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Maja Stalevska

Building Capital

The Political Economy of Commercial Real Estate Development in Stockholm

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Abstract
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International comparisons place Sweden among countries with the largest commercial real estate markets per capita, alongside Hong Kong and Singapore. In 2024, the combined market value of commercial property owned and managed by professional investors exceeded half of its GDP. Real estate, in other words, constitutes a major component of Sweden's national wealth. Although land and property have always been integral to its economy, the present concentration of capital in commercial real estate is a relatively recent phenomenon. Investment in the development and ownership of commercial property explicitly for its income-generating capacity was relatively marginal before the 1970s, but this picture has changed drastically since then.

This thesis examines the dynamics of capital accumulation in Sweden's commercial real estate market and their intersection with broader political and economic changes, through a historical geography of contemporary conditions of accumulation in Stockholm's commercial property market. It demonstrates how these conditions are shaped by a multiscalar reorientation of capital accumulation around financial channels of investment and the embedding of market principles in urban governance—intersecting, most notably, in the reconfiguration of governance around the management and mitigation of risk.

What emerges from the analysis is how the state, at various institutional levels, plays a central role in shaping the dynamics of accumulation in the commercial real estate market in two critical ways: *indirectly*, through the state's own growing entanglement with financial markets, and *directly*, through the reorientation of urban governance around the treatment of municipal land as a financial asset.

Keywords: commercial real estate, finance capital, urban development, public land, urban governance, Sweden, Stockholm

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Abbreviations

AMC	Asset Management Company
CBD	Central Business District
FI	Swedish Financial Supervisory Authority (Finansinspektionen)
GDP	Gross Domestic Product
GFC	Global Financial Crisis
LGA	Local Government Act
RRA	Rent Regulation Act
SCB	Central Bureau of Statistics (Statistiska centralbyrån)
SEK	Swedish krona
QE	Quantitative Easing

1. Introduction

International comparisons show that Sweden has one of the largest commercial real estate markets per capita in the world—right after Hong Kong and Singapore.[1] While this is hardly surprising for the two city-states where land is a particularly scarce commodity, these numbers are striking for a country as sparsely populated as Sweden. In 2024, the combined market value of commercial real estate[2] was estimated at around SEK 3,400 billion[3]—which constitutes about 55 percent of the country's GDP. Commercial property, in other words, represents a major share of Sweden's national wealth. Crucially, ownership of this stock is overwhelmingly concentrated among wealthy groups and corporate rentiers—owned by private individuals, families, financial institutions, and governmental agencies—exclusively for investment purposes, that is, with view to generating financial returns from the development of, investment in, renting and sale of commercial property assets.[1]

While land and property have always been important to its economy, in the *long durée* of Sweden's capitalist history this pattern of wealth concentration is a fairly recent phenomenon. Investments in the development and ownership of commercial property strictly for its income-generating capacity was relatively marginal before the 1970s—limited mostly to a handful of privately-owned property companies concentrated in central Stockholm. This picture changed drastically in the 1980s. As the post-war capitalist

[1] MSCI, *Real Estate Market Size Report 2021/22* (MSCI, 2022). The respective size of the real estate investment market to GDP per capita for Hong Kong and Singapore is 99 and 50 percent (as measured in 2021). The only other country in Europe which matches the size of Sweden's real estate market per capita is Switzerland (estimated between 43-45 percent).

[2] "Commercial real estate," as I will explain later, is an elusive term. In this particular case, as in the rest of this section, the numbers indicate income-generating property (offices, rental housing, retail, and industrial properties). The rest of the thesis has a narrower scope – focusing on commercial-use property (thus excluding residential-use property). See page 15.

[3] The estimate is based on Fastighetsvärlden's list of the 125 largest commercial property companies in Sweden in March 2024, based on balance-sheet valuations at year-end. This is only an indicative, and quite probably somewhat conservative estimate. The list includes only corporate owners who specialize in the leasing, trade and development of real estate (excluding properties held for companies' own use). However, the list excludes indirect ownership—that is, the ownership of shares in other property companies—where the ownership stake is below 50%. See: Fastighetsvärlden, *125 Största Ägarna I Sverige 2024* (Tidnings AB Fastighetsvärlden, 2024).

model began to fray against the background of a structural crisis, financial investments in land and buildings came to occupy an increasingly larger share of total investment. The number of property companies listed on the Stockholm Stock Exchange doubled between 1980 and 1989, as the combined market value of their stock increased from only SEK 0.5 billion to SEK 3 billion by the end of the decade.[4]

While growth was temporarily interrupted in 1991 as overinvestment in commercial real estate led to one of the worst financial crises in Sweden's modern history, the links between finance and real estate were restored promptly and growth since the mid-1990s has continued apace. By 2010, the combined market value of commercial property assets to GDP stood at around 25 percent.[5] Since, the combined stock market value of listed companies has increased tenfold, from SEK 100 billion in 2010 to just under SEK 1,000 billion in 2021.[6]

This growth has gone hand in hand with the sector's increasing dominance in the domestic credit market. Estimates by the Swedish Central Bank indicate that real estate companies' aggregate debt rose from SEK 1,300 billion in 2012 to just over SEK 2,300 billion in 2021—equivalent to 42 percent of the country's GDP.[7] The commercial real estate sector is the largest corporate borrower both in the Swedish capital market (43 percent) and among domestic banks (42 percent).[8]

Why has Sweden experienced such marked concentration of wealth in the real estate market in recent decades? What is the nature of this wealth? What are the conditions that have enabled its spectacular accumulation? These are the central questions that animate this study.

Insofar, as David Harvey reminds us, no economic activity—and especially capital accumulation tied to land and buildings—takes place on the head of a pin, there is a second pivotal dimension to this story.[9] What these figures capture is not merely a process of wealth concentration expressed in terms of paper value, but also, crucially, one of *geographical* concentration and centralization of capital in urban regions in Sweden—and where commercial property is considered on its own, overwhelmingly in Stockholm. Over half of the property holdings of commercial real estate companies in

[4] Archival data—Affärsvärlden, 1980-89.
[5] Fastighetsvärlden, "50 Största Ägarna," February 2, 2011, https://www.fastighetsvärlden.se.
[6] Colliers, *Nordic Property Outlook 2023,* www.colliers.com.
[7] Sveriges Riksbank, "Financial sector linkages with the commercial property sector," *Financial Stability Report 2022:2*. (Sveriges Riksbank, 2022), 62, https://www.riskbank.se.
[8] Ibid., 62.
[9] David Harvey, *Seventeen Contradictions and the End of Capitalism* (Profile books, 2015), 137.

Sweden are concentrated in Greater Stockholm. Measured in estimated market value, this concentration is even greater.

Setting aside the government's narrow concern with the financial risks that the property sector's debt-fuelled expansion poses to the national economy, both the spatial dynamics and the broader implications of this growing concentration of wealth in the commercial real estate remain underexplored and largely uncontested in both scholarly and public debates in Sweden. This has partly to do, I would argue, with the fact that since the 1990s, the Swedish state has claimed a growing share of this wealth as a real estate actor in its own right. Of the five largest companies in the commercial real estate market today, two have links to the Swedish government: Vasakronan—owned in equal shares by the state-owned pension fund managers, the AP funds,[10] and Akademiska Hus, owned directly by the government. If we include other ownership stakes in commercial property companies held by the AP funds, the state emerges as one of the largest owners of the wealth stored in the commercial real estate market today. To this we can also include local governments' links to the property market. Real estate, and land in particular, forms a major portion of Swedish municipalities' wealth. As I demonstrate in chapter six, under conditions of centrally imposed fiscal conservatism, the exchange value of these assets has become critical to municipal finances. In other words, in conjunction with the changing patterns of accumulation described above, the significance of land and property ownership as a source of revenue and profit has become increasingly important to the state.

In order to highlight the broader significance of the real estate sector to their respective economies, Anne Haila has conceptualised Singapore and Hong Kong as "property states".[11] Not only do land and buildings form a significant part of their national wealth, she argues, but real estate plays "an important role in the whole economy."[12] How so? Aside from contributing significantly to economic growth, they are also one of the largest borrowers from domestic banks. Property companies and developers also represent a major part of the value in the stock market and real estate is over-represented as a source of personal wealth. Crucially, land—which is predominantly urban—is owned mainly by the state and represents a significant source of revenue for the respective governments. The significance of real estate to

[10] The AP funds (or AP fonderna) are government-owned, semi-independent investment vehicles, part of Sweden's national pension system. Their mandate is to manage pension capital on behalf of the state.
[11] Anne Haila, "Real Estate in Global Cities: Singapore and Hong Kong as Property States," *Urban Studies* 37, No. 12 (2000): 2241-2256.
[12] Ibid., 2241.

their political economies, concludes Haila, depends heavily on "ideologies of land use and land ownership."[13]

While "property state" might not be the term that most would readily associate with Sweden, the heavy concentration of commercial real estate in Stockholm, Gothenburg and Malmö—where land is owned in large measure by local governments—produces a very similar dynamic to that described by Haila in Hong Kong and Singapore.[14] The accumulation of wealth in the Swedish property sector, in other words, is also profoundly entangled with dynamic ideologies and practices of public landownership.[15] Moreover, the state's entanglement with the circulation of capital in the built environment does not end there. As the government-led recapitalization of the property market in the aftermath of the 1990s crisis explored in chapter 5 indicates, upholding the links between real estate and finance is but one aspect of this multifaceted role. Expanding the frontier of property-led accumulation through the commercialization and privatization of public land, explored in chapter 6, is another. Put simply, the state has been central in shaping the conditions of capital circulation through the built environment—both as a facilitator and as a direct agent.

This thesis investigates the state's entanglement in property-led accumulation by developing a historical geography of contemporary conditions of accumulation in the Swedish commercial property market. It demonstrates how these conditions are a product of the broader political and economic transformation of capitalism taking place since the 1970s, including the reorientation of capital accumulation around financial channels of investment. The thesis *lands* this story of capital accumulation in Stockholm, demonstrating how the concentration of wealth in the commercial property sector is imbricated with the increasing embedding of market principles in urban governance—including, most notably, the financialization of public land.

This thesis contributes by examining how generalized tendencies toward the concentration of wealth in financial assets—including land and real estate—and their imbrication with post-1970s neoliberal restructuring have taken shape within a particular historical-geographical context. Sweden provides a particularly instructive case for examining the long-term interplay

[13] Haila, "Real Estate in Global Cities," 2241.
[14] Stockholm owns around 70% of the buildable land within municipal borders. The respective share for both Gothenburg and Malmö is 55%.
[15] Doreen Massey and Alejandrina Catalano, *Capital and Land: Landownership by Capital in Great Britain* (Edward Arnold, 1978); Hanna Zetterlund, *The Landed Municipality: The Underlying Rationales for Swedish Public Landownership and their Implications for Policy* (PhD diss., Uppsala University, 2022).

between the state and property-based wealth, given the public sector's historically outsized presence in the land market.

Furthermore, the thesis aims to remedy an empirical lacuna by focusing on *commercial real estate*. The meaning of this term in the vast academic and non-academic literature on real estate is somewhat slippery as it can refer to two different categories at once: one is property use (referring to non-residential buildings used strictly for commercial activities such as offices, retail, and industrial property); and the second is the purpose of real estate ownership, that is, to delineate owner-occupation from buildings owned solely to generate profit from exchange or leasing—i.e., income-generating buildings. The latter category includes the whole gamut of property uses, including residential buildings. In the context of the present study, I use the term primarily in the first sense. Therefore, while attentive to commonalities with residential development, the thesis points to the distinct spatio-economic dynamics guiding commercial(-use) property development which remain acutely underexplored. Before turning to these specificities, a word or two on the property-finance relationship in general.

Real estate and the financialization of capital accumulation

The increasing entanglement of real estate with financial markets in Sweden since the 1980s has made it a frequent subject of government investigations and financial stability reports focused on examining the financial risks associated with the growth of the commercial real estate sector. And yet, despite its growing economic importance to the Swedish economy, the dynamics of accumulation remain largely unexamined.

This omission extends to scholarly research. Due to its central importance to the construction of the Swedish welfare model, the issue of housing provision has been accorded a special place in critical scholarship in Sweden. Commercial real estate, on the other hand, is a topic rarely broached outside of real estate economics. While the latter offers valuable insights into a largely forgotten segment of economic activity, it tends to rely on "stylized models of markets" abstracting from the "decidedly *political* and *social* nature" of real estate investment.[16] Crucially, even though investment in buildings is fundamentally concerned with the circulation of capital in the *physical landscape*, this literature tends to explore the real estate market as a dis-

[16] Rachel Weber, *From boom to bubble: how finance built the new Chicago* (University of Chicago Press, 2015), 30.

crete economic sphere largely divorced from spatial relations. In other words, the social relations underpinning the "the production, exchange, distribution, and use"[17] of commercial buildings—and their links to broader political and economic processes—remain infrequently spelled out.

In contrast, there is a vast literature rooted in urban political economy, drawing mostly on David Harvey's seminal work on the urbanization of capital, that examines the political *and* economic dimensions of real estate development—or, more specifically, financial investment in land and property.[18] This field of research gained momentum in the 1980s and 1990s, as the social and economic implications of the growing links between property and finance became apparent in a series of financial crises caused by overinvestment in urban real estate markets—including in Sweden. The progressive integration of property and finance, scholars argued, has not only made real estate markets increasingly susceptible to the crisis-tendencies of financial circuits, but led to the reconfiguration of urban land into a financial asset.[19]

This line of inquiry was temporarily abandoned as economies recovered and the property cycle, fed by more footloose capital, crossed an inflection point; that is until the global financial crisis in 2008 forced the issue back into the spotlight. Since, a growing body of research has examined the financialization of urban space from a variety of perspectives, highlighting the progressive promotion of financial logics in property development as "financial actors and their market finance techniques have acquired a greater prominence in the financing, ownership, and management of parts of the built environment".[20] Scholars argue that the proliferation of "new modes of financial rent extraction" since the 1980s has tangibly increased the possibilities for investment and speculation in real estate, further increasing the market's crisis-tendencies.[21] The underlying assumption of this body of scholar-

[17] Michael Ball, "The Built Environment and the Urban Question," *Environment and Planning D: Society and Space* 4, no. 4 (1986), 455.
[18] David Harvey, *The Limits to Capital* (Verso Books, 2006 [1982]); *The Urbanization of Capital: Studies in the history and theory of capitalist urbanization* (The Johns Hopkins University Press, 1985).
[19] Jerry Coakley, "The integration of property and financial markets," *Environment and planning A* 26, no.5 (1994); Michael Pryke, "Looking back on the space of a boom:(re) developing spatial matrices in the City of London," *Environment and Planning A* 26, no.2 (1994); Barney Warf, "Vicious cycle: financial markets and commercial real estate in the United States." In *Money, power, and space,* ed. S. Corbridge, N. Thrift, and R. Martin (Oxford: Blackwell, 1994).
[20] Antoine Guironnet & Ludovic Halbert, "The financialization of urban development projects: Concepts, processes, and implications," *Document de travail du LATTS - Working Paper,* n° 14-04 (2014). http://hal-enpc.archives-ouvertes.fr/hal-01097192
[21] Desiree Fields, "Constructing a new asset class: Property-led financial accumulation after the crisis," *Economic Geography* 94, no.2 (2018).

ship is that financial investors increasingly shape the pace, scale, and form of new development.[22]

A related body of research has explored the demand-side of this relationship, highlighting the role of state actors in facilitating the circulation of capital through the built environment by privileging financial logics, markets and actors. The financialization of urban space, in other words, is linked to the financialization of urban governance. The former involves a variety of institutional mechanisms which underline the commodification of the built environment—from mortgage securitization and tax-based forms of development financing, to the transformation of public infrastructures into income-generating assets. The progressive integration of property into global capital markets which has continued apace since the GFC, and the wide-reaching social, political, and economic implications of these processes, collectively stress the importance of revisiting the increasing dependence of capitalist economies on property-led accumulation. This thesis seeks to contribute to this critical agenda by interrogating and conceptualizing these processes and their significance "in terms of power, politics, and the dynamics of capital accumulation, that is, their political economy."[23]

Peck and Whiteside have argued that while "financialized logics and patterns of governance can be considered to be increasingly systemic, in both reach and intensity", both the strategies employed and the outcomes produced are highly variegated.[24] Where "some entrepreneurial cities have been able to convert their wealth into freedom from financial market dependence […] others have used it as leverage for more borrowing."[25] In this respect, Stockholm serves as an instructive example of urban financialization where the local state has increasingly leveraged public assets to navigate recursive conditions of austerity. Relatedly, insofar as there has been a lack of attempts to relate contemporary changes in urban governance—brought together collectively under the umbrella of urban financialization—with the contexts where the phenomenon is assumed to take shape, this thesis contributes to this literature by providing a historically and empirically situated analysis.[26] As Jamie Peck has argued, scholars need to take heed of the broader conjuncture in which (urban) political economy, real estate and fi-

[22] Weber, *From boom to bubble*.
[23] Fields, "Constructing a new asset class."
[24] Jamie Peck and Heather Whiteside, "Financializing Detroit," *Economic geography* 92, no. 3 (2016): 242.
[25] Rachel Weber, "Selling City Futures: The financialization of urban redevelopment policy," *Economic Geography* 86, no. 3 (2010): 252-253.
[26] Brett Christophers, "Putting financialisation in its financial context: Transformations in local government-led urban development in post-financial crisis England," *Transactions of the Institute of British Geographers* 44, no. 3 (2019).

nance come together.[27] A critical approach to the "financialization" of contemporary capitalism and its relationship with urban processes could only be useful to the extent that it relates any ostensibly new, or transformed, accumulation logics to historically and geographically specific political-economic transformations. But where these two linked bodies of literature provide essential insights to understand property-led accumulation against broader political economic restructuring, they offer only a partial understanding of commercial real estate markets. The following section addresses this imbalance and elaborates why this thesis seeks to bringing commercial real estate back into the heavily residential-focused literature.

The difference that commercial property makes

In broader urban political-economic debates, housing has become the mainstream of critical analysis. This has partly to do with the fact that, like the real estate market itself, research focusing on the dynamics of capital circulation in the built environment tends to be cyclical, usually following on the heels of major property crises.[28] The first wave of studies exploring the links between finance and real estate in the 1990s was animated by "perhaps the largest commercial property bubble ever",[29] which explains why empirical attention at the time was focused mostly on office markets.[30] By the same token, the surge of studies in the aftermath of the 2008 financial crisis have been dominated by housing.[31]

But another plausible explanation as to why commercial real estate has been generally overlooked by critical scholarship, I would argue, is that its political salience is less apparent in contrast to housing—where the links to social reproduction are more tangible and direct. Office vacancies rarely attract the same amount of public and scholarly concern as do housing shortages, and yet, as the fallout from the 1990s property bubble testifies, the

[27] Jamie Peck, "Transatlantic city, part 1: Conjunctural urbanism," *Urban studies* 54, no. 1 (2017).
[28] Peter Wissoker et al., "Rethinking real estate finance in the wake of a boom: a celebration of the twentieth anniversary of the publication of the double issue on property and finance," *Environment and Planning A* 46, no.12 (2014).
[29] Ibid., 2787.
[30] Helga Leitner, "Capital markets, the development industry, and urban office market dynamics: rethinking building cycles," *Environment and planning A* 26, no.5 (1994); Coakley, "The integration of property and financial markets"; Pryke, "Looking back on the space of a boom"; Warf, "Vicious cycle."
[31] Desiree Fields, "Urban struggles with financialization", *Geography Compass* 11, no.11, (2017); Manuel B. Aalbers, "Financial geographies of real estate and the city: A literature review," *Financial Geography Working Paper Series – ISSN 2515-0111* (2019).

consequences can be equally disastrous. The political economy of commercial real estate, in other words, tends to be largely taken for granted.

A recent article by Moreno Zacarés that seek to re-theorize the political economy of housing provision—or "residential accumulation"—serves as an instructive example of the lack of critical attention paid to the dynamics of commercial real estate. Building on the urban financialization literature, Moreno Zacarés rightfully points out that housing development is a hybrid mode of accumulation which brings together the deflationary logic of capitalist production and the inflationary tendencies of land speculation. Crucially, because housing—like all elements of the built environment—represents a spatially fixed commodity, the accumulation process ultimately "pivots" around rent-extraction. This tendency, Moreno Zacarés argues, puts "housing in an awkward position in the capitalist economy, one that grates against its mandate of continuous growth."[32] In other words, the extraction of monopoly rents through higher housing prices exerts pressure on capitalist profits by redistributing surplus value away from production—whether through higher wage costs or reduced demand for goods—toward rentiers. This contradiction is temporarily "fixed" through demand-side housing policies—i.e., the formation of "fictitious" capitals which match effective demand for housing today with surplus value produced tomorrow.[33] Nevertheless, the "functional decoupling" between the individual productivity of the housing consumer and his purchasing powers, Moreno Zacarés argues, explains why housing crises are a "near perpetual feature of capitalist societies".[34]

In contrast to housing, Moreno Zacarés concludes that commercial rents tend to "grow in synch" with "productivity levels".[35] Drawing on Harvey's argument that treating land as a financial asset can have a productive role for capital insofar as it allocates land to its highest and best use, he posits that "commercial landlords *at least* have an interest in ensuring that rent costs do not make production impossible for capitalists".[36] However, Harvey's crucial point is that there is little to ensure that individual landholders will act in accordance with the broader needs of capital—even if, ultimately, such behaviour goes against their collective interests. Harvey specifically draws attention to the fact that by "seeking to maximize the ground-rent they can appropriate" individual landholders could very well "force allocations of

[32] Javier Moreno Zacarés, "Residential accumulation: A political economy framework," *Housing, Theory and Society* 41, no. 1 (2024): 6.
[33] Harvey, *The Limits to Capital*, 95.
[34] Moreno Zacarés, "Residential accumulation," 9.
[35] Ibid., 11.
[36] Ibid., 10.

capital to land in ways that make no sense from the standpoint of the overall requirements of accumulation".[37]

The same point was illustrated empirically by Doreen Massey and Alejandrina Catalano in their fascinating study of the effects of private landownership on capital accumulation in England.[38] While the struggle over rent between financial landlords and capital may appear "superficially a 'distributional' one", it can reshape the patterns of surplus value generation.[39] Conflicts with landlords, they argued, can manifest directly as barriers to investment to agriculture or manufacturing capital, or indirectly by passing over higher rents through commercial and banking capital.

Moreover, just as housing developers put pressure on future labour by maintaining "conditions of scarcity" in order to extract higher rents, so too do commercial property developers.[40] As one real estate broker explained in our interview, office developers have the same vested interest as do housing providers in keeping supply lower than demand: "think about Fabege, which is probably [the] strongest player when it comes to commercial land-banking in…the Stockholm area. They are…deliberately building new offices in a fairly, I shouldn't say low pace, but controlled pace. They have 300,000 square meters of building rights in Solna. And there is demand. Obviously not worth 300,000 square meters in a year or two; but they are building, say, 20-30,000 per year. And the market could receive more than that. But of course, that would most likely affect the rents."[41]

As I will discuss in chapter 6, however, crucial structural differences between housing and commercial real estate also generate distinct accumulation dynamics, which in turn shape patterns of investment that have distinct spatial effects. Commercial real estate tends to be much more cyclical, with macroeconomic changes and the business cycle affecting demand in more immediate ways. By extension, its risk-return profile is different than that of housing, where demand tends to be shaped more closely by public policy and remains more or less stable in the long term.

Crucially, such differences exist also between different types of commercial real estate. And yet, insofar as existing studies take commercial real estate as their main object of analysis, the latter tends to be treated as an undifferentiated whole. What is lumped together is in fact a collection of multiple sub-markets—from offices, retail, and hotels, to industrial property, logistics infrastructure, rental housing, social infrastructure and more. While

[37] Harvey, *The Limits to Capital*, 370.
[38] Massey and Catalano, *Capital and Land.*
[39] Ibid., 156, 139-166.
[40] Moreno Zacarés, "Residential accumulation," 9.
[41] Interview, Real Estate Broker A.

all of these submarkets are affected by macroeconomic conditions in tangible ways, each is also shaped by very distinct dynamics. Office investment, for example, responds to employment levels and shifting trends in working practices (the recent emergence of flexible and coworking office concepts, discussed in chapter 6, illustrates how these changes might affect the demand for office development). Another example is the recent expansion of online commerce which has had very different effects on retail and logistics. On one hand, it has drained economic activity from brick-and-mortar shops, leading to a massive decline in the demand for retail spaces, while on the other hand it has served as a boon to the emerging logistics infrastructure sector. Bolstered by the growing demand for warehouses in strategic locations with an easy reach to urban consumers, the development of logistics has skyrocketed in the last five years in in Sweden —making logistics the most profitable segment in the commercial real estate market. The four highest-valued real estate companies in the Nordic Stock Exchange over the last two years all specialize in logistics.

What is hidden from view, then, is a highly differentiated landscape of submarkets, each with its own characteristics. Insofar as our main concern are the dynamics of accumulation, then, these could not be captured in a meaningful way unless we disaggregate commercial real estate.

With this point in mind, this thesis focuses primarily on the office market. The rationale for my choice is threefold. First and foremost, offices constitute the largest segment of the Swedish real estate market in terms of value—and by extension—the total holdings of property companies. With the exception of a small number of companies that specialize in housing or social infrastructure, offices significantly outweigh retail, industrial property, and the rest in terms of both value and generated profits. The largest real estate company on the market, Vasakronan, for example, generates 77% of its contracted rent from offices, compared to 16% from retail and 7% from housing. The second reason why I chose to focus primarily on offices is due to empirical limitations. The historical data on other types of commercial property is simply too incomplete. Finally, the time limits simply did not allow for a proper consideration of the whole gamut of the commercial market. Thus, except for the limited consideration of housing production in the context of mixed-use development projects, other types of real estate are largely left out of the scope of the present study.

A final word on the delimitation of this study. The real estate market encompasses a complex system of commodity production and exchange which, at the risk of oversimplifying, includes two distinct but interrelated markets—each with its own specific dynamics, institutions, and geographies. On

the one hand is the rental market—or the market for the exchange of rights to occupy physical spaces (houses, offices, warehouses, and more) where tenants (households, businesses, individuals) meet landlords. The other is the property investment market, which involves the exchange of ownership rights over land and buildings (real estate)—including claims to the income that they generate. These two spheres are linked by property development, a hybrid value production and realization process which unites two conceptually distinct logics of accumulation: profit-making through the production of commodities (the construction of buildings for exchange and consumption) and the appropriation of rent through the ownership and control of land. Therefore, the focus of this thesis is on property development as a crucial connecting activity. Developers are, moreover, uniquely positioned in the complex network of production/extraction of value through the built-environment, as they typically are the central joint connecting land, finance, and labour. This does not mean, however, that property developers will be the sole focus of the study but rather an entry point through which relations with other actors will also be interrogated. One crucial actor in this regard is the state. Authors have already noted that developers must inevitably foster "very strategic and productive relationships with local government officials."[42] These relationships, as they are playing out in the Stockholm context, will be of particular interest to the study. With this in mind, I provide next a short outline of the main commercial property development players in Stockholm.

