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Abstract

In the past two decades, real estate has been transforming from owner-occupied utilities into (well-performing) financial products with high yield expectations from investors. In this regard, the main objective of the paper is to discuss two central processes, which not only materialise in urban space but, following their inherent economic logic, reinforce each other. First, the increased volatility of office markets in international financial centres is a result of the liberalisation of the international financial markets and has been creating places of capital extraction within those cities. Second, and on the contrary, municipalities face increasing restrictions on domains such as urban planning, forced by the necessity to attract private investors to boost the local economy, thus, retracting the political space for manoeuvre with respect to the varied needs of their own inhabitants.

Keywords: real estate office markets; financialisation; planning policy; Frankfurt am Main.

JEL classification codes: A14, P16, R11, R58

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1 Introduction

The spirits of neoliberalism once called by the cities are finally ignoring their caller's commands. This is one observation that may be made by looking at the provisional results of the recent crisis of the financial sector in general but also in cities, which especially function as trading hubs for the global financial industry. In international financial centres (IFCs) such as Frankfurt, which I will exclusively refer to in this paper, one can observe a large amount of vacant office space. This is not only a result of the aftermath of the recent economic crisis. In Frankfurt, for instance, both the financial economy and the sector's employment temporarily experienced a significant downsizing. But vacant office space is also a result of the highly speculative game powerful international investors increasingly play on the office markets. Since real estate is locally and spatially confined by its very nature, both factors challenge today's local state in the short as well as in the long run. It is often stated that global financial investors progressively own the city and/or the built environment in cities (Lizieri, Baum, and Scott 2000; Lizieri and Kutsch 2006), therefore restricting the urban inhabitants' control over and their "right to the city" (Lefebvre 1968; Purcell 2002; Harvey 2008) as well as delimiting their power with respect to decisions that contour the city (Purcell 2002: 99; cf. Peck 1998; Tickell and Peck 1996; Ward 2000).

In general, I argue that the processes of financialisation – or, in larger conceptual terms, neo-liberalisation – do not only destruct urban space, in fact, these processes also leads to the *creation* of necessary new urban space. In other words, besides its disparaging face financialisation also offers potentials for an (economic) 'upgrade' of a city via its built environment. This is seen as a crucial precondition for the ongoing global inter-urban competition pressuring the cities to bend to international investors. However, the resulting monetary gains might in turn contribute to maintain the city's objective of sustainable socio-economic development and encourage the 'socially acceptable' redistribution of the received revenues among its citizens.

With reference to the new adjustment of national politics and as a reaction to the failure of the Keynesian welfare model at the end of the 1960s – the rise of the paradigms of monetarism and neo-liberalism – the paper discusses two central processes, which not only materialise in urban spaces but, following their inherent economic logic, reinforce each other:

First, the volatility of the office markets in the central business district (CBD) of an IFC increases as an essential result of the liberalisation of the national financial markets and the more recent trends towards financialisation. Originally, office real estate could be understood as a product for usage, i.e., owner-occupied utilities, and, to a certain degree, also exchange. But in addition to its original functions, it has now transformed into a tradable – immobile – financial investment opportunity, respectively into an object of “loan movements” (Lizieri 2009; Lizieri, Baum, and Scott 2000; Vogl 2010). This transformation underlines the fact that real estate and financial markets are intrinsically linked with each other. However, a spatialised understanding of their linkages is crucial to the understanding of how office markets work, especially in cities functionally specialised on the financial sector.

Second, since the late 1980s/early 1990s, the idea of marketisation (*urban neo-liberalism*, cf. Larner 2009) unfolded in the municipal politics. Originally within the scope of municipal governance and control, municipalities are facing increasing restrictions on domains (cf. Häußermann, Läpple, and Siebel 2008: 298; Kaelble 2001) such as the “disposition of land” or the city’s influence on the socio-spatial structure, at least in European cities, thus retracting the political space for manoeuvre with respect to the varied needs of their own inhabitants.

In terms of these two aspects, the gauntlet has been thrown at the cities particularly specialised in the financial economy, because property itself has not only metamorphosed into a multifaceted high-yield financial product but has also created places of capital extraction (Aalbers 2009; cf. Wyly, Atia, and Hammel 2004; Newman 2009) within the cities. This, I will discuss in the last part of the paper.

2 Framing the argument: Financialisation

Since the end of the 1980s, wrapped up in the phrase ‘neo-liberalism’, the proclaimed changes in policy and economic principles entered the academic agenda almost inflationary, although content wise, the term neo-liberalism was “too often treated as a unified totalizing set of discourses and practices” (Larner 2009: 389). Therefore and with regard to the argument of the paper, it appears necessary to sharpen the term’s contours to be able to bridge the characteristic features, dynamics, constellations, and ideas of the volatile – and increasingly speculative – office markets on the one hand, and the new 'marketised' methods and changing scopes of action of the local level on the other.

Margaret Hilda Thatcher and Ronald Wilson Reagan were certainly the most noteworthy political protagonists of the neo-liberalism in the 1980s, while the neo-liberal basic orientation itself had already manifested in politics since the 1970s; a development, which is to be observed as a consensus basically across all parties (Mudge 2008: 723). Offered definitions for the framework of neo-liberalism do not only stress its multiple faces (a 'tri-partite of conception', Mudge 2008), they also refer to its ability to transform and adapt, which accounts for its persistence. The latter traces back to a fundamental change, which culminated supra-nationally in a "new common sense" in (urban) politics "designed to shrink the public sector" (Larner 2009: 386). Summarised, its change lies on

"...the autonomous force of the market; the superiority of market or market-like competition over bureaucracies as a mechanism for the allocation of resources. This does not mean that all political elites have fully accepted these positions; it means, simply, that they have difficulty articulating alternatives and still retaining mainstream political legitimacy" (Mudge 2008: 724).

Stephanie Lee Mudge further states that, in general, "[n]eo-liberalism is distinctive with respect to other liberalisms in its drive to break the 'market' loose in conceptual terms and elevate it to a level above politics – that is, to free it from political interventions of any kind" (Mudge 2008: 715; cf. Larner 2009; Vogl 2010). In this vein, the city has become a "commodified unit of competition in a global space of competition" (Schipper 2010: 23, translation SD).

