City Regeneration Processes and Housing Prices

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Abstract

Since the 1970s urban areas are increasingly characterised by an active stance towards economic growth. This change in urban policy, often referred to as urban entrepreneurialism, envelops different city regeneration processes (CRP). This paper contributes to the academic debate by developing a theoretical framework that allows the analysis of the effect of CRP on the cost of housing. Through an ambitious combination of rent theory with a régulation-approach the different role of built environment in two CRP ideal-types are discussed. The two, non-exclusive CRP considered in this paper are defined as “places of production” and “places of consumption”.

Keywords: City regeneration processes, CRP, urban entrepreneurialism, urban governance, cost of housing, rent theory, urban areas, built environment, real estate, capital accumulation, regulation approach, circuits of capital, places of production, places of consumption

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1. Introduction

Within the field of urban studies it is generally agreed on that the governance of cities has changed since the 1970s. In the wake of the crisis of Fordism cities in Western Europe and North America faced de-industrialisation and long-term unemployment. Moreover, urban and regional structures became increasingly more tied to global developments. The reaction of city governments was to take on a more pro-active stance towards (local) economic growth. Simultaneously local actors realised that due to globalisation they have to compete with other places in order to attract money and international investments (Harvey 1989; Hubbard 1996).

This shift in urban governance is coined by Harvey (1989) as ‘urban entrepreneurialism’. It is important to note that the term ‘urban governance’ refers to a broad spectrum of social actors of which urban government is just a part (Harvey 1989: 6). Main actors, who shape urban environments, are civil society organisations, different groups of capital owners, urban population, labour force and city government. In addition, Hubbard (1996: 1443) notes that urban entrepreneurialism implies “no guarantee of success”. Actions of urban entrepreneurialism are speculative in nature, since their outcome on employment, economic growth, public finance, etc. are not known when decisions are being made (Harvey 1989; Hubbard 1996). Furthermore, urban entrepreneurialism could also foster local support for and civic pride of a city. Hubbard (1996: 1443) interprets this as a means of social control.

Local de-industrialisation and long-term unemployment induced a negative image of affected cities. Therefore it is not surprising that urban entrepreneurialism tries to consciously manipulate and promote city images. Harvey (1989: 8-11) identifies four non-exclusive strategies of urban entrepreneurialism. First, the specific constellation between different actors within an urban area can create a competitive advantage with respect to the production (and export) of goods and services. Second, urban areas can create places of consumption, which brings in external money. Third, economic development in urban areas can be generated by “key control and command functions in high finance, government, or information gathering and processing (including the media)” (Harvey 1989: 9). Fourth, competition amongst urban areas can exist with regard to public finance (e.g. education, defence, health care). Since these strategies are non-exclusive it is important to note that each urban area will be characterised by a mixture of these four competitive strategies. In addition to these four strategies Hubbard (1996: 1444-1445) discusses two major components of entrepreneurial cities. First, cities try to create a unique identity to attract consumption and investment. Second, new urban landscapes fulfil an ideological role. Material and symbolic regeneration does not only counteract alienation and anomie but also distracts from increasing social and economic inequalities.

With respect to these social and economic inequalities this paper questions the impact of city regeneration processes on housing costs. This research question is based on the general consideration that the four non-exclusive strategies imply a different use of built environments. As a result housing costs between cities with similar basic population structures can differ markedly. Whereas general approaches in urban studies (e.g. Von Thünen-rent and the bid-rent approach of William Alonso) can be used to explain higher housing prices within an urban area, these theories lack the explanatory power to analyse differences between cities. Another approach could be based on neoclassic economics. Within this framework regional economic fundamentals such as economic
growth, income and employment can be used as explanatory variables to analyse differences in housing prices (e.g. Hwang and Quigley 2006; Ferrari and Rae 2011). Another possibility is to analyse “geographic”, i.e. topographic, determinants (Saiz 2010) or to focus on specific consumer advantages offered by cities (Glaeser and Gottlieb 2006; Glaeser et al. 2001).

Notwithstanding the fact that these neoclassical approaches offer some interesting thoughts, their explanations appear too simplistic or too deterministic. Besides the fact that the neoclassical approach is in general flawed by its assumptions, which is displayed by critical authors such as Keen (2011), this approach has some other shortcomings. First, the cited literature (except Ferrari and Rae 2011) neglects the complexity of the housing market. Evans (2004: 47-76) and Galster (1996: 1797-1799) offer a thorough discussion of this problem by showing that housing markets do not correspond to the common definition of a competitive market. Therefore, the implicit or explicit use of a competitive market model to explain high housing prices is problematic. Second, this approach neglects the specifics of an urban area. In accordance to Harvey (1989: 5) urbanisation can be defined as “a spatially grounded social process in which a wide range of different actors with quite different objectives and agendas interact through a particular configuration of interlocking spatial practices.” By neglecting the variety of these actors and their interests, important explanatory factors are omitted from the analysis. With respect to city regeneration processes and housing costs the negotiations and coalitions between these different local actors are crucial to understand differences in outcome (Guy and Henneberry 2000; Theurillat and Crevoisier 2013; Theurillat et al. 2013).