A snapshot of Stockholm's commercial property industry

The opportunity to profit from the ownership and development of commercial property attracts investors of all sorts, not all of which would list real estate development as their core business activity. Providing an overview of this sprawling industry is, thus, no easy task. A quick survey of the development market in Stockholm today reveals a motley of public and private corporate actors, from small-scale commercial landlords with one or two buildings in ownership, to listed property companies, government-linked enterprises, and financial institutions. Take for example the retail franchise ICA, whose primary business activity is to operate grocery stores and pharmacies across Sweden and the Baltic countries. While few would associate

[42] Anthony Boanada-Fuchs and Vanessa Boanada Fuchs, "The role of real estate developers in urban development," *Geoforum* 134 (2022): 173. The authors also interestingly note that the role of developers seems to be under-researched in the Global North.

the company with real estate investment, ICA owns, manages and develops a considerable amount of commercial property (including warehouses, logistics properties, offices and retail space) both for its own operations and for lease to other commercial tenants. With a portfolio valued at over SEK 25 billion and exceeding one million square meters of retail space—which it owns both directly through its subsidiary Ica Fastigheter and through ownership stakes in joint ventures with other real estate investors[43]—ICA is one of the largest owners of retail properties in Sweden.[44] In addition, a sizeable share of its portfolio consists of land and property with development potential, which the company uses to construct properties for its own use and lease/sale, both independently and in joint ventures with other actors. Some of its more recent projects include the development of a 30,000 sqm shopping center in Täby, a suburban municipality to the north of Stockholm, and a 23,000 sqm mixed-use development with commercial premises and housing outside Lund. Property ownership and development, though not a core business, forms an important part of the retailer business strategy; by buying land in strategic locations, the company has been able to get ahead of the competition by securing building rights in major urban development projects, which allows it to grow and expand geographically while also controlling the spatial distribution of competing retailers near its locations.

To make a long story short, the landscape of commercial real estate development in Sweden today is incredibly broad and complex. Needless to say, the rationales and objectives behind investment in real estate development vary across the board. If we exclude from consideration owner-occupiers—enterprises which essentially build for their own operational needs—we are still left with a diverse field of actors, ranging from small property companies to vertically integrated corporate giants who handle everything from property management, to land banking, contracting, development, and sale. At the risk of oversimplifying, the field can be broadly divided into two large categories: landlord developers, who build revenue-generating assets largely for their own balance sheet; and trader-developers who produce assets for sale to other investors. The boundaries between these two categories, needless to say, are not exactly clear cut; most landlords will sell at one point or another when a profitable opportunity emerges, and trader-developers might change their strategies depending on the broader conditions of demand in the market.

[43] Including with the two largest private pension funds in Sweden, Alecta and AMF.
[44] Fastighetsvärlden, *125 Största Ägarna i Sverige 2024* (Tidnings AB Fastighetsvärlden, 2024).

The most significant category in terms of the total capital invested in real estate development are, by far, landlord developers—which includes a broad array of corporate actors such as private and listed property companies, financial institutions, government-linked enterprises and more. What unites this otherwise quite heterogeneous group of actors is the fact that they are primarily rentiers, in the sense that the lion's share of their earnings comes from leasing. Their business strategies thus typically revolve around maximizing the rental value of their real estate holdings, including through real estate development, acquisitions and improvements in their existing stock (extensions, renovations and reconstruction). They invest in real estate development, in other words, with the intent to retain buildings as income-generating assets (although they also sell buildings on occasion where significant profits can be made). While the large set of actors that belong to this category are increasingly indistinguishable from each other, there are also significant differences.

The focus of the study are property companies which invest in the three largest segments of the commercial property market—offices, retail, hospitality, which involves the lion's share of the companies in the commercial real estate sector.

Private and publicly listed property companies are by far the most represented type of actor. The largest players in the Stockholm market are the publicly listed Castellum (the second largest commercial property owner in the country with a portfolio of SEK 126 billion), Fabege (SEK 78,1 billion) and Atrium Ljungberg (SEK 58,5 billion). We can take Atrium Ljungberg (AL) as an example to understand their business structure. The company's property portfolio consists largely of offices and retail properties located predominantly in Stockholm. At the height of the property boom in 2021,[45] AL reported a revenue of SEK 3.08 billion—of which three-quarters in rental income and the rest in capital gains (property sales, including a small share from the development of owner-occupied housing). Commercial property development generated around half of the total increase in the company's net letting for the year (new lease contracts added), and a third of the unrealized value gains (increase in the value of its portfolio), which totalled around SEK 3.04 billion. While these numbers can vary significantly from year to year (AL's development gains dropped to mere SEK 24 million in 2023), development is essential to property company' growth. Relatedly, a significant share of its portfolio consists of land and development rights. According to its latest annual statement, AL holds around 700.000 sqm in development rights—with an estimated value of SEK 5,7 billion, of which

[45] Atrium Ljungberg, *Annual Report and Sustainability Report* (AL, 2022).

500.000 sqm for offices located in Stockholm—including a significant share in three of the largest ongoing redevelopment projects in Stockholm.[46] Alongside AL, Fabege is one of the largest office developers in the Stockholm region, with a counterweight of over 700.000 sqm in building rights concentrated mostly in two suburban municipalities—Solna and Huddinge.

Alongside property companies, pension and insurance funds typically find themselves on the investment side of property markets as they largely invest in the ownership of commercial buildings for their stable income-generating qualities. Historically, real estate represents only a small percentage of their total capital allocation, the lion's share of which is typically placed in stocks and bonds. Relative to other investors in property markets they usually represent the most conservative and risk-averse group, with the lowest return requirements. By extension, they look exclusively for well-located and fully-leased properties located in prime markets such as central Stockholm. Over the last ten years, however, against the background of historically low interest rates, institutions have scaled-up their investments in property assets dramatically, and at the same time have become some of the largest players in the development market. Although historically they have been largely the buying side, in concomitance with their growing prominence in the ownership of commercial real estate assets over the last fifteen years they have also increasingly taken up the role of developers. Vasakronan and AMF Fastigheter, by far the two largest actors in this segment, stood for more than a quarter of new investments in commercial development in Stockholm between 2015 and 2022. The largest owner of commercial real estate in Sweden—the government-linked property company Vasakronan[47]—holds around 2 million sqm of development rights, of which one and a half million in Stockholm.[48] Together with AMF, they generate close to 70 percent of the land rents on municipally-owned land.

Vasakronan belongs to a small group of government-linked companies, founded in the 1990s in conjunction with the corporatization of the state's property portfolio. They are run as private companies on a competitive and commercial basis and are, putatively without any government privileges—except for the fact they enjoy the most favourable borrowing conditions in the credit market.

Another example is the state-owned property company Jernhusen, which owns, manages and develops properties in conjunction with the state-owned railway infrastructure. The company's portfolio consists of rail yards, train

[46] Atrium Ljungberg, *Q3, 2024, Interim Report* (AL, 2024*).*
[47] Owned by the AP pension funds.
[48] Vasakronan, *Annual Report 2021* (2021), 30.

depots, cargo terminals and railway station buildings (including retail, office spaces and more), but also a number of office buildings and hotels located close to rail stations—with a combined market value of SEK 23 billion.[49] Around 15 percent of this value is stored in undeveloped land and building rights in attractive locations close to major transport hubs, including around Stockholm Central Station which is currently under redevelopment, with around SEK 5,2 billion invested in ongoing development projects.

Finally, Skanska and NCC—the two largest construction companies in Sweden—are practically a category of their own as they stand alone in the trader-developer group when it comes to commercial real estate.[50] Both companies generate the lion's share of their revenues from contracting operations (around 70-80% of their total operating profits[51]), and the development of real estate for sale. A small share of the latter involves residential development (around 3-5% of the operating profits), and the rest is commercial real estate, predominantly office buildings for the real estate investment market (targeting mostly institutional capital such as investment funds, pension funds and insurance companies). Their output thus depends largely on the demand in the investment market. Compared to the other categories of investors, their property holdings are marginal; at the end of 2023, Skanska's commercial property portfolio consisted of only two office buildings valued at SEK 5 billion, while NCC has none. Both companies tend to divest most of their projects within a year of completion.

A final word on the ownership structure in the sector. A much-discussed feature of the Swedish commercial real estate market is the extensive cross-ownership among property companies in the listed real estate sector—which includes subsidiaries of financial institutions. While the phenomenon has been largely discussed from the point of the financial risks involved with respect to the sector's high cumulative debt, the surge in cross-ownership in recent years has actually contributed to the concentration and consolidation of capital in the industry. I will return to the significance of this phenomenon in chapter six, where I discuss the changes to the financial context of property companies in the last ten years.

[49] Jernhusen, *Delårsrapport Januari-September 2024,* Press Release (2024, October 25).
[50] Skanska has recently started its own property investment arm, but the lion's share of the properties produced are still divested within a year or two after completion.
[51] The relative share varies from year to year; the estimated average is based on the companies' annual operating profits for the last five years (retrieved from skanska.se and ncc.com).

Aim and research questions

The overall aim of the thesis is to explore how the dynamics of capital accumulation in the commercial property market intersect with broader political and economic processes—particularly with respect to the circulation of finance capital. To that end, I examine the historical development, ownership and exchange of commercial property in Stockholm, Sweden, focusing on temporal and geographical transformations in the main relationships and forces shaping patterns of wealth accumulation in that sector. The principal questions animating the thesis and the underlying research project are:

1. In Stockholm and Sweden more generally, what political and economic changes have been most germane to the historical development of commercial property as an object of financial investment?
2. Historically, how has state intervention at the finance-property nexus shaped conditions and patterns of accumulation through real estate investment?

In order to answer these questions, the analysis focuses on historical developments in the commercial property-cum-development market in Stockholm alongside a broader reading of political economic regimes in Sweden, focusing on three key periods—or conjunctures: (1) the politics of land and property development in Stockholm (with a focus on the renewal of the inner city) set against the broader background of the post war Keynesian model; (2) the changing dynamics of commercial real estate investment against the background of structural crisis and financial deregulation in the 1970s and 1980s—up to and including the property-finance crisis in the early 1990s; (3) and finally, the period of neoliberal Sweden after the 1990s, with a particular focus on developments following the 2008 GFC. The study draws on a combination of empirical sources including interviews, archival material, industry reports, public documents, secondary literature, and quantitative data on the property and credit markets.

The order of the chapters

The remainder of the thesis is organized as follows. The last part of the introductory chapter provides a brief political-economic history of Sweden, highlighting key developments that frame the study as a whole. Chapter two develops a theoretical framework to examine the relationship between capital accumulation and the production of the built environment. The chapter is

divided into two parts. The first part establishes the links between the production of the built environment and capital accumulation from a political economic perspective, centred around the commodity nature of the built environment. The second part considers the role of the state therein, with a specific focus on public land. Chapter three sets up the methodological framework of the study, divided into three broader sections: a short reflection on the research process, followed by an overview of data sources and the collection of empirical material. The final part discusses some of the challenges involved in studying the real estate development sector and land development politics in Stockholm.

Chapter four provides the necessary historical context that anchors the present conditions in the property market. I provide a selective overview of Stockholm's property market through two major political-economic eras: market liberalism, spanning the end of the nineteenth century to the interwar period, and its post-war "embedding" through the construction of the Swedish Model. The first part traces the establishment of a commercial core in the late nineteenth and early twentieth centuries—what is known today as Stockholm's central business district (CBD)—alongside the consolidation and centralization of finance, commercial and industrial capital in Sweden. The second part of the chapter turns to the post-war redevelopment of the city centre, emphasizing the enduring institutional legacies that continue to shape the political economy of land and property development today. Insofar as investment in commercial property explicitly for income-generating purposes was practically non-existent during this period—checked by government-imposed rent controls and centralized credit rationing—the local state assumed a central role in the production of commercial property for rent. One of the most salient features of this history is the steady expansion of municipal landholdings since the late nineteenth century and the introduction of a public leasehold system, which functioned both as a powerful tool to shape and steer urban development, and just as importantly, to shape the distribution of planning and development gains. While the role of municipal landownership has evolved in step with the broader political and economic changes since the 1970s, many of the laws, institutions, and regulations established in this era continue to shape the dynamics of accumulation in the commercial property market today. In this sense, this chapter is key to the historical geography of the present.

Chapter five focuses on the transitional period to Sweden's neoliberal era, analysing the growing integration of finance and property against the background of the structural crisis stretching over the 1970s and 1980s, which culminated with the deregulation of finance markets and the property-cum-

finance crisis at the end of the 1980s. The liberalization of financial markets in the latter part of the 1980s marks a critical point at which the accumulation of value in the Swedish real estate sector began to increase exponentially. However, the changes that led to this progressive concentration were not simply of a quantitative nature—as most previous studies of the Swedish property market in the 1980s would have it. Rather, the chapter demonstrates that it was the deeper transformation of the Swedish Model and the accompanying reorganization of governance around market principles which led to the privileging of financial channels of investment in the first place.

Chapter six picks up from chapter five's focus on market-based governance, shifting attention from supply-side factors to demand-side dynamics, particularly to the role of the local state in shaping accumulation. The first part outlines changes in the financial landscape of the local state since the 1990s and the shift toward market-driven urban governance. Within this context, the chapter revisits municipal land politics, focusing on how Stockholm's urban policy has been reoriented to prioritize developer profits. The second part examines the spatial dynamics of capital accumulation under Stockholm's fragmented, project-based governance model. It further shows how the City balances financial and political goals by cross-subsidizing private investments through land value capture. The central argument is that while municipal land instruments still serve a redistributive function under neoliberalism, this function has been reshaped to redistribute the risks of private property development.

Finally, the conclusive chapter seven brings together the discussion threads from the core chapters, offers summative and synthesizing commentary and points to what remains to be researched yet—other segments of the commercial property industry and the role of state-linked property companies and pension systems in sustaining the financialized urban model.

A brief political-economic history of Sweden

Insofar as the core concern of this thesis are the dynamics of property-led capital accumulation examined in a broader historical perspective, a brief overview of Sweden's political-economic development throughout the period covered in the thesis is necessary to stage the analysis in the following chapters. It is hardly an exaggeration to say that this history—stretching back a hundred years or so—has been heavily shaped by two key political-economic developments: the construction of the Swedish welfare state—widely known as the "Swedish Model"—situated roughly between the early 1930s and the 1970s; and its gradual dismantlement since the 1980s.

The first half of this two-part potted history was marked by a capitalist accumulation regime which, broadly in line with contemporary international capitalist development, was centred around the expansion of industrial capital. What made Sweden somewhat unique in an international perspective (though not in a Nordic context) was the strong ideological foundations of this regime, encapsulated in the concept of "The People's Home" (in Swedish, *folkhemmet*). A social corporatist vision introduced by Social Democrats in the late 1920s, the *folkehemmet* emphasized equality and community—the nation-state imagined as "one big family"—predicated on state market intervention and the regulation of private enterprise which largely eschewed the nationalization of capital.[52] A major exception to the latter was the strong presence of the state in the urban land market, which had grown steadily since the late 19th century along with the expansion of public operations in a range of sectors including energy, rail, as well as the state-led provision of infrastructure.[53]

The expansion of capitalist relations was largely unfettered by private land interests. The biggest land holding class at the turn of the twentieth century were rural freeholding peasants which, as Dickens *et al.* observe, were predominantly interested in issues of agricultural production and food prices rather than "rent and development gains."[54] The expansion of financial interests in landownership alongside the urbanization of capital at the turn of the twentieth century—especially in Stockholm—was thwarted through the strategic expansion of municipal landownership. This expansion came to serve as the state's key instrument in the provision of housing and the control of urban development throughout the post-war period.

The period 1936-1976 was an era of uninterrupted political rule by the Social Democrats and a period when the Swedish welfare state expanded considerably. Keynesian ideas of countercyclical state expenditure to keep productivity and employment levels high have entered the Swedish sphere early on in the 1930s (notably via the Swedish economist Gunnar Myrdal). In 1938, the Saltsjöbaden Agreement was signed between the national labour union confederation and the employers' organization, marking the beginning of an approach of capital-labour compromise—a consensus oriented, corporatist way—that will become the norm in the following years.[55] Full employment and stable profit rates were the main goals and they were largely achieved until the 1950s thanks to a strong export-oriented economy

[52] Peter Dickens et al., *Housing, states and localities* (Routledge, 1985), 41.
[53] Zetterlund, *The Landed Municipality,* 73.
[54] Dickens et al., *Housing, states and localities,* 41.
[55] Bengt Larsson et al., eds., *Transformations of the Swedish Welfare State* (Palgrave Macmillan, 2012), 17

(spurred by Europe's post WWII rebuilt) and expansionary low-interest rates monetary policy. The economy, however, started to show signs of overheating around the mid-1950s.[56] As a reaction, in the 1950s, the political-economic approach was updated according to the "Rehn-Meidner Model," considered "a 'third way' between a Keynesian and a neoclassical or monetarist approach to economic policy," that put the focus on full employment, lowering inflation, equalization of wages, high growth rates, and (cautious) state expenditure.[57] The Rehn-Meidner Model enjoyed considerable success until the mid-1970s, in decades considered to be the "the golden era" of the Swedish welfare state. The public ownership of housing (through the municipal housing companies established in the post-war period) and land has expanded significantly in this period as the state was looking to house the rapidly growing urban population. While in the 1930s half of Sweden's population lived in the cities, by the end of the 1950s three quarters of the population had become urban.[58] The most notable effort of housing provision was the Million Housing Program. Within a decade (1965-1974), Sweden managed to build, as the name of the program suggests, more than a million homes—more units per capita than any other industrialised country in the same period.[59] The program was buttressed by state support on both the demand and supply side via subsidies, favourable loans, tax deductions, and housing-bonds (the latter serving as the mechanism through which public insurance and pension funds were financing the construction boom). It is important to note that the state was not directly involved in the physical construction of the dwellings but relied on private construction companies, some of which profited handsomely from the initiative. The sheer scope of the Program also meant that there was a growing need for buildable land which municipalities were expected to provide. To satisfy the need for public land, measures were implemented in the wake of the Million Program that gave municipalities a more favourable position in acquiring land and enabled them to form and grow their municipal land banks.[60]

By the mid-1970s, "the golden years" have started to fade. Oil supply crises, floating exchange rates, rising inflation, and dissatisfaction around wages put to the test Sweden's commitment to its welfare policies. The Social Democrats have lost the parliamentary election in 1976 after forty years in

[56] Lennart Erixon, "The Rehn-Meidner Model in Sweden: its rise, challenges, and survival," *Journal of economic issues* 44, no. 3 (2010): 679.
[57] Ibid., 679-681.
[58] Zetterlund, *The Landed Municipality*, 91.
[59] Timothy Blackwell, *Manufacturing Debt: The co-evolution of housing and finance systems in Sweden* (PhD diss., University of Sussex, 2018), 113.
[60] Zetterlund, *The Landed Municipality*, 96.

power and ceded control to a coalition of centre-right parties. What followed, as some authors argue, was "more than a decade of failed attempts at finding ways to restore economic progress."[61] The Social Democrats returned to power in 1982, but the conversation already shifted to the putative need for market-oriented reforms and fiscal austerity due to growing budget deficits. In 1982, a devaluation of the Swedish krona was implemented in order to boost export competitiveness but with little success.[62]

From the 1980s onwards, Sweden entered a period of deregulation and a broader turn to market-oriented governance.[63] A decentralization of governance, coupled with the centralization of financial control, led to the gradual erosion of the local state's fiscal powers. The "system shift" in 1991 marked Sweden's definitive turn to neoliberal reforms. The banking crisis of 1990 was still acutely felt in the subsequent few years as defaults proliferated, credit lines dried out, and unemployment surged. As the political winds changed with the coming of Carl Bildt's conservative-led government, the public sector went through a series of reforms driven by a neoliberal rationality that aimed to permanently restructure government at every administrative level. The central idea was to open "the monopolized production of public services" to "competing private alternatives" by separating the state's role as a "producer" from that of "financier."[64] Conservatives advocated, in other words, that state intervention should be limited to demand-side policies—revolving broadly around the support of private consumption through cheap credit—while it should retreat from those areas that "can be carried out equally well or better" by private interests—including the supply of a broad variety of social services.[65] A crucial step in the service of this agenda was the privatization of state-owned companies and public assets."[66] Pursuing cost-savings in the public sector in light of growing public deficits was offered as another justification for the shedding of public property.[67] These ideas were given fuel by the economic recession in the early 1990s, which

[61] Larsson et al., *Transformations*, 3
[62] See Sveriges Riksbank, "1976 - Wave of devaluations starts." https://www.riksbank.se/en-gb/about-the-riksbank/history/historical-timeline/1900-1999/wave-of-devaluations-starts.
[63] Peter Newman and Andy Thornley, *Urban Planning in Europe: International Competition, National Systems, and Planning Projects* (Routledge, 1996), 201.
[64] Motion 1990/91:Fi217, *Den ekonomiska politiken,* av Carl Bildt m.fl. (m), (25 January 1991). https://www.riksdagen.se/sv/dokument-och-lagar/dokument/motion/den-ekonomiska-politiken_ge02fi217/.
[65] *Den ekonomiska politiken,* (Motion 1990/91:Fi217). Essentially, what Robert Brenner has conceptualized as "asset-price Keynesianism"—the expansion of demand through the rise of private deficits. Robert Brenner, *The economics of global turbulence: the advanced capitalist economies from long boom to long downturn*, 1945-2005 (Verso, 2006), 293-94.
[66] *Den ekonomiska politiken,* (Motion 1990/91:Fi217).
[67] SOU 1993:16, *Nya villkor för ekonomi och politik: Ekonomikommissionens förslag* (Allmänna Förlaget, 1993). https://weburn.kb.se/metadata/205/SOU_8351205.htm.

created a sense of urgency that "made previously politically unconceivable measures possible."[68] When Social Democrats returned to power in the period 1994-2006, they maintained many of the policies of their political rivals—restrictive fiscal policy, cutting housing subsidies, favoring homeownership, and marketization of many sectors. While Sweden has managed to retain some of its welfarist character—a fairly substantive municipal housing stock, universal healthcare, free education, generous social policies and so on; the welfare state has been thoroughly reconfigured.[69]

While neoliberal reforms ultimately fell short of the wholesale privatization initially proposed, they nonetheless brought a decisive shift in the rationale concerning the management of public property. Relatedly, in 1992, the government decided to increase the efficiency of the public sector by introducing market-like principles in the provision and management of centrally-owned government properties—including everything from special purpose buildings for cultural institutions, universities, hospitals, prisons, to office and retail premises, as well as land and infrastructure once held by state-owned industrial enterprises. Since 1967, the provision and management of the public estate had been entrusted to the National Building Agency (*Byggnadsstyrrelsen*).[70] In 1993, this agency was dismantled and the properties subsequently reorganized into separate state-owned companies to be run on a commercial basis (excluding properties which for various reasons had to remain in the ownership of the state in perpetuity, placed in the newly formed State Property Board (*Statens Fastighetsverk*). Akademiska Hus and Specialfastigheter, respectively, assumed responsibility for educational facilities and the properties of the police and correctional system.

However, this does not alter the fact that the state has in turn become a profit-maximizing real estate actor in its own right.[71] What this means, crucially, is that the state has become economically invested in ensuring the necessary conditions for the uninterrupted accumulation of wealth in the commercial real estate market.

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[68] J. Magnus Ryner, *Capitalist restructuring, globalization and the third way: Lessons from the Swedish model* (Routledge, 2002), 153.
[69] Larsson et al., *Transformations*, 8.
[70] https://www.sfv.se/.
[71] The adoption of market principles in the management of public properties is not unique to the Swedish state. Perhaps closest to the Swedish case is the corporatization of public real estate in Finland. See Mika Hyötyläinen and Anne Haila, "Entrepreneurial public real estate policy: The case of Eiranranta, Helsinki," *Geoforum* 89, (2018). For a similar perspective focusing on public land, see Heather Whiteside, "The state's estate: Devaluing and revaluing "surplus" public land in Canada," *EPA: Economy and Space* 51, no.2, (2019).

2. State, capital accumulation, and the production of urban space

The following chapter provides a theoretical discussion of the relationship between capital accumulation and the production of the built environment—focusing specifically on the links between finance and real estate—and considers the role of state intervention in the dynamics of value creation and distribution (accumulation).

The chapter is broadly divided into two parts. The first part sets the stage by considering the commodity nature of the built environment and the implications thereof for investments in land and real estate development. I begin with a brief overview of the dynamics of value accumulation through property development, and establish the relationship between value, rent, and profits. This part outlines a framework for an examination of the dynamics of accumulation in commercial property development by establishing the links between the production of the built environment and capital accumulation from a macroeconomic perspective. Drawing on David Harvey's seminal work on the urbanization of capital, I organize the discussion around four interrelated propositions: (1) that in order to expand and reproduce, capitalism requires a functional built environment (for production, exchange, and consumption); (2) that it is beneficial from the perspective of capital to have a portion of the total capital fixed in the built environment; (3) that the production of a rational landscape conducive to capitalist accumulation engenders a tendency (or necessity) to treat land as a financial asset; (4) and that this process is fraught with tensions and contradictions that require state intervention. The last section of the first part engages with Harvey's thesis on the role of urbanization in displacing—if only temporarily—the inherent contradictions of capital accumulation. I engage with a select number of studies that build on this thesis, examining the implications from the growing integration of property into financial markets, and the role of the state in upholding this link.

The second, and final part of the chapter shifts the focus from the role of the state in *facilitating* the financialization of land and real estate, to consider how it shapes property-led accumulation as a direct "*agent* of financializa-

tion".[72] I focus on a central vector of such direct intervention which is crucial to understand the conditions of property-led accumulation in Stockholm, both today and historically—public landownership. I provide a short overview of the literature on public landownership and its recent reconfiguration around financial logics, set against the background of broader political-economic transformations—specifically the neoliberalisation of urban governance. In the final part of the section, I reflect how these forces have led to the reconfiguration of state intervention around the management of risk. I organize the discussion around three related propositions: (a) public landownership is *not* inherently *socially progressive*; (2) insofar as the state *privileges financial logics* in the management of its land assets, it has a structural bias to support property-led accumulation; (3) the extraction of value from public land thus increasingly serves as *a means* to mitigate the risks associated with commercial property development.