Office real estate is of weight-bearing meaning for the economy of an IFC. Among others, office buildings provide the physical space allocation in a city, they store value, and they radiate symbolic power following the imperative of today's inter-urban competition:

a) Provision of physical space allocation: Real estate promotes not only the global competitiveness of the city through the physical allocation of specific, flexible office space as an essential part of an IFC's infrastructure, but also constitutes a driving force for the urban economy through the (local) building industry itself (Dörry 2009).

b) Office space as value store due to an office building's investment yield, its rental income, its trading profit, and/or its capital value, capital flows into and out of the real estate markets (Lizieri 2009: 89): Eventually, the existing built form, encompassing both the critical mass of high-quality office space and the secondary space for ancillary support activities, facilitates agglomeration economies and creates the mass of financial activity. Both are necessary for the production of the "local buzz" (Bathelt, Malmberg, and Maskell 2004) and along with it go the crucial face-to-face meetings and knowledge spill-over, which eventually smoothen the running of the information sensitive financial sector.

c) Symbolic competitive strength: The originating architectural skylines of the entrepreneurial city (Harvey 1989; Leitner 1990) express economic power. They further symbolise global claims to leadership of the respective cities in a reinforced inter-urban competition, among others, as global centres of financial and economic control, in which they manage "the relationships between global flows and networks and local economies and societies" (Larner 2009: 385). This development is embedded in a process of a rising independence of the monetary and loan relations from the political system whereby the nation states obviously lack not only the political means but also the political will to be able to react appropriately (cf. Strange 1997 [1986]).

Before the liberalisation of the financial markets in the 1980s, the huge capital intensity for investments in real estate was a fundamental problem. Real estate was mostly financed by bank loans, which bound large amounts of capital in the long term, whereas its yields depended on hardly predictable factors, such as the local economic development or the job development in the service industry. The financing risks concentrated in two places: i) with the owner, who depended on stable yields to serve his loans, and ii) at the loan-giving bank, which bore the failure risk. This situation changed by finance innovations, which enabled the procurement of the required financial capital on the free financial market, where private and institutional investors invested in money.

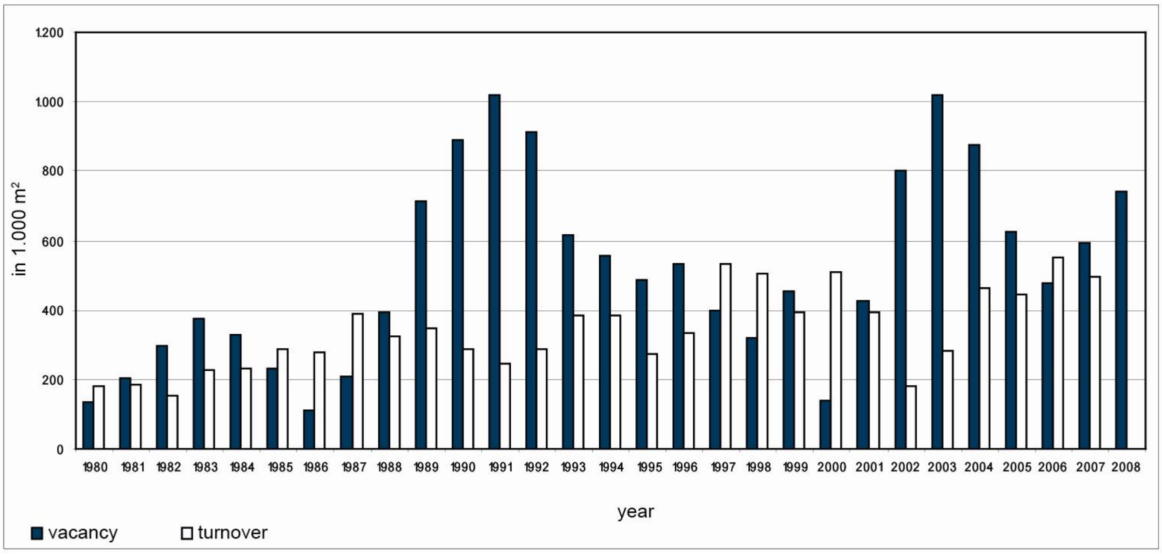
Two pre-conditions were necessary to create global investment opportunities in real estate: first, the process of creating transparency on the local and national office markets for (inter-) national investors, and second, the liberalisation and deregulation of the national financial markets to ease access to loan and free the now global flows of capital.

The steadily increasing geographical reach of real estate investments was carried not only by financial deregulation measures and liberalisation strategies, but also benefitted from the actors who accomplished transparency on the local level. Real estate consultant companies and brokers, such as BNP Paribas Real Estate, Cushman & Wakefield, Jones Lang LaSalle, or CB Richard Ellis, are among those globally active players who opt for international transparency of the formerly national markets. Within only two decades (1980s-2000s), each of the companies developed a tight international network of local offices encompassing their various national markets, which enables them to feed important local property market data into their global corporate network and/or to pass on these information to their clients, the international investors in national property markets (cf. Dörry and Heeg 2009). However, transparency for the purposes of the analysis and the exploitation of new investment markets is also initiated by other actors, e.g., by opportunistically (high risk, high profit expectations) operating investors. Often, and principally in upswing market phases, only they enter new markets – partly profit-driven by the possibilities of the high leverage financing, which was especially the case in the peak time of the most recent property and financial boom-bust-cycle (starting with the burst of the US-housing bubble). Engaged in such 'new markets', opportunistic investors might signal worthwhile investment prospects to their competitors. The more competitors are actively investing in such markets, the denser the information about these markets becomes; and the less risky the final investment eventually is. However, for investors, low risk also causes low yield expectations – and the search for new high yield – investment product and market opportunities will start again.