This paper approaches the effects of city regeneration processes on housing costs in urban areas by means of an abstract theoretical analysis. The main aim is to develop a theoretical framework, which addresses social interaction between urban actors. This framework is based on three different theoretical discussions. Starting from the discussion of ‘urban entrepreneurialism’ two ideal type city regeneration processes are defined. On the one hand the urban entrepreneurial strategy to create places with a competitive advantage in goods and services production is analysed. Throughout this paper these places will be referred to as “places of production”. On the other hand the strategy to attract external money by means of consumption opportunities is discussed. Whereas such “places of consumption” are not limited to tourism (Harvey 1989: 9), city tourism can be a key aspect of this strategy. Next, a régulation-approach is used to elaborate on theoretical differences in accumulation strategies between these two abstract places. To conclude, the academic discussion on rent theory is included to establish a link between these places and the cost of housing. Throughout this paper capital owners, labour and the role of built environment in these two types of places are the central themes. At the end the paper displays that housing prices are affected differently in places of consumption (which include tourism) than in places of production.

Whereas it is possible on an abstract level to distinguish clearly between places of production and places of consumption, in reality this distinction is harder to make. Both places are the outcome of two non-exclusive urban entrepreneurial strategies. This implies that in most urban areas both places can be identified. The housing costs within a specific urban area will thus be the result of the unique constellation between these strategies and places. Once again, it should be stressed that this paper uses the two places as abstract theoretical ideal types.
This paper is structured according to a three tier approach. First, dominant accumulation strategies are defined. Based on the régulation-dispositif of Becker (2007) relevant interactions between government, population and accumulation strategies are analysed. It should be noted that a main feature of this approach is the assumption that relations both within and between these different groups of actors are simultaneously competitive and cooperative. Furthermore, this approach allows regarding the regulation of accumulation strategies as well as of the built environment to be subject to these (competitive) interactions between different actors within urban areas. Second, the impact of these accumulation strategies on the built environment is analysed. As shown by Harvey (1978) the built environment of an urban area is (partially) a result of accumulation processes in this area. This framework is analysed with respect to the insights based on the régulation-approach. Third, both the specific configuration of accumulation strategies as well as the regulation of the built environment offers particular opportunities to extract land rent. The discussion of land rent will play a dominant role for understanding housing prices. In addition, this paper analyses the possibilities offered by rent to accumulate fictitious capital.

2. Capital accumulation strategies in different environments

As already indicated the term urban governance envelops a broad spectrum of actors (Harvey 1989:6). Notwithstanding this diversity this paper mainly focusses on the role of groups of capital and labour in different ‘urban entrepreneurial’ settings to generate economic development. The term economic development refers in this paper to processes of capital accumulation. These processes are both decentralised and mediated through money (Becker 2007: 122). To generate a better understanding of the differences between places of production and places of consumption it is necessary to take a closer look at their accumulation processes. The arguments presented in this section show that due to differences in the accumulation processes the impact of labour on the success of these processes varies markedly.

From a Marxist perspective a main classification criteria is whether or not surplus-value is created within the capital accumulation process. At the same time the régulation-approach, which is based on Marxist economic theory, offers three further classification criteria. Although accumulation processes can take different forms it is possible according to Becker (2007: 61-77) to classify them according to three, non-exclusive typological axes.

The first axis differentiates between the accumulation of productive and fictitious capital. Whereas productive capital accumulation is driven by the rate of return on productive investments, fictitious capital accumulation is based on the rate of return on financial investments. Productive capital accumulation is based on the following circuit of capital: \( M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M' \). In this circuit money capital (M) is transformed into productive capital (C). Due to the production process (P) productive capital becomes commodity capital (C'). If these commodities are sold on the market the end of this capital circuit is again money capital (M'). Under the assumption that surplus-value is extracted during the production process M' is higher than M, i.e. capital has been accumulated. The capital circuit of fictitious capital accumulation is \( M \rightarrow M' \). By means of financial assets money capital is accumulated. Becker (2007: 74-76) stresses that the accumulation of fictitious capital is dependent on productive capital accumulation: fictitious capital represents claims on future surpluses produced by productive capital. Therefore fictitious capital can never become completely detached from productive capital. This also explains that productive accumulation processes are more stable than...
fictitious capital accumulation processes, since the latter are influenced by (rapidly) changing perceptions.

The second typological axis distinguishes between extensive and intensive accumulation strategies and refers thus to the organisation of labour and production processes (Becker 2007: 67-70). Extensive accumulation is characterised by low productivity increases. In order to increase the amount of extracted surplus-value the scale of production is increased, i.e. expanding the amount of wage labour. This also implies constant pressure on the wage bill to reduce production costs. In intensive accumulation processes surplus-value is extracted through investments in production methods and a reduction of the reproduction costs of labour. At the same time wages are adjusted to labour productivity. Note that both strategies are embedded within the production process and are linked to the extraction of surplus-labour.

The third typological axis is based on the geographical scale of the accumulation strategies (Becker 2007: 70-74). Introverted accumulation processes are characterised by accumulation strategies which are mainly based on local markets. This implies that such strategies are less vulnerable to external changes. Extroverted accumulation processes, which can be either active or passive, take place on a wider geographical scale. Whereas active extroverted accumulation processes generate a surplus of assets through the export of goods, services and capital, passive extroverted processes erode the local reserve of assets. Although both processes are dependent on external money, the passive type is more vulnerable to non-local evolutions and crises.