The production of space and capital accumulation

If we understand urban space as a marketplace where capital, labour power, and products are exchanged, i.e., where capital circulates in all its forms, then it makes sense to assume that cities' spatial configuration must reflect capital's needs. Capital needs, then, to fashion a physical landscape that supplies the necessary conditions for its circulation and expanded reproduction—a historical-geographical process which David Harvey has defined eponymously as the "urbanization of capital."[73] Building on this premise, he argues that urban landscapes must embody both a "physical framework for production"—literally the buildings and other urban elements that house the production of commodities—and the physical framework which supports and enables their realization and consumption.[74] By extension, a portion of the total social capital needs to be laid out on the production of infrastructure and buildings. The physical landscape is thus also the product of capitalist relations of production, assembled from and as a commodity in and of itself. The circulation of that portion of surplus capital that goes into the production of built space is what Harvey refers to as the secondary circuit of capital.[75]

While individual capitalists can, and often do, invest in the construction of operational property, that is buildings for their own use, they tend to un-

[72] Brett Christophers, "The State and Financialization of Public Land in the United Kingdom," *Antipode 49*, No. 1 (2017), (emphasis added).
[73] Harvey, *The Urbanization of Capital*.
[74] Ibid., 6.
[75] Ibid., 6.

derinvest in those elements that are not enclosed in their immediate production process and tend to be used collectively—such as infrastructure and spaces for social reproduction (housing, schools, hospitals, etc.). The production of all these elements requires tying-up large sums of money capital in buildings for long periods of time, which presents a barrier to individual investment. Moreover, the fact that buildings and urban infrastructure are capital-intensive, have a very long turnover time, and their consumption is anchored in place, presents challenges for the circulating capital tied to them. It makes sense, then, that a portion of the total social capital be limited to circulation only in land and buildings which individual capitalists often cannot (or will not) provide on their own: "both capital and labour can become more geographically mobile at the price of freezing a portion of the total social capital in place."[76]

The necessity to supply capital with a functional physical space has thus engendered the expansion of a "special kind of production-realization system" which revolves around the (re)production of urban landscapes.[77] Much like industrial capital needs merchant and finance capital to speed up the process of capital circulation by aiding its metamorphosis from one form to another—commodity and money, respectively, the (re)production of capitalist landscapes engenders a specialized form of capital that reduces "the indirect costs of capitalist production."[78] Francois Lamarche has introduced the term *property capital* to differentiate this function from industrial, merchant and interest-bearing capital, and to isolate conceptually the distinctive logics of profit-making peculiar to capitalist urbanization. The circulation of property capital unites landowners, developers, financiers, builders, consumers, and last but not least, the state, in a relatively independent system of value creation and realization that has grown out of the spatial needs of capitalist accumulation. The expansion of the credit system and the state play a central role in this infrastructure, mediating surpluses created in the "primary circuit" of capital devoted to commodity production into the creation of urban space.[79]

In the following section I take a closer look at the accumulation of wealth/value through the commercial production of real estate commodities, before I consider the myriad tensions, conflicts, and contradictions that inhere in the circulation of capital through urban space and the less analysed role of state intervention therein.

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[76] Harvey, *The Limits to Capital*, 395-8.
[77] Ibid., 395.
[78] Francois Lamarche, "Property development and the economic foundations of the urban question," in *Urban Sociology,* ed. C.G. Pickvance (Routledge, 1976), 91.
[79] Harvey, *The Limits to Capital*.

Value in the built environment

A Rembrandt portrait: commercial real estate as a special kind of commodity

Before turning to the question of how buildings—and the built environment more broadly—are valued, it is necessary to clarify how value itself is defined and used in this thesis. I adopt a Marxian understanding of value as a category that is historically and geographically *specific* to capitalism, or, to put it differently, "the commodity-form that wealth takes in capitalism."[80] This understanding explicitly rejects any simple equivalence between value and price. Value is not reducible to a monetary measure (such as the price of a house), but rather a social form through which commodities with specific *use* values—a pen, a car, an office building—are made comparable, exchangeable and substitutable. Value as such, then, cannot be understood in isolation from its two sister categories: *use* value and *exchange* value. Every commodity embodies both, and the two always stand, as Marx argues, in tension or contradiction with each other. Real estate investment can generate monetary returns *precisely* because land and buildings are part of this broader value system. To borrow from Geoff Mann, "value is best understood as a form of social wealth constituted by a spatially and temporally generalising social relation of equivalence and substitutability under, and specific to, capitalism."[81] However, in the empirical chapters where I talk about "property value" I use it in the colloquial sense—i.e. as price.

How are buildings valued? In a deductive analysis aimed at uncovering the functional role that property capital plays with respect to the circulation of capital as a whole, Francois Lamarche has likened the role of the property developer to the function of the merchant who speeds-up capital turnover by aiding the metamorphosis of commodities into money. He assumes, thus, that the developer does not produce any surplus value. If we assume that what developers do can essentially be boiled down to the buying and selling of real estate (a commodity produced for the sale on a market), then it makes sense to assume that they cut their profits from the surplus value produced in the construction process, just like the merchant gets a share from the surplus value already embodied in the commodity that he helps to realize. The value of the building would then be equal to the labour embodied within it, which will decrease with time and use. In that case, the property price would have to be deduced from the building's production cost, that is, assume that a

[80] Geoff Mann, "Value after Lehman," *Historical Materialism 18* (2010), 175.
[81] Ibid, 177.

building's value was "determined solely by…[its] production time."[82] If this was the case, the developer would need to sell his building at a price that covers the production cost (cost of land, labor, building materials, and interest on the financial capital immobilized in the building) plus a small profit. The price of a building derived in this manner, capitalized in the form of rent, is what Adam Smith defined as *building* rent: "the profit of the capital expended in building the house."[83]

But things become increasingly more complex once we take into account the fact that real estate prices tend to fluctuate relatively independently from a building's production cost. This is where the analogy with merchant capital ends. The developer's profit ultimately depends on the difference between *cost of production* and *value,* which is much more indeterminate compared to that of "normal" commodities. In that sense, to borrow the words of Bob Colenutt and Peter Ambrose, whether we are talking about their paper value or the "price at which they actually change hands", buildings resemble "a Rembrandt portrait" more than they do an ordinary commodity.[84]

Obviously, then, we cannot explain the creation of wealth in property development as a function of the needs of construction capital, as Marx did for merchant and industrial capital. What are the conditions then, Lamarche asks, "which enable the developer to demand 'rents' which do not correspond to the cost of his buildings"?[85] Answering this question is crucial to understand the creation of value/wealth through the production of space.

The value of a building spills over its immediate physical characteristics. Unlike regular commodities, a building's value is to a large extent determined also by its locational qualities. As Harvey argues, the built environment as a whole represents a special kind of "geographically ordered, complex, composite" commodity, where the relative location of housing, office buildings, shopping malls, and all other urban elements in relation to each other is decisive to their use value—and by extension, their exchange value.[86] Crucially, such advantages are not evenly distributed across space and are produced collectively, or socially, through both private and public investments in land over a long period of time. The willingness of a property developer to invest in a particular tract of land is thus conditioned by his ability to "convert the advantages provided by the environment"[87]—the use

[82] Lamarche, "Property development," 95.
[83] Anne Haila, *Urban Land Rent: Singapore as a Property State* (John Wiley & Sons Inc., 2016), 152.
[84] Peter Ambrose & Bob Colenutt, *The property machine* (Penguin Books, 1975), 31.
[85] Lamarche, "Property development," 95.
[86] Harvey, *The Limits to Capital*, 233.
[87] Lamarche, "Property development," 96.

values that make up the urban landscape, or as Henri Lefebvre defined it, "absolute space"—into exchange value, or "abstract space."[88]

Property development, then, represents a hybrid production/realization process which unites two different logics of accumulation: capitalist production and rent extraction.[89] Developers earn profit from investing in and improving land, but also speculate with the exchange value of their property, that is, "with the asset value of land" on which their buildings stand.[90] Whether the production cost—which depends on the total cost of inputs such as financing, land, labour, and materials—is lower that the projected value of a finished building is of course of utmost importance to the developer in determining whether to invest in a particular piece of land. However, the profit that he stands to make upon completion has much more to do with projected rents. If projected values grow faster than anticipated, the potential figure that a developer stands to gain in such circumstances is, as Peter Ambrose and Bob Colenutt argue, so "astonishing as to be almost meaningless."[91] This potential has been a major driving force of overbuilding and property speculation, and violent revaluations and devaluations that have been the cause of numerous real estate crises throughout history—including Sweden in the 1990s. The prospect of earning big thus also comes with risks, as the value of real estate can fluctuate in relation to a number of external factors. If capital "takes full advantage" of the possibility to roam free, for example, that part of the capital trapped in buildings and land can suffer from all sorts of devaluations.[92] As Jerry Coakley has argued contra Harvey, commercial property can only ever be a "quasi-financial" asset.[93]

From the perspective of capital accumulation more broadly, then, commercial real estate development seems to represent a paradox. On one hand, it is useful from the perspective of individual capitalists if the "use values which attach to the capital embedded in the land" are provided and owned by someone else; "[t]his advantage", Harvey argues, holds true for all "economic agents (merchants, financiers, and even labourers)."[94] But on the other hand, to paraphrase Moreno Zacarés, instead of reducing the indirect costs of capitalist production, commercial property development has an inflationary logic: property developers seek to "expand the margin" by speculating on the final price of their buildings realized through future rent extraction.[95]

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[88] Henri Lefebvre, *The Production of Space* (Wiley-Blackwell, 1991 [1974]).
[89] Moreno Zacarés, "Residential accumulation."
[90] Haila, *Urban Land Rent*, 154.
[91] Ambrose & Colenutt, *The property machine,* 35.
[92] Harvey, *The Limits to Capital*, 395.
[93] Coakley, "The integration of property and financial markets."
[94] Harvey, *The Limits to Capital*, 395.
[95] Moreno Zacarés, "Residential accumulation," 8.

Harvey tried to resolve this paradox some forty years ago with his intervention in Marxist rent theory, more specifically, the role of ground rent in the urbanization of capital.[96] The main thrust of Harvey's intervention is that the appropriation of ground rent is "socially necessary" from the perspective of capital as a class, because it works as a coordinating mechanism that guides the allocation of capital in space in a way which is "broadly supportive" of capital accumulation—and by extension the reproduction of capitalist relations. As long as (most) landowners (private or public) treat land as a "pure financial asset", the excess profits that individual capitals extract based on locational advantages are "taxed away" in the form of ground rent, thus equalizing the rate of profit among competing producers.[97] In Harvey's words, "[w]hen the unfair advantages are eliminated, competition forces producers into further development of the productive forces and further rationalization of production," which ultimately form the basis of surplus value production—capitalism's engine of growth. The relatively unrestrained circulation of interest-bearing capital through land plays a crucial role in this process; by searching to maximize rent extraction from the land by putting it to its "highest and best" use, interest-bearing capital forces capitalist production into its most rational geographical organization by anticipating "future surplus production."[98] Financial speculation in land thus constitutes, in Harvey's view, a socially necessary mechanism that coordinates the spatial distribution of production, exchange and consumption.

But there is a caveat. The relative freedom of interest-bearing capital to move in and out of the built environment according to a rent-maximizing logic is also a potential source of disruption to accumulation. Harvey has paid a lot of attention to the inherent risk of "speculative orgies" carried over from the world of finance through the unbridled speculation in so-called

[96] Harvey, *The Limits to Capital*. Classical political economists regarded land rent as nothing more than a feudal remnant, and landowners as a parasitic class that was ultimately erroneous to capital accumulation. While their proposals as to how to deal with the unjust usury of the landowner varied—from land reforms involving confiscation and nationalization of land, to various forms of land value taxing that would circumvent impinging on private property rights—there was a general agreement that land rent as an economic relation did not have any positive role to play in capitalist production relations. Marx himself believed that it was in the best interest of capital to abolish entirely the existence of landowners and their control over the use of land—most efficiently if land was turned into state property. Since it did not contribute directly to the production of value, he considered it to be only "of secondary importance" to the circulation of capital.

[97] He applies the same logic to the geographical distribution of spaces of consumption, arguing that locational advantages to workers who live closer to their place of work can be realized in the form of ground rent deducted from excess wages (assuming that those living the furthest dictate the minimum cost of reproduction of waged labour). See: Harvey, *The Limits to Capital*, 339-340.

[98] Harvey, *The Limits to Capital*, 361.

fictitious land values—by which he means the pile up of debt claims on future ground rent. Land prices, Harvey argues, unite the temporal and spatial aspects of capital accumulation because they must be "realized through future rental appropriation."[99] The realization of fictitious property values thus places demands on future labour which the latter may not necessarily be able to meet. Moreover, combined with the monopoly powers accorded to private property in land, it can disrupt the "production on the land itself"[100] as individual landowners might set barriers to urban development through "speculative land holding and hoarding."[101] This paradox is embodied by the real estate commodity itself.[102] The possibility to capitalize "socially produced" use values as ground rent via improvements on land attracts property investors of all sorts, "from the small-scale speculator-next-door to the largest insurance companies."[103]

Thus, while land and property markets are necessary to the rational urbanization of capital, land rent relations are also inherently fraught with tensions and contradictions that can be ultimately inimical to further accumulation. Capital must strike a delicate balance between checking speculative disruption and upholding rent-maximizing logics in urban development as a necessary coordinating mechanism. The only way to mediate these tensions and allow a more coordinated urban development process can be achieved, according to Harvey, either through some measure of monopolization of landownership, or state intervention—though neither of these options is without its own drawbacks. The former carries the inherent risk of monopoly rent extraction, since, to borrow Harvey's words, "there is no way to ensure that the appropriators of rent take their due and only their due."[104] On the other hand, state intervention in land and development markets (via land use regulation, planning, or direct investment) could also present problems from the perspective of capital because it might engender a geographical distribution of land uses which is not necessarily effectively tied to competition.

Interestingly, the broad recognition of land as an imperfect commodity has even the most ardent proponents of market mechanisms, such as Friedrich Hayek, proposing at least some measure of state regulation of urban development markets as a way to mediate these tensions.[105] Similarly, urban

[99] Ibid., 371
[100] Ibid, 369
[101] Haila, *Urban Land Rent*, 73
[102] Rachel Weber, "Extracting value from the city: neoliberalism and urban redevelopment," *Antipode* 34, no.3, (2002).
[103] Ibid., 521.
[104] Harvey, *The Limits to Capital*, 362.
[105] Edward Shepperd & Matthew Wargent, "Embedding the land market: Polanyi, urban planning and regulation," *Environment and Planning A: Economy and Space* 56, no.3, (2024).

political economy tends to frame state involvement in commercial property development in terms of providing and maintaining the necessary conditions for capital accumulation.[106] I will return to this literature and the question of how state intervention can be conceptualized a bit later in the chapter.

A final note on Harvey's land theory before we move on. The insistence on the functional necessity of land rent to capitalist reproduction has drawn some criticism to Harvey's arguments,[107] with critics underlining the significance of regulatory and institutional regimes, or "systemic" factors that condition the treatment of land as a financial asset in the first place.[108] Where Harvey's thesis might have left some room for misinterpretation is, Haila argues, in the conflation of "necessity" with "tendency", which glosses over the mechanisms that mediate the incontrovertibly anarchistic behaviour of individual landowners.[109] In reality, she argues, the tendency of landowners to treat land as a financial asset ultimately depends on a set of enabling conditions and incentives. In other words, the seemingly straightforward rent-maximizing behaviour of individual landowners is contingent on a number of mediating factors that determine the power and capacity of landowners to treat land as a financial asset.[110]

Underinvestment and overaccumulation

Before examining more closely how urban scholars have approached the role of the state in urban development theoretically and empirically, it is necessary to consider first how critical political economy has examined the urbanization of capital more broadly against the moving parameters of capital accumulation in historically and geographically-specific ways. David Harvey's spatial intervention into Marxist theory of capital circulation and accumulation has been a touchstone for those that have sought to connect ur-

[106] Lina Olsson, "The neoliberalization of municipal land policy in Sweden," *International Journal of Urban and Regional Research* 42, no.4, (2018); Whiteside, "State's Estate"; Weber, "Extracting value from the city."

[107] These disagreements were aired out in a heated debate in the late 1980s that revolved around the question of urban rent and its usefulness as a conceptual category in examining urban development. See: Ball, "The built environment and the urban question"; Michael Ball, "The 1980s property boom," *Environment and Planning A* 26, no. 5 (1994); Anne Haila, "Land as a financial asset: the theory of urban rent as a mirror of economic transformation," *Antipode* 20, no.2, (1988);

[108] Ball, "The built environment and the urban question."

[109] Haila, "Land as a financial asset."

[110] Ibid., 98. Haila has employed several different types of rent and rent-extraction in her own studies—including fiscal, intensive, extensive, derivative, global rent, and so on, in order to bring attention to these specific conditions that structure the power of property capital to extract rent. See also: Haila, *Urban Land Rent*.

ban transformations to macroeconomic changes. Relating the secondary circuit of capital to the displacement of the inherent contradictions of capitalism as a whole in his influential capital switching thesis, has inspired several generations of scholars to examine more closely capitalist urbanization and the (re)production of the built environment against broader political economic changes.

Marx's ambition to provide a science-like foundation for studying capitalism by seeking to uncover the general laws of capital circulation (a product, Harvey argues, of Marx's close critical engagement with classical political economy rather than an empirically-guided analysis), led him to construct a scientific project—particularly in volumes 2 and 3 of *Capital*—which has an uneasy relationship with its historically and geographically dynamic object of study.[111] His aim to deconstruct the concepts of classical political economists ironically led him to accept some of their problematic theoretical premises, including the relegation of consumption, exchange and distribution relations to only a secondary level of importance with regard to production. Crucially, Harvey argues, he missed the opportunity to consider the centrality of the credit system and the circulation of money capital for the reproduction of the capitalist mode of production. Much of Harvey's own scientific oeuvre has been devoted to remedying this gap in Marx's project and bringing back the particularities of distribution, exchange and consumption within Marx's "frame of enquiry."[112] He does this most systematically in the *Limits to Capital,* where he revisits Marx's theory of crisis in the absence of a "perfectly functioning competitive market," examining the role of credit, geographical expansion and investments in the built environment in temporarily addressing capital's inherent contradictions.[113]

Harvey examines the role of the secondary circuit in the reproduction of capitalist relations that have followed in capitalism's revolutionary path more carefully in *The Urbanization of Capital.* Here, he abstracts the history of North Atlantic capitalist urbanization into two broad-based epochs: the era of supply-side urbanization which follows roughly the period of industrial expansion in Western capitalism from the mid-nineteenth century until the post war period; and demand-side urbanization which begins to materialize alongside the structural crisis that took hold in Western capitalism since the 1960s. The former, which he also defines as the industrial form of urbanization, marked a break with pre-capitalist patterns of urbanization that pivoted around the accumulation of wealth through trade, transforming cities (old

[111] David Harvey, "History versus theory: A commentary on Marx's method in Capital," *Historical Materialism* 20, no.2, (2012).
[112] Ibid., 23.
[113] Ibid., 23.

and new) into the "centerpiece" of the *production of surpluses* through "command over labour processes in production."[114] A portion of these surpluses were channelled into the materialization of an urban landscape that is broadly supportive of capital accumulation through industrial enterprise (involving not only productive capacities but also spaces for consumption and realization of commodities and the reproduction of labour).

Demand-side urbanization, by contrast, can be understood as a *spatial fix* to the limits of capital expansion, developed in response to the crisis of overaccumulation that destabilized Fordism in the post war period.[115] Harvey defines overaccumulation as the relative shortage of productive outlets in which surpluses can be profitably invested. As the revolution in productive capacities outpaced consumer demand, post war urbanization marked a shift in the accumulation logic of urban capitalism from the expansion of commodity production to the absorption of surpluses through the (re)production of urban space. Building on Lefebvre's prescient analysis which linked the crisis that engulfed Western capitalism in the early 1970s with social unrest and profound urban transformations, he argues that the growing importance of the secondary circuit of capital alongside the resurging power of finance testifies to the important role that the production of urban space holds to furthering capital accumulation.[116] From this assumption flows Harvey's influential capital switching thesis, which posits that the built environment can temporarily soak up capital surpluses created in the primary circuit and stave off a bigger crisis of capital devaluation. Capital, in other words, has reached its limits, but urbanization holds the potential to displace those limits—even if only temporarily.

Finance, real estate, and the state

While Harvey's switching thesis has seen limited empirical verification—mainly due to the difficulty in linking directly overaccumulation in the primary circuit to overinvestment in the built environment[117]—the broader analytical framework it advanced has been indispensable to scholars seeking to understand the dynamics of capital accumulation in relation to real estate. After a first wave of studies concerned primarily with operationalizing the capital switching thesis,[118] subsequent accounts of the political economy of

[114] Harvey, *The Urbanization of Capital,* 196.
[115] Harvey, *The Limits to Capital*.
[116] Henri Lefebvre, *The urban revolution* (University of Minnesota Press, 2003 [1970]).
[117] Christophers, "Revisiting the urbanization of capital."
[118] Joe R. Feagin, "The secondary circuit of capital: office construction in Houston, Texas," *International Journal of Urban & Regional Research* 11, no.2, (1987); Ross J. King,

commercial property investment have brought more focus to the attendant embedding of real estate into financial markets.

Crucially, what emerges from most of these empirical studies is the centrality of the state in channelling finance capital into the built environment in both *direct* and *indirect* ways.[119] In his study of office development in Houston, Joe Feagin identifies public investments in infrastructure, property tax reforms, and the liberalization of planning regulations in the 1970s and 1980s as decisive factors in channelling finance capital into suburban office construction during the 1980s property boom in US sunbelt cities.[120] Similarly, Helga Leitner maintains that while the relative supply of finance capital was crucial in determining the timing of investments, the geography of those investments demonstrated the crucial importance of local political and economic structures in mediating the circulation of interest-bearing capital.[121] She highlights, for example, the substantial subsidies offered by some city governments in the US in the 1980s as a decisive factor behind the surge in office construction in declining downtowns.

Later studies working within the same political economic framework have mostly shifted their attention to the increasing intertwinement of finance and property against the background of the ostensible financialization of capital accumulation since the 1980s. Two related bodies of literature, on which the present study builds, have brought forward critical dimensions of state intervention at the finance-property nexus: on one hand, facilitating the financialization of property through the introduction of various institutional mechanisms that aim to increase the liquidity of real estate assets; and on the other, the state's role as a direct agent of financialization, shaping the dynamics of

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"Capital switching and the role of ground rent: 1 Theoretical problems," *Environment and Planning A* 21, no.4, (1989); Robert Beauregard, "Capital switching and the built environment: United States, 1970–89," *Environment and planning A* 26, no.5, (1994); Helga Leitner, "Capital markets, the development industry, and urban office market dynamics: rethinking building cycles," *Environment and planning A* 26, no.5, (1994); Karl Beitel, "Financial cycles and building booms: a supply side account," *Environment and Planning A* 32, no.12, (2000); Brett Christophers, "Revisiting the urbanization of capital," *Annals of the association of American geographers* 101, no.6, (2011).

[119] The most extensive empirical account of capital switching that Harvey himself has provided is his analysis of the state-led redevelopment of Paris in the 1850s and 1860s, which he sets against the background of the economic crisis that swept Europe in the late 1840s—a combination of strained "financial conditions, reckless speculation (particularly with respect to the railways), and overproduction." Harvey argues that the so-called "Hausmanization" of Paris, named after the chief architect of the renewal—Baron Hausmann—relied on the rapid expansion of France's banking system and debt-financed state investments in public works. Based on this empirical analysis, Harvey highlights that the state emerges as the central actor in mediating crises of overaccumulation by channelling surpluses into urban construction through the deficit-financing its own expenditures.

[120] Feagin, "The secondary circuit of capital."

[121] Leitner, "Capital markets, the development industry, and urban office market dynamics."

accumulation through the financialization of public land. The rest of the chapter provides a brief overview of these linked bodies of literature, followed by a short summary of the value of each approach to understanding the dynamics of accumulation in Stockholm's real estate market.

Upholding the links between real estate and finance

A key aspect of public intervention in property markets since the 1980s has been the state's role in making real estate assets more liquid through a variety of legal and regulatory measures. The deregulation of financial markets in the 1970s and 1980s is widely seen as the turning point in this process. Since then, intervention in the financial infrastructure of property markets has taken the form of an expanding set of legal and institutional mechanisms—such as mortgage securitization and the introduction of REITs (Real Estate Investment Trusts)—which have been crucial in facilitating the financialization of the built environment. The state, in other words, plays a central role in enabling the treatment of property as a financial asset.

Here, I focus on one particular aspect of state intervention that is crucial to understand the accumulation dynamics in the Swedish property market since the mid-1980s: the state's role in "managing the collateral effects of financialization."[122] An indispensable reference here is Michael Byrne's analysis of the state's role in recapitalising property markets in the wake of property-cum-financial crises.[123] Arguing against the common understanding of property crises as self-limiting events in mainstream economic accounts, Byrne maintains that the state is central to restarting new cycles of investment in real estate through interventions in the financial system. He explores this role empirically through the lens of state-sponsored asset management companies (AMCs)—or so-called bad-banks—which, in his words, effectively "make, or remake, [property] markets"[124] in the wake of periodic crises. Byrne argues that the state restores the links between finance and real estate through three key mechanisms. First, it takes over *devalued* property from crisis-ridden banks to recapitalize them and restore the liquidity of financial markets. Second, by removing properties from circulation temporarily, it constrains the supply of real estate assets in the market—thus putting "a floor under property values".[125] Crucially, AMCs can hold these as-

[122] Phil Ashton, Marc Doussard, & Rachel Weber, "Reconstituting the state: City powers and exposures in Chicago's infrastructure leases," *Urban Studies* 53, no.7, (2016);
[123] Michael Byrne, "Bad banks and the urban political economy of financialization: The resolution of financial–real estate crises and the co-constitution of urban space and finance," *City* 20, no.5, (2016).
[124] Byrne, "Bad banks," 693.
[125] Ibid., 693.

sets until the market has recovered with limited financial risk, preventing a "fire sale" which would inevitably lead to a further devaluation and deepening of the crisis. Finally, AMCs often help to restore liquidity by providing state-sponsored credit to property buyers (so-called "vendor finance"), circumventing credit constraints to restart accumulation in the property market.[126] In other words, AMCs mobilize on the state's financial and institutional powers, which allows them to operate beyond "the regular circuits of accumulation"[127] accessible to private actors. This state-sponsored *revaluation* of commercial property, in turn, "make[s] possible the continued and expanded extraction of wealth from the built environment."[128]

The salience of the state's market-making powers that Byrne highlights come to the fore in chapter 5, where I examine the role of the Swedish state in the recapitalization of the commercial property market following the finance-cum-property crisis in the early 1990s. Crucially, as the deregulation of financial markets in the 1980s normalized the real estate boom-bust cycle, the state's role has been reconfigured around the monitoring and management of financial risks.[129] The subsequent normalization of the state's crisis-managing role can be conceptualized more broadly as part of the state's own growing "infrastructural entanglement" with financial markets, specifically through the latter's increasing use as an "infrastructure of governance".[130] In his study of the state-organized transfer of repossessed homes to institutional investors following the subprime mortgage crisis in 2008, Brett Christophers argues that the corollary of governments' reliance on financial markets to pursue "certain important policy objectives" is a structural bias towards supporting those same markets in the face of financial and political risks any cost.[131] In other words, if the state uses financial markets to govern, then there is an implicit imperative to ensure their "depth and liquidity" in the event of crisis.[132]

We have seen how this institutional bias at work most recently in the deployment of expansionary monetary policies in 2020, following the sudden withdrawal of institutional investors from the capital market during the COVID-19 pandemic. While the government's aim was to ensure the liquidi-

[126] Ibid., 693.
[127] Whiteside, "The state's estate: Devaluing and revaluing 'surplus' public land in Canada," 522.
[128] Byrne, "Bad banks," 696.
[129] After the 1990s property crisis, the Financial supervisory authority (*Finansinspektionen*) —which monitors the risks in the national banking- and finance system—regularly flags the commercial property sector as a systemic risk due to its high dependence on debt.
[130] Brett, Christophers, "The role of the State in the transfer of value from Main Street to Wall Street: US single-family housing after the financial crisis," *Antipode 54*, no. 1 (2022).
[131] Ibid, 148. See also Ashton et al, "Reconstituting the state," for *institutional bias*.
[132] Ibid, 136.

ty of the financial market, it also involved the purchase of corporate bonds from major commercial real estate companies, in recognition of the systemic risks from their close entanglement with financial markets.