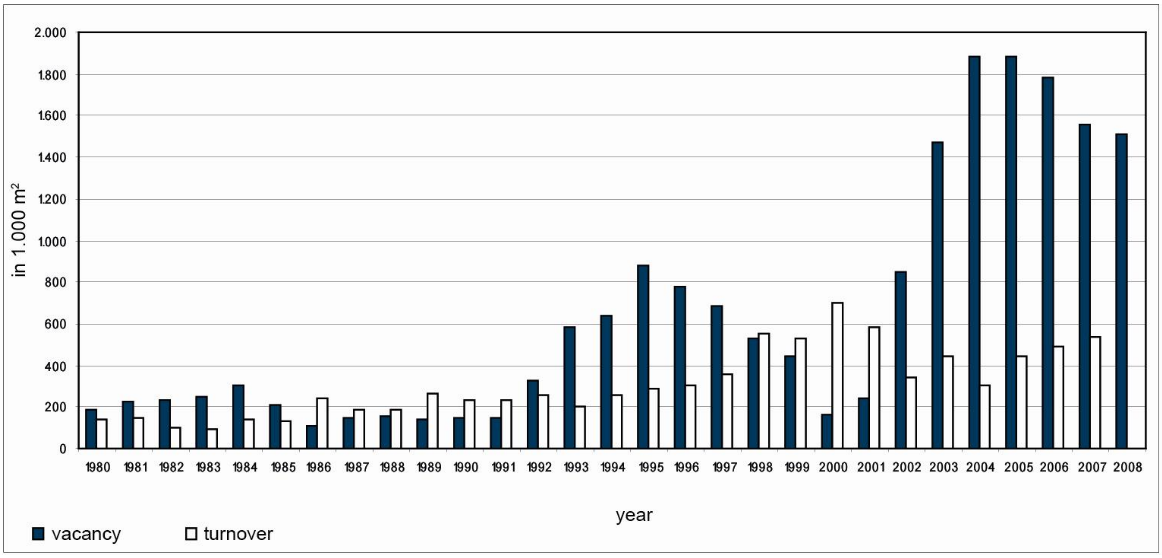
The 1980's liberalisation and deregulation of the financial markets in the UK and the US and a decade later in mainland Europe, e.g. in Germany, "and consequent spatial shift in international financial market activity, for example, triggered a wave of construction in many of the major cities in the global urban hierarchy – an office supply boom that in turn led to coordinated crises as cyclical falls in demand, which caused high vacancy levels and falling rents" (Lizieri 2009: 124). Hence, the real estate construction activities in major office markets increasingly depend on the 'mood' of the financial markets. The effects of the building boom and bust cycles reveal an increased volatility since the 1980s (and respectively the 1990s, e.g., in Germany), which becomes obvious for cities such as Frankfurt or London (cf. figure 1). Hence, massive medium and long-term effects on the affected urban economies seem to be unavoidable.

Figure 1: Comparison between the Cities of London and Frankfurt am Main, 1980 – 2008

City of London



City of Frankfurt am Main



Sources: PMA, various years, cf. Dörry and Heeg (2009)

In previous times, large sums of capital were bound by investments in office buildings and new developments. Nowadays, investment capital for disposal is almost unlimited, at least in real estate upswing market situations. The huge capital availability also eases the business of real estate transaction and site development. In a boom situation as it was the case in the mid-2000s, the market analyses of the globally active real estate broking companies further suggested that these investments are 'safe' investments, and pre-renting contracts as important securities – and normally a crucial pre-condition – were largely neglected by investors. Although complex urban project developments were realised, the susceptibility to vacant office space rose at the same time due to the over-accumulation and the channelling of financial investment capital into the city. As one of the central results, this tight interrelation of the financial and the property markets abolished the local interplay between office markets offer and demand (Dörry and Heeg 2009) and led to the construction of a considerable amount of speculatively built office space in boom phases (figure 1), causing high dynamics for the urban economies.

The abandon of the stable Fordist growth model of the post-war period until the late 1960s/early 1970s by the Chicago-School's proclaimed monetarism marked a "slow but ultimate transition of commodity money towards *loan money*" (Vogl 2010: 86-87, translation and highlighting SD). Debt or loan money, respectively, generated uncertainty and volatility in international trading and capital flows by the continuous foreign exchange rate variations and therefore currency risks, thus causing high transaction costs. To reduce these costs, national governments created new financial markets and facilitated future trading (options, futures, derivates, etc.), which were requirements for passing on control and security to the market and eventually innovating suitable financial instruments.

In general, a 'thing's likelihood for commodification is a necessary prerequisite for its privatisation, marketisation, and financialisation, which means that 'things' are progressively more "valued on strictly financial grounds" (Christophers 2010: 98). Having undergone these transformation processes, property today combines, among others, both *bond-like* features – rental incomes provide high and relatively stable cash flows – and *equity-like* characteristics – rental value and capital growth (Lizieri 2009: 157) –, which make it an attractive direct and indirect investment. It is estimated that the 2008's global investable real estate market with a total size of US$ 12.5 trillion was made of about two thirds of direct and one third of indirect investment (Property Fund Research 2008: 4; RREEF Research 2010: 32).

Securitisation was one of the central financial market innovations, with which loans and mortgages were transformed into tradable loan packages and the liquidity at the financial markets was raised tremendously, allowing for the allocation of much more loans to very favourable conditions. Thus, the financial markets became the decisive economic institution and fuelled the rise of the financial economy as a new economic growth engine (Heires and Nölke 2011: 43). At that moment, however, the added value was not primarily based on the real economy anymore (production of real products); but instead was now based on loans. Within this kind of loan economy, prices are only ever paid by prices; and consequently, monetary substitutes became currencies of the second order (Vogl 2010: 94). As part of the circulating money supply, they now guaranteed the highest liquidity, thus, 'forcing' the excessive financial capital to search for highly profitable investment objects, which in fact were not available to that extent in the real economy. With particular regard to the real estate markets, "[d]ebt is not just a source of capital for real estate developers and investors ... [but] an investment in its own right" (Lizieri 2009: 234). Although the sophistication of the securitised debt markets creates high returns in the real estate markets, they also expose investments to high risks. However, during the so-called 'capital glut' of the first half of the 2000s, "the capital availability fuelled the growth of highly geared private real estate funds ... and it permitted listed property vehicles to increase the proportion of debt in capital structures" (Lizieri 2009: 234).

By the time the financial or liquidity crisis had already been caved in, the example of German investors show that due to their overall security and rather low yield orientated investments they were by far the most active exporters of real estate investment capital around the globe with almost 30% of all cross-border real estate investments. Between January 2008 and June 2009, German investors alone took over real estate equalling a value of US$ 27 billion in their assets. Besides, the traditional investment patterns most of these German investors – mainly open and open-ended real estate funds, but also life insurers, private syndicates or financially strong private individuals – reveal a low risk readiness in the form of big, high-quality deals in important urban centres, characterised by the generation of steady cash-flows from the real estate use and therefore low but stable yields, long investment periods and a high equity ratio at the financing of the transaction (Real Capital Analytics 2009).