What does this imply for the research question of this paper? First, it is clear that both places of consumption as well as places of production have strategies based on the accumulation of productive capital. However, a main difference between these two socio-economic structures exists with respect to surplus-value creation. Whereas the phase of production (P) is at the centre of the accumulation strategy of places of production, this is only partially the case with respect to places of consumption. As noted by Savran and Tonak (1999: 128) only within the production phase surplus-value can be created. Places of production are based on the transformation of productive capital into commodity capital. This is only true for some specific services which are offered in places of consumption. Services, defined as the “simultaneity of production and consumption” (Savran and Tonak 1999: 137), can create surplus-value. Examples of such services in places of consumption are hotels, bars, restaurants, museums, art performances, etc. as long as their production is capitalist organised. However, other services in places of production do not create surplus-value. These services are part of the sphere of circulation, i.e. the transformation of commodity capital into money capital (C' - M'). Capital used in the accumulation process based on such services should be considered as mercantile capital, i.e. capital which enables the circulation of commodities. As discussed by Savran and Tonak (1999) and Walker (1985: 55-56) this capital does not produce surplus-value since it involves unproductive labour. Examples of such services can be found in shopping centres and retail shops. The distinction between productive and unproductive labour is relevant, since it is linked to the dynamics of accumulation strategies. The accumulation strategies using unproductive labour are to a large extend dependent on exogenously produced surplus-value and its distribution. The accumulation of capital based on productive labour generates by itself surplus-value and thus economic growth. At first sight, the accumulation of fictitious capital appears to be of no further significance for this paper. However, as will be shown later, fictitious capital accumulation is closely tied to housing and more generally to real estate.
Second, based on the typological axis of extensive and intensive accumulation strategies there is a clear difference between the places of consumption and places of production. Independent of accumulation taking places within the production of services or within the sphere of circulation, places of consumption are generally characterised by an extensive accumulation strategy. Accumulation processes are labour intensive and labour productivity can only marginally be increased by means of capital investments. Employees in hotels (room cleaning, concierge, floor management), in bars and restaurants (waiters, barkeepers), in retail shops (shop assistants, sales people), in museums (guides, security) and in art performances (directors, actors) can only have a certain level of productivity. The main variable, which they do not control but is instrumental to understand their productivity, is the number of customers, i.e. consumers, in the respective establishments. This also implies that these employment opportunities are characterised by low wages due to wage pressure exerted by capital owners. This accumulation strategy is in sharp contrast with the intensive accumulation strategy of places of production. Places of production offer possibilities to increase labour productivity due to capital investments in the production process. By means of mechanisation, automation and innovation production processes and labour productivity can be altered significantly. As indicated by Becker (2007: 67-70) labour wages will be adjusted to productivity.

Third, since this paper discusses accumulation strategies on city levels, i.e. a small geographical scale, it is safe to assume that the accumulation strategies of both places are extroverted. Without outside customers the accumulation strategy of places of consumption cannot be very successful. The degree of extroversion can, however, be different. With respect to tourism it depends on how attractive or unique the “tourist gaze” (Urry and Larsen 2011) is to potential customers. Whereas some places can only attract local tourists, some cities are destinations for international tourists. So in order to attain as much consumers as possible places of consumption have to develop a unique city identity and compete with other places for tourists/consumers. Places of production also have an extroverted accumulation strategy. However, competition is not based on the unique identity of the city with respect to other places. Places of production compete indirectly with other places on product markets, i.e. goods and services markets. With respect to the degree of extroversion, i.e. the geographical scale of competition, it should be noted that this depends on the respective product market. Some products have due to their (physical) characteristics a limited geographical reach (e.g. concrete), whereas others (e.g. electronics) can be traded on a global level. The degree of extroversion influences competitive pressure and the respective accumulation strategy.

With respect to these accumulation strategies also local governments fulfil a specific role. According to Becker (2007: 127-150) governments are the result of complex interactions between civil society and politics. The main objectives of governments are to maintain social cohesion and to secure social reproduction. Since governments possess the monopoly on the legitimate use of physical power and the legislative monopoly they can implement and enforce norms as well as sanction non-compliance. Conflicts arise between and within different social groups because they struggle over the formation of these norms. At the same time the revenues of governments in form of taxes are to a large extent dependent on the performance of accumulation regimes. It is thus safe to state that local governments are both agents and objects of regulations, by means of which accumulation processes can be influenced.
3. The role of built environments

Until now this paper neglected the effects of accumulation processes on the urban built environment. To understand and analyse this interaction a theoretical framework is needed. This paper uses the framework discussed by Harvey (1978), which allows analysing urbanisation under capitalism. Figure 1 is a stylised representation of the circulation of capital in a capitalist society. As can be seen these capital flows are not only intertwined, but built environment is explicitly regarded as outcome of this capital circulation.

