>7</sup> In 2002 the Ministry of Regional Development, construction chamber of Bulgaria and several other public or private actors (e.g. Bulgarian National Television) launched the so-called *Building of the Year National contest*. Gated communities have been awarded several times as the most innovative housing projects in Bulgaria.

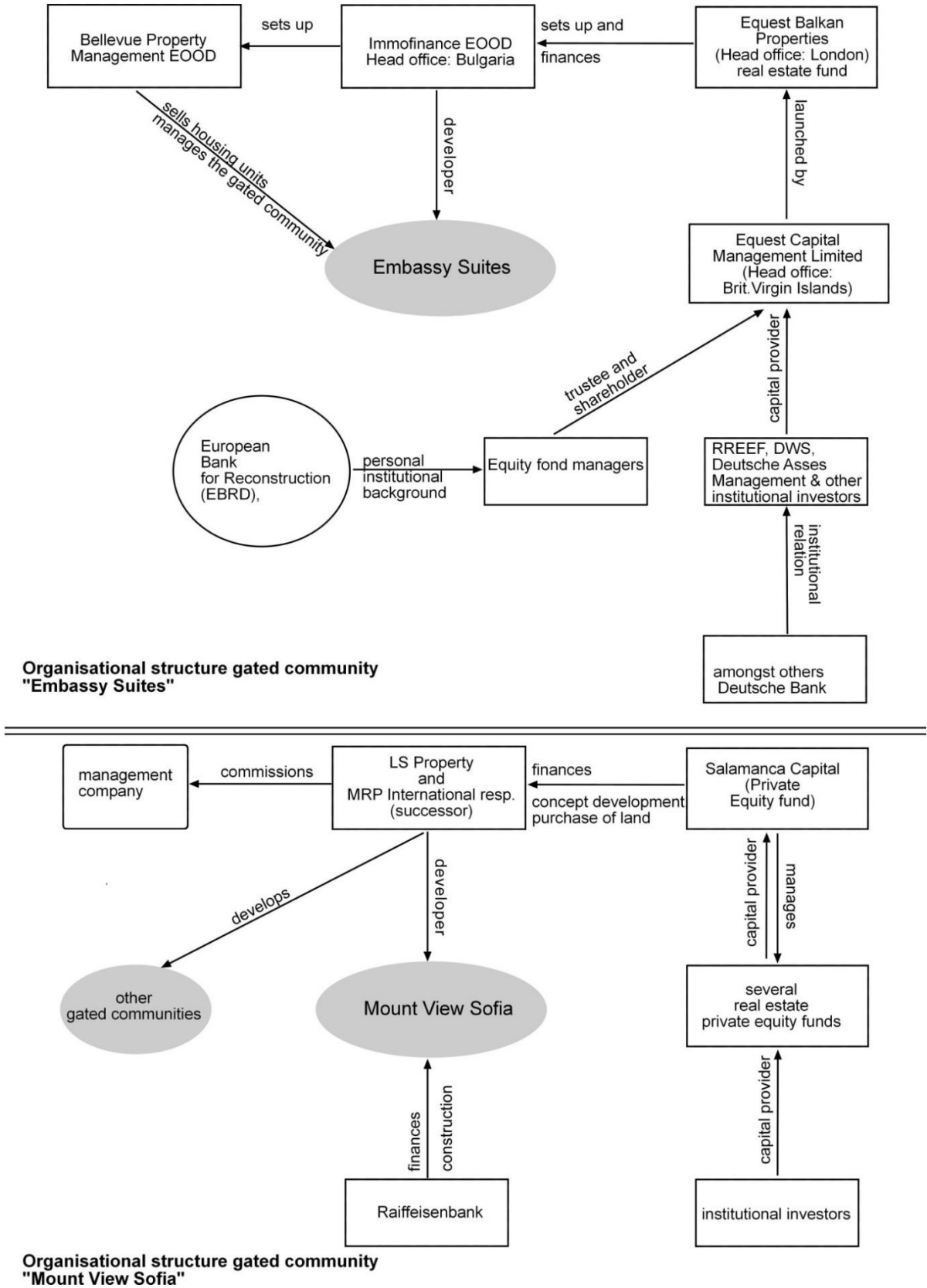
<sup>8</sup> *“We got a support from the state, because it [Residential Park Sofia, CS] was considered as a priority project and we got around 5.5 million Euros. But we had to invest a lot! In a way it is a kind of public private partnership. But we have actually invested a lot of money in Business Park and Residential Park Sofia. So it is clearly a win-win situation for both sides. [...] Legally it is a complicated case. It was considered a priority of one of the ministries. And there is a special law of promotion of investment. And we got support through that program. So the state supported investments and then it was transferred as a property to the municipality. Actually after our case they changed the procedure and now the money is first transferred to the municipality and then to an investor”* (D8, General Manager of the gated community “Residential Park Sofia”).

<sup>9</sup> *“In terms of public private partnership the Residential Park is quite a nice example, because this closed-type complex was allowed under the condition to improve the public infrastructure. Therefore, they received money in order to construct a part of the ringroad. So this is a kind of public private partnership. Public private partnership is not defined by law or in some kind of strategy paper, but such major actors in construction or major developers are always asked to help the municipality who does not have enough resources for constructing a proper street network. But it is also their interest to have functioning infrastructure”* (C2, Stadt Sofia, Sofprojekt).