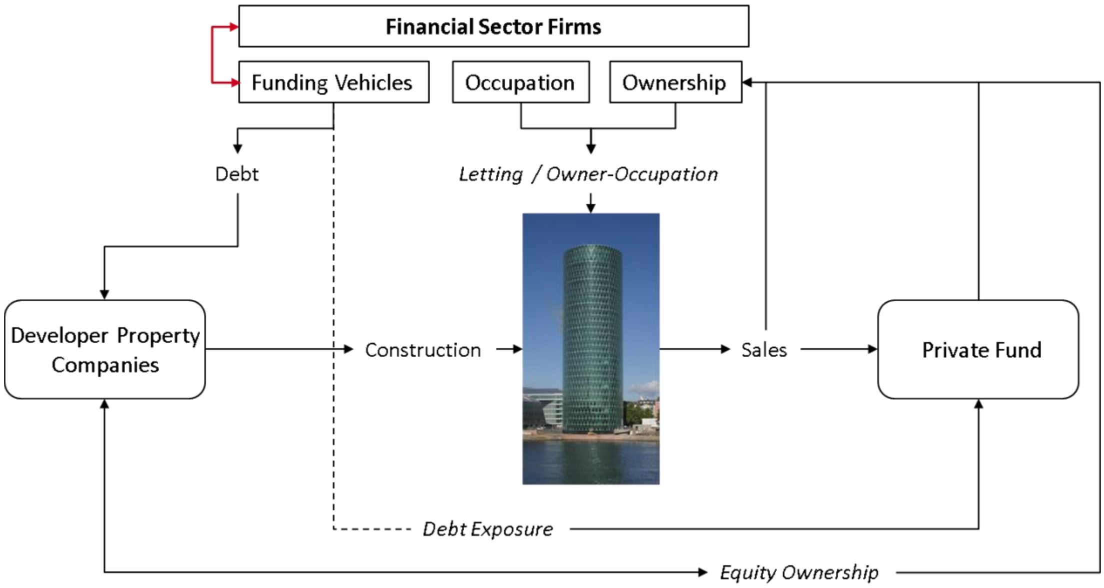
Besides the large share of the mentioned security-oriented investors, other global investors – for instance, hedge or private equity funds – operated with the contrary strategy of a high risk inclination and at the same time high yield expectations in the market. Falling interest rates at the beginning of the turn of the millennium permitted them high leverage financing (with leveraging having accounted for one of the most aggressive financial operations, cf. Vogl 2010: 17) in terms of real estate purchases and project developments, which de facto led to the fact that the financing banks and not the investors themselves eventually bought the property. After the credit markets dried up in 2008, many real estate owners were forced to depreciate their properties as (complete) losses. Consequently, the financing banks unintentionally became the true real estate owners. However, against first fears the distress sales kept within a limit at least in Germany. The outsourced property management in most cases covered the loan value and running fixed costs. In turn, this allowed the loan giving banks to wait for the next upswing of the investment market instead of selling their 'new' property with loss (fire sales, cf. Dörry 2010).

3 Innovations in property investment vehicles: impacts on urban markets

The above discussed securitisation processes helped to "integrate the commercial property lending market with the wider capital markets" (Lizieri 2009: 240) and to encode and commodify the office properties for share trading and exchanging on the international financial markets. But how did these processes work exactly?

In his book 'Towers of Capital', Colin Lizieri (2009) explains the overall conditions and technical mechanisms in precise detail. According to him, the development and growth of IFCs has been driving the creation of large office markets. Over the past two decades, patterns of property ownership in terms of their country of origin as well as the sectoral affiliation of the occupiers have vastly changed over time. It is estimated that in the City of London more than 40% of the prime office buildings have non-UK occupiers, while in Frankfurt there are more than 25% of Non-German-occupiers (Lizieri 2009; Lizieri and Kutsch 2006: 275). Today, these office markets are increasingly dominated by financial firms – both as *investors* and *users* of that space. However, their intertwining can create systemic risk, as shocks in one area of the property market are transmitted throughout the whole system (figure 2).

Figure 2: Integration of property and financial markets

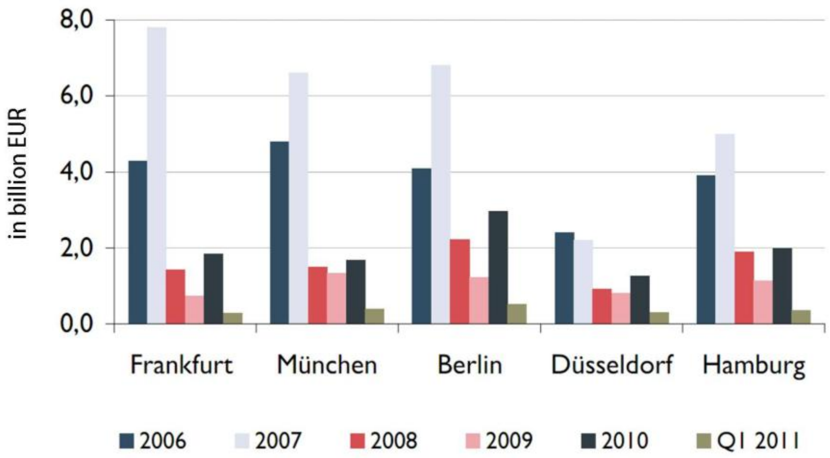


Source: Lizieri (2009: 270), slightly adapted

These effects will be at their most pronounced in IFC office markets. We discussed earlier that the size and complexity of property developments demand complex finance and funding arrangements. These funds are provided by the major banks, finance houses and institutional investors. But the same financial firms that are providing financial capital for the supply of space are the *occupiers* of space in IFC office markets themselves; either as owners or, more generally, as tenants. And it is those same financial firms that *invest* in the office buildings in IFCs – directly by acquiring buildings for their investment portfolios, or indirectly a) through their investment in (open and open-ended real estate) funds' acquiring buildings, b) by holding shares of the major property companies, which own the buildings, or c) by investing in the securitised debt products whose underlying cash flow and security is based on the office buildings (Lizieri 2009: 270-273). Ultimately, structure and extent of the demand for high-quality and expensive office space in the IFCs (*rental market*) make office real estate appear to be attractive investments (*investment market*) (Dörry and Heeg 2009) but also concentrate the volatility impacts of financial crises right there.

The transmission of the financial market's boom and bust on the respective property markets occurs via the job development on the financial industry in its role as tenants of the office space. A financial crisis promotes (short-term) job losses in the FIRE (Finance, Insurance, Real Estate) sectors and with the job decline the rented office space is usually also cut back to reduce costs. The associated rise of the vacancy results in decreasing rents and therefore in less realised cash flows. For investors such a development also reduces the yield of such an affected property. Generally, real estate in different finance centres is bundled up in one investment fund. However, office markets in IFCs usually show quite similar isochronal reactions following the same cyclical patterns worldwide. In the worst case, the bad performance of a fund affects its employment situation negatively. This crisis-like spiral can therefore cause chain effects in the interconnectedness of the rental with the investment markets, thus fuelling the strong – positive and negative – amplitudes in the development of the specific office markets in IFCs (Dörry and Heeg 2009: 187). The example of Frankfurt illustrates these volatility characteristics in terms of the investment markets in comparison to other German office markets, which are not shaped by the financial sector (however, i.e., Munich is the centre of the insurance companies in Germany, whereas Berlin heads the space intensive federal government's administration; see figure 3).