The last part of this chapter brings forward another crucial dimension of risk management, this time at the level of urban governance and the oriented around the use of public land as a financial asset.

Public landownership and capital accumulation

Since property-led accumulation is ultimately grounded in land, it inevitably raises the question of its ownership and distribution. Crucially, the pattern of wealth accumulation in the property sector described in the beginning has not (yet) resulted in a major redistribution of land ownership in Stockholm. Land remains, in other words, overwhelmingly owned by the local state, as it has been historically—even though, as chapter six demonstrates, this pattern is gradually changing as municipal land holdings are being slowly chipped away. Understanding the dynamics of accumulation in a place like Stockholm, therefore, requires a consideration of the role of public landownership. How public land is *valued*—in the broadest sense of the word, not just in monetary terms—has a defining impact on its usefulness to the generation of income and wealth from property ownership.[133]

The analysis builds on the insights of a growing body of scholarship which examines how rationalities of public land-use and ownership, both in Sweden and in other contexts, have evolved alongside shifts in the political and economic context of landowning authorities.[134] What distinguishes this scholarship from the broader literature on state intervention in land and property markets is its transition away from normative understandings of public ownership—that is, the assumption that the management and use of public land is *necessarily* socially progressive. Although it is traditionally legitimized as property held in the public interest, in practice public land constitutes a bundle of private rights: "the state, acting as an individual legal entity, exercises *exclusive* rights over a *public* good, enabling it to buy, sell, protect or dispose of property held in the public trust as if it were a private good."[135] In other words, the public landowner—"government department, agency, board, corporation, commission, or special-purpose body"—is able

[133] Haila, "Real Estate in Global Cities".
[134] Gabriel Eidelman, "Rethinking public land ownership and urban development: A Canadian perspective," *Cities* 55 (2016); Brett Christophers, "The state and financialization of public land in the United Kingdom." *Antipode* 49, no. 1 (2017); Hyötyläinen and Haila, "Entrepreneurial public real estate policy". For a similar perspective focusing on public land, see Whiteside, "The state's estate."
[135] Eidelman, "Rethinking public land ownership and urban development," 123.

to operate as if it were a "private entity".[136] This practical definition underscores the simple but often overlooked fact, as Doreen Massey has long ago argued, that "public [land] ownership can take as many forms as private".[137]

This is the jumping-off point for much of the contemporary literature on the management of public land, which has highlighted processes of marketization, commercialization and privatization—all centred around the increasing treatment of land as a financial asset.[138] But where the former appears to have become increasingly systemic, this scholarship highlights different agents, objectives, and modes of public land financialization. While in some cases, for example, the explicit goal has been to maximize returns for public sector bodies, in others financialization serves more strategic objectives—like cross-subsidizing housing construction or exerting greater control over urban development.

The privatization of public land in the Canadian context, examined by Heather Whiteside, serves as an instructive example of the former. According to Whiteside, the actions of "the arm's length quasi-public enterprise Canada Lands Company (CLC)"—which is tasked with the strategic management and disposal of surplus federal land—pivots around state-led value enhancing strategies aimed explicitly to "maximize the amount of revenue government earns through [land] privatization".[139] In contrast, in the UK context, Christophers argues that insofar as the state has privileged the exchange value of land, it has *not* done so with view to maximize government profits; instead, privatization has served as the means to enable the financialization of land by private actors.[140] To the extent that this strategy was justified by the need to facilitate housing development, it *explicitly* aimed to subsidize private actors through, amongst else, encouraging public bodies to release land after planning permits had already been acquired or providing land sales contracts with an option for deferred payments—in other words, by "serving up 'de-risked sites'" to private developers.[141]

But insofar as the state privileges financial logics in the management of its land assets, in both cases the disposal of public land is ultimately in the service of property-led accumulation. Whiteside highlights this fact by noting that the value enhancement strategies of the CLC pivot around finding

[136] Gabriel Eidelman, "Failure When Fragmented: Public Land Ownership and Waterfront Redevelopment in Chicago, Vancouver, and Toronto," *Urban Affairs Review* 54, no.4, (2018).
[137] Doreen Massey, "The Pattern of Landownership and Its Implications for Policy," *Built Environment* 6, No. 4, (1980): 270.
[138] Harvey, *The Limits to Capital,* 363-406.
[139] Whiteside, "The state's estate," 506.
[140] Christophers, "The state and financialization."
[141] Brett Christophers, *The New Enclosure: The appropriation of public land in neoliberal Britain.* (Verso Books, 2018): 235; 234-240.

the most competitive uses to which land can be put. Crucially, extracting a maximum revenue for the government requires that the CLC, much like public sector bodies in the UK, de-risk private development by "minimizing the monetary and social costs associated with opening new pathways for accumulation".[142] This entails getting the land development-ready through rezoning, land remediation, laying out infrastructure, investment in public works, and so on—in other words, "absorb[ing] 'the upfront costs and risks involved in site…preparation".[143] Whether the state captures more or less of the value created, it privileges market actors by opening "profit-making opportunities".[144]

The allocation and management of risks has emerged as the central concern of an emerging scholarship that explicitly links public land financialization to the broader transformation of public governance along market-like principles, and the concomitant transfer of "risk and [fiscal] responsibility" downstream to local governments.[145] While not limited to such transformations, the extraction of value from public land has become part and parcel of a growing repertoire of regulatory mechanisms—centred explicitly around the capture of rent gaps—deployed to deal with endemic austerity disproportionately visited on the local state.[146] As Aretousa Bloom argues, "state-led value capture…can be best thought of as a multi-scalar process of risk transfer and risk production."[147] This literature links the financialization of real estate with the changing geographies of public finance, or the financialization *of* the state. Studies in this vein have shed light on a growing trend among city governments to prioritise property-led urban development against the background of devolved austerity and intensifying housing crises, hand in hand with the adoption of financial accumulation strategies that often involve the commercialization and privatization of public land.[148]This

[142] Ibid.
[143] Christophers, *The New Enclosure,* 235.
[144] Whiteside, "The state's estate," 506.
[145] Peck and Whiteside, "Financializing Detroit."
[146] Weber, "Selling city futures"; Christophers, "Putting financialisation in its financial context"; Rachel Weber, "Embedding futurity in urban governance: Redevelopment schemes and the time value of money," *Environment and Planning A: Economy and Space* 53, no. 3 (2021). Aretousa Bloom, "Public land, value capture, and the rise of speculative urban governance in post-crisis London," *Environment and Planning A: Economy and Space* 56, no. 6 (2024).
[147] Bloom, "Public land, value capture," 1772.
[148] Joe Beswick & Joe Penny, "Demolishing the present to sell off the future? The emergence of 'financialized municipal entrepreneurialism in London," *International Journal of Urban and Regional Research* 42, no.4, (2018); Christophers, "Putting financialisation in its financial context"; Olsson, "The neoliberalization of municipal land policy in Sweden"; Renee Tapp & Kelly Kay, "Fiscal geographies: 'Placing' taxation in urban geography," Urban Geography 40, no.4, (2019); Whiteside, "State's Estate".

literature highlights more broadly how local governments leverage land value capture mechanisms as a means to de-risk commercial property development on behalf of private capital.[149] An instructive example is Lina Olsson's account of the neoliberalisation of municipal land policy in Sweden, which illustrates how local governments, in their efforts to facilitate urban development, increasingly engage in co-rent seeking with private capital in order to render commercial property development viable.[150]

Public land financialization and its role in the management of risk and returns on behalf of private actors features heavily in chapter 6, where I explore public landownership in shaping the dynamics of capital accumulation

Towards a synthesis

This chapter has outlined a framework for examining the relationship between capital accumulation and commercial property development. It has shown how the production of landscapes conducive to capitalist accumulation engenders a tendency to treat land as a financial asset, and how the contradictions that emerge from this process necessitate state intervention. The chapter further demonstrated how this tendency intensified since the 1970s, reshaping the state's role around sustaining the link between real estate and finance, thereby ensuring the continued extraction of value from the built environment.

Finally, the chapter highlighted how this role increasingly centres on the management and redistribution of risk through a variety of institutional mechanisms. On one level, the state's own deepening entanglement with financial markets has created an institutional imperative to ensure the stability of financial markets—an imperative which, by extension, simultaneously underpins the concentration of value in real estate. On another level, the restructuring of (urban) governance since the 1980s has led to the adoption of market-like principles, including a growing reliance on revenues from public land as a means of facilitating urban development.

[149] Weber, "Selling city futures."
[150] Olsson, "The neoliberalization of municipal land policy in Sweden."

3. Methods

Where chapter 2 provides the conceptual foundation of the thesis, this chapter provides the necessary methodological staging. The study is grounded in a qualitative, multiscalar, and historically dynamic explorative case study approach. I draw on a wide range of empirical sources and methods—including semi-structured interviews, a broad range of archival material, and quantitative data—to examine how dynamics of capital accumulation in the commercial property market intersect with broader political and economic processes. The chapter is divided into three parts. The first part offers a brief reflection on the research process, outlining the origins of the study, the initial questions that guided it, and how it has developed over time. The second part provides an overview of the research design, including the approach taken and its epistemological grounding. The final part details the empirical basis of the thesis, including data sources, methods of collection and analysis, and reflections on some of the study's empirical and methodological limitations.

A brief reflection on the research process

The initial idea for this research was formed on the heels of a property boom in Stockholm's office market, which began around 2015 and continued more or less until the onset of the COVID-19 pandemic. Set against the background of trebling property prices, rising rents and record-high transaction rates,[151] the city experienced an intense wave of office development, including in the densely built city centre where construction activity had been quite limited for some time. Redevelopment in the city centre was paralleled by large-scale (re)development projects across the wider Stockholm region, extending into suburban municipalities. Most notably, the pickup in development was accompanied by an expansion of lending from both banks and the capital market to property companies—in large measure an effect, it seemed, of historically low interest rates against the background of expan-

[151] Willy Wredenmark, "Hyror och priser går uppåt med brutal kraft." In *Fastighetsvärlden*, February, Årgång 35, #1/2020.

sionary monetary policy in the aftermath of the 2008 financial crisis. As the boom intensified and property values continued to go up, Sweden's Central Bank (*Riksbanken*) and the Financial Inspection Authority (FI) started to raise concerns about domestic banks' high exposure to the commercial real estate sector and the associated risks to financial stability.[152] Where was this capital coming from then? Reports by the Riksbank and FI indicate that the growing indebtedness in the commercial real estate sector since 2015 was related to the expansion of market financing. However, they do not offer any clues as to where this capital was coming from or why it preferred commercial real estate assets, beyond the cursory remark that increased borrowing was due to the fact that interest rates after 2008 have been at a historic low (a trend which was interrupted in 2023). This appeared as a timely moment to revisit the relationship between finance capital and investments in the built environment.

Starting from the assumption that investments in the built environment are not just driven by the existing demand for physical space but also by the relative availability of finance capital, I wanted to explore these links in a broader political-economic framework. I wanted to understand what sort of factors drove the property and development boom. Were the same factors behind redevelopment in the city centre also at work in suburban development? At first blush, there seemed to be clear differences. In the city centre, for instance, development was driven predominantly by financial institutions—acting through arms-length property companies—that had historically acted mostly as passive rentiers. Investment beyond the city centre, by contrast, seemed to be led and organized primarily by local government, bearing the typical hallmark of post-industrial redevelopment.

Why was it all happening now? Could their realization be chalked up to the rhythms of the property cycle and the meteoric rise of property prices and rents described above, or were there also broader macroeconomic changes propelling investments? The former did not seem like a satisfactory explanation as large-scale redevelopment projects usually require years of planning before coming to fruition. According to the real estate actors that I interviewed, this is particularly the case in Stockholm, where it can take anywhere from three to ten years to acquire the requisite planning and building permits to put a project into motion.[153]

[152] Finansinspektionen, *Stability in the Financial System* (Report 2017:2); Sveriges Riksbank, "Kommersiella fastigheter och finansiell stabilitet", in *Finansiell stabilitet 2017:1* (Report, 2017:1).
[153] Interview, Real estate broker A; Real estate broker C; Property company C; Property company S.

What other factors could have contributed to the increased investment then? Could this possibly be the result of regulatory, institutional or deeper structural shifts? If the latter was the case, what might the property-and-development boom reveal about the current state of affairs in the Swedish economy? An emerging body of literature, working in a heterodox political economy tradition, has found tendencies of an apparent financialization in the Swedish economy, going back the 1990s.[154] Riding the wave of research into processes of financialization that followed the 2008 Global Financial Crisis (GFC), scholars were arguing that the Swedish Model had undergone a structural shift driven in part by structural reforms in the national pension and housing systems. The empirical evidence presented in support of these claims suggested that the financial sector had grown "explosively" since the late 1990s—a trend which had only intensified after 2008—accompanied by the promotion of a "mass investment culture" through pension reforms and a swelling household debt. The latter has been clearly imbricated with the financialization of the built environment.[155] However, housing reforms do not account for the flow of capital in commercial real estate.

Since all of these factors seemed to provide only part of the explanation—pointing to forces stretching well beyond the property-and-development boom—I chose to investigate the present-day dynamics of capital accumulation in the office market from a multiscalar perspective, examining the practices of real estate actors in Stockholm against the broader political economic transformation of Sweden. The period during which these conditions were to be examined had to stretch at least as far back as the early 1980s—when the ostensible financialization of the Swedish Model took place. However, insofar as the latter indicates a structural shift in a political and economic model which was already in place, I decided to extend the period of examination beyond that. To appreciate the breaks and continuities, thus, the story goes back over a century, tracing the dynamics of accumulation in commercial real estate development more or less over the *long durée* of capitalist Sweden. Such a long historical perspective, I would argue, allows us to understand how and why certain actors behave as they do, insofar as their practices are embedded within the histories that establish the very conditions of possibility in the present.

After two years of research, what stood out the most from the analysis was the critical role that the state—at various administrative levels—has

[154] Claes Belfrage and Markus Kalifatides, "Financialization and the New Swedish Model." *Cambridge Journal of Economics* 42, (2018); Magnus Ryner, "Swedish Trade Union Consent to Finance-Led Capitalism: A Question of Time," *Public Administration 91*, No. 4, (2013).
[155] Anders Lund Hansen et al., "Financialisation of the built environment in Stockholm and Copenhagen," FESSUD Working Paper Series, No 115 (September, 2015).

played historically in shaping the circulation of capital in the commercial real estate market. The focus of the study was thus gradually narrowed down to a closer examination of this role in relation to the broader political economic context. While the dynamics of accumulation in the built environment remained the central story in the thesis, instead of approaching this story solely from the perspective of capital I examine it through the wider prism of state-capital relations. In the rest of this chapter I explain how I constructed this story.

Research design

An instrumental case study approach

To the extent that the commercial property market in Stockholm—and Sweden more broadly—serves as the conjunctural setting from which to investigate broader phenomena and questions, it represents what Robert Stake defines as an "instrumental" case study: a lens through which we can analyse and understand the wider dynamics of capital accumulation.[156] While Stockholm serves to cast light on these broader processes, it is not, as Jamie Peck warns, a means to read "down" from oversimplified "abstract theory claims" onto a "compliant or affirmative case".[157] Instead, by taking the "structuring context" seriously, it allows us to revise and refine abstract theoretical claims by exploring how wider processes take shape through historically and geographically dynamic ways. In other words, while the intertwining of finance and property has become a salient feature and a key driver of accumulation in cities globally, what this thesis provides is not just another example of urban financialization. Rather, as Flyvbjerg argues, there is no such thing as a "context-independent" theory in social science; Stockholm, therefore, serves as a relational case through which the dynamics of accumulation can be explored conceptually across multiple scales in a "context-dependent" way.[158]

While the rationale for choosing Stockholm is already partly evident from the previous section, a few words on why I believe that it is a suitable case to explore the dynamics of capital accumulation in the commercial real estate market. First, as the commercial and administrative center of Sweden, Stockholm has by far the largest concentration of offices in the country. Of the combined office stock located in the three largest urban areas in Swe-

[156] Robert E. Stake, *Multiple case Study Analysis* (The Guilford Press, 2006).
[157] Peck, "Transatlantic city, Part 1," 9.
[158] Bent Flyvbjerg, "Five Misunderstandings About Case-Study Research," *Qualitative Inquiry* 12, no. 2, (2006).

den—including Malmö and Gothenburg—Stockholm accounts for over 60% of the total floor area. This dominance is even more pronounced in terms of transaction volumes and the value of the total capital invested.[159]

The other advantage is that it enables a fuller exploration of the state's role, given Stockholm municipality's unusually large landholdings. The City owns about two-thirds of the land within municipal borders, giving it a central role in shaping accumulation dynamics in the property development market, both historically and today. About 90% of commercial property development in the city takes place on municipal land, which is typically leased to the developer on market terms.[160] In this respect, Stockholm is not a representative, but rather what Flyvbjerg describes as an extreme case.[161] Choosing atypical or extreme cases tend to have a generalizability or relevance limitation. Simply put, the contextual uniqueness or the sheer magnitude, scale, and level of intensity of the studied social processes found in the extreme case (i.e., Stockholm) risk to render the gathered insights irrelevant and of little consequence for other places (say Malmö). However, extreme cases can be useful insofar as they magnify certain phenomena. As Flyvbjerg points out, "they often reveal more information because they activate more actors and more basic mechanisms in the situation studied." They can be, then, especially illuminating when the aim of the study is to clarify "deeper causes behind a given problem" and "well-suited for getting a point across."[162] Studying Stockholm as an extreme case—due to its pronounced attractiveness as a property market, its political relevance as a capital city, and its outsized public landholdings– I believe, offers exactly such revealing glimpse into the capital-state relations as they are played out through the development of commercial property. In that sense, with all the limitations of a single (and extreme) case study, insights from Stockholm allow us to refine our understanding of the ongoing financialization of the built environment and the role of the state in this process in ways in which typical cases might not. Moreover, some aspects of the structuring context remain relevant across Sweden, and some even more broadly; an extreme case is not a case isolated from broader social dynamics.

[159] Cushman & Wakefield, "Marketbeat Sweden Office Q2 2025" (Quarterly Report, 2025). Available at: assets.cushmanwakefield.com.
[160] The municipal leasehold system exists in 159 out of 290 municipalities in Sweden today, but about one fifth of municipal land distributed on leasehold terms in Sweden is located in Stockholm, followed closely by Malmö and Gothenburg. This extends to land leased for commercial purposes; out of a total of 5,000 commercial leaseholds, 1,000 are located in Stockholm.
[161] Flyvbjerg, "Five Misunderstandings About Case-Study Research."
[162] Ibid., 229.

The role of the state

The role of the state varies, as Heather Whiteside notes, "by institution, context, and conjuncture."[163] There are multiple ways, in other words, in which state action can both directly and indirectly affect the circulation of capital in the built environment; from the local state's multi-pronged intervention in city building in the capacity of planner, landowner and developer (discussed in chapters 4 and 6), to the effects of monetary policy and interventions in the credit market (chapters 5 and 6). Relatedly, there is a vast field of actors, agencies, institutions, policymakers and so on that I collapse under the amorphous banner of "the state". It is important to underscore the fact that these diverse actors do not necessarily always share a common objective, even if we assume that the *capitalist state* in the abstract ultimately acts in a way that is broadly supportive of capital accumulation. As I demonstrate in chapter 6 in the context of the distribution of land value increments between government-linked property companies and the City of Stockholm, the objectives of different state actors can, and often are, contradictory.

The account provided in the thesis is thus inevitably very selective. I do not venture to provide a complete overview of state intervention. For example, while I draw extensively on previous studies that examine the historical transformation of planning regimes both in Stockholm and the Swedish context more broadly,[164] I do not give much space to the role of planners in shaping investments. My focus lies instead with Stockholm City's land policy, or more specifically, its actions in the role of landowner-cum-developer—even though, to be sure, the lines dividing these two roles are very blurry.

The following section explains how the story was built, with a short reflection on the choice of methods and data sources. The final part of the chapter then discusses these in more detail.

Building a story

The first step was to conduct a broad-based mapping of the actors involved in the production, exchange, and use of commercial property in Stockholm today—to get a sense of what Michael Ball defines as the current "structures of building provision".[165] This is a methodological approach that Ball developed in response to what he perceived as a weak historical and geographical grounding in studies of capital and the built environment within the emerg-

[163] Whiteside, "State's Estate."
[164] See for example Sherif Zakhour & Jonathan Metzger, "From a 'Planning-Led Regime' to a 'Development-Led Regime' (and Back Again?): The Role of Municipal Planning in the Urban Governance of Stockholm," *The Planning Review* 54, no.4 (2020).
[165] Ball, "The Built Environment and the Urban Question."

ing urban political economy literature of the 1970s and 1980s—including Harvey's work discussed in the previous chapter. Operating at such a high level of abstraction, he argued, left the actual actors involved in the use and production of the built environment largely overlooked, reducing them to scripted and "stylised ahistorical" categories such as "landed property" or "construction capital."[166] More recently, Rachel Weber has echoed the same critique, observing that studies in a political economy tradition often fail to distinguish among different capitalist interests converging in the production of the built environment. The neglect of the actual actors, motives and institutions imbricated in city building, she argues, often makes such studies "analytically debilitated".[167] In her fascinating study of overbuilding in Chicago at the turn of the millennium, therefore, she complements a political-economic approach with an institutional analysis in order to disentangle the multiple professions "engaged most directly in knitting together property and financial markets."[168]

Building on these two approaches, I started by identifying the key actors involved in Stockholm's commercial property development industry through a preliminary survey of media articles, trade publications and a round of exploratory interviews (including three property companies, two real estate brokers, and one representative from Stockholm City's Development Office). As the central figure of the city building process, property developers served as the entry point into this complex field of actors. It was through their "relational work"[169]—the assembling of "land, finance, institutions of governance"—that I worked out the historical and geographical specificities of commercial property development. This exploratory stage served to disentangle the various investment rationales that coalesce around the production and exchange of offices in Stockholm today.

The next stage was establishing the historical and geographical trends of commercial property development in Stockholm, including a broad reading of the history of the real estate industry examined alongside the historical evolution of real estate financing regimes. Reconstructing the historical dynamics of office development is where I encountered most of the empirical challenges. As David Wishart argues, "historical representation is selective because the historian has no direct access to past reality but only relics of evidence which cannot be representative of all that went on."[170] This is espe-

[166] Ibid, 448.
[167] Weber, *From boom to bubble*, 30.
[168] Ibid, 32.
[169] Mouton & Shatkin, "Strategizing the for-profit city."
[170] David Wishart, "The selectivity of historical representation," *Journal of Historical Geography* 23, no. 2 (1997): 115.

cially the case for the first part of chapter 4, which reconstructs the history of commercial property development from the second half of the nineteenth century and up to the 1930s mostly from secondary sources. Moreover, this literature in itself is very partial in its overview of the commercial real estate market, as this is almost never the object of analysis.

The empirical challenges were less acute when it comes to the second part of chapter 4, which relies on secondary literature and archival sources. Before the 1970s, investment in commercial real estate for purely financial reasons was fairly limited. The reasons for this, as the chapter demonstrates, relate to various regulatory mechanisms extending from centralized credit allocation, the expansion of local planning powers, rent controls, and last but not least, the expansion of municipal landownership. Office development was mostly limited to owner-occupation. It is hardly an exaggeration to say that commercial property development—or any other type of development for that reason—during this period was shaped heavily by the state.

On the later period (from the 1970s onwards), discussed in chapters 5 and 6, I could rely more extensively on (usually digitized) official documents, financial reports, and media. Secondary (journalistic, academic, and biographical) sources were also readily available. Therefore, the difficulties associated with reconstructing events and processes were somewhat mitigated. The closer the study came to present time, the more variegated and rich the sources became. For contemporary affairs, I also relied heavily on interviews.

Data collection and analysis

This research builds on broad base of empirical material collected through a combination of semi-structured interviews, the analysis of a broad range of written material—including primary archival records and secondary sources— and quantitative data on the credit market and the property development industry. Interviews and other fieldwork were conducted mainly between 2020 and 2023, with some interruptions due to the onset of the COVID-19 pandemic. Below, I describe in further detail how and what type of information was collected, for what purposes, and what are some of the main drawbacks and limitations that I have encountered during this process.

Written material

Industry reports, media reports, statistics, and memoirs

For an overview of the commercial property market, including the main actors, major projects, market indicators, trends, and so on—particularly in the early stages of the research—I relied extensively on information published in *industry reports* and *specialized media sources,* and have complemented these with *statistical data* from various sources (governmental agencies and specialized data providers) when available.

One of the major empirical limitations that I have faced early on was that there is no reliable and transparent statistical data on commercial property market trends provided by governmental agencies. For an overview of market trends and indicators, therefore, I had to rely mostly on third-party data providers. This includes trade publications such as property and development market overviews, in-depth analyses of certain segments of the market, and property outlooks published by real estate brokers, consultants and industry analysts. I drew on such industry reports in order to get a broad-based overview of contemporary market trends, including transaction volumes, total investments, rental growth, yield movements, property price trends, stock market indicators, and information on market financing.

There are, however, certain limitations with respect to the nature of the data presented in such reports, which is linked to the question *who* they are produced for, by *whom* and *why*. These are reports typically provided by real estate brokers and financial consultants which stand to profit from the trends that they report on. In other words, they are not simply neutral observers but *active* participants in the market that they aim to describe. For example, real estate brokers, which work as intermediaries in buying, selling and leasing of property, make most of their profits from commissions on property transactions. They have a clear material incentive, therefore, to provide overly optimistic market narratives that boost the confidence of property investors and facilitate the turnover of capital in the transaction market. In Rachel Weber's words, they actively seek to "enable capital accumulation" and "influence the behavior of economic actors".[171] In this respect, they help to *perform* markets as they describe them.

I tried to overcome these limitations by triangulating the information from real estate industry reports with data from the Central Bank (Riksbanken) and the Financial Supervisory Authority (FI). While they do not provide a systematic overview of the commercial property market, since the finance-cum-property crisis of the early 1990s both agencies publish biannual reports

[171] Rachel Weber, "Performing Property Cycles," *Journal of Cultural Economy* 9, no.6 (2016): 593, 600.

on financial stability—which usually gives a short overview of the links between the commercial real estate sector and the financial system. The information on the property market is partial—as the title suggests, they are concerned primarily with financial risks—but they provide a reliable overview of real estate companies' financial context. Their main limitation, however, is that they also partly rely on industry data in their analyses—specifically with concern to information on property valuations, vacancy rates, and yield trends—although they combine this with their own estimates.