To analyse these capital flows Harvey (1978) defines three circuits of capital. The “primary circuit of capital” (Harvey 1978: 104) is the basic capitalist production process. Within this production process surplus-value is created and the produced commodities are used as means of production or as means of consumption (incl. luxury consumption). Moreover, the primary circuit of capital is characterised by internal contradictions, which tend to create over-accumulation (Harvey 1978: 104-106). Within the “secondary circuit of capital” (Harvey 1978: 106) capital markets assume a pivotal role. Capital markets collect savings from private persons and money capital from firms, which they use to finance “fixed capital” and “consumption funds” by means of credit and money creation. This channel is used to finance not only producers and consumers durables but also the built environment of an urban area. With respect to the built environment Harvey (1978: 106) states that “[…] the value in it cannot be moved without being destroyed. Investment in the built environment therefore entails the creation of a whole physical landscape for purposes of production, circulation, exchange and consumption.” Note that the actual production of producer and consumer durables as well as of the built environment, i.e. the construction industry, is also part of the first circuit of capital. The “tertiary circuit of capital” (Harvey 1978: 107) is characterised by state functions. By means of taxes the state finances investments in technology and science as well as social expenditures. With respect to the discussion in this paper this circuit is, however, not that relevant. The main consequence of using this research framework is that built environment is explicitly tied to the primary circuit of capital.

With respect to places of production the interpretation of this framework is rather straightforward. According to Harvey (1978) the second capital circuit of places of production, which includes the built environment, has two functions. First, as fixed capital it is used directly in the production process. The main aim is to increase labour productivity. This implies that the competitiveness of goods and services increases and as a result more capital can be accumulated. Second, built environment is also used by labour for its reproduction. This indirectly also influences the production process, since this reproduction is necessary to supply labour power to this process. From a political-economic perspective the reproduction costs of labour define its wage. This assumption links the cost of housing with the first capital circuit. These theoretical insights yield the hypothesis that both capitalist producers and labour prefer built environment with low costs. This does not only reduce the cost of fixed capital in the production process but also reduces the reproduction cost for labour power. These variables increase the competitiveness of the locally produced goods and services.
Within the context of places of consumption the interpretation of the framework is more difficult. Especially the role of built environments has to be discussed. With regard to places of consumption Harvey (1989: 9) notes that “the city has to appear as an innovative, exciting, creative, and safe place to live or to visit, to play and consume in.” Considering the fact that in places of consumption tourists are an important component of the accumulation strategies, the interaction between tourism and the built environment has to be analysed.

Specific for city tourism Pott (2007: 103-145) uses a “cultural” scheme. In an increasingly globalised world the specific local identity of a city gains in importance. This is necessary since on the one hand places of consumption compete on a national and international level with each other. On the other hand the homogenisation of technology, architecture and culture can be observed. To create this specific local identity “culture” is used in three ways. First, culture is used to create a regional differentiation between the city as tourist destination and the tourist’s daily environment. Note that this does not necessarily imply physical distance. Second, by means of culture a historical differentiation is created. The local history is used to create a specific (even unique) identity of the city. Third, cultural diversity within the city is underscored in order to distinguish the city from other localities (Pott 2007: 103-145). One of the main instruments to communicate this specific local identity is through the built environment (Pott 2007: 103-145; Urry and Larsen 2011: 119-154).

According to Pott (2007: 153) place and the built environment are crucial aspects of city tourism, since in order to be a tourist destination a city has to offer something to see, i.e. a “tourist gaze” (cf. Urry and Larsen 2011). To stress his argument Pott (2007: 153) introduces the term “site-seeing”. These sites or places are generated and reproduced through the interaction between networks of capital, persons, objects, signs and information (Urry and Larsen 2011: 119). In addition place is used

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Although Pott (2007: 103-145) discusses the term “culture” thoroughly, the present paper does not go into any details. This discussion would go beyond the scope of this paper and is not necessary to understand the presented argumentation.
to visualise and to structure the specific local identity of the city (Pott 2007: 128-133). Urry and Larsen (2011: 120-125) identify three architectures which can be used to create a tourist gaze. First, they use the term “after the modern” to refer to consumerist postmodernism. The most obvious examples are themed hotels in Las Vegas and Disneyland. Second, “return to the premodern” is an architecture which reconstructs classicism. It is not only linked to creating a romantic gaze, but also reproduces or preserves “the architecture of an elite” (Urry and Larsen 2011: 122). One example they provide is the Georgian townscape of Bath. Third, Urry and Larsen (2011: 123) introduce the term “anti the modern”. This architecture regards space to be localised, specific and context-dependent. An example of this style is the Tate Modern gallery, which is located in a former power station of London.

Based on this background information the role of built environments in places of consumption can be discussed. First, within places of consumption the built environment has to create a unique and attractive city image. This means that the built environment as fixed capital does not increase labour productivity but is the main vehicle to compete with other places. Second, as discussed in the previous chapter, the accumulation strategy of places of consumption offers little scope to increase labour productivity. These theoretical considerations yield following hypothesis: Although the built environment has the same function for labour as in places of production, there can exist a difference with respect to how real estate is perceived by labour in places of consumption. Since the labour force of consumption places is aware of the fact that their labour income is dependent on the specific local identity communicated by the built environment, they are willing to support this identity even if it induces negative effects with respect to housing.

The theoretical discussion shows that whereas real estate could be regarded in places of production as a variable which influences the production process, the built environment of consumption places defines the success of the specific accumulation strategy, which makes matters complicated. Further empirical research is, however, necessary to verify this.