Figure 3: Volumes of transactions in the top five German office markets (2006 – Q1 2011)



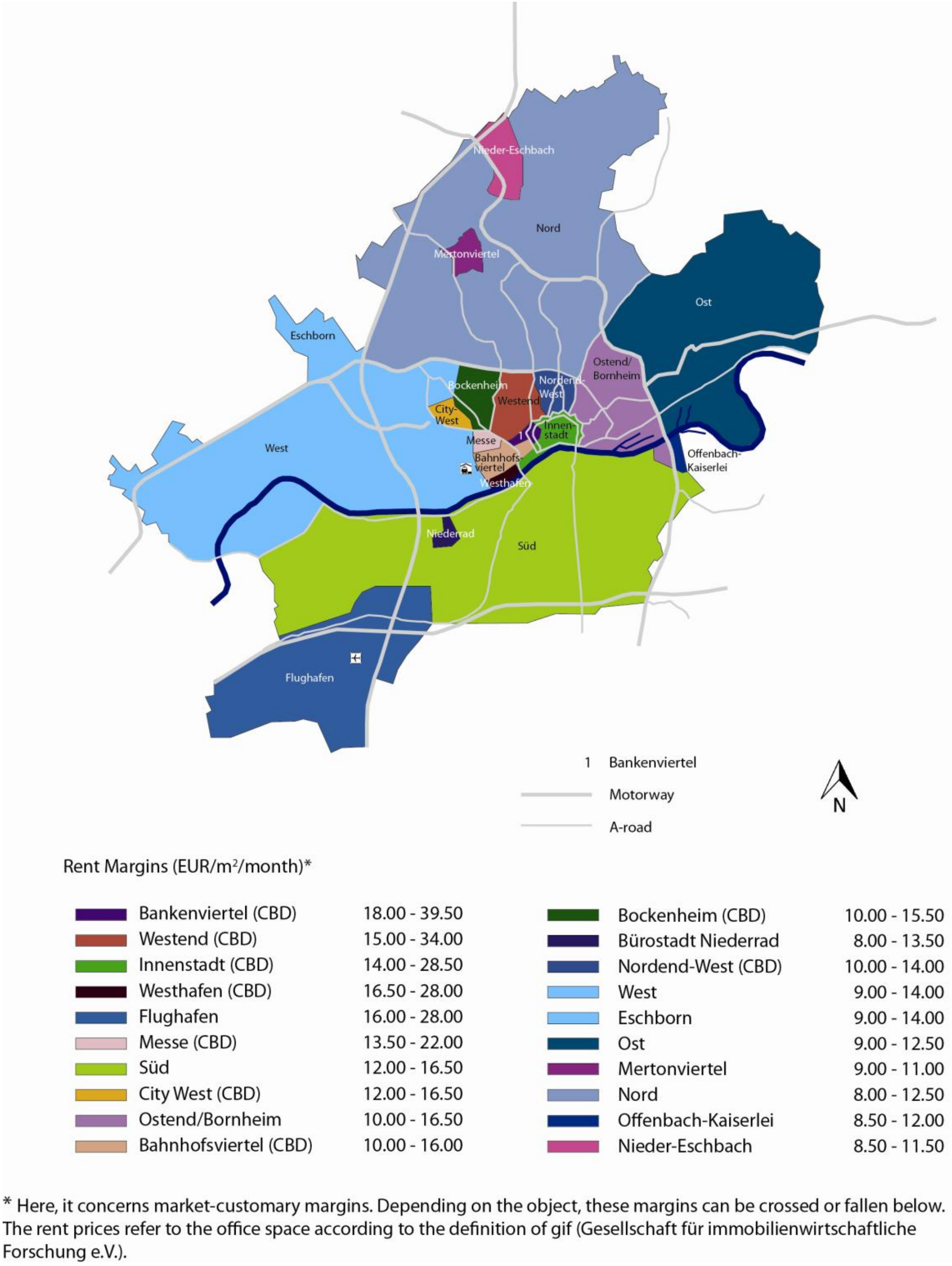
Source: Cushman & Wakefield (2011)

Because the business actors take over the role of 'active generators' of the global finance and investment flows in IFCs, they increasingly influence the investments in office real estates in their quality as a financial category (Dörry and Heeg 2009; Dörry 2010; Heeg 2008a, b; Scharmanski 2009). This underlines the close inter-relations between the financial and real estate investment as well as rental markets and highlights the fact that real estate is directly affected by a financial crisis. The impacts mainly concentrate on the demand for space as employment decreases, on rental and capital values as space demand decreases and a supply-driven market (accelerated by further completions of new developments) cuts rental income, and on the ability of investors and developers to acquire debt finance for their activities. Figure 1 illustrates that adjustment processes in the real estate sector happen at rather low speed due to, e.g., the supply side lags, constraints imposed by lease contracts, or the size of property values. On the contrary, real estate also contributes to a financial crisis – in particular to banking and liquidity crises, since property is a major source of collateral supporting business debt. Like in other sectors, declining real estate values reduce the borrowing capacity of the industry, which impacts on the investment activity. Further, falling real estate values reduce the value of loans secured on real estate and, hence, reduce the value of the banks' capital assets as, e.g., it was the case in the recent financial crisis. Banks ceased or at least heavily reduced their lending activity after becoming more or less the owners of the properties themselves due to their enormous leverage lending. In this situation, uncertainty as to the true value of real estate assets and liabilities can easily create information asymmetries that might provoke investor decisions, which in turn aggravate market difficulties. Consequently and with regard to their complex feedback loops, real estate markets have a causal impact in crisis periods and suffer directly from the effects of downturns in other asset and capital markets (Lizieri 2009: 215).

4 The spirits that they've cited... The example of Frankfurt

Both, Frankfurt's urban policy in the post-war period and Frankfurt's economic specialisation on the financial service industry had vast implications for its land-use and property market.