A major challenge in studying the development market has been the relative unavailability of publicly accessible and reliable statistical data on non-residential construction rates. Even though there is a whole "mini-industry"[172] devoted to real estate market research, data on commercial development projects is very limited—and where available, often prohibitively expensive.[173] While the Statistics Agency (SCB) provides aggregate data on housing and construction, there is little information on non-residential real estate (offices, industrial property, retail, etc.)—with the exception of the number of building permits. However, the fact that developers often delay construction unless market conditions are favourable makes this an unreliable way to gouge actual development. Overall, quantitative data on non-residential construction (building completions, construction costs, total floor space added, conversions, demolitions) is not as readily available as it is for housing. Commercial data brokers who construct statistics from raw data generated by governmental agencies and the real estate industry itself were the only viable option.

The study thus relies on quantitative data collected from several different sources to establish long-term national and regional construction trends for non-residential property, including the volume and geography of commercial property development in Stockholm. For information on construction rates, I used statistics accessible online from the government statistics agency, supplemented with custom information on the existing commercial building stock in Stockholm municipality for the period 1930-2019, constructed from SCBs property tax registry. I complemented this data with regional statistics

[172] Richard Barkham, "Market research for office real estate," In *Development and Developers: Perspectives on Property,* ed. S. Guy & J. Henneberry (Blackwell Science Ltd, 2002).
[173] As I have experienced first-hand through this research process, the services of commercial data brokers can be ridiculously costly (so much so that, in an exchange with one of these companies, I suspected for a moment whether they were just trying to turn me away). While I was fortunate enough to be able to obtain additional funding specifically for this purpose, it only stands to prove, as Helga Leitner has pointed out some thirty years ago, that this represents "a serious obstacle for academic research." See Leitner, "Capital markets," 787.

published by the construction industry federation, Byggföretagen.[174] For data on recent project starts in Stockholm municipality—including property type, location, developer(s), and estimated cost of the development scheme—for the period 2015–2020, I turned to a commercial data broker which provides construction market information to the industry, as well as municipal records on building permits—including minutes from the City's planning and development offices' meetings where new projects are discussed and relevant material published.[175]

I complemented this data with information on development projects from specialized media reports. I relied mainly on two media outlets dedicated exclusively to reporting on Sweden's commercial real estate market: *Fastighetsvärlden* and *Fastighetsnytt*. Aside from providing a broad picture of the entire real estate industry (from planned and ongoing projects, urban development politics, the credit market, and so on), more importantly, these outlets were also an invaluable source of ethnographic knowledge. I was able to get an overview into the whole spectrum of real estate actors in the commercial property industry, including property companies and developers, financial investors, public officials and so on—all of which belong to a fairly elite and well-guarded industry. These sources helped me fill in the gaps when I could not get interviews with relevant subjects. Moreover, their close relationship with the industry makes them a particularly knowledgeable source.

I often complemented the information from other sources with data from corporate reports, financial accounts and other material published by the property-development companies themselves. One of the advantages of studying Sweden is that it has one of the highest rates of publicly listed companies in the real estate sector. This means that there is a lot of public information available to draw on—even though finding my way through property companies' convoluted finance accounts was not always easy.

In order to get insight into some notable historical events and processes, especially those further in the past covered in chapter 4, I consulted secondary sources (academic and other). These include published literature that report, comment, and analyse certain events but also eyewitness accounts and memoirs from individuals who were directly involved in them.[176] I also

[174] A national umbrella organization that brings together various actors in the construction sector: construction companies, civil engineers, sub-contractors, etc. Accessed at: https://byggforetagen.se.
[175] The data was provided by Byggfakta. https://www.byggfakta.se/
[176] Such as Yngve Larsson, *Mitt liv i stadshuset* (Stockholm: Stockholms kommunalförvaltning, 1977) and Hans Wallenstam, *Mot Alla Odds – Vägen ur fastighetskrisen* (Nona 2020).

rely on monographs published by Stockholm City's research and publishing arm, Stockholmia, which offers an extensive literature on the urban history of the city—including, most importantly, the redevelopment of Norrmalm discussed in the second part of chapter 4, which provided a window to the land and development politics of the City in the post-war period.

Archival sources: historical records and daily newspapers.

Finally, to examine the historical dynamics of the commercial property market in Stockholm, and Sweden more broadly, as well as its broader political economic context, the study relies on archival sources and newspaper records. I draw extensively on the digital newspaper archives of the National Library of Sweden, *Svenska Tidningar*,[177] which provides access to records of daily newspapers going back to the 1800s. Chapters 4 and 5, which cover roughly the period from the mid-1800s to the 1990s, rely extensively on articles from this archive. I started with using broad-based searches including "offices (*kontor*)", "Stockholm", "office property (*kontorsfastighet*), refined with "rental properties (*hyresfastighet*)," "*finansiering*", and so on. I also used keywords such as the names of property companies or persons mentioned in secondary sources which allowed me to dig deeper and get a much fuller picture of important conjunctures, events, and processes that were crucial to my understanding of the dynamics of the market.

I used several other archival sources to map actors and get insight into historical discussions. In order to map historical actors in the commercial real-estate market and find out about their affairs, I consulted the Stockholm's Stock Exchange List archive for listed companies (covering the period 1912-2007) and the *Affärsvärlden* archive—a weekly magazine specialized in economic affairs, founded in 1901 (the archive includes material until 2007). Both historical archives are available digitally at the Swedish House of Finance Data Center[178] (part of the Stockholm School of Economics) for which I obtained access through Uppsala University. These helped me to get a better picture of the historical asset value trends and bankruptcies of commercial property developers as well as to learn about the historical discussions regarding commercial property investment. Both sources have obvious limitations as Affärsvärlden typically represents the capital side of things—business and property owners' perspectives, opinions, and data—while the Stock Exchange List does not include non-listed, privately owned companies.

[177] Available at: https://tidningar.kb.se.
[178] The historical archives of the SHoF are available at:
https://www.hhs.se/en/houseoffinance/data-center/historical-archives/

I also consulted the Stockholm City Archive[179] (Stockholms Stadsarkivet) where I looked for information about past and present development projects. I rely, here, on municipal documents, council debates, and motions from the City council (mostly from the Development Office, *Exploateringskontoret*). This proved crucial for understanding the City's rationale and economics regarding the discussed developments (I mainly use this data when discussing the development of Slakthusområdet and Norrmalm (CBD) in chapters 4 and 6). I have also pulled municipal annual budget reports which helped me better understand municipal investment strategies. Further, I consulted a selection of official Laws, Governmental Reports (SOUs[180]), and parliamentary motions for topics relevant to the study (for example, about rent setting, property regulations, etc.).

Archives offer many advantages for a researcher—relative reliability and permanence that allow for a repeated analysis, fairly easy and cheap access to both digitized and physical databases in Sweden, an opportunity for a rich contextual historical study, and so on. However, as any method, it has its limitations; for one, "not everything that happens in the past leaves a trace, and not all traces are then preserved."[181] Secondly, archival data from official sources (governmental agencies, councils, etc.) often present partial, polished versions of actual events. Questions about who collected the data and for what purpose, thus, must always be at the forefront.

Interviews

One of the biggest challenges in the data collection process was getting access to particular actors from the real estate industry. As an outsider and someone who did not speak the language (both Swedish and real-estate-speak), I initially struggled to find informants willing to discuss their work with me. As Anne Haila notes when reflecting on her own experience researching the Singaporean real estate industry, getting an insight into the ins and outs of this world can be quite challenging.[182] Developers are not always open to discussing their projects and business strategies with researchers, and when they agree to it, they are not necessarily very talkative. This is not a coincidence; information asymmetry is something which local real estate actors use to their competitive advantage.

[179] Available at: https://stadsarkivet.stockholm/.
[180] Statens Offentliga Utredningar in Swedish. Available at: https://www.sou.gov.se/.
[181] Ruth Craggs, "Historical and Archival Research," In *Key Methods in Geography*, eds. N. Clifford et al. (Sage, 2016), 119.
[182] Haila, *Urban Land Rent*, 227-8.

I eventually managed to build contacts by attending public events and meetings organized specifically for, and by, the real estate industry. These events proved invaluable to finding potential interview subjects. Every year *Fastighetsvärlden,* for example, organizes seminars on different geographies and segments of the property and development market, bringing in participants from the entire sector—from local politicians and civil servants, banks, to some of the biggest companies in the property and construction sector.[183] These seminars in and of themselves were crucial in getting an insider's perspective of the field. I also identified interviewees from analysing media reports and public documents and some through other interviews (i.e., though "snowballing"). I sought to speak with people with expert and intimate knowledge about Stockholm's commercial development—both from the private developer and from the City side.

I conducted four rounds[184] of interviews with a total of 21 respondents including city officials, development officers and other civil servants, property-development companies, real estate brokers, analysts and financial consultants (for a complete list of interviewees, see Appendix A). As soon as the research got off the runway the global pandemic brought everything to a standstill, so the first round of interviews had to be conducted remotely via online video conferences. While this is not an ideal format—talking over Zoom certainly does not make it easier to establish rapport with interviewees—giving online meetings as an option made it easier to get respondents to find the time to sit down for an interview with me. Most of the interviews, however, were conducted on site in Stockholm. They lasted between one and two hours and were recorded, transcribed and analysed by the author.

Unlike developers and politicians, it was relatively easier to find respondents among the real estate professionals who work for consultancy firms, brokers and market analytics companies; they also seemed more accustomed to talking with researchers. However, even though I always promised them anonymity, they often seemed apprehensive about what they revealed and careful not to come across as overly critical of the industry. All of the interviews were conducted in a semi-structured way—I always prepared a question guide beforehand based on the respondent's role and expected knowledge but I was generally allowing the conversation to go into an unplanned direction if the interviewee revealed something of interest to the study. Several interviewees have asked to have the questions beforehand. The questions usually revolved around particular development projects, the

[183] Even though I am not a part of the real estate sector, I was allowed to attend these seminars and participate fully as a researcher.
[184] Spring 2021, autumn 2022, spring 2023, and summer 2025.

economic and political rationale behind the developments (both for the state and private actors) and the general functioning of the commercial real-estate market in Stockholm.

Studying up: limitations, issues, and reflections about researching the real estate industry

One thing that I found especially difficult to study was developers' relationships with politicians. The close ties between private development interests and the public officials and civil servants who wield power over zoning laws and building permits is a history as old as the real estate market. But, while such informal networks might be well known among members of the industry, they are not always easy to read from the outside. Getting a grasp of these networks was particularly essential to this project because, since the 1990s, Stockholm municipality has relied heavily on private market initiatives. Developers are encouraged to bid their own ideas directly to the City rather than waiting for the latter to set the course on new development. Whenever I inquired with planners and employees from the development office about particular projects and how they came about, the answer would always be that these decisions take place at the political level. "They [developers] always go to the Chairman of the City Council first, they call them first, before they call any […] employees of the city. They always go to the highest level first."[185]

However, neither developers nor politicians liked to speak very openly about the nature of the negotiations that took place behind closed doors. They were more circumspect in their statements than planners and other real estate actors on this topic. Often it was frustratingly difficult to uncover how specific project ideas had developed by looking through media articles, municipal records, or interviews. While they like to boast about successful projects, developers were very secretive about this particular aspect of their work. They kept their responses vague and dodged the question by leading me on a journey through minute planning decisions and the numerous twists and turns their projects took after the major decisions have been made. No matter how much I probed, I could never get a straight answer to the question how particular project came through. Such secrecy is of course to be expected of actors in a competitive market environment. Even industry professionals who were not directly involved in any particular developments

[185] Interview, Development Office, 1 June 2022.

discussed this issue with extreme caution. "I don't want you to quote me on this," one consultant began, before suggesting that politics played a major role behind developer's decisions to flock to particular municipalities. Once I had a better understanding of the local context it became clearer, at least, which companies navigated the political landscape most successfully—such as Fabege in Solna and Atrium Ljungberg in Stockholm.

I faced a similar challenge trying to examine how building rights and land prices (or rents) were negotiated between the municipality, in the role of landowner, and interested developers. The municipality holds a near monopoly on developable land within city limits, which means that the lion's share of new development takes place on municipally-owned land. There is often a lot riding on these negotiations for both parties, considering that these two factors—land value and building density—determine the financial viability of projects. The process typically begins with a *markanvisning* (Swedish for "land allocation"), which is a time-limited agreement between the City and another actor (such as a property company or a consortium) that grants the latter exclusive rights to negotiate over the content and amount of building rights. However, between a letter of intent—which sets the broader framework for the negotiations in the beginning of the process—and the final development agreement, there are no public records that document the intermediate process. What happens in between is, technically, a negotiation between two private legal subjects.[186] The City can dispose of its property and enter in agreements with private persons freely, as long as it is acting in the public interest—defined broadly.[187] Both the City and developers tend to paint this as a fairly straightforward and expert-driven process, where both parties rely on independent valuations to decide the fair price of land. However, the supplemental agreements that can be found in the development office's archives filed under generic titles such as Appendix 1, 1a, and so on, suggest that there is more to the process than my interviewees were ready to discuss openly. Many of these documents stipulated special provisions such as subsidies, reduced rents and waived land fees, which were not included in the main agreement.

When I finally got the chance to ask one of the developers about these deals, it was followed with the exclamation: "Yes, ha haa. Now you're in deep."[188] I was told that while such provisions were common, they are typically handled discreetly—not necessarily in secret, "but they are kind of

[186] Olsson, "The neoliberalization of municipal land policy in Sweden."
[187] Gunilla Edelstam, "The public–private law divide from a private law perspective," In *The public–private law divide: potential for transformation?,* ed. M. Ruffert (British Institute of International and Comparative Law, London, 2009)
[188] Interview, Developer, 30 November, 2022.

handled not really publicly" because they could complicate future land negotiations. For this reason, they are not "always registered in the City's official papers."[189] In one of these cases, revealed by the media in 2014 (discussed in chapter 6), there are no public records available at all—including the actual development agreement. In these cases, again, newspaper records proved an indispensable source in piecing together the full story.

Lastly, as Lynn Staeheli and Don Mitchell insist, any research that aims to be socially relevant has to deal with the issues of ethics and politics inherent to academic inquiry.[190] This pertains partly to the conduct of the researcher in handling information and information sources (including the actual human beings that act as a "source" in the particular case). Another part pertains to the usage of the gathered insights and the goals of the study. Regarding the former, I have followed the established academic norms and guidelines; to my interviewees, I have always explained the purpose and nature of my research, I have offered confidentiality to all respondents and a right to withdraw from participating. The recordings and notes from the interviews were stored on a safe server at Uppsala University. Furthermore, I have always tried to use the interviews, as well as the written material, conscientiously and present the information from them in a fair, transparent, and truthful form. While overly sensitive data (personal, political, incriminating, or otherwise) was never shared with me, some of the interviewees are involved in ongoing projects, agreements, negotiations, and debates which might cause unwanted attention if their name would be used. For that reason, I decided to anonymise all the respondents unless they explicitly asked to be named.

The latter sense of the ethical-political question revolves around the ontological and political position of the researcher. As it has been noted, interviewing politicians or the business elite involves inevitably unequal power relations. As a foreign, female, early-career researcher, the power balance was often not set in my favour. This situation, however, proved to be more ambivalent than it first seems—while some were arrogant and dismissive, others were more open precisely because they perceived me as an outsider, non-threating, and non-important. Further, I have approached the study from a Marxist political-economic perspective. This means that my research was always politically charged—a political stance that was markedly different than most of my interviewees. My political-ethical objective was to analyse and understand the power dynamics undergirding capital accumulation and

[189] Ibid.
[190] Lynn A. Staeheli & Don Mitchell, "The Complex Politics of Relevance in Geography," *Annals of the Association of American Geographers* 95, no. 2 (2005).

concentration through the built environment in order to point towards their undoing. Despite our different political departures and precisely because I wanted *to understand* how the capital-state nexus operates, I did my best to present the views and arguments of my respondents as objectively as possible while not abandoning my theoretical and political framing.

4. Setting the stage: real estate capital and the politics of land

This chapter provides the necessary empirical basis without which, this thesis maintains, it is impossible to critically appreciate the market's present configuration or the dynamics of capital accumulation. To understand the conditions that underpin the tremendous accumulation of property wealth in the present conjuncture, in other words, a historical perspective is crucial. To do so requires going back more than a hundred years in order to trace the development of land and property relations in Stockholm—and Sweden more broadly, the role of planning, policies governing the circulation of finance, and last but not least, the geography of Stockholm's built landscape, all of which in different ways condition the movement of capital today.

The present chapter provides a somewhat selective and truncated account of a rather long period, covering more or less two major political economic eras in Sweden: market liberalism (1850–1930) and the embedded liberalism of the post-war period. The story is thus broadly divided into two parts. The first part begins with an abridged history of Stockholm's property market in the latter half of the nineteenth century and traces the formation and consolidation of real estate capital alongside the growth and centralization of finance capital at the turn of the twentieth century. While commercial real estate investments—as in holding property for its income-generating capacities was fairly limited until the end of WWI, this period saw the establishment of a commercial core on lower Norrmalm (today Stockholm's CBD), dominated by commerce, finance and state institutions.[191] Following the removal of rent controls after WWI, the landscape of the property market began to change, with finance institutions increasingly investing in property as an income-generating asset.

In the second part, I provide a condensed history of commercial development and renewal of the city centre in the post-war period, offering a background to the enduring institutional foundations of Stockholm's present-day

[191] Eva Eriksson, *Den moderna stadens födelse: svensk arkitektur 1890-1920* (Stockholm: Ordfront, 1990); Henrik O. Andersson and Fredric Bedoire, *Bankbyggande i Sverige* (Liber Förlag, 1980).

land and property development politics. With respect to the later chapters where this politics is explored from a contemporary perspective, the present historical account serves to highlight the breaks and continuities in the role that the local state has played, and continues to play, in supporting the circulation of capital through the built environment. Revisiting the construction of this regime in its native socio-political context—what Mark Blyth, inspired by Karl Polanyi, has defined as the era of Swedish embedded liberalism[192]—is essential to appreciate the role of the contemporary, ostensibly *neo*liberal, local state in the circulation (and accumulation) of capital through the built environment.

1860-1930: building real estate capital

The development of commercial property for rent during this period was extremely rare, limited both by the still largely undeveloped credit market as well as the lack of demand for rental premises. Capital interests (industry, commerce and finance) mostly built for their own use. This began to change with the concentration and centralization of financial capital at the turn of the 20th century.

Commercial property investment, centred on investment, trading and renting of property in Stockholm, in the modern sense of the word, first began to take shape in the latter part of the nineteenth century alongside the expansion of industry and finance. This was a period of intense industrial expansion in Sweden, accompanied by a rapid growth in the urban population and a physical expansion on a scale never experienced before. The increasing geographical concentration of labour and industry brought together a motley assemblage of business interests—landowners, builders, financiers—which recognized the financial benefits of integrating land and property into the general circulation of capital. Starting from the 1870s, a growing share of private capital was channelled into the production of housing for the working population[193] through speculative land and building interests, in parallel to the circulation of state credit in the provision of urban infrastructure and the galloping expansion of productive capacities.

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[192] Mark Blyth, *Great transformations: Economic ideas and institutional change in the twentieth century* (Cambridge University Press, 2002). For Blyth, embedded liberalism represents a "distinct form of state" relating to a particular stage in the development of capitalism (ibid., 5).

[193] As the Stockholm's population doubled by the end of the century, the city experienced two major building booms: the first in the early 1860s, and the second in the 1880s. See: Ingrid Hammarström, "Urban Growth and Building Fluctuations. Stockholm 1860–1920," in *Growth and transformation of the modern city,* ed. I. Hammarström & T. Hall (Stockholm: Statens råd för byggnadsforskning, 1979).

This was a period of capital scarcity for Sweden, with a still emerging credit market geared largely towards the financing of industry and the expansion of infrastructure, leaving little in the way of credit for private property investments. Despite the emergence of a more robust domestic credit market in the 1880s (with the establishment of mortgage institutions, insurance companies, commercial and savings banks), until the end of the nineteenth century property development was mostly dependent on a "complicated network of financial dealings" that involved land speculators, building material suppliers, and the private money market.[194] Moreover, capital scarcity made urban construction extremely sensitive to economic fluctuations and the dynamics of accumulation in the industrial sector;[195] building activity usually moved inversely to the business cycle, picking up when interest rates fell during recessions in the manufacturing sector.[196] The property developer of the 19th century was thus an extremely precarious figure that had little protection against the volatility of the property market.[197]

The dominant figures in the emerging city-building regime of Stockholm during this period were land development companies founded by wealthy figures from the world of industry, banking and commerce, who also held significant power in city politics.[198] The lifespan of these companies was usually very short and followed the building cycle closely as their activities were mostly of a speculative nature. Their business model involved acquiring major land tracts from private estates in the outskirts of the city that could be subdivided into building plots and sold on to developers in the housing market.

The development of non-residential property, on the other hand, remained the preserve of public institutions and private companies that built for their own use. The highest demand came from the rapidly expanding industrial sector; the need for tailor-designed operational properties was exclusively solved in-house, financed by retained earnings, short-term construction loans from commercial banks and long-term mortgage loans provided by insurance

[194] Hammarström, "Urban Growth and Building Fluctuations."
[195] Louis Landeman, David Andren, and Christopher Hellesnes, *Företagsobligationer – från AAA till konkurs*. (Stockholm: Ekerlids Förlag, 2021), 23.
[196] Anders Gullberg, *City:drömmen om ett nytt hjärta* (Stockholm: Stockholmia, 2001), 53.
[197] Hammarström, "Urban Growth and Building Fluctuations."
[198] Håkan Forsell, *Property, Tenancy and Urban Growth in Stockholm and Berlin, 1860-1920* (Routledge, 2017). Some of these figures held prominent positions in the city administration and could thus wiled significant influence over the city's urban policy. Before the introduction of the first national building ordinances in 1874—which delegated planning responsibilities to local governments, local politicians were heavily involved in private land development companies; a prominent example is the Stockholm Byggnadsförening, which was founded by twelve members of the Stockholm City Council alongside people from the private business sphere.

companies.[199] Industrial enterprises thus typically incorporated the role of developer, land and property owner in their operations.[200] The same could be said of offices and retail. While land and property speculation became rife in conjunction with the rising demand for housing and the expansion of the city's traffic system, projects started on a speculative basis for commercial buildings were few and far in between. Before 1900, there had been only a couple of attempts to develop office buildings for rent on a speculative basis, built a decade apart.[201]

A harbinger in the development of commercial property in Stockholm—and Sweden more broadly—at the turn of the twentieth century was the rapidly expanding finance sector. Banks and other financial institutions had been heavily involved in the land and property market during the speculation boom in the 1880s that involved investments in railway bonds and housing mortgages. But the exponential growth of finance capital alongside industry in the late 1800s—especially commercial banks, led insurance companies, commercial and savings banks to become developers and landlords in their own right—combining the construction of premises for their own use with additional commercial spaces for rent.

Commercial and savings' banks were by far the most prolific developers. The number of savings banks had doubled by the end of the century, but commercial banks experienced the highest growth; from only twelve established institutions in 1860 with a combined turnover of 79 million kronor, their number increased to seventy-five in 1913 with a total turnover reaching nearly three billion.[202] The expansion was accompanied by a growth in employment numbers, which became the driver of a veritable boom of office construction at the turn of the 1900s. Counting the construction of over two hundred bank buildings in urban areas across Sweden, the first decade of the 1900s became colloquially known as the "golden era" of bank building.[203] The growth of finance capital during this period was such that projects often out-grew their initial plans before construction was even finished—with

[199] Carl-Rudolf Cramér & Kurt Å. Fredricsson, *Svensk fastighetskredit* (Stockholm: Natur o. kultur, 1942); Hans Lind & Stellan Lundström, *Kommersiella fastigheter i samhällsbyggandet* (SNS Förlag, 2009).
[200] In the period 1879-1913, the amount of capital that industrial enterprises tied-up in buildings rose from SEK 97 million to SEK 685 million. Investments in the construction of industrial buildings outpaced investments in machinery. See Oskar Broberg, *Konsten att skapa pengar: Aktiebolagens genombrott och finansiell modernisering kring sekelskiftet 1900.* (Ekonomisk-historiska institutionen vid Göteborgs universitet, 2006).
[201] Birger Jarls Basar (1885-1888), which combined retail and offices, and Centralpalaset (1896-1898)—both located on Lower Norrmalm. See Eriksson, *Den moderna stadens födelse*, 46.
[202] Andersson & Bedoire, *Bankbyggande i Sverige*, 22–30.
[203] Ibid, 24.

speculative building becoming a more common practice as rents and property values began to grow exponentially with the rising demand. Institutions sought increasingly larger plots of land in attractive locations close to city centres, where they constructed luxurious palatial buildings that often dominated the urban landscape around them.

By World War I, financial institutions had become the largest collective owner of commercial property in central Stockholm. Around thirty commercial banks were established on Lower Norrmalm alone, followed by a growing number of insurance companies and savings banks[204]—transforming the area into Stockholm's financial centre. With bank buildings considered to be a generally "safe object of speculation", institutions' investments in real estate became so extensive that by 1908 the Riksbank began to raise concerns over the fact that they often exceeded banks' capital reserves.[205] As a result, the government increased capital reserve requirements with the Banking Act in 1911 in order to "counteract banks" inclination to tie up a larger part of their capital in premises than is compatible with a prudent banking policy.[206] At the same time, the Act allowed banks to establish subsidiary companies (emissionsbolag) for the purpose of investments in shares and real estate—enabling banks to increase their indirect ownership of real estate assets. The institutions with the largest portfolios transferred most of their holdings to subsidiaries. Following the restriction of banks' share-holdings after the "Kreuger crash" of 1932, most of these subsidiaries were transformed into independent property companies.[207]

Toward the end of the 1910s, the period of new bank establishments gave way to an increasing concentration and centralization of capital in the banking sector—and with it a consolidation of real estate capital. As banking capital was consolidated, banks became major property owners. One of the largest real estate owners in Stockholm was Skandinaviska Banken. Partly through development on its own account and partly through a series of mergers and acquisitions, Skandinaviska Banken's total property holdings grew from 850,000 SEK in 1904 to around SEK 15 million by the mid-1920—

[204] The spatial expansion of savings banks came somewhat later than that of the commercial banks, peaking during the 1920s. During this period, they had also become the largest provider of construction credit among finance institutions—holding around 25% of the construction mortgage market. See Mats Larrson, "The State and the Financial System: Regulation and Regime Change around 1900," in *The Swedish Financial Revolution*, ed. A. Ögren (Palgrave Macmillian, 2010).
[205] Andersson & Bedoire, *Bankbyggande i Sverige,* 24.
[206] Ibid, 24.
[207] Hans Sjögren and Sverre Knutsen, "Why do Banking Crises Occur? An Evolutionary Model of Swedish Banking Crises," in *The Swedish Financial Revolution*, ed. A. Ögren (Palgrave Macmillian, 2010).

constituting approximately 10 percent of its entire capital.[208] Its property portfolio was matched only by Svenska Handelsbanken. As the number of commercial banks was effectively halved by 1925, Svenska Handelsbanken and Skandinaviska banken emerged as the most powerful actors at the nexus of finance and industry.[209] Their subsidiaries—Diligentia, Arsenalen, Tornet and Filia—subsequently became some of the largest property companies in Stockholm's commercial property market. While the expansion of their real estate portfolios in the inter-war period stagnated as their development activities were significantly scaled down, institutions continued to play an important role in Stockholm's property market—not least during Norrmalm's renewal, where they participated as both financiers and developers.[210]

Despite their dominance, finance institutions did not make up the entirety of commercial real estate capital during this period. Before 1890, Sweden practically had no property companies in the modern sense of the word. The numbers of registered property companies began to increase in the 1880s, but none of the one hundred or so companies that were active at the time engaged in any significant commercial activities such as buying and selling of real estate. Most companies listed renting and property management for a limited stock that rarely exceeded one or two buildings.[211] This landscape changed drastically by the early 1900s. The number of joint-stock companies that listed commercial real estate activities as their primary purpose exploded between 1904 and 1912 to a total of 959—of which around 55 percent were established in Stockholm.[212] Finance companies were also represented in a fair number of the emerging joint-stock property companies at the turn of the 20th century. However, only 10 percent of these companies dealt exclusively with the transaction and renting of urban properties on a strictly commercial basis. A significant share of these companies disappeared during WWI, after the government introduced a freeze on rents in order to deal with the mounting housing crisis. The harsh economic environment, however, was also highly profitable for a select group of property companies with links to major finance and business interests that benefited from the war—such as the newly founded Hufvudstaden,[213] owned by the infamous Swedish

[208] Andersson & Bedoire, *Bankbyggande i Sverige,* 191.
[209] The total value of commercial banks' real estate assets rose from just over 10 million Swedish crowns in 1900, to almost 85 million in 1925.
[210] What Anders Gullberg has termed the second "golden era" of bank construction. Gullberg, *City:drömmen om ett nytt hjärta*.
[211] Broberg, *Konsten att skapa pengar,* 176.
[212] Ibid, 176.
[213] Hufvudstaden, *History, 1915-1920.* Accessed at: https://hufvudstaden.se. After the Kreuger Crash in 1932, the company was taken over by Skandinavska banken through the latter's investment subsidiary, Custos. After its public listing in 1938, the insurance companies Atlas and Trygg became the largest shareholders alongside Skandinaviska.

entrepreneur and financier, Ivar Kreuger, which became the largest property company in Stockholm only two years after its establishment in 1915. A steep decline in property prices created a unique opportunity to snap up cheap properties in Stockholm's city centre, which increased the concentration of ownership on Norrmalm where a significant share of commercial activities was concentrated. Following the tumultuous economic situation during the 1930s and 1940s, which saw renewed rent restrictions and rising financing costs amid an increasingly strict state-regulated credit regime, the property market was left in the hands of only a handful of property companies and the financial institutions that backed them.