4. The Cost of Housing and rent

By introducing the theoretical concept of rent it is possible to develop hypothesis with respect to the effect of urban governance on the cost of housing in urban centres. In a first step, however, the concept of rent has to be defined. In its basic form rent is a monetary transfer from the user of a specific asset to the owner of this asset and is based on monopoly power guaranteed by private ownership (Harvey 1974: 240; 1984: 330; 2012: 90). On the one hand this definition implies that legal ownership of assets is necessary to extract rent. On the other hand somebody has to be willing to pay rent in order to use the asset. In the field of political economy four categories of land rent are defined (e.g. Harvey 1984: 330-372; Park 2014): differential rent 1 (DR-1), differential rent 2 (DR-2), absolute rent and monopoly rent. Of these four categories Marx (2008:772) regarded only differential and absolute rent as normal forms of rent, since these rents are paid out of surplus-value generated in an accumulation process. Whereas capitalists in the productive capital circuit, which use land as “conditions or elements of production” or as “instrument or means of production” (Harvey 1984: 334), have access to surplus-value, it is not clear if these normal rents are appropriate for residential space.
On the one hand one could follow Park (2011: 43-45), who claims that “[i]n housing, ordinary workers manage the reproduction process for their daily labour power, including that of their family in the long run” (Park 2011:45). This means that the product of residential space is labour power and not buildings. However, the reproduction process of labour power is a process which does not create surplus-value. Therefore, rents in residential markets are not “normal”, i.e. only monopoly rents are relevant. On the other hand, one could regard residential space as a commodity, i.e. the final product of the construction industry. In this case all four rent types should be discussed. This paper uses the latter interpretation, since regarding the reproduction of labour power as the final product appears, at first sight, too far-fetched. Regarding labour power as the final product of residential space implies also that labour power should be regarded as the final product of agricultural space. Agricultural products consumed by the labour force contribute without any doubt to the reproduction processes of labour power.

The implications of applying the argumentation of Park (2011: 43-45) on rent in the housing market is, nonetheless, helpful to discuss a main characteristic of this market. Contrary to markets for agricultural products, housing markets are characterised by monopoly prices. The lack of competitive conditions on residential markets appears highly plausible, due to the nature of its product. First, any form of housing offers shelter, i.e. protection from both the natural and the social environment. As a result housing cannot be substituted by another commodity nor is it possible to restrain from its consumption (Weichhart 1987: 6-9). Second, besides fulfilling its basic role for shelter, housing also envelops important social and cultural functions. If offers not only a place for individual socialisation, but also represents social and economic standing. Both how as well as where one lives (can) function as status symbol (Weichhart 1987: 6-9). This influences people’s willingness to pay for a specific residential space. Third, real estate is grounded. The location of an object is immobile and cannot be changed. As a result each object is unique, which offers owners of residential space a certain level of monopoly power (Galster 1996: 1798). Fourth, this monopoly power is reinforced by the fact that housing units are extremely heterogeneous. This heterogeneity is due to both internal properties such as size, infrastructure and construction year as well as external features such as public infrastructure and neighbourhood characteristics (Galster 1996: 1798). Fifth, the production of real estate is characterised by high capital commitments and is very time consuming. In combination with the fact that real estate is durable, it should be clear that built environments are slow to change (Galster 1996: 1798). Sixth, on housing markets only a continuously changing fraction of all housing units is offered. Whereas this monopoly price is of no further interest with respect to differential rent, it will be helpful to discuss absolute and monopoly rents. In the following step these different rent forms are discussed.

The basis for differential rent is the difference in land conditions, which allows excess profits. Whereas DR-1 is regarded as a permanent feature such as location or quality which does not affect market values, DR-2 results from differential applications of fixed capital to equal lands. Due to technological change DR-2 has a transient effect (Park 2011: 45-48; Harvey 1984: 353-358). Applied to residential markets the location of housing with respect to the place of employment can offer a basis for DR-1. In general it can be assumed that workers living closer to the city centre have lower commuting costs. Therefore, they are willing to pay higher prices for housing closer to the city centre, because commuting costs can be saved. Landowners can appropriate these commuting cost savings as DR-1 (Park 2011:60-60).
Whereas the existence of DR-1 generally explains higher housing costs in urban centres than its surroundings, at first glance it cannot explain differences between cities with different urban governance. Two variables that influence the level of DR-1 are wage level and commuting costs. Both high wage levels and high commuting costs offer the possibility to extract higher DR-1. However, it is difficult to make a general distinction between places of consumption and places of production with respect to these two variables. Wages are time and place sensitive and should be analysed in a specific context.

Based on the work of Saiz (2010) it is, however, possible to establish a more general difference between places of consumption and places of production, which also influences the level of DR-1. With respect to geographically land-constrained areas Saiz (2010: 1257, 1265) notes that these areas are perceived as attractive and as a result have a higher number of tourist visits. At the same time these areas are characterised by stricter land regulations such as zoning and growth controls (Saiz 2010: 1272). This observation is not that surprising since it is very likely that due to the specific characteristics of accumulation processes in places of consumption its land and built environment is more regulated. As displayed in previous chapter the role of built environment in the accumulation processes is markedly different between places of production and places of consumption. In places of production the main purpose of built environment is to increase the productivity of labour power, one of the most important variables which define the success of accumulation. In contrast the built environment in places of consumption is used to create a specific local identity which is unique. This image is also the main attribute with which places of consumption compete with other places. Therefore in places of consumption the built environment is regulated more strictly to maintain this competitive edge.