Figure 4: Localisation of rent margins of the Frankfurt office market, H1 2011

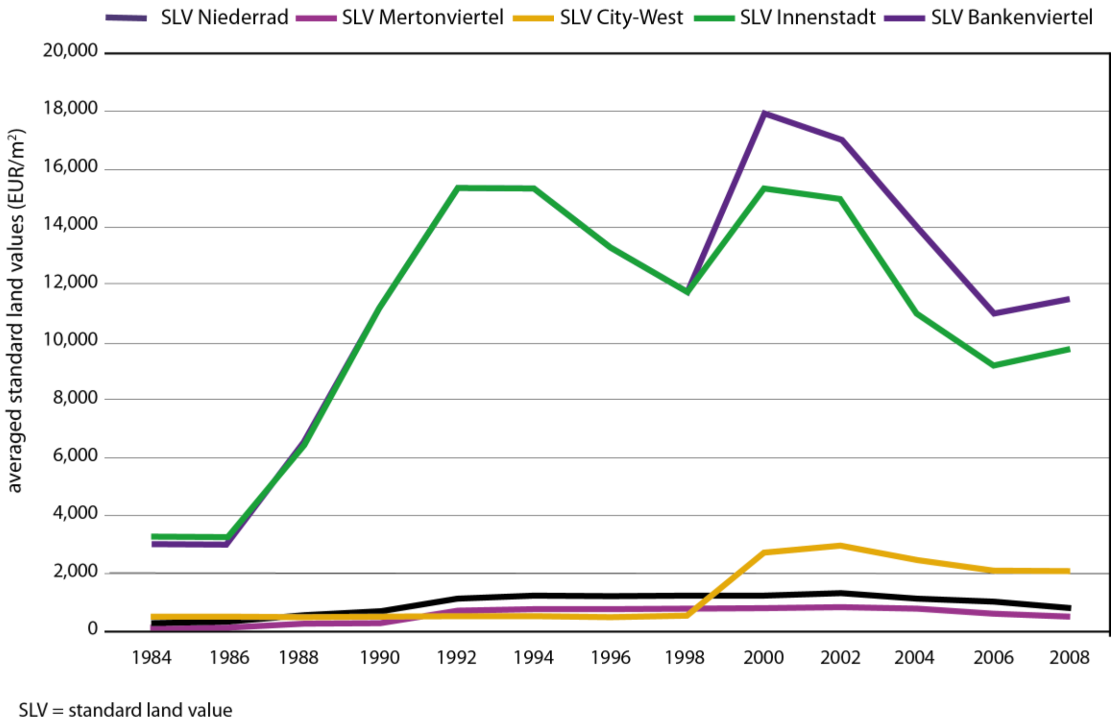


Source: based on Dr. Lübke (2011: 4), slightly adapted

In the early 1960s, a social democratic government declared the urban district *Westend* (encompassing the CBD, area number 1 in figure 4) a city extension area (*City-Erweiterungsgebiet*) and set the course for the novel building and usage of the more lucrative office space compared to the – at that time – predominant housing space. The original intention was to push the economic growth and to redistribute the revenues to finance the provision of the infrastructural developments, such as the underground railway network. However, concomitantly and accelerated by the city government's desire to siphon revenues for further social redistribution, the lax handling of the zoning plan (*Bebauungsplan*) fuelled massive property speculations by private investors in this area. In 1967, one square meter still cost 946 Deutsche Mark (DM), whereas in 1969 it was already 1,491 DM and in 1972 prices increased to 2,923 DM (Vorlaufer 1975; Giese 1979). Substantial speculations and private land purchases finally resulted in violent civil protests in the beginning of the 1970s (*house fight*); and in its aftermath the city of Frankfurt heralded a new phase of high-rise development (cf. table 1, figure 5).

The Framework Plan Bank Quarter (*Rahmenplan Bankenviertel*) concentrated upon only few clusters, whose city planning integration clearly differed from the preceding phases. However, such major developments both arise and arose from global economic forces – i.e. the growth of international financial flows, the growing concentration of command and control functions in global cities, and the massive technical infrastructure needed by multinational firms; driving forces that set the context for urban land-use conflicts on a local level – *and* result/ed from the negotiating interactions between developers, financiers and investors, as well as politicians and civil society groups (cf. Fainstein 2001).

Figure 5: Growth of land values in different office markets in Frankfurt[2]



Source: Gutachterausschuss der Stadt Frankfurt am Main (2009: 61)

Table 1 provides an overview of the city's planning schemes and therefore some of the major foundations for the land-use speculations and (inter-)national property investments.

Table 1: Frankfurt high-rise framework schemes

Scheme	**Main Contents**
First high-rise plan (1953)	Restriction of the high-rise locations to only a few striking points; Until 1956, realisation of far more high-rises than in the plan intended.
Five Finger-Plan (1967/1968), not legally binding	Densification corridors among five development axes in the *Westend*; 1971 development freeze after the *house fight*; Compensation threats: building law commitments towards investors made additional permissions of the planning authorities necessary.
City Master Plan (1982)	Reworking of the *Finger-Plan*, enlargement through additional development axes (high-rises in densification belts);

[2] The City-West had been "developed" only recently. The gentrification of the district and the construction of the new office and residential buildings during the late 1990s increased the land value significantly. Inflexible and old office markets (and their investors) like Niederrad and Mertonviertel are now facing major problems and considerable vacancy rates due to the growing importance of competing new, modern, and flexible office space in other locations, such as in the City-West, Bockenheim, or the Airrail Centre Frankfurt (The Square) at the airport.

	Main objectives: guarantee of the investment protection with concurrent control of the investments, Preservation of the functional mix.
Frame Plan Bank Quarter (1990), legal basis: land-use plan No. 702	Main objectives: protection of the high-rise location bank quarter, Re-densification of the city centre.
High-rise Development Plan Frankfurt 2000 (1998)	Restriction of the investment pressure and high-rise construction to three densification zones in Frankfurt: Bank Quarter, fair/European Quarter, Park Quarter (project Frankfurt 21 German railways); Most important planning aspect: spatial centralisation of the high-rises (grouping concept); Approval of 16 new high-rise locations.
High-rise development plan Frankfurt am Main (2008), legally binding since 11th December 2008	Failure of the project *Frankfurt 21* (therefore discontinuation of six high-rise locations) and approval of new locations (among others the new building of the ECB, PalaisQuartier) explain the need for new high-rise development plan; Maintenance of the principle of grouping concept of the high-rises; New: approval of high-rise locations in the city centre and other locations, e.g., in the central station.

Sources: Hochhausentwicklungsplan Frankfurt am Main (update of 2008), discussed in: von Lüpke (2000)

The urban Framework Plan Bank Quarter was central to the land value development and is closely connected with the fate and disposition of the German Central Bank in Frankfurt following the political turn in 1990. The high-rise development plan *Frankfurt 2000*, approved of nine years later, accelerated the continuing development of high-rise locations with the lucrative office use in central urban cities. An interest grouping of financial service companies and Frankfurt real estate enterprises had strongly campaigned for it.