<sup>10</sup> *“Orchid is a real estate developer [of gated communities, CS] and hotel operator in Bulgaria and its strategy is to take advantage of the economic growth and convergence associated with Bulgaria’s upcoming membership of the European Union. It has built up a team, experience and reputation as a developer over several years. Recognising these qualities, the EBRD has agreed to make available a senior debt facility of approximately 30 million Euros [...] for the co-financing of five of Orchid’s project in Bulgaria. The EBRD has stated that this breaks new ground for the financing of real estate developments in Bulgaria”* (<http://www.orchid-dev.com>)

<sup>11</sup> This concerns projects of the GTC Group. They received loans of about 46 millions by the EBRD in order to construct gated communities in Poland (<http://www.ebrd.com/downloads/research/annual/invest11.xls>, abgerufen am 18.9. 2013).

**Figure 1:** Organisational structure of Sofia's Gated Communities



Source: Own research

Generally speaking gated communities reflect the relational character of housing production as well as the relational character of financialization. Figure 1 illustrates different dimensions of these relationalities. First of all one can conclude that the local housing product “gated community” is produced at different spatial or geographical scales. This embeds the local scale “Sofia” where the complex itself, management companies and brokers are located, regional headquarters of financial investors in different European cities as well as private equity funds registered at the British Virgin Islands or at London stock exchange. Relationality concerns the complex network of different financial actors, too.<sup>12</sup> Figure 1 shows the variety of actors involved from private equity funds, financial institutions (e.g. Deutsche Bank, Raffeisenbank, Piraeus Bank), holdings, fund managers up to newly established local institutions who are responsible for the daily business.<sup>13</sup> This leads us to question why gated communities are organized in such a complex and interleaved manner.

Behind this complex setting we can find two general motifs that are linked to this particular inter-organizational structure. A major motif is a so-called *reduction of liability*. As mentioned above all gated communities are owned by Bulgarian companies or funds. In fact, before starting the construction process new “Bulgarian” funds are set up that are functioning as the exclusive owners. This means that they are economically and financially responsible for the operation, whereas the private equity fund or the holding company cannot be prosecuted even though they are providing the financial resources and gaining the profits. This leads us to a second major motif of this complex border-crossing which Botzem and Dobusch have called *tax avoidance* (Botzem and Dobusch 2012: 685). In fact, the vast majority of private equity funds that are functioning as holding companies are situated either in low-tax regions outside of Europe (e.g. British Virgin Islands, Cayman-Islands) or in special zones of low-taxation in the European union (e.g. the Netherlands, Cyprus). Tax avoidance in terms of gated communities means a splitting of revenues so that due to a heterogeneous network of responsibilities only a very limited amount of taxes has to be paid in the “country of construction” (Bulgaria - executed by a Bulgarian fund) and in the country where the holding company is registered.<sup>14</sup>

## 1.6 Socio-spatial relationalities of financialization

Last not least I want to outline a one aspect of the socio-spatial dimension of financialization. A general and visible feature of Sofia’s gated community is the high vacancy rate. Based on data from field research that was conducted in more than 20 per cent of Sofia’s gated communities it gets obvious that vacancy is rather a general characteristic than an exception. In fact, the majority of the investigated case studies has a vacancy rate of more than 50 per cent. And at least a third of the investigated complexes is not populated at all or has a vacancy rate of 90 per cent. This is mainly due to the fact that the majority of Sofia’s gated communities are constructed in order to be profitable real

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<sup>12</sup> “We are working with a variety of different channels. Our main partner is a group called Salamanca capital. It’s a private equity shop from the UK. But there are number of other projects where we work with Salamanca capital. But we also work with individuals who come in and invest at a project level. [...] Usually it works that: We design the project. We have a land acquisition manager. If he finds land then we buy the land, then we go to Salamanca capital and to our individuals who are usually around and we say: Ok, guys, here is land, we can build for instance 128 apartments. We think we can sell them at this price. Do you wanna come on board? We put the disposition together of what we think the forecast is gonna be and based on that they do their own forecast and if the two marry then we come together and finance the project.” (D5, Sales Manager Mount View Sofia)

<sup>13</sup> Even though all gated communities in Sofia had been constructed and are officially owned and managed by Bulgarian companies or funds, they are part of a holding structure that obliges them transfer all kinds of revenues to the holding company.

<sup>14</sup> Bulgaria itself has one of the lowest rates of corporation income taxes in the European union.

estate products which are usually sold to institutional investors and not directly to clients.<sup>15</sup> This means that gated communities are objects of speculation where the exchange value surpasses the use value in a systemic manner.

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<sup>15</sup> "Most of these empty or unfinished projects had been financed by banks which somehow financed an investment plan presented by the developer. A lot of developers didn't make professional forecasts, so they can't pay back the loans to the banks. At the end the bank takes over the whole project and waits for better times" (D12, general manager Residential Park Sofia).