The effect of a stricter regulation of the built environment in places of consumption on DR-1 is displayed in Figure 2. Under the assumption that the only difference between a place of production (PP) and a place of consumption (PC) is a stricter regulation of the built environment in the place of consumption, the level of DR-1 will be higher in the latter. The effect of stricter regulation such as

![Figure 2: DR-1 in places of production and places of consumption](image-url)
zoning regulations (e.g. restricting the building area) and building regulations (e.g. restricting the height of buildings) is a relative smaller number of housing opportunities in a specific area. The limited availability of residential space forces people to look for housing further away from the city centre. This means that labour has to commute longer and that commuting costs increase. As a result the basis to extract DR-1 is increased and the cost of housing is higher in the stricter regulated place of consumption. Whereas the work of Saiz (2010) offers already a good indication for such a possible difference, further empirical research is necessary to confirm this hypothesis.

Whereas the existence of differential rents is not contested, the academic debate with respect to absolute rent (and to a lesser extend monopoly rent) is more intense (for a good overview see Park 2014). Since this theoretical discussion has no significant relevance for the present argumentation, this paper will not delve into it. It is, however, important to understand that both absolute as well as monopoly rent can only be extracted if landed property functions as a “systematic barrier to the free flow of capital” (Harvey 1984: 351). This pivotal role of landed property was also highlighted by Marx (2008: 759, 783-784). Moreover, although Marx did not use the term monopoly rent, he acknowledges an interaction between monopoly prices and rent (Marx 2008: 783-784). The concept of monopoly rent is thus based on the ability to charge a monopoly price for the good or service produced by means of a specific asset (Harvey 1984:350; Park 2011: 56). This implies also a lack of competitive conditions between the owners of this asset, which applies for housing markets. Since the price of housing is higher than its production price and its value.

With regard to monopoly rent two different situations can occur (Marx 2008: 783-784). On the one hand “the monopoly price creates the rent” (Harvey 1984: 350). This is the case when the asset (e.g. land) used in a specific accumulation process is of exceptional and special quality (or location). On the other hand landowners can only release unused land when paid a high rent, which implies that “the rent charged creates the monopoly price” (Harvey 1984: 350). Whereas Park (2011: 56-58) discusses emulation and differentiation processes between monopoly and absolute rent, this could also be interpreted as DR-2 and monopoly rent interactions.

As previously discussed the landowner of unique land extracts monopoly rent due to the specific qualities of this land. This implies that the differentiation of this land from other lands is based upon these qualities. Therefore other landowners have the incentive, if physically possible, to create the same qualities for their land by means of capital investments, i.e. they create DR-2. If they are successful, they can also appropriate higher rents. As a consequence of their capital investments the basis to extract monopoly rent erodes. These capital investments create more land with similar qualities. The monopoly rent for land with such qualities is gradually displaced by a common, institutionalised rent. Park (2011: 57-58) describes this as emulation process. Since landowners have the possibility by capital investments to alter the qualities of their land, also differentiation processes are relevant. Monopoly rent is based on the fact that a specific land is a unique space, i.e. this land can clearly be differentiated from other lands due to its qualities or location. The characteristics of urban areas facilitate exactly these two processes.

Footnote: Marx (2008: 783-784) defines monopoly price as a price above the production price and the value of a specific product. The monopoly price can only exist due to the Kaufflucht (animation) and Zahlungsfähigkeit (buying power) of the buyer/consumer.
In what follows the concept of monopoly rent is combined with the discussion on urban governance. As argued by Harvey (2012: 89-112) urban entrepreneurialism in general has the incentive to create opportunities to capture monopoly rents. Due to globalisation the economic space of competition has changed dramatically. Whereas the accumulation processes of a specific location enjoyed in the past monopoly protection not only due to institutional trade barriers, but also to high transportation and communication costs, they are nowadays characterised by more external competition. In this context one of the main aims of urban entrepreneurialism is to create collective symbolic capital, i.e. “special marks of distinction that attach to some place, which have a significant drawing power upon the flows of capital more generally” (Harvey 2012: 103). The creation of this collective symbolic capital establishes monopoly power and as such creates a basis for monopoly rent.

As was shown in previous chapters the use of land and the function of built environment between places of consumption and places of production are markedly different. Economic prosperity in places of consumption is based on creating a specific local identity. In this respect it was also shown that although tourism is only one specific form of consumption, it has a significant influence on a place’s specific local identity. Precisely this local identity is the basis to appropriate monopoly rent. This is most obvious with respect to hotels, restaurants and other tourist branches. Note that it is not necessary for accumulation strategies to realise monopoly prices at these locations, although they pay monopoly rents. This is especially the case for multinational retail companies (e.g. H&M), which have standardised prices. The location can nonetheless be profitable due to the extensive (potential) consumer base. For places of production the creation of a unique local identity is less important with respect to economic success, i.e. capital accumulation. The main function of the built environment in these places is to support production processes by enabling productivity increases. Therefore these places offer fewer opportunities to create a base for monopoly rent in land markets.