Some of the fundamental implications we are currently experiencing within the course of the recent economic slump in a number of the (prime) office markets in IFCs, were already described by Susan Fainstein (1992), using New York in the post-1987 time period as an example. There are some obvious parallels to what was happening in Frankfurt later on. With regard to the strong linkages between real estate and financial markets, she claims that deliberate governmental strategies enhanced the office-based economy, which helped to create a huge and concentrated financial service sector. However, the increasing vulnerability of the city's fiscal situation to fluctuations in its key industries became the prime factor shaping New York's contemporary politics. With it, the economy’s decline aggravated the real estate slump in the time after 1987:

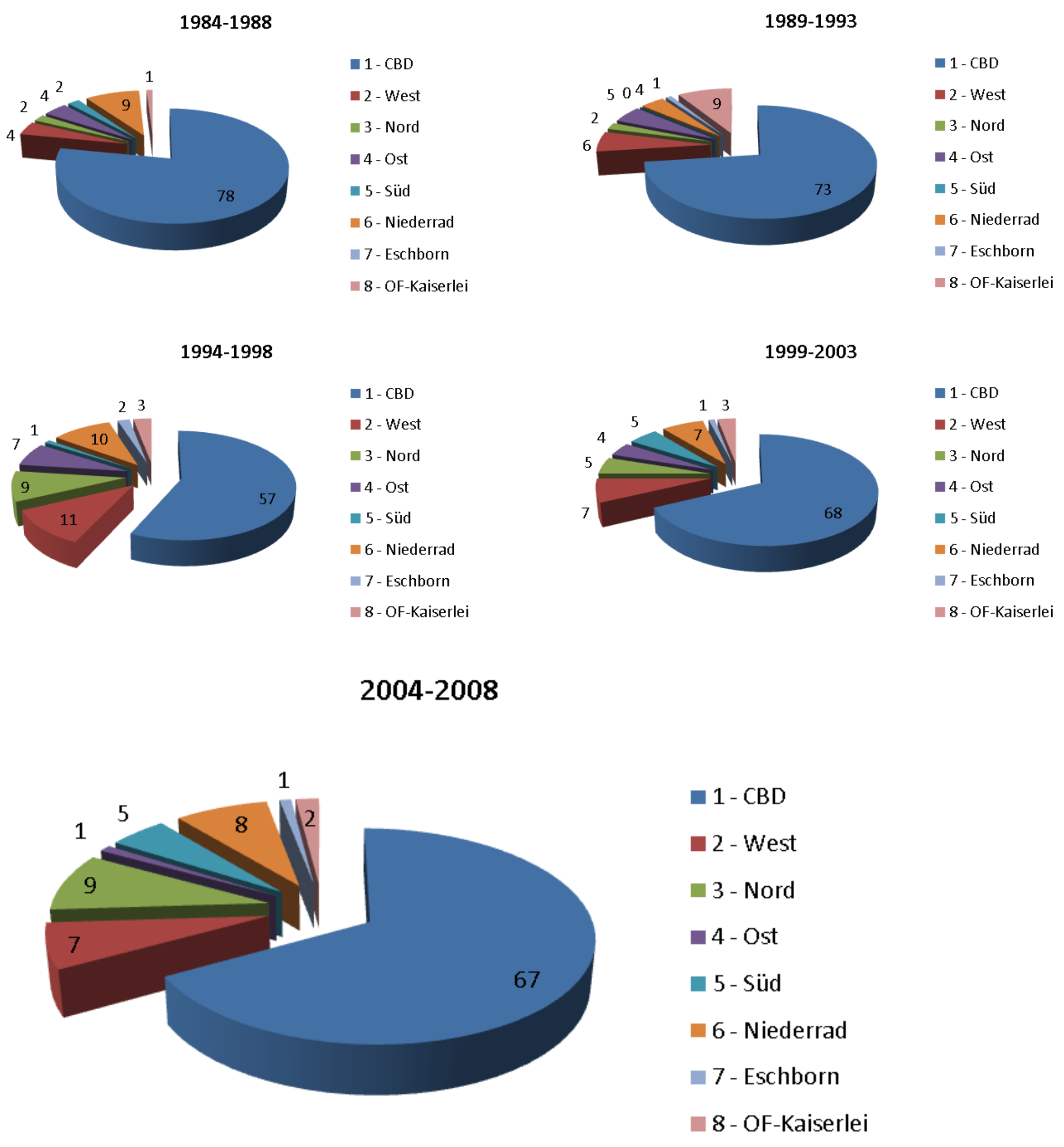
“Developers and their financial backers anticipated an ever-increasing demand from the securities industries and their service providers. When demand failed to materialise, vacancies mounted and a number of well-known developers foundered causing their financial backers to absorb heavy losses. This further stress forced financial institutions into greater retrenchment: since these institutions were themselves among the major consumers of office space, their property-caused contraction further reduced the market for real estate” (Fainstein 1992: 134-5).

Public Real Estate Management (PREM) is one element of the entrepreneurial city, thus, emphasising “economic growth by encouraging competitive markets and entrepreneurial activities” (Larner 2009: 385). With PREM, the public authorities aim at an optimum use and efficient utilisation of their owned real estate. Due to the rather limited size of the administrative area of Frankfurt, industrially used or fallow areas are often developed and re-valued. A central example is the Frankfurt European Quarter (*Europaviertel*, cf. table 1) currently under construction. Influences on other city areas can hardly be avoided: Once the planning legislation for high-rise buildings is reworked, increasing land value is generally the result in neighbouring sites. In adjacent areas to those high-rise districts, speculation fallows can often be observed.

The resulting de-coupling of office space supply and demand are, therefore, no innocuous developments for urban economies as it obviously delimits the options for (future) political actions and gives a more prominent role to the private sector: „These fallows or the failure to render renovations result from the fact, that in relation to an anticipated compressed construction with high-rises they do not seem profitable. ... Thus, the foundation is laid for further high-rise framework development planning“ (Böhm-Ott 2000: 83, translation SD).

The Bank Quarter basically defines the CBD and therefore one of Frankfurt’s central locations for real estate investment activities. The following statistics (figure 6) exemplify the CBD’s significance for investments in the city of Frankfurt am Main over the last three decades.

Figure 6: Distribution of investment revenues in Frankfurt office districts, in %



Source: Gutachterausschuss der Stadt Frankfurt am Main (2009: 72), slighty modified

5 Challenges for urban politics

The first intention of my paper was to help understand how office markets in specialised cities function. Based on the example of Frankfurt, we discussed the close relationship between the evolution of major IFCs as part of the global market system, the development of office markets in those cities, real estate investment in those office markets, and the patterns of risk and return that result from the interactions between financial flows and office markets. One consequence of this structural intertwining has been an interlocking of occupation, ownership and finance (figure 2), which creates greater potential volatility in office markets and increases the boom and bust amplitudes. Shocks in international financial markets are passed on to occupier, investment and property debt markets and can therefore reinforce any tendency to cyclical behaviour (Lizieri 2009: xi-xii).