For politicians and economic experts of the time, the economic crisis challenged the orthodoxy of market liberalism by exposing its failure to ensure a balance between aggregate levels of production and consumption. The apparent failure of liberal doctrines to address the causes of the crisis, in turn, led to a broader acceptance of an expanded state intervention in the regulation of market forces.[214] Notwithstanding differences over what those national economic policies should exactly entail, a broad political agreement emerged over the fact that government intervention was indispensable to achieving "social progress within a capitalist framework".[215] This agreement provided the ideological basis of the post-war welfare state.

Commercial property development in Stockholm from the end of the 1930s and roughly until the turn of the 1970s was essentially a public affair. Private-sector investment was severely constrained by both national government policies—notably, the control of rents in the commercial property market and the state-organized allocation of credit for both private and public consumption—and at the level of the local state through the expansion of the planning apparatus and municipal landownership. During this period, Stockholm City assumed an active role in the production of non-residential property, which included space for both administrative functions as well as the development of offices and retail premises for rent. Before turning to explore these developments through the politically contentions renewal of the city's commercial district on Lower Norrmalm, I provide a brief account of the broader political and economic changes in which the expansion of state intervention and city powers over the post-war period were rooted.

[214] The two central goals of state economic policy that emerged from these debates during the interwar period was the maintaining of full employment and price stability. See: Assar Lindbeck. *Swedish Economic Policy* (Macmillan, 1975).
[215] Blyth, *Great transformations*.

Embedding liberalism: centralization, state power and market-making

The post-war credit regime

The post war welfare state was characterized by "relatively closed capital markets, demand-side fiscal policies, a belief in an activist state, and a view of unemployment as being due to a general failure of demand."[216] During the 1940s and 1950s, Sweden abandoned the market-based monetary regime of the pre-war liberal-economic order and replaced it with a centrally-regulated monetary regime that relied on credit and exchange controls, aimed to keep the economic problems of the 1930s at bay.[217] This entailed a centralization of credit allocation and the close regulation of cross-border flows of money and capital. The foundations of this regime can be traced back to the emergency measures introduced in the Swedish capital market in conjunction with the outbreak of the Second World War. The objective was to isolate the Swedish money and capital markets from the influence of the rest of the world by imposing restrictions on exchange and capital movement. These controls were significantly expanded in the post war period after the government managed to reach a deal with the commercial banks over the introduction of direct controls on deposit and lending rates.[218] Monetary policy combined low interest in order to promote the expansion of productive capacities, with restrictive measures on private consumption in order to control inflation.[219]

Ultimately, the state sought to channel credit into prioritized parts of the national economy. To do so, it restricted the access to credit for the bulk of the private sector in order to free funds for the expansion of public welfare—including, crucially, subsidizing the construction of housing—and productive capacities (particularly export-oriented industries which were considered to be the backbone of the national economy).[220] Much of the corporate sector was, in effect, excluded from the capital market.[221] As Jonung notes, this

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[216] Blyth, *Great transformations*.

[217] Lars Jonung, "The Rise and Fall of Credit Controls: The Case of Sweden 1939-89," In *Monetary Regimes in Transition*, ed. M.Bordo and F. Capie (Cambridge University Press, 1993). Gustaf Olivercona, *Spekulanterna, [inflation och skattelagstiftning gjorde dem till mångmiljonärer]* (Wahlström & Widstrand, 1985).

[218] Jonung, "The Rise and Fall of Credit Controls."; Olivercona, *Spekulanterna*.

[219] Mats Larsson and Hans Sjögren, *Vägen till och från bankkrisen : svenska banksystemets förändring 1969-94* (Stockholm: Carlsson Bokförlag, 1995).

[220] Mats Larsson and Gabriel Söderberg, *Finance and the Welfare State, Banking development and regulatory Principles in Sweden, 1900–2015* (Springer, 2017).

[221] In a few instances the government effectively imposed a credit freeze which checked private borrowing completely. By the end of the 1960s, strict monetary policies were increasingly bypassed through the unregulated credit market—the so-called shadow banking sec-

system allowed the state "to control the flow of long-term as well as short-term credit to every major sector in the Swedish economy and gave it the power to determine, within broad margins, the rates of interest offered by all financial intermediaries."[222]

The ultimate goal of the state's firm grip over the circulation of credit between the public sector, private enterprise and household consumption was to resolve, once and for all, the recurring problems of overaccumulation.

As David Harvey argues, the centralization of the credit system offered a unique possibility to "virtually annihilate the overaccumulation problem at one blow. The proper allocation of credit to production and consumption held out the prospect of balancing both within the constraints of continuous profit realization. The flow of money and credit into production had simply to be matched by the flow of money and credit to support consumption in order that self-sustained growth continue in perpetuity."[223]

In relation to these political economic goals, public investment became a central part of Sweden's economic stabilization policy, used as a means (to a varying success) to soak up surpluses of labour and money during recessions, or "cool" the economy during periods of economic boom, all in the service of maintaining full employment and price stability. One of the central components of this economic stabilization policy was balancing private investments with "variations in public spending on goods and services"—and particularly public investments in the built environment (public works and state-sponsored housing construction). Essentially, the public sector had a strategic "shelf" of necessary infrastructure projects (which also required a ready supply of land at their disposal) that could be activated as soon as unemployment numbers started to go up.[224] Every municipality and public institution had a pipeline of strategic investments, for otherwise when a recession inevitably hits the state will likely channel credit somewhere else. In conjunction with expansionary fiscal policy, the government also periodically introduced various forms of building restrictions and investment taxes on both public and private investments when supply was deemed to get ahead of demand.

Since the 1930s, the room for local state interventions in the built environment has thus been strongly affected by the fiscal and monetary policies of the central government. State imposed restrictions on public spending during periods of economic boom and expansionary fiscal policy during

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tor—which served as a catalyst in the deregulation of the financial market in the mid-1980s. See Larsson and Söderberg, *Finance and the Welfare State*.

[222] Jonung, "The Rise and Fall of Credit Controls."

[223] Harvey, *The urbanization of capital,* 204.

[224] Lindbeck. *Swedish Economic Policy*.

periods of economic contraction shaped not only private capital but the City's investments in the built environment.[225] These controls became particularly restrictive during the 1950s and 1960s, limiting significantly local governments' access to credit to fund capital investments.[226]

A short aside on the early expansion of municipal landownership at the height of economic liberalism

Alongside the changing financial conditions, the most important factor which fundamentally reshaped the political economy of commercial-property development from the mid-to-late 1930s to the 1970s (the so-called "Golden Era" of capitalism) was the expansion of municipal landownership.

As private land speculation began to pose serious challenges to the implementation of town plans and building ordinances in the latter half of the nineteenth century, Stockholm City started to increasingly adopt the practices of private speculators and embrace a more interventionist land development policy.[227] With no effective legal tools at its disposal that would allow it to keep urban expansion within the extant regulatory framework, land acquisitions became the only way for the City to take control over urban expansion. Land was bought in anticipation of the development of new traffic corridors, after which it was subdivided into buildable plots and sold on to private developers. The land value increment helped to finance further acquisitions and start the cycle anew.

However, with the growing politicization of the housing issue at the turn of the century, land was increasingly kept in public ownership. The municipality thus gradually came to dominate the local land market—acquiring ownership of close to 50 percent of the total area covered with the existing town plan by the early 1900s.[228] In the following decades, the municipality's intervention in the built environment expanded in step with its in-roads into the land market.

The transformation of the political-economic rationale for municipal intervention in the land market was accompanied by a gradual re-articulation of the liberal-bourgeois conception of the state's role in economic life, marking a departure from the municipal paternalism characteristic of the nineteenth century. The functions and institutional apparatus of the municipality

[225] Lars Matthiessen, "Finanspolitiken som stabiliseringspolitiskt instrument," in *Svenskt finanspolitik i teori och praktik,* ed. E. Lundberg et al. (Nordstedt & Söner, 1971).
[226] Jonung, "The Rise and Fall of Credit Controls."
[227] Forsell, *Property, tenancy and urban growth in Stockholm and Berlin*; Hossein Sheiban, *Den ekonomiska staden : stadsplanering i Stockholm under senare hälften av 1800-talet* (Arkiv Förlag, 2002).
[228] ibid, 191.

grew in conjunction with the urban population and the scope of collective consumption needs that had to be urgently addressed—from the management and expansion of physical infrastructure for the provision of water, energy, and collective transport, ensuring sanitary conditions for the production and handling of food, to access to healthcare, education, and so on. Crucially, the municipality began to increasingly take on functions that were traditionally the preserve of private enterprise, such as the management and operation of collective transport services and the provision of housing.

Political elites in the City Council, however, were far from united in their opinion on these matters, reflecting underlying conflicts in ideological commitments and divergent class interests. The Social Democrats called for an active land and housing policy that would entail an expansion of municipal landownership and/or taxing of land value increments. They met a strong resistance from finance and business interests represented by centre-right politicians who denounced their proposals as "state socialism". [229] Prominent market-hardliners among the latter suggested instead that the municipality's tax collection powers be limited. They argued that such constraints were necessary to prevent a future left-leaning City Council from using discretionary fiscal powers to fund the further socialization of collective consumption and to expand the municipality's intervention in private enterprise.

However, confronted with the intractable urban problems of a rapidly growing metropolis, even the conservative wing of the City Council gradually accepted the "municipalization" of land as a means to address the enduring issue of housing provision.[230] Even the most dedicated proponents of the market as the superior capital allocation mechanism over the state acknowledged that private landownership—which led to unbridled land speculation—was creating barriers to productive investment in land improvements and further exacerbated the housing shortage. Public efforts to deal with these issues through the provision of poor relief, which included ad-hoc strategies such as the provision of emergency housing in the spirit of nine-

[229] Yngve Larsson, *Mitt liv i stadshuset* (Stockholms kommunalförvaltning, 1977). One prominent example is the struggle over the operation of the private transport company, Nya Spårvägsaktiebolag, which held the concession for the management of the city's tramway transport until the end of the 1890s. After the municipality helped to finance its electrification in the end of the 1890s—saving the company from certain financial ruin—liberal and left-wing politicians in the City Council proposed to have the company placed under municipal ownership. The proposal was firmly rejected by the company and the majority of the right-wing politicians in the City Council based on a principled stance against the so-called "municipalization" of enterprise. The famous banker and politician, K.A. Wallenberg, argued that 'if such a path was followed … the city would soon consist only of wage earners and pensioners!" The company was eventually taken over the by the municipality after it went bankrupt against the background of the economic crisis following the end of the First World war.
[230] Lindbeck. *Swedish Economic Policy*.

teenth-century municipal paternalism, were rendered insufficient by the rapid growth of Stockholm's population. Municipal intervention in the realm of private enterprise thus became something of a necessary evil, lest the market—to borrow Karl Polanyi's words—was allowed to "result in the demolition of society."[231] In other words, the change in the local state's political-economic role vis-à-vis the urban land market was catalysed by the market's failures.

Municipal land policy in the first decades of the twentieth century was thus marked by a radical departure from the City's speculative land dealings of the late nineteenth century. The housing crisis led to the reorganization of municipal intervention around an explicit concern with addressing the market failures and social injustices associated with private landownership. Alongside the expansion of municipal land holdings which gave the City more control over urban development, the government introduced another institutional mechanism that enhanced the City's power and financial capacity: the municipal land leasehold system (in Swedsh *tomträttinstittutet*). Introduced by the government in 1907, the municipal land leasehold system enabled the municipality to socialize land value increments and channel them into publicly-subsidized housing construction.[232] The issue of financing the expansion of the subway system and the comprehensive redevelopment of Stockholm's commercial core along with it, set the stage for the expansion of the land leasehold system to all types of property development.

Struggles over land value

During the second half of the 1920s, politicians started planning a comprehensive redevelopment of the city's commercial core in conjunction with the apparent need for a state-funded expansion of infrastructure. [233] As industry

[231] Karl Polanyi, *The Great Transformation* (Wiley-Blackwell, 2002), 79.

[232] The first substantive application of the municipal land leasing instrument since its introduction in 1907 took place in conjunction with the publicly-sponsored development of suburban terrace housing in Stockholm's first Garden Cities. The municipality channeled land leasing fees collected from the estate into a separate public fund which was used to provide subsidized construction credit to housing developers.

[233] This is an event that looms large in the urban history of Stockholm, not least for its complicated political legacy fraught with conflicts over displacement, popular resistance against the perceived democratic deficits of the state's top-down planning regime, and last but not least, power struggles between property owners (including finance institutions, the state's land and property interests) and the municipality's political and planning elites. I do not venture to provide an extensive account of the renewal's long and complex history. Its enumerable plot twists intersecting with the trajectories of a host of different characters (politicians, planners, property owners, business interests and more) stretching over more than a quarter of a century have already been covered from several different perspectives and lie beyond the focus of this study. For a broad historical chronicle of the project from a planning perspective see the book

began to move out of the inner city due to rising land prices and a lack of space for the expansion of productive capacities, the land left behind was increasingly bought for the purposes of municipal infrastructure investments.[234] However, the expansion of the city's transport system had to include a major reorganization of the spatial and property relations in the commercial core—which placed the question of the extent of the local state's participation in productive investments in the built environment at the centre of political debates. The renewal of the city centre on Norrmalm thus brought to the fore the issue of state intervention in what many had perceived to be the exclusive realm of the private market.

Since the latter half of the 1920s, the renewal became the centre of heated political debates. Infrastructural investments in the densely populated inner city required a complete reorganization of land use and a redrawing of property lines, but not everyone could benefit equally from the process. Lines of tension emerged on several fronts over the decades-long planning process which resulted in the production of innumerable government investigations, public planning competitions and expert opinions that sought to find a solution that would disturb as little as possible the already established land and property interests. Arguments for renewal—which entailed a near complete demolition of the existing building stock on Norrmalm—were backed by claims of obsolescence and the growing "slumification" of the city centre.

Stymied by the political deadlock in the City Council over the renewal of the city centre, private-sector commercial development during the first half of the twentieth century took place mainly in fits and starts. Political debates over poor housing conditions and the outmoded and insufficient transport infrastructure—which stifled property development in the city centre—oscillated between radical proposals that required extensive public investment and a slower, more organic approach that would lend local property interests a greater role in the renewal process. Early debates in particular were marked by the conservatism of established property owners represented by right-wing and liberal politicians in the City council. They successfully held back the transformation of the inner city for most of the 1920s by rejecting any planning proposals that encroached on private land or required a radical redrawing of the existing property lines. Property owners and locally established businesses that did not have the financial capacity or an economic interest in property development feared displacement from an extensive renewal.

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by the former planning director of Stockholm, Göran Sidenbladh, *Norrmalm Förnyat 1951-1981* (Liber, 1985). See also Gullberg, *City: Drömmen om ett nytt hjärta*; Larsson, *Mitt liv i stadshuset*.

[234] Larsson, *Mitt liv i stadshuset*, 161.

Development interests, in contrast, called for greater state intervention and an extensive urban clearance in order to break the city free from the small-town urbanization pattern of the nineteenth century and clear the way for large-scale redevelopment. The prevailing sentiment—as summarized by one of the leading city-builders of the time—was that the city needed an "enlightened urban planning dictator" who will have the power to "slash block after block in the centre of Stockholm and open up wide streets lined with six, seven and eight-story buildings".[235] They argued in no uncertain terms that the municipality's task was akin to that of Baron Haussmann in Second Empire Paris[236]—to break the power of established property owners which acted as a hindrance to the productive investment of capital in the transformation of the built environment. For the city to be transformed in step with the needs of accumulation, to borrow David Harvey's words, "capital had to be mobilized, not only into buying and selling but also into demolition, reconstruction, and long-term management of the urban space according to collectivist principles that were quite alien to the privatism of traditional property owners."[237] Only a creative destruction by government fiat, in other words, would allow capital to roam the built environment freely in search for profits.[238] What developers needed, essentially, was for the state to step in and remove the barriers to investment posed by private landownership. Direct state intervention was the ultimate means by which capital could circumvent the restrictions on accumulation posed by "the private and individual ownership of land" where, to quote Allen Scott, "the capitalist logic of urbanization comes into collision with itself."[239] Only the state possesses the requisite political and financial resources to take control over this process.

On this matter, private developers found their ally in the left—especially among politicians from the Communist party and the radical left wing of the Social Democrats.[240] The latter agreed with developers that established property interests on Norrmalm hindered the city's development, exploiting the lack of investments to drive up rents and land prices. They were concerned, above all, with the effects that a stagnation in urban development entailed for the access to housing. Urban renewal was partly conceived as a means of opening up space for the extension of public transport and roads to the city's

[235] *Byggmästaren* 1927, quoted in Gullberg, *City:drömmen om ett nytt hjärta,* 121.
[236] Harvey, *The urbanization of capital,* 197
[237] David Harvey, *Paris, capital of modernity* (Routledge, 2006), 132.
[238] Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper and Row, 1942).
[239] Allen J. Scott, *The Urban Land Nexus and the State* (London: Pion, 1980), 155.
[240] *Sveriges socialdemokratiska arbetareparti*, hereafter SAP.

periphery, thus enabling suburban housing development. However, their advocacy for the renewal was ultimately tied to an emerging socialist agenda which envisioned a more active role for the state in the land market as a necessary precondition. This agenda ultimately threatened the interests of private developers as it called for the expansion of municipal landownership as a means of capturing land value increments from public investments.

Commercial property development on municipal land

The delays in the planning process and the uncertainty surrounding the fate of the city centre inevitably led to more disinvestment and a rapid deterioration of the existing property stock. The frustrations of private property interests only grew stronger as the City effectively placed a moratorium on all private investments within areas zoned for renewal in the 1940s. Commercial property development during this period thus took place mostly in relation to suburban housing development and the establishment of local commercial centres in the new suburbs.

In conjunction with the rapid population growth—which rendered earlier planning proposals for piece-meal redevelopment completely insufficient—by the 1930s the need for an extensive renewal had become undeniable. As the Social Democrats gained more power in the City Council, the conflict shifted to the question of the extent of municipal intervention. On one side was the socialist agenda of the Communist party—endorsed by more radical elements of the SAP—which argued for the *de facto* municipalisation of the entire development process. On the other side stood private development interests, represented by the centre-right, which advocated a limited interventionist approach where the municipality would supply only those elements of the built environment "which individual capitalists are unable or unwilling to furnish"[241]—notably infrastructure. Commercial property development was to be left entirely to private initiative.[242]

However, the question concerning the extent of municipal intervention and the role that private capital was going to play in the redevelopment of the city centre did not depend solely on the balance of political powers in the City Council. There was also the matter of resolving the crucial question of how municipal intervention was going to be financed. Even a very limited involvement on the part of the City, as advocated by the centre-right, entailed significant costs for land acquisitions, tenant evacuations, land clearance and infrastructure development—all of which would inevitably burden

[241] Harvey, *The Limits to Capital*, 448.
[242] Gullberg, *City:drömmen om ett nytt hjärta.*

the municipality's finances.[243] It is therefore worth pausing here briefly to consider the broader financial conditions of urban governance against which the nature and extent of municipal intervention in land and property development was being weighed.[244]

Municipal finances shifted considerably over the roughly fifty-year period examined in this section. Three financial crises (1907, 1920 and 1929), two World Wars, and significant political-economic transformations following the Great Depression and the ascent of Social Democrats to power in the mid-1930s, shaped profoundly the financing conditions of the municipality. But if there was one constant in the City Council's fiscal policy throughout this period—regardless of the political majority—it was the shared commitment to keeping income taxes as low as possible. Even though local government in Sweden has historically enjoyed significant tax-raising powers, for much of the period in question, Stockholm's City Council pursued a broadly conservative income tax policy. Until the mid-to-late 1950s, Stockholm kept its income tax rate at a level well below the national average, with the exception of short-lived but notable increases during the two world wars.[245]

For bourgeois parties this stance was largely ideological. During periods of economic crisis, they advocated thrift and cost-savings to keep the tax rate unchanged. When the tax base expanded through population growth or during economic upturns, they cited budget surpluses as grounds for further reductions.[246] For Social Democrats and the Communist party, in contrast, the municipal tax system's regressive nature made increases untenable, as they disproportionately burdened the lowest income strata. When it came to the issue of financing the growing need for capital investments, Stockholm municipality thus relied mostly on credit.

Capital investments in land were financed mainly with income from land and municipally-owned enterprises, government grants, and external borrow-

[243] Stockholm Stadsarkiv, *Generalplan för Stockholm* (Stockholms stads stadsplanekontor, 1952). Accessed at: https://stockholmskallan.stockholm.se/.

[244] This part is based on the City's annual budgetary accounts for the period 1900-1970 (before 1976, published under the heading Statutory Statement [Statutlåtande]. Available in the Stockholm City Archive's digitalized collection of printed documents from the City Council [*Kommunfullmäktigetrycket 1863-2009*].
Accessed at https://sok.stadsarkivet.stockholm.se/Kommuntryck/.

[245] Based on national statistics on municipal finances [*Kommunernas Finanser*] published annually by the National Statistics Office [Statistiska Centralbyrån], hereafter SCB. Accessed at: https://gupea.ub.gu.se/.

[246] See Eric Karlöf, "Finanser och finanspolitik under femtio år (1901—1950)", appendix to Larsson, *Mitt liv i stadshuset*, 264-342.

ing.[247] But as investment needs grew in step with the city population, the contribution of revenues and grants declined relative to the growing importance of debt. In 1930, credit covered roughly 50 percent of the City's annual capital investments; this share increased rapidly over the next two decades, reaching 96 percent by 1950.[248] The City's conservative tax policy slowed down the rate of municipal investments in the 1930s and 1940s. By the early 1950s, the real estate office had an estimated backlog of planned capital investments in the range of SEK 2,2 billion—most of which had to be debt-financed.[249] As municipal debt grew, there was an increasing concern with the ratio of productive versus unproductive (or more precisely, profitable [*räntabla*] and unprofitable [*icke-räntabla*]) investments.[250] A significant part of the municipality's expenditures needed to be self-financing—that is, generate enough revenues to cover interest and development amortization costs—so that public investment needs could be met without putting an extra burden on the taxpayer.[251]

A reliance on existing provisions, such as the collection of infrastructure development fees, could not fully cover the municipality's investment costs. State grants covered only a quarter of the City's investment in road improvements; the rest, including most notably the expansion of the metro system, had to be financed entirely from the city's coffers.[252] The alternative, to let private stakeholders at the helm, was tenuous unless significant public subsidies were included—an option which was politically unacceptable for most. This is where the economics of land came to the fore.

The centre-right advocated broadly for a market-based land policy.[253] The most extreme position taken by a small group of radical market-proponents was a return to the speculative land dealings of the nineteenth century, which

[247] Based on the City's annual budget accounts for the period 1900-1950 (before 1976, published under the heading Statutory Statement [Statutlåtande]. Available in the Stockholm City Archive's digitalized collection of printed documents from the City Council [*Kommunfullmäktigetrycket 1863-2009*].
Accessed at https://sok.stadsarkivet.stockholm.se/Kommuntryck/.
[248] Karlöf, "Finanser och finanspolitik under femtio år (1901—1950)," 330.
[249] 'Investeringsplan 1950-59', in *Generalplan för Stockholm*, 1952.
[250] For an overview of the City's capital investments in productive and unproductive ventures for the period 1930-1949, see 'Investeringsplan 1950-59' in *Generalplan för Stockholm*, pp.383-86. For early debates on profitable and unprofitable investments in relation to land and property development, see Bih. nr.133/1913 and nr.134/1913, in *Statsutlåtande år 1913;* Utl. [Bih. stands for *Bihång*, appendix to the budget.]
Accessed at https://sok.stadsarkivet.stockholm.se/Kommuntryck/.
[251] The financing of unproductive investments, on the other hand, was premised on expectations of a future tax base expansion Karlöf, "Finanser och finanspolitik under femtio år (1901—1950)."
[252] Björn Embrant, "Lånekungen," in *Stockholmskärlek: En bok om Hjalmar Mehr* (Stockholm: Atlas, 2010).
[253] Gullberg, *City:drömmen om ett nytt hjärta.*

meant that the municipality would acquire land along planned infrastructure corridors ahead of development and sell it back to property developers at market prices—thereby using capital gains to start the cycle anew. The alternative, advocated for by Social Democrats, was to keep land in municipal ownership and organize all development on leasehold terms—similarly to how housing development was managed. The only problem with this was that the legal design of the leasehold system rendered it a flawed instrument for capturing capital gains in the short to medium term.[254]

Regardless of these limitations, by the end of the 1930s even bourgeois parties began to accept the fact that there were clear benefits to organizing development on municipally-owned land. Political elites were thus more or less united in their view that land should be kept in municipal ownership in perpetuity, which at the very least would allow the City to socialize land value increments in the long-term. In 1938, therefore, the City Council officially decided to extend the municipal leasehold system—which until this point had been used only for housing construction—to all non-residential development on city-owned land.[255] This decision was coupled with the political commitment to avoid future sales of municipal land and, moreover, continue to expand the municipality's landholdings—especially in the city centre where public investments were expected to have the highest effect on land values.