The different function of built environment between places of production and places of consumption is also translated into the configuration of emulation and differentiation processes. The accumulation processes of places of consumption thrive and prosper on the unique local identity. Therefore the qualities of land which allow appropriating monopoly rent are tightly linked to this identity. One quality could be an exclusive view on a specific landscape (e.g. mountain, lake or ocean view). Another quality could be the location of the land with respect to attributes of the unique local identity (e.g. historic city centre, cultural activities or vibrant city districts). In general these qualities are tightly linked to the unique local identity and cannot easily be reproduced by mere fixed capital investments. As a result emulation processes will be less successful to create land with equal qualities and the erosion of the monopoly rent base will be less pronounced. At the same time it should be remarked that stricter regulations of built environments in places of consumption also hinder emulation processes and support differentiation tendencies. Places of consumption will thus generally be characterised by high and stable monopoly rent. In places of production the qualities of land are closely linked to production processes and to the reproduction process of labour. With respect to housing these qualities could refer to living space, facilities etc. Therefore the basis of monopoly rent can be more easily reproduced by fixed capital investments. The interaction between emulation and differentiation processes will be more dynamic and results in lower monopoly rents.

Whereas it can be assumed that places of consumption offer better opportunities to extract monopoly rent vis-à-vis places of production, differences between places of consumption do exist. As already mentioned a main factor which determines the extraction of monopoly rent is the level of
competition between landowners. At the same time the local identity of a place is dependent on this factor and could be substantially different under other circumstances. In the context of tourism Urry and Larsen (2011: 38) refer to the social tone of a place, i.e. the interaction between small and large, local capital and externally owned, highly capitalised enterprises, to explain the difference in development between places of mass tourism and heritage destinations. Simultaneously they acknowledge the crucial role of service and middle classes in heritage societies. These classes are the major social force that preserves the advantages of asset owners (Urry and Larsen 2011: 143). This discussion could be interpreted as the interaction between emulation and differentiation processes. Therefore, it is necessary to conduct field research in order to identify the main actors of local real estate markets and to analyse their behaviour.

5. Housing and Fictitious Capital

Until now this paper regarded housing as regular consumer good. However, in the last decades the importance of real estate as investment goods, i.e. financial placement, increased significantly (Rolnik 2013: 1062-1063). Heeg (2013) identifies as one of the main causes of this evolution the financialization of housing markets. The liberalisation of financial markets combined with the introduction of new financial instruments allowed to regard real estate increasingly as a financial asset. At the same time Theurillat et al. (2013) point out that the attractiveness of real estate as financial asset depends also on the degree of urbanisation and is thus time and space sensitive. They argue that rural areas offer only limited possibilities to accumulate fictitious capital, whereas real estate developments in metropolitan areas are significantly defined by fictitious capital accumulation strategies. Equipped with the theoretical insights from the previous chapters the hypothetical interaction between the accumulation of fictitious capital in places of production and consumption can now be analysed.

Fictitious capital can be accumulated by investing money capital in financial assets and selling these assets with profit. With respect to real estate Theurillat et al. (2013) define two different strategies of financial capital to accumulate fictitious capital. First, investors can develop or buy real estate and become thus landlords of specific real estate. They can accumulate capital by renting out their real estate or by (re-)selling their property. Their accumulation strategies are tied to a specific location and characterised by long term interest. In addition, these investors possess specific, codified knowledge of the local market. Second, investors can acquire property rights by means of real estate derivatives. They regard this investment as a mere financial transaction and diversify their portfolio risk by means of real estate property rights. In general, they speculate on price increases of these products on financial markets and lack specific knowledge of local markets. Notwithstanding the difference between these two investor types, their interaction can reinforce their respective accumulation strategies, which are based on the extraction and redistribution of rent.

As discussed previously, the accumulation of fictitious capital is more or less tied to the production of surplus-value by productive capital. In its basic form fictitious capital is nothing more than claims on future surplus-value. At the same time the definition of rent states that it is based on surplus-value. Although it is acknowledged that landowners can extract income from “values” (e.g. wage income, consumer funds, etc.), this is theoretically not regarded as rent. It is mere a form of exploitation (which can be substantial, but is NOT a form of rent) (Marx 2008:772). What does this imply for fictitious capital in housing markets? It is important to note that monopoly prices are at hand in
housing markets, i.e. landed property can extract not only differential rent but also monopoly rent. Ultimately these rents are paid out of surplus-value. Whereas differential rent redistributes surplus-value from the construction industry to landed property, the extraction of monopoly rent implies a redistribution of surplus-value from other sectors to landowners (Harvey 1984: 353). It is exactly this redistribution which differs between places of production and places of consumption. Moreover, to understand this difference the distinction between productive and unproductive labour is helpful.

The accumulation of productive capital in places of production is mainly based on following capital transformation process $M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M'$. This process thus includes the use of productive labour and creates surplus-value. Therefore, it is safe to assume that in urban areas in which accumulation strategies of production places dominate a local redistribution of surplus-value takes place. Landed property extracts surplus-value from both the construction industry as well as the productive sectors by means of differential rents and monopoly rent. As a result the accumulation of fictitious capital in such areas is limited by the surplus-value which is locally produced. At first sight, this hypothetical claim contradicts the previously discussed extroverted accumulation strategy. However, this extroversion is necessary to realise produced surplus-value\(^3\). This configuration reduces theoretically the bargaining power of landlords. Since their rent is tied to locally produced surplus-value, they cannot extract too much rent without harming the accumulation of surplus-value in the productive sectors. In this case the accumulation of fictitious capital implies biting the hand that feeds you.