The second aim of my paper was to discuss some central results of the neoliberalisation processes both on the international financial and local office markets and their specific implications for the urban planning in Frankfurt. It becomes clear that Frankfurt's planning policy laid the solid groundwork for situations that enabled investors to actually use the window of opportunities for speculative (trans-)actions. In general, it is possible to identify the following three main areas of conflict:

1) The increasing financial markets' pressure on Frankfurt's office property market neglects local needs.

When international investors invest in real estate, they expect a certain yield. The yield return decisively depends on the value *increase* of the real estate. This arises primarily from the attainable rent and therefore from the kind of real estate use. In contrast to international investors, self-using or local actors normally have a bigger interest in local city planning, which is sensible to future urban development. Nevertheless, the location-stabilising processes pursued within this context only contribute to the value *preservation* of the real estate (Heeg 2008b).

The influence of the local actors aiming at reconcilable and sustainable local planning solutions decreases with the growing dominance of international investors on the Frankfurt property market, while at the same time, the risk of an office real estate development increases that is not aligned to the "local need situation" (Krätke 1995: 223, translation SD). New financial investment vehicles have contributed to the fragmentation of office ownership (Lizieri 2009), which increases the "distance between the planning authorities and the end investor and makes achievements of optimal decisions – particularly where these require delicate negotiations and concessions – much more difficult than under traditional single ownership modes" (Lizieri 2009: 255).

2) Liberalisation of financial markets increased financing of urban development of which Frankfurt's land market benefited exceptionally.

Urban development projects were realised not only on a much broader scale but also within a very short time period due to the availability of enormous capital inflows through large international investors (exemplified by the currently developed European Quarter in Frankfurt). Further, Frankfurt benefitted from the disproportionately high tax revenues from the financial and office sectors, at least until the recent slump of the international financial markets. The revenues from the tax on acquisitions of real estate for the city of Frankfurt accounted for about four billion EUR in 2008 (Frankfurt am Main 2008).

Two specific elements of Frankfurt limit the rise of real estate prices in the city itself, at least to a certain amount: i) Frankfurt's neighbouring communities, e.g. Eschborn, strongly compete for the attraction of business with the help of a remarkably low municipal multiplier on trade income (Frankfurt: 460% vs. Eschborn: 280%). One of the most recent examples of the movement from Frankfurt to Eschborn, among others, due to the tax differences, is the Deutsche Börse. ii) Frankfurt's real surface growth is nowadays strongly limited due to a shortness of constructible land. Whereas this factor fuels the prices for land and real estate, the factor of Frankfurt's neighbouring communities with their competitive allocation of land and property largely puts caps on the real estate prices in Frankfurt. The resulting real estate prices are quite low in comparison to other CBDs in competing IFCs; this low cost factor in turn makes investments and business locations in Frankfurt highly attractive on an international scale.

In the style of Harvey (1982) but rivalling his argument, Susan Fainstein (2001) denies that such huge real estate development profits would be *purely* parasitic. Rather, she argues, this kind of development has potential to create value, facilitate agglomeration economies, promote business efficiency, as well as to rebuild disused and deteriorating areas of cities (e.g., Frankfurt-Niederrad, Mertonviertel). Nevertheless, she heavily criticises the way development had been enabled by a coalition of real-estate developers, financial institutions, and public officials, and claims critically that this kind of coalitions first poured resources into physical redevelopment and then simply watched as the market collapsed in times of market downswings (Fainstein 2001).

3) The absorption of costs of urban planning and at the same time the hampered upgrading of public thorough fares and green areas beyond the building plots.

The urban planning authorities are *anxious* to at least partly pull up profits from the land value increases for the financing of general concerns. Urban development contracts (*städtebauliche Verträge*) with the developers formed the basis for the assumption of costs in favour of a 'socially fair land-utilisation', for example by the integration of the housing construction in city planning, the equipment of stores, catering companies, or cultural sites with public appeal, as well as the rebuilding and the revaluation of public thorough fares and green areas beyond the building plots. The arrangements within the scope of these urban development contracts are theoretically a good thing. Nevertheless, because of a bulk of exceptions, they lack efficient implementation particularly in regard to residential housing. It is evident that the classical intervention and welfare state focusses on its genuine duties and partially resigns its competence and fields of application to private actors, who can introduce specific-complementary competencies (von Lüpke 2000: 101). With the urban development contract solutions, a balancing of interests has become a little easier between developers and the city administration in contrast to the classical urban land-use plans. In particular, on the basis of Frankfurt's liberal approval practice with large-scale office projects, the interests of the financial capital indeed has been structuring a *new spatial order* in the city (Böhm-Ott 2000; Dörry 2009).

6 Outlook

Indeed, one has to admit that there are objectives of financial investors, which implicitly supersede those of local actors, thus, one strictly must argue for more mixed property use schemes offering greater opportunities for social diversity. Such issues clearly lie in the hand of the respective planning policies. However, the example of Frankfurt showed that the discussed elements of a city's entrepreneurialism strategy are crucially shaped by its very specific local contexts and regulatory traditions (Rodríguez, Swyngedouw, and Moulaert 2003). Since the spread of neo-liberal policy is now well established empirically, the call is now up for an explanatory debate on temporal disparities and geographic variations (cf. Mudge 2008; Heeg and Rosol 2007: 506).

Besides large IFCs, such examinations hold especially true for office markets in smaller but highly specialised IFCs, such as Luxembourg. With its comparatively small, nevertheless powerful but highly specialised economy, a number of important economies such as the financial sector (e.g., Walther and Schulz 2009; Walther, Schulz, and Dörry forthcoming), the information and communication technologies, or the EU-institutions demand office space; not only modern, flexible, and representative office space but also affordable secondary office space for innovative start-up businesses or back-office activities of the large (finance and finance-related) businesses. So far, little is known about the owner structure, trading dynamics on the real estate investment market, or the impacts of speculative completions in this – with regard to its sheer size – still comparably diminutive office market. How did the different actors of the financial markets, the real estate industry, and/or the city planning shape specific real estate and land-use trajectories in different cities? What were and still are the defining features of the enormous dynamism of urban property markets, e.g., with regard to some large-scale projects and their underlying personal relationships between politicians and investors, project developers and the owners of construction firms?

A number of vital research questions, future studies, and examinations in office markets of IFCs ought to be addressed, be they Frankfurt, Paris, Luxembourg, Moscow, or London. We need a better understanding of these phenomena, since residential and office markets will further compete for the scarce resource of available space in the city, thus, reinforcing the debate on the right to the city.

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