The realization of these commitments was supported with a crucial change in the legal provisions concerning local governments' eminent domain powers, introduced by the state at the behest of the City of Stockholm. *Lex Norrmalm*—named after the area slated for renewal in Stockholm's commercial core—allowed municipalities to acquire freehold land at current-use value using something called zone-expropriation. [256] Essentially, as Clark and Gullberg explain, the City could draw a line around a particular

[254] The municipal land leasehold system had been around since 1907, originally introduced by the government in view of addressing the national housing crisis. Its primary purpose was to provide cost-subsidized land in service of facilitating private housing construction, but also to provide municipalities with an effective tool for land-use planning and ensure that land value increments are channelled into public coffers. Lease fees for the duration of the contract were therefore fixed to keep down the cost of housing, but after the leasehold expired (in 26 to 100 years) the land and the buildings on it would revert back to the landowner in order to enable the public sector to capture the land value uplift. However, the limited purchasing powers of municipalities in the first half of the century restricted its use, until the legislation was extensively reviewed in 1952 and again in 1967. See: SOU 1952:28, *Lagberedningens förslag till ny lagstiftning om tomträtt m. m* (Justitiedepartementet, 1952) and SOU 1980:49, *Tomträtt: Betänkande av tomträttskommiten* (Justitiedepartementet, 1980). Accessed at: https://lagen.nu.
[255] *Fastighetsnämndens Tomträttsdelegerades Betänkande (*Bih. 60/1938). Accessed at: https://sok.stadsarkivet.stockholm.se/Kommuntryck/.
[256] Thomas Hall, "City under Lex Norrmalm," *Bebyggelsehistorisk tidskrift*, no. 6 (1983): 102.

area of interest and designate it an expropriation zone, rather than present plans for development as a precondition for using eminent domain.[257] This allowed the municipality to effectively circumvent private speculation in the property market and the capture of planning gain by private capital. Which brings us back to the political economy of commercial-property development. What exactly, one might ask, did the introduction of the leasehold system entail for capital?

From the perspective of those who developed strictly for their own use, that is owner-occupiers, the City considered the leasehold system a form of public subsidy. The provision of building rights on leasehold land was seen, in effect, as a form of "credit" for the business sector—an advantage, in particular, for companies that were not "capital-rich".[258] This was especially relevant in the financial context of the post-war period, when strict monetary and fiscal policy had turned credit into a scarce commodity for most of the private sector. Companies that needed to be established in the city centre could thus avoid unnecessarily tying up capital in land acquisitions and reduce costs for the development of operational properties. A crucial consideration when locating industry on leaseholds, however, was to ensure that the ground rent did not exceed the rate of return on the capital invested in the land's productive use.

The same goes, in principle, from the point of view of building capital. If we define the latter strictly in terms of the production of a commodity for immediate sale on the market, commercial development does not necessarily presuppose investment on freehold terms in order for it to be financially viable. Development capital is essentially invested "so as to generate higher rents from a given piece of land".[259] What matters to the developer, above all, is the margin between production costs—including ground rent—and the rental income that can be achieved upon project completion. In other words, financial viability is in large measure determined by the existence of a rent gap.[260] From the perspective of the developer proper, therefore, the municipal leasehold system did not necessarily represent a barrier to the investment of building capital on public land.

But unless the municipality itself assumed ownership of a substantial share of commercial building stock—an option that was briefly entertained

[257] Eric Clark, & Anders Gullberg. "Power struggles in the making and taking of rent gaps: The transformation of Stockholm City," In *Cities in transformation - transformation in cities: social and symbolic change of urban space,* ed. O. Källtorp et al. (Avebury: Aldershot, 1997).
[258] Bih. nr. 51-84/1975, p.337.
Accessed at: https://sok.stadsarkivet.stockholm.se/Kommuntryck/.
[259] Massey and Catalano, *Capital and Land,* 138.
[260] Neil Smith, *The New Urban Frontier: Gentrification and the Revanchist City* (Routledge, 1996).

somewhere in the wilderness by Social Democrats in the 1930s—its vision for Stockholm's central business district necessarily presupposed the involvement of commercial property companies.[261] This is a form of capital that is concerned primarily with the ownership of property (and land) as a financial asset. It is with respect to this fraction of capital that the leasehold system represents a concern for commercial interests.

As Massey and Catalano argue in their influential study of financial landownership, when property capital is fixed to land on leasehold terms, the financial incentive to invest in land improvements is limited, as any resulting capital gains will revert to the landowner when land rents are revised or the lease expires.[262] While this does not affect the present income-generating capacity of the building, "it affects its usefulness as a long-term capital asset".[263] The main interest of property capital is not in the land's "immediate potential for production or current rent levels"—as it is for developers proper—but in the long-term potential for the capture of development gains. In other words, leasehold rights, like buildings, depreciate in value over time. Since the turnover of building capital is typically very long, "the more frequent the rent revisions, or the shorter the leasehold period, the lower the incentive for the tenant to invest capital in the land."[264] From the point of view of the financial investor, then, the leasehold system presents a barrier to accumulation.[265]

At the time of the leasehold system's introduction, the extent of financial landownership in Stockholm was fairly limited. On Norrmalm, where commercial premises were mainly concentrated, property ownership was both highly fragmented and largely held by owner-occupiers (industries, media

[261] The option that the municipality take over the ownership at least in some limited extent was a vanguard position held mainly by the Communist party (*Vänsterpartiet kommunisterna,* or VPK). They argued that if the municipality retained ownership of both the land and the building capital fixed to it, rents could be set to reflect production costs and thereby provide the conditions for a more varied land-use pattern in the city centre rather than a concentration of commercial interests. Ambitions for a complete 'municipalisation" of the development process, however, were considered too radical by most. The option was exercised only sporadically in cases where development was not financially viable for private capital.

[262] Massey and Catalano, *Capital and Land,* 51.

[263] ibid.

[264] ibid.

[265] Massey and Catalano's broader point is, in fact, about the effects of differential rent on capital accumulation and not about how leasehold rights compare to other forms of land tenure. They argue that regardless of who is the landowner—whether the state or a private corporation—it is the appropriation of differential rent, based on the "monopolizable characteristics' of non-reproducible land assets, which creates such barriers to investment. The leasehold system, in this case, simply reproduces the central contradiction between private landownership and capital accumulation: 'Under capitalism, State ownership, even with the appropriate policies on leases and rent (which itself can take different forms), would not be unproblematic.' Massey and Catalano, *Capital and Land,* 52.

firms, financial services, retailers, government agencies, and so on) whose primary activity bore no relation to land as a financial asset.[266] Ownership of commercial buildings strictly for their income-generating capacity was confined to a handful of property companies and subsidiaries of commercial banks established following the aforementioned restrictions introduced with the 1911 Banking Act. These companies, as Clark and Gullberg write, "systematically" avoided building on leasehold land.[267] When no investors showed interest in acquiring the building rights for five office towers planned in the centre of Norrmalm, the municipality had to assume the role of developer and commercial property owner in a couple of office projects to get things started, as the boycott from private capital threatened the fate of the city renewal.[268]

However, this approach was both politically contentious and fiscally unfeasible. At that time, the municipality lacked the financial capacity to undertake development across the entire area slated for renewal. Issues with credit availability were especially acute in the 1950s against the background of the Korean War and ensuing inflation. The introduction of credit controls in the 1940s, moreover, had already made access to financing much harder for local governments—presenting major challenges to municipal investment plans. Municipalities were no longer allowed to borrow abroad and depended entirely on domestic banks—the very same institutions that were boycotting the leasehold system—to cover their financing needs. Not only did they have to compete for resources with the growing private sector, they needed a special permission from the government to take out loans with amortization

[266] For a general overview of the economic geography of Stockholm in the first half of the twentieth century, see William William-Olsson, *Stockholm: structure and development* (Stockholm: Almqvist & Wiksell, 1960).

[267] For a short period during the early 1950s, the development of offices moved outside the zone of the renewal where it was still possible to build on freehold land. In a desperate attempt to ramp up market demand for construction on municipal leaseholds and deflect commercial development back to Norrmalm, most of the inner city was rezoned for residential development. Eric Clark & Anders Gullberg, "Long swings, rent gaps and structures of building provision-the postwar transformation of Stockholm's inner city," *International Journal of Urban & Regional Research* 15*,* no.4., (1991), 498.

[268] The tensions between private capital and the municipality extended beyond the question of the leasehold system. Beyond the resistance of finance-property interests to the expansion of municipal landownership, tensions also emerged between private housing developers (essentially the private construction sector) and municipally-owned housing companies. The conflict centred on the distribution of building rights, as municipal companies—supported by the state through favourable financing conditions—came to dominate suburban development. The private construction sector therefore demanded that municipally-owned companies be entirely excluded from Norrmalm's building rights' market. Anders Gullberg and Eva Rudberg, *Byggare i Stockholm : byggmästarerollen under 1900-talet* (Stockholm: Stockholmia, 2001); Anders Gullberg and Arne Kaijser, "City-building regimes in postwar Stockholm," *Journal of Urban Technology* 11, no.2 (2004).

periods longer than five years. The deadlock with the finance-property sphere thus had to be resolved.

A crucial step in this direction was the overhaul of leasehold legislation in 1952, which made the leasehold system more compatible with financial landownership by making contracts effectively indefinite and very difficult to terminate.[269] Even though this meant that the land would now remain in municipal ownership in perpetuity, leaseholds were essentially given a legal status comparable to that of owner-occupied land. In the rare event of termination, the reversal of land use rights to the landowner (i.e., the municipality) was basically regulated under the same legal framework as the expropriation of private land.[270] Moreover, like freehold titles, leasehold rights could be mortgaged and exchanged on market terms, with their price reflecting underlying land values. Commercial development on leasehold land had thus been rendered more financially viable.

However, at the same time, the new legislation also sought to improve the leasehold system's efficacy as an instrument for land value capture. The subsidy dimension was more or less removed with the introduction of periodic fee reviews—which for commercial property was set at a minimum interval of ten years.[271] The fee that the leaseholder was liable to pay for the right to use its land was, likewise, to be based on the estimated market value of the site and, crucially, had to reflect a "fair" return on land capital.[272] I will return later to the legal and practical issues that these last two provisions have presented municipalities with over the years in chapter six. For now, it suffices to note that beyond making leasehold rights more attractive to private developers, these legal changes provided Stockholm municipality's urban development policy a measure of self-financing.[273]

However, the City still had trouble finding interested parties that wanted to develop commercial property on leasehold terms. The final solution came in the form of a seemingly minor concession on the part of the municipality, the first in a series of adjustments that aimed to reshape municipal leasehold tenure according to the requirements of finance capital. After a rocky beginning for the city-centre renewal, Stockholm City Savings bank (*Stockholms Sparbanken*), acting through one of its property subsidiaries, committed to develop one of the aforementioned office towers after the municipality de-

[269] SOU 1952:28, *Lagberedningens förslag till ny lagstiftning om tomträtt m. m*.
[270] SFS 1970:994, *Jordabalk* 13, kap 1 § (Sveriges Riksdag, 1970). A leasehold can only be terminated in the case of a land use change, and only at the end of a pre-determined interval (for non-residential land uses the minimum is twenty years).
[271] For housing construction, the corresponding interval was twenty years.
[272] SFS 1970:994, *Jordabalk* 13, kap 1 §.
[273] Utl. nr. 243 år 1972.

cided to extend the review interval for leasehold fees from ten to twenty years.

Finance institutions—including pension funds, insurance companies and commercial banks—consequently became one of the leading developers of commercial property for rent (offices, hotels, and retail) in the city centre.[274] Many were already established property owners in the Norrmalm area and often leveraged their holdings in exchange for building rights in prime locations, thereby circumventing compulsory purchase and extracting greater value from their land.[275]

The accommodation of financial property interests inaugurated the routine use of the municipal leasehold system as a mechanism to incentivise private-sector investment—an imperative which has often come at the expense of its usefulness as a value-redistributive mechanism. While I do not mean to suggest that land policy had *ipso facto* ceased to act as a check on market forces, I want to highlight the fact that the municipal land instrument has always served in equal measure to aid the progressive accumulation of capital. This is particularly important to remember as we move over to examine the leasehold system in the context of contemporary neoliberal urban governance in chapter six, so as to avoid unintentionally reinforcing the idea of a pre-neoliberal land policy that was radically different or inherently more socially progressive. Rather, I want to suggest that even with its reconstitution in the 1950s and 1960s, the leasehold system continued to serve in equal measure as a land-value-capture instrument and as a tool to facilitate, or smooth, the accumulation of capital through property development.[276]

The latter became particularly evident, for example, in the final stages of the Norrmalm renewal when the broader deterioration of economic conditions worsened the profitability of commercial development. In a series of commercial projects started between 1967 and 1972, the municipality offered special commitments and direct financial subsidies to prospective investors which served to guarantee project-profitability in the first five to ten years after completion.[277]

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[274] Gullberg, *City:drömmen om ett nytt hjärta* [Part II].

[275] While both the actors and modes of investment in the commercial property market have changed significantly since, as we will see in the following chapters, financial institutions remain among the dominant commercial-property investors in Stockholm's central business district.

[276] Scott, *The Urban Land Nexus and the State*.

[277] A state-wide tax on non-essential investments—which included privately-led commercial construction, was introduced periodically to restrain credit demand and control inflation. This further suppressed demand from building rights among private developers in the latter half of the 1960s. Mathiessen, 'Finanspolitiken som stabiliseringspolitiskt instrument.'

The very first of these projects involved the construction of a hotel on the south-west part of Norrmalm by the American hotel chain Sheraton.[278] After failed negotiations with another potential investor, the Real Estate Office promised Sheraton a series of provisions to improve the financial viability of the project, citing high construction costs and the shortage of risk capital as justification. In the first five years of its leasehold contract, Sheraton had to pay only forty percent of the ground rents based on the current market value of the land. After that, rent was pegged to the income generated by the hotel business. If the hotel's occupancy remained below or at seventy-five percent, Sheraton was liable to pay only half of the market-based leasehold fees; as it approached ninety percent occupancy, ground rents were adjusted closer to the market value. The assumption was that the hotel would never reach full occupancy, which meant market-based ground rent was only a theoretical possibility. Aside from ground rent subsidies, the city also committed to rent ground-floor retail premises and underground parking facilities from the property owner in the first ten years, with the right to sublet them to third parties. In short, it not only guaranteed the financial viability of the project by virtually giving away the land, but it took on the role of building landlord in the critical early period to incentivise Sheraton to invest in the construction.

As the economic situation only worsened in the following years, more or less all commercial development projects on municipal land in the city centre until 1972 were premised on various public commitments and subsidized leasehold contracts.[279] By the end of the 1960s, it become apparent that there was an overproduction of offices in the city centre and an overhang of vacant space, which had a further depressing effect on commercial viability.[280] Aside from operating retail premises and parking garages, the municipality began to also guarantee the occupancy of offices spaces—sometimes as the tenant, other times by subletting—in order to attract investors.[281] At the same time, the deteriorating economics of public investments were further compounded as the City lost ground with the first leasehold fee revisions in the early 1970s and credit conditions worsened.

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[278] Utl. 245:1968. Accessed at: https://sok.stadsarkivet.stockholm.se/Kommuntryck/.

[279] Utl. 1979:75 RIII. Accessed at: https://sok.stadsarkivet.stockholm.se/Kommuntryck/. Utl. 278:1970; Utl. 243:1972.

[280] Gullberg argues that the technical apparatus of the municipality, which grew with the scope and complexity of the project (planners, surveyors, legal and real estate experts, and so on), drove development further even when it was becoming obvious that demand faltered. Gullberg, *City:drömmen om ett nytt hjärta.*

[281] A crucial turning point for the profitability of commercial property development, especially offices, was the government's decision in 1971 to remove rent controls on commercial premises (discussed in the following chapter).

It should be noted, however, that the municipality's decision to offer heavily subsidized building rights can also be partly explained by the tense political climate surrounding the city renewal in the late 1960s. On one hand, there was a mounting public disapproval of the extensive urban clearance undertaken, which grew as the zone of renewal was progressively expanded during the 1960s. On the other hand, as the bill of public investments grew, the municipality faced increasing pressure to develop the already cleared land plots where it had invested large sums on demolitions, tenant evacuations, infrastructure, etc.[282] The waning public legitimacy of the renewal, in combination with the worsening economic conditions, created a sense of urgency which put an extra pressure on the municipality to expedite development.[283]

However, the commitment to subsidize commercial development also demonstrates that land policy was seen as an economic policy instrument which trumped the financial aspects of municipal investments.[284] While financial considerations were of course important, the primary objective was to remove investment barriers to the establishment of companies that might benefit from being located close to supplementary activities, but did not have the resources to build or rent in the city center. Moreover, with the growing competition from neighboring municipalities—which not only gave businesses the choice to build on leaseholds and freeholds but provided significantly cheaper land—the leasehold system was seen as a form of subsidy to attract private capital to Stockholm. The immediate financial returns from municipal land were secondary to these goals.[285]

This is evident from an economic analysis of the municipality's total investments in the renewal, in which the City's Finance Department concludes that in most cases where land was allocated on "normal" conditions, "the municipality's investments in leasehold land were usually higher than what corresponds to the value of the finished plots".[286] In other words, even before

[282] In conjunction with waning public support and deteriorating public finances, a significant part of the expropriation permits that the City had obtained were subsequently reversed or left to expire as the planned scope of the project was reduced. See Hall, "City under Lex Norrmalm," 102.
[283] The risks and costs involved in a project of such scale—essentially started on speculation, or ahead of demand—were enormous. Optimistic forecasts on population growth and the future expansion of the city's tax base, made at the height of Sweden's golden era, were decisive to gain popular support for the extensive clearance. However, these prognoses appeared increasingly ill-founded toward the end of the 1960s. The structural crisis which reached Sweden in the early 1970s marked the definitive end of the publicly-sponsored renewal. Gullberg, *City:drömmen om ett nytt hjärta.*
[284] Bih. 81:1975, p. 337.
[285] Bih. 81:1975, p. 338.
[286] Utl. 1979:75 RIII, p. 2611.

taking subsidies into account, the estimated market value of the building rights offered to the private sector was far below the costs that the City had incurred for land development.

The City's long term expectations, in any case, were that the economics of public investments would improve with future leasehold-fee revisions and the resulting expansion of the tax base. As we will see in the following chapters, the latter ambition was increasingly undermined by changes in the pattern of property investments in the following decades. After the removal of rent controls in 1972,[287] development gains were increasingly appropriated by financial landowners, while the leasehold system's effectiveness as an economic policy tool was gradually eroded.

Conclusion: from market liberalism to the expansion of City powers

The circulation of capital in the built environment during the era of embedded liberalism was increasingly shaped and managed by the state. Until 1972, investment in land and property for purely financial reasons was severely checked by the expansion of municipal landownership, state-imposed rent controls, and the replacement of market incentives in the allocation of finance capital with a centralized credit allocation system. The expansion of state intervention in urban development was rooted in a broader political acknowledgment of the fact that markets were not neutral in their distributive effects. Some modicum of state control through planning, land use regulation and public landownership became, to quote Harvey[288], "the final line of defence" against the social injustices and incoherencies that capitalist land markets are inherently prone to. While the housing crisis was crucial to the recognition of the political nature of these issues, this rationale was further cemented by the broader rethinking of the state's role in matters of the market against the background of the economic crisis of the early 1930s.

At a time when the profitability of commercial real estate investment was checked by state policies, the capture of development gains through municipal landownership provided Stockholm with an opportunity to finance the development of a modern central business district.

The protracted and at times politically fraught planning process that accompanied the revamp of Stockholm's city centre in the 1950s and 1960s led

[287] Prop. 1971:103, *Kungl. Maj:ts proposition till riksdagen med förslag till lag om dels fortsatt giltighet av lagen (1942: 429) om hyresreglering m. m. dels ändring i samma lag, m. m.* (Stockholm, 1971).
[288] Harvey, *The Limits to Capital*, 371.

to broadening of the scope of the local state's functions in mediating the circulation of capital through the built environment. The expansion of City powers served to confront a major obstacle that the municipality needed to overcome in order to realize the ambitious plan envisioned for the rebuilding of the city centre. Namely, to liberate it from the hold of fragmented private land and property interests, in order to enable the productive investment of capital in new infrastructure and the development of a modern commercial core. The expansion of municipal landownership, the strengthening of eminent domain powers and the expansion of the leasehold system were vital to the achievement of this goal, as taking control over land was the only way to reconcile the inherent conflict between collective and private capital interests. Meeting this imperative led to the consolidation of municipal control over the property development process and, crucially, the local state's enhanced participation in the creation and capture of land development gains.

The main challenge was to capture a fair share of the value that was in significant measure created through extensive public investments in land improvements, without interfering with the financial viability of private commercial development. Inevitably, the state-organized building regime faced pushback from private property interests.

Ideological concerns over the extent of public intervention in the market gave way to conflicts with private developers and finance capital over the introduction of the leasehold system. By limiting the value that could be extracted through property development, the municipality effectively extinguished market demand for building rights. Moreover, private interests already felt cornered by municipally-owned housing companies in the housing construction market; losing control over the development of commercial space as well was seen as a gross encroachment of the state in the territory of private capital.

The central issue was, of course, the capture of the land value-uplift via the leasehold system. Following a turbulent start in the 1950s which led to the municipality having to step into the role of developer for two office projects, private development interests eventually accepted the City's new terms. However, the leasehold system came to serve less as an instrument for capturing land value increments and evolved into a mechanism for facilitating (or smoothing) capital circulation in the built environment.

Despite the project's crumbling economy in its final days, as well as the waning legitimacy of the post-war Keynesian project with which it was politically associated—both catalysed by the new economic realities that faced capitalism in the beginning of the 1970s— the state institutional matrix has survived. Municipal landownership and the associated public land lease sys-

tem remain the cornerstone of urban policy in Stockholm today, even though the nature of the local state's role in the creation and distribution of value through the production of urban space has fundamentally changed in the context of the waning legitimacy of centralized, top-down state interventions in the private realm of the market since the 1980s.

5. Crisis, financial deregulation, and capital switching

Spekulanterna: a new class of financial wealth built on asset inflation, debt, and property speculation

The 1970s brought a new economic reality to Sweden which marked a definitive departure from the prosperity that the nation enjoyed during its so-called "golden age."[289] Turbulent macroeconomic conditions marked by rising inflation on the heels of the Vietnam War, compounded by two oil crises and the breakdown of the post war international monetary regime, foregrounded an already slowing productivity in core parts of Sweden's industrial sector. A short but severe recession in 1971-2 ushered in a decade of slow economic growth and rising unemployment, which set the country on a staggered course toward a neoliberal transformation over the course of the following two decades.

The profound structural transformations that followed the crisis of accumulation in the 1970s have been timely captured in two books written by the journalist Gustaf Olivecrona, published just a little over a decade apart. The first, titled *De Nya Miljonärerna* (The New Millionaires), published in 1970 on the cusp of the crisis, explores the creation and distribution of private wealth during the post war era.[290] The millionaires of post war Sweden, Olivecrona writes, built their fortunes in a political and economic regime which favoured "capital formation in industry and commerce."[291] The state's economic policies, its tax system, its monetary and credit regime were all designed to support, above all, the development of productive forces in the manufacturing sector which served as the economic backbone of the post war welfare state.[292] The expansion of the welfare state was, in other words,

[289] Lennart Erixon, *The Golden Age of the Swedish Model. The Coherence Between Capital accumulation and Economic Policy in Sweden in the Early Postwar Period* (Oslo: Institute for Social Research, 1997).
[290] Gustaf Olivecrona, *De nya miljonärerna*. (Helsingborg: Wahlström & Widstrand, 1970).
[291] Ibid.
[292] Erixon, *The Golden Age of the Swedish Model*.

joined at the hip with the accumulation and concentration of capital in the so-called finance-industrial complex.[293]

By the time Olivecrona published his second book, *Spekulanterna* (The speculators), in 1984, the rules of the game were being profoundly changed. While the old barons of finance and industry were still among the wealthiest in the country, the landscape of economic power established in the post war era was being gradually redrawn. It was difficult, Olivecrona argued, to find more than a handful of lucky individuals that made their way on Sweden's millionaire list in the 1970s either through industry or commerce. A significant part of the new wealth accumulated during this period was instead predominantly created through financial transactions, and not just of any kind: as *Aftonbladet* wrote in 1982, a quarter of the twenty-five richest families in Sweden (with an estimated private fortune of over 100 million SEK) had made their wealth through investments in real estate[294]—or as David Harvey has conceptualized it, by increasingly treating land as a financial asset.[295]

The remaking of the conditions of capital accumulation during the 1970s is far from unique to the Swedish context. Writing from Paris in 1970, Henri Lefebvre captured the macro-historical significance of these changes with his influential proposition that (Western) capitalism was undergoing a major structural transformation as the secondary circuit of capital (capital investments in the built environment) was surpassing the primary circuit (the production of commodities, broadly defined) as the chief source of profits.[296] Subsequent reworkings of this thesis, including by David Harvey himself,[297] have drawn a closer connection between the rising importance of the secondary circuit and the resurging power of finance. The gradual liberalization of financial markets in the 1970s and 1980s and the de-politicization of monetary policy—which entailed a greater autonomy for monetary institutions and a scaling-back of governments' direct intervention in the distribution of credit[298]—has in turn allowed finance capital to move more freely in search for competitive returns. As a growing proportion of this financial wealth has landed in the built environment, boom-bust cycles and financial

[293] Most of the combined financial and industrial wealth of Sweden at the time was largely controlled by fifteen families—headed by the Wallenbergs' finance-industrial empire. According to a public inquiry into the concentration of Swedish industry published in 1968 (in Swedish: Koncentrationsutredningen), the Wallenberg sphere controlled over a third of the nation's industrial capital. See SOU 1968: 7.
[294] "Listan på de 26 rikaste," *Aftonbladet,* 20 January 1982. Source: Svenska Dagstidningar (Online archive)
[295] Harvey, *The Limits to Capital*.
[296] Lefebvre, *The Urban Revolution*.
[297] Harvey, *The Limits to Capital*.
[298] Greta Krippner, *Capitalizing on Crisis – The Political Origins of the Rise of Finance* (Harvard University Press, 2012).

bubbles have become a recurring feature of real estate markets—as became evident in the chain of property booms (and crises) that followed the liberalization of financial markets in the UK, US, Finland, Norway, and last but not least, Sweden, throughout the 1970s and 1980s.[299] What Lefebvre and others have tried to grasp is, thus, nothing less than the fundamental transformation of the relationship between the state, finance, and capital accumulation through the built environment.