The accumulation strategies in places of consumption is mainly based on the transformation of commodity capital into money capital ($C' \rightarrow M'$). Although it can be argued that in these places surplus-value is also created by some sectors, labour has a markedly different position as in places of production. Labour productivity in places of consumption depends mainly on the number of customers and cannot significantly be altered by fixed capital investments (e.g. machines, built environment). Therefore the surplus-value locally created in places of consumption offers only a limited base to extract rents. However, successful consumption places have a unique local identity (partially) created by built environment and offer thus a base to extract monopoly rents. These monopoly rents can only be extracted if a significant spatial redistribution of surplus-value occurs. As a result places of consumption offer a unique opportunity to accumulate fictitious capital, since rent and thus surplus-value redistribution is not restricted to local processes of surplus-value creation.

Whereas the accumulation rate of fictitious capital in places of production is curbed by the local accumulation of productive capital, this rate in places of consumption depends on the possibility to redistribute, i.e. attract, surplus-value in space. This hypothesis yields two theoretical consequences. On the one hand, the accumulation of fictitious capital in places of production is based on an introverted strategy. Locally created surplus-value forms the base to extract monopoly rents in housing markets. At the same time the level of this monopoly rent influences the local production process, since built environment influences labour productivity. This interaction between built environment, productive capital, labour power and fictitious capital results very likely in a situation where real estate assets are owned by local actors. On the other hand, the accumulation of fictitious capital in consumption places can be characterised as passive extroverted. Since the local base to

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\(^3\) The extroverted accumulation strategy also influences the spatial distribution of surplus-value. This fact is, however, neglected, for the present argument with respect to places of production. This spatial distribution of surplus-value is necessary for the accumulation strategies of places of consumption.
redistribute surplus-value is rather small and built environment has little influence on labour productivity, fictitious capital accumulation depends mainly on external actors. Whereas the built environment of places of consumption creates a unique local identity, this identity functions as base to extract monopoly rents. In times of an increased financialization this results in real estate assets controlled by external fictitious capital actors. The interaction between the different actors in places of consumption, i.e. mercantile capital, fictitious capital and labour power, will be prone to conflicts.

6. Conclusion

The main aim of this paper was to develop a theoretic framework, which would enable the analysis of housing prices in urban contexts and which acknowledges the existence of different city regeneration processes. Starting with the observation that urban governance changed since the 1970s two abstract ideal types of competitive strategies were defined and analysed. However, both places of consumption and production have in common that they result from an increasingly active stance towards economic growth and that they are not mutually exclusive, i.e. within an urban area both places can be identified.

Based on a régulation-approach the accumulation processes of these two places are compared. On the one hand it was shown, that places of production offer the possibility of intensive capital accumulation, whereas accumulation strategies in places of consumption are extensive. On the other hand, capital accumulation in places of consumption is mainly based on the transformation of commodity capital into money capital. This transformation offers only a limited base to create surplus-value, whereas the transformation of productive capital into commodity capital, which is characteristic for places of production, does create surplus-value.

This difference has also consequences for the function of built environments in these places. The built environment in places of production supports the production process by increasing labour productivity. Places of consumption have to create a unique local identity, which attracts consumers and convinces them to spend money. Therefore the built environment of these places is used to create such an identity.

Furthermore, the implications of these differences were analysed regarding the cost of housing. The main focus of this analysis was on differential and monopoly rents. With respect to differential rent it was noticed that places of consumption are generally characterised by stricter regulations. These regulations induce higher housing costs in places of consumption. Moreover, the dynamic interaction between emulation and differentiation processes differs also, which results in different opportunities to extract monopoly rent. Whereas the discussion so far already indicated that costs are generally higher in places of consumption than in places of production. This difference in housing costs is reinforced due to different accumulation strategies of fictitious capital.

Since the strategies to create places of production and consumption are non-exclusive it is also interesting to take a closer look at their interaction. In an urban area in which the production place strategy dominates, strategies of consumption places are only successful in (small) urban pockets and have no significant repercussions on the dominant strategy. What would happen if the accumulation processes of productive capital are hit by an economic crisis? On the one hand it would be possible that the strategies of consumption places do not offer a viable alternative. In this case the urban area would experience a decline and possibly deindustrialisation. On the other hand establishing
places of consumption could be a viable alternative, either because fictitious capital or mercantile capital actors are able to induce such a change. In this case productive capital would be disappear out of the urban area due to increased costs of built environments.

The recent process of financialization can also have a major impact on the competitive strategies of an urban area. Fictitious capital actors in real estate whose accumulation rate would traditionally be defined by the accumulation rate of productive capital, could contest this dominance of productive capital if they manage to have access to externally produced surplus-values. The establishment of such external links is eased by the liberalisation of financial markets and the introduction of new financial instruments. Fictitious capital actors who tap into external capital funds could make life difficult in places of production and even pose a threat to its survival by disrupting local interaction.

All in all the theoretical framework developed in this paper appears to be helpful to understand and to analyse housing costs in an urban context. Housing costs are not regarded as a simple result of supply and demand interaction, but as the outcome of socio-economic processes, which include different actors with diverging interests. This abstract analysis framework could significantly improve the general understanding of urban processes. Moreover, the framework envelops some important implications for urban housing policies. However, before jumping to political conclusions this framework, which offers a consistent theoretical approach with respect to housing prices in urban areas, has first to be affirmed by substantial empirical research. As a next step the multiple hypothesis and considerations have to be tested in urban areas.

References