It is these macro-historic events stretching over the course of two decades which provide the broader backdrop of the present chapter. Their unfolding in the Swedish context has so far been only partially explored, mainly through the lens of the property-cum-banking crisis which took place in the early 1990s. However, these studies tend to place their analytical onus on the changing dynamics in the banking and finance industry following the removal of credit controls in the 1980s—which in retrospect became widely accepted as the main cause of the crisis. The growth of investments in the built environment which in fact preceded the deregulation of credit figures only as its consequence. Real estate and its role in the accumulation of capital, in other words, remain incidental to the central story that is the liberalization of the finance market and its effects on the banking system.

Furthermore, the typically truncated retelling of financial liberalization and the ensuing crisis often fails to appreciate the underlying structural transformations which precipitated these changes in the first place. This relationship is given more attention in political economic accounts that have the larger crisis of the Swedish Model in their purview and explicitly consider the resurging power of finance in relation to the crisis of capital accumulation. However, the secondary circuit of capital does not figure in these broader accounts. My aim in this chapter is to remedy this lack and bring these two narratives together. It is impossible to fully appreciate the changes in the real estate market without pulling the curtain on the multifaceted crisis that plagued Swedish society and economy during this period.

This chapter represents an interlude of sorts. I imagine the two decades covered here as a period of transition from one conjuncture to the next, stitched together by crisis.[300] As Stuart Hall has argued, the crisis of the 1970s represents a break with the post war welfare model organized around "public ownership and wealth redistribution" on one hand, and the "neoliberal market-forces era unleashed by Thatcher and Reagan" on the other.[301] In

[299] John Logan, "Cycles and trends in the globalization of real estate," in *The restless urban landscape* , ed. P. Knox (1993); Pryke, "Looking back on the space of a boom"; Warf, "Vicious cycle."
[300] Stuart Hall and Doreen Massey, "Interpreting the crisis," *Soundings* 44*,* (2010).
[301] Ibid., 57.

Sweden, like elsewhere, this transition was marked by a crisis of capital accumulation *and* a crisis of legitimacy for the post-war political economic model predicated on extensive state intervention in economic relations. What I want to bring into focus, then, is not only how the changing dynamics of capital accumulation have elicited new forms of investment in the built environment, but how they have also brought a transformation of the role of state intervention therein.

The previous chapter explored the contours of state intervention in the post war renewal of Stockholm, chronicling the expansion of state powers in the production of the built environment within the political and economic framework of the Swedish Model. This chapter begins where the worsening macro-economic conditions in the early 1970s exposed the limits of this building regime. The financial problems that the City of Stockholm faced in the later stages of the Norrmalm renewal due to the worsening conditions in the credit market and the lack of private demand for building rights, brought into question the economic viability and role of state intervention in urban development.

At the same time, market-oriented government reforms in the rental sector at the turn of the 1970s transformed the conditions of accumulation in the commercial real estate market. The rise of real estate speculation after the removal of rent controls elicited renewed efforts on the part of the state to curb some of the worst excesses of the market. However, the liberalization of the financial sector in the 1980s led to the de-facto legalization of speculative practices, reinforcing the financialization of the built environment. The rest of the chapter analyses the changes in real estate investment patterns against the broader economic, social and political changes that took place during the 1970s and 1980s.

The following discussion is broadly divided into two parts. The first part examines the political and economic changes that enabled the wealth-building practices of the gentlemen that have inspired Olivecrona's *Spekulanterna.* Tracing these changes is particularly useful in understanding this specific conjuncture and, by extension, in understanding the bigger story at hand; namely, why and how, in the midst of the economic, social and political turmoil that shook capitalism in the 1970s, property and financial markets became the centre of capital accumulation. I begin with a brief account of the emerging economic and fiscal crisis that the Swedish state faced as a result of a series of heterogeneous macroeconomic processes taking place in capitalism at the turn of the 1970s and the concomitant rise of financial speculation. I examine how the post war monetary and credit regime, in conjunction with policymakers' response to the intractable economic crisis, con-

tributed to the exodus of savings from the regulated banking system, reinforcing the search for alternative, higher-yielding financial investments—and what this meant for Stockholm's real estate market.

The second part of the chapter deals broadly with the dynamics in the real estate market during the 1980s. The first part considers the increasing presence of finance institutions in the real estate market at the start of the 1980s and the attendant changes in ownership patterns. The winding down of investments in the housing market and the gradual removal of credit controls created an opportunity for finance institutions—particularly insurance companies—to diversify their portfolio away from housing mortgages and scale-up radically their direct investments in commercial real estate. The introduction of the "Third Way" economic policies of the SAP in 1982 and the ensuing liberalization of the financial market catalysed these changes. The final part of the chapter examines the consequences, starting with an overview of the commercial property bubble and the onset of the finance and banking crisis at the turn of the 1990s. The swift removal of credit controls in the mid-1980s unleashed competition among lending institutions, precipitating a major expansion of borrowing among households and the corporate sector. This contributed to the formation of a price bubble in the real estate market, which subsequently caused one of the worst banking crises in Sweden's history as the boom was halted by an economic downturn.

The last part of this section examines the role of the state in the consolidation and restructuring of the commercial property market in the 1990s, focusing on two crucial developments: the recapitalization and restructuring of the market in view of managing the crisis in the banking system, and the introduction of market-oriented reforms in the management of public property which saw the state emerge as one of the biggest real estate actors on the market. The current configuration of Sweden's commercial property sector can be traced back to the consolidation and concentration of capital organized by the Swedish state in the 1990s.

The macroeconomic context of the 1970s

The macroeconomic turbulence of the 1970s played an indisputably major role in facilitating the movement of capital outside production and toward alternative outlets. Compared to other countries, the crisis of accumulation in the manufacturing sector hit Sweden with a few years delay. While other economies in Western Europe were already struggling with rapidly rising unemployment, Sweden was initially spared thanks to the rising prices of raw materials which were the country's main exports. But the demand for

primary commodities plummeted as a result of the economic turmoil in the international economy, and the crisis finally reached Sweden in 1974.[302]

The response by the sitting Social Democratic government and its centre-right successor was largely along the lines of the interventionist economic policy pursued in the post war period. The state's fiscal capacity was emphatically geared at resolving the underlying problems in the export industry—which formed the economic backbone of the country—with an eye on preserving the welfare state's central pillars of growth: wage inflation and full employment. But the worsening competitiveness of Swedish export companies and the nominal wage push placed an increasing pressure on industrial profits, in turn fuelling a conflict between capital and labour over wealth redistribution. A string of wildcat strikes at the turn of the 1970s signalled an impending crisis of legitimacy for the post war consensus, which would be increasingly put to the test as the structural problems in the industrial sector deepened throughout the 1970s.[303]

As profitability in critical sections of the Swedish economy continued to decline toward the end of the decade, the government struggled to attain the increasingly elusive goals of the post war model with a growing public deficit and an increasingly restrictive credit regime.[304] Restrictions on lending to the private sector in favour of channelling credit to the government and struggling industries in turn contributed to financial disintermediation and the expansion of a shadow banking system—which ultimately served as a catalyst for the deregulation of the financial market a decade later. Crucially, monetary policy in combination with high inflation pressed down returns on government bonds and bank deposits;[305] negative real interest rates for most of the 1970s thus brought on a switch of finance capital from bank saving and investments in low-risk assets (such as government bonds) to higher-

[302] Productivity growth in the Swedish economy went down from 3.2 percent to 0.6 percent between 1973 and 1979, while real growth was halved compared to the early 1970s (from 4% in 1971 down to 2% in 1976); industrial output fell by 6% (1974-82). Foreign national debt grew from 5,3 to 21,7 percent of GDP. See Magnus Ryner, "Economic policy in the 1980s: 'the Third Way,' the Swedish model and the transition from Fordism to post-Fordism," in *Swedish Social Democracy: A Model in Transition,* ed. W. Clement and R. Mahon (Toronto: Canadian Scholars Press, 1994).

[303] Ryner, *Capitalist restructuring, globalisation and the third way*.

[304] Lars Magnusson, *An Economic History of Sweden* (London: Routledge, 2000).

[305] The government maintained a low interest rate policy throughout the post war period in order to channel subsidized credit to prioritized sectors—primarily housing and government spending (this policy was combined with strict capital placement requirements on banks and other financial institutions that contributed to credit rationing). But in combination with high inflation interest rates turned negative for most of the 1970s, which in turn facilitated a switch of finance capital into alternative investments.

yielding alternative investments—especially in so-called "real" values such as real estate which would serve as a hedge against inflation.[306]

At the same time, faced with an uncertain economic outlook, companies in the productive sector were increasingly keen on forgoing investments in expanding productive capacities, choosing instead to park corporate surpluses into financial assets (including commercial real estate). These macroeconomic developments in combination with changes in political economic governance set the stage for a rise of speculative investments in the commercial real estate market.

A revolution in the commercial real estate market

The possibilities to profit from holding commercial property for investment purposes in Sweden during the post war period were fairly limited. The production and management of operational property in the industrial and service sectors necessary to carrying out primary business operations—such as offices, warehouses, etc.—were typically handled under companies' own auspices. Most companies had their own real estate units which took on the role of developer, builder and property manager, encouraged by generous depreciation rules which aimed to keep profits within the business. Similarly, the development and management of operational premises for the public sector were handled by governmental agencies—the state's estate (university buildings, offices, cultural buildings, etc.) was managed by the Central Building Authority (*Byggnadsstyrelsen)*, matched at the local level by county and municipal real estate departments.[307] Demand for rental premises came largely from the expanding service sector which was gradually occupying the spaces left behind by industries leaving the city in search for more space to expand productive capacities.

The fairly limited number of commercial landlords (property investors holding commercial property for rent) was to some extent a corollary of the limited profit-making opportunities that existed in the commercial real estate market—checked by state regulations. In addition to an increasingly restrictive credit regime which limited the flow of credit to private enterprise since the early 1950s, the rent-generating capacity of commercial buildings was also significantly limited by state-wide rent regulations which effectively stopped the growth of commercial rents throughout the post war period.

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[306] "Udda projekt alltid riskfria – Nyvaknat intresse för fastighetsbolag," *Dagens Nyheter,* 27 January 1974. Source: Svenska Dagstidningar (Online archive).

[307] Lind & Lundström, *Kommersiella fastigheter i samhällsbyggandet*.

This landscape began to change radically in the early 1970s. On the cusp of one of the worst economic crises in the history of Sweden, news of highly-lucrative property deals began to proliferate in daily newspapers. Interestingly, it was not the already established property companies which stood behind these deals but a whole new group of financial investors. Most of them were hitherto completely unknown to the wider public; they were relatively new to finance and had no established ties to the world of real estate. Most importantly, none of them had much capital of their own to begin with—and yet, successfully became bona fide property tycoons practically overnight. How? The rest of this section ventures to answer this question by exploring the political and economic factors which made commercial real estate central to the accumulation of financial wealth in the early 1970s.

Inflation and tax planning

In 1970, Sweden's finance minister, Gunnar Sträng, bought an office building in the middle of Gamla Stan (the commercial and administrative core of old Stockholm)—a deal which a few years later became the subject of intense public scrutiny. Gunnar Sträng was not a professional property investor per se. Aside from the office building, his holdings consisted only of a town villa and a summer house in the countryside. What drove him, then, to become a landlord—and why now?

The answer to this question came a few years later in the context of a heated public exchange between the finance minister and the famous novelist Astrid Lindgren. In a satirical article published by the conservative daily, Expressen—that has since become a famous part of Sweden's literary history—Lindgren criticized the government's decision to increase marginal tax rates on income in 1976 due what she perceived as an increasingly unfair tax system that "punished" high income earners whilst rewarding financial investments.[308] The nature of the problem, in her view, was not only that tax rates had become exceedingly high, but that the tax system incentivized borrowing and speculative investments over what could be defined as socially productive work.[309] The main financial incentive behind Sträng's property investments, as Expressen argued in an analysis of his tax returns,[310] was that he could invest his savings in an inflation-proof asset, whilst making significant deductions from his taxable income based on the property's operating and interest costs. More importantly, he could leverage the transaction by borrowing at relatively low interest rates and re-mortgage the property when

[308] A. Lindgren, "Pomperipossa i Monismanien," *Expressen,* 28 May 2016 – at expressen.se.
[309] ibid.
[310] "Han lånade 1 ½ miljon på sina fastigheter," *Expressen,* 24 June 1974. Source: Svenska Dagstidningar.

the value inevitably increased, thus not only protecting the value of his savings, but pocketing a fair share of capital gains. Most importantly, he was able to take advantage of the newly introduced tax deductions for property renovations—a state policy introduced in 1974 to boost the construction market—and took out another loan to renovate the building and increase his earnings by raising rents. If he had simply kept his money in the bank, as Expressen argued, as a high income earner, Sträng would have had to pay a seventy percent tax on his earnings and see what little he had left after that eaten-up by inflation.

The finance minister was, of course, far from alone in exploiting these advantages. As Expressen noted in their exposé, there was nothing illegal about it.[311] In fact, this had become a fairly common practice among high income earners in a context of rising inflation and high marginal taxes. If one ventures to look beyond the headline-grabbing speculative deals made by property investors, one finds a plethora of articles reporting on wealthy individuals and major corporations suddenly taking interest in the real estate market—including the world famous ABBA—right next to editorial advice on the smartest forms of saving.[312] The reason, quite simply, was that "inflation had made it increasingly unprofitable to save money in the bank".[313] The government's low interest rate policy in combination with double-digit inflation had made real interest rates negative for most of the 1970s.[314] Savers effectively lost money by depositing in the bank or investing in interest-bearing assets. Both "small and large wealth owners" were thus increasingly looking for shelter in alternative, higher-yielding investments.[315] Money flowed into all sorts of financial ventures via the emerging "gray" credit market,[316] from consumer credit and venture capital, to "safe" investments in real estate.[317] A whole range of financial intermediaries—from finance companies owned by commercial banks, to corporations and newly established financial houses—emerged as the focal point of these alternative transactions.[318]

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[311] Ibid.
[312] "Välj rätt sparform. Det Tjänar Du Mycket På!" *Arbetet Västsvenska Editionen*, 2 March, 1973. Source: Svenska Dagstidningar.
[313] "Han lånade 1 ½ miljon på sina fastigheter", *Expressen,* 24 June 1974.
[314] Peter Englund, "The Swedish 1990s Banking Crisis: A revisit in light of recent experience," Conference Paper (Sveriges Riksbank, 2015).
[315] Ibid. See also Larsson and Sjögren, *Vägen till och från bankkrisen*.
[316] The "gray" credit market (or shadow banking system) emrged around the turn of the 1970s, as the result of increasingly strict credit rations which significantly limited the access to credit for private consumers.
[317] "Udda projekt alltid riskfria – Nyvaknat intresse för fastighetsbolag", *Dagens Nyheter,* 27 January 1974. Source: Svenska Dagstidningar (Online archive).
[318] Englund, "The Swedish 1990s Banking Crisis."

By the mid-1970s, commercial property emerged as the preferred form of investment due to a vital regulatory change which significantly improved the conditions of accumulation in the real estate market: the deregulation of rents on commercial premises. It was in this economic landscape that financial investments in property really began to flourish.

A short aside on rent deregulation

One of the crucial prerequisites for the increasing flow of capital in the commercial property market at the turn of the 1970s was the abolishment of the Rent Regulation Act (RRA) in 1971. The RRA was a provisional rent control system introduced in 1942, in order to curb opportunities for speculation in the housing and commercial real estate markets during the war. The main concern of the government was to prevent landlords from exploiting the severe housing shortage—which was exacerbated by the slump in the construction sector—and seek to increase their returns by pushing up rents. In the commercial real estate market, the concern was that a rent increase could further fuel the already high inflation by raising consumer prices indirectly through increased rental costs for industry and commerce.[319] Rent levels were thus frozen to the their 1942 level; deviations from this base point on grounds of improvements could be approved only by a local (parish or municipal) rental board—with the exception of general government-mandated rent increases based on rising operating and capital costs.[320] Due to the persistence of the housing shortage after the war, the RRA (both for residential and commercial premises) was extended several times and gradually acquired a more permanent character. Private investments in renovations and new development in the commercial real estate market thus remained quite low throughout the post war period due to the limited potential for rental growth.

The RRA's provisions on housing rents were gradually phased out starting in the 1950s as the state acquired greater control over the production and distribution of housing through credit controls and public landownership. Housing rent controls were eventually replaced with permanent provisions in the general Rent Act (RA) at the end of the 1960s, which in turn opened the possibility for changes in rent regulations for commercial premises. In 1971, the SAP government led by Olof Palme decided to completely abolish the RRA's provisions for commercial property and transition to a "freer rental

[319] SOU 1942 :14, *Promemoria angående hyresreglering* (Stockholm, 1942).
[320] Prop. 1971:103, *Kungl. Maj:ts proposition till riksdagen med förslag till lag om dels fortsatt giltighet av lagen (1942:429)* (Stockholm 1971).

market"[321], meaning that rents would be allowed to float freely in relation to the general conditions of supply and demand. The national rental council argued that the supply of offices and shops—which stood for the largest share of the commercial rental stock—was largely in balance with existing demand. The upwards adjustment of rents was thus expected to be minimal and pose no significant financial risk to commercial tenants.

The decision to abolish rent controls altogether was initially challenged by politicians both from the left and the right—including by members of the SAP.[322] For one, the government's claim that supply and demand in the commercial market is balanced—especially with respect to major city centres—was questioned across the board. More importantly, critics from all quarters of the political spectrum raised concerns over the risk of sudden rent hikes, which threatened the livelihood of small- and medium-sized businesses. Relocation to new premises was too costly and simply outside the financial means of many smaller enterprises—especially if it required special adjustments and/or significant fixed capital investments.

However, there was little political agreement over what prospective legal changes to the RRA should entail, and more importantly, how the broader issue of the regulation of the rental market for commercial premises should be approached. Even critics on the left were not united in their positions vis-a-vis the question of the RRA's abolishment. Social Democrats advocated for a gradual phasing out and the RRA's replacement with permanent legal provisions in the Land Code that would focus on strengthening the rights and legal protections of commercial tenants. The centre-right proposed a similar approach, but with a crucial difference: a full liberalization of the rental market, including rental housing. The Communist Party (VPK) was alone in arguing for the RRA to be kept in place indefinitely.

Critics on the left were concerned above all with the negative effects that a swift deregulation—with no legal barriers against rent hikes to replace it—would have for the general development of productive capacities (i.e. capital accumulation). The central concern, of course, was the inevitable prospect that a liberalization of the rental market would raise the price of a crucial production factor—land.[323] The imperative was to protect capital from land speculation and ensure that surplus profits are spent toward "productive"

[321] Prop. 1971: 103. When the government announced its decision in 1971, the provisions of the RRA for non-residential premises were valid in only 16 municipalities (compared to the 500 when it was first introduced on 1942), including mainly larger urban areas where most of the rental stock was located.
[322] Betänkande CU 1971:18, *Civilutskottets betänkande i anledning av Kungl. Maj:ts proposition med förslag…*(Stockholm, 1971).
[323] Mot. 1972: 1693; Mot. 1972: 1694; Mot. 1972: 1695. All available at: https://www.riksdagen.se/sv/dokument-och-lagar/riksdagens-oppna-data/

investments, wage increases and lower consumer prices, rather than being channelled into landlords' pockets. In other words, critics were concerned that removing rent controls with no transitional legislation in place would inevitably create opportunities for monopoly rent extraction and, by extension, alter the distribution of surplus value between property owners and entrepreneurs at the expense of "productive" capital. Even though production at this point took place predominantly on owner-occupied land, industrial capital could still be affected by market rent hikes as corporate headquarters were often located in rented office premises in the CBD.

But those that stood to be most directly affected by the deregulation were the service sector and merchant capital—and by extension end consumers, as higher rental costs would inevitably be transferred to them.[324] These were predominantly located in the city centre where demand for rented premises was the highest.

The tone of the criticism coming from the left was moral just as much as it was economic, echoing what had essentially become a mainstay political conviction in post-war Sweden: namely, that landlords are an inherently "unproductive" class living off of "unearned" income.[325] In a motion against the dissolution of the RRA, John Lundberg, member of parliament and SAP, argued that society should not allow for "unjustified rent increases to lead to capital formation"—by which he meant the accumulation of wealth. It was unjustified because those who pocket "the capital gains", i.e. the landlords, do little else but "claim a rent increase" that tenants are all but "forced to accept."[326] According to Lundberg, the extraction of monopoly ground rents from enterprise was a question of social justice just as much as the right to affordable housing: "[i]t is remarkable that the social right to housing and work premises has been handed over to speculative interests and real estate companies listed on the stock exchange."[327] Communists went even further, arguing that a complete deregulation of the rental market represented an arbitrary reinforcement of individual property rights, which unleashed speculative forces at the expense of those with fewer social and economic capacities.[328]

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[324] Mot. 1971:1461. Available at: https://www.riksdagen.se/sv/dokument-och-lagar/riksdagens-oppna-data/

[325] For a general overview of debates concerning the political economy of private landownership and the distribution of ground rents in Sweden in the first half of the 20th century, see H. Zetterlund, *The Landed Municipality: The Underlying Rationales for Swedish Public Landownership and their Implications for Policy* (Uppsala University 2022), pp.74-87.

[326] Mot. 1972:1695, 9–10.

[327] ibid, 12.

[328] Mot. 1972: 1693.

Critical voices on the centre-right, including from the Moderates (M), the Centre (CP) and the People's (FP) parties, agreed that sudden rent hikes would have "many unfortunate consequences, including social ones."[329] However, in their view, the main issue was that the government proposed only a partial liberalization of the rental market—to the exclusion of housing—which they argued would put more upward pressure on rents for commercial premises.[330] The lion's share of the rental market for premises in major cities—especially in city centres where the demand was highest—consisted of shops and other small-scale enterprises located in the ground floors of rental housing buildings. Landlords in these cases, they claimed, would be well positioned to compensate for lower returns from the rent-regulated housing segment by extracting monopoly rents from commercial tenants—an issue that was also highlighted by the Communist party in support of the argument that rent controls should be left in place. Contrary to what was advocated by critics on the left, however, the centre-right proposed the deregulation of rental housing alongside the commercial rental market, and the replacement of the RRA with limited protections for commercial tenants in the Land Code.

But the government decided to go forward with the proposed changes despite the growing evidence of rent hikes immediately after the announcement of its decision. The only change from the initial proposal was the introduction of a four-year transitional period for rent adjustments in order to spare commercial tenants from any sudden financial shocks. Contrary to the government's expectations, the concerns highlighted by critics became a reality as soon as the parliamentary committee on civil affairs voted to abolish the RRA in 1971. Central district rental boards in Gothenburg and Stockholm, in particular, faced a barrage of cases where commercial tenants invoked the direct tenancy protection clause over unjustified lease terminations and significant rent hikes. In the first year following the legal changes, rents on new and renegotiated leases for commercial premises in Stockholm increased between 100 and 150 percent.[331] The economic effects, as critics warned, were felt most acutely by small- and medium-sized retail and service-sector businesses located in central Stockholm, where rent increases reached record heights in the order of 300–500 percent.[332] A public investigation, published by the government in 1978, which analysed the effects of the RRA's abolishment, found that a substantial number of small enterprises lost their prem-

[329] Mot. 1972: 1692, 1.
[330] ibid.
[331] SOU 1978:8, *Hyresrätt 2: Lokalhyra. Betänkande av Hyresrättutredningen* (Justitiedepartementet: Stockholm, 1978), 57.
[332] ibid, 57.

ises due to severe rent hikes, with evidence showing that in some cases they were forced into company closures.[333]

The only section of society that benefited from the deregulation of the rental market were property companies and banks. After nearly thirty years of rent controls and disinvestment, the abolishment of the RRA in the early 1970s opened-up new profitable opportunities in the commercial property market for an emerging class of speculators. The next section takes a closer look at the consequences of these critical regulatory changes.

Unlocking property values

As Dagens Nyheter wrote in 1976, there were several different ways one could make money in the property market in Sweden in the early 1970s.[334] The most common pivoted around the extraction of value from housing, shaped by two major changes in the rental and private housing market. One strategy involved the transfer of rental housing to the tenant-owned housing market following the latter's marketization in 1968. The other involved banking on the transition from rent controls to a use-value-based corporatized rent negotiation system, which investors exploited by investing in run-down properties which held a potential for significant rent increase through tax-subsidized renovations.

But it was the practices of a young group of finance up-and-comers and their speculative investments which garnered the most attention. The most infamous among them was the architect-turned-financier Adam Backström, whose lucrative deals involving the planned slumification of rental apartment buildings in inner-city Stockholm made him the epitome of everything that was considered wrong with the property market in the early 1970s. But while he made his biggest mark in the housing market, his deals encompassed property investments in the broadest sense—from flipping buildings and converting industrial property into offices, to trading in property shares and asset stripping. The latter, one of Backström's most original strategies, involved identifying undervalued listed companies with an attractive real estate portfolio, to be extracted and sold off.[335] In other words, there were

[333] ibid, 58-9.

[334] "Fyra sätt att tjäna pengar på hus," *Dagens Nyheter,* 20 January 1976. Source: Svenska Dagstidningar (Online archive).

[335] The key was to find companies whose stock market value was lower than their "substance value", which essentially stands for the total value of a company's combined financial and physical assets, including both, for example, ownership of shares in other companies, as well as equipment, buildings, and land. During the post war period, property holdings were often not taken into account when companies were valued on the stock market—unless their main business revolved around holding real estate for investment purposes. There were thus ample opportunities for financial investors to make significant profits by buying undervalued com-

plenty of opportunities for anyone with access to credit to shop around for undervalued property that could be easily converted into an income-generating asset and flipped for a higher profit.

While their business practices would hardly surprise anyone even remotely familiar with the real estate business today, in 1970s Sweden these deals were considered nothing short of scandalous—so much so that the government introduced a special law in 1976 in Adam Backström's name to put a stop to the speculation with rental housing.[336] But even in light of state efforts to clamp down on egregious speculative practices, there were plenty of opportunities to make money on real estate.

After the introduction of state controls on rental housing deals, investments shifted exclusively to the commercial property market, where the deregulation of commercial rents in conjunction with increasing demand from the expanding service sector offered even better opportunities for the extraction of value.[337] By far the most successful in this segment was Sten Mörtstedt, owner of Citadellet—the largest listed property company on the Stockholm Exchange by the turn of the 1980s. While he started his business in the housing market, he made his real estate empire by flipping office buildings and converting vacant industrial property in the inner city into offices for rent. As the structural crisis hit the industrial sector disproportionately, there was plenty of empty space in the 1970s that could be converted into income-generating properties. Through modest renovations and improvements, properties' market value could increase exponentially.

In conjunction with the revival of direct investments in the real estate market, speculation also spilled over to the stock exchange. As office buildings in central Stockholm were changing hands several times in a month, property companies went from a largely forgotten backwater, to the stock market's favourite trading object.[338] Despite a temporary dip in returns due to the slower demand for offices in the middle of the decade, share prices of property companies outperformed other segments of the stock market. As demand recovered by the end of the decade, rents and property prices in Stockholm increased faster than inflation, which further fuelled expectations of increasing returns—and by extension, a higher valuation of property companies. Whether it involved direct investments in land and buildings or trad-

panies. See: Jan Jörnmark, "I Nissaström föddes den svenska yuppien," *Timbro,* 26 November 2021.

[336] Lag (1975:1132) *om förvärv av hyresfastighet m.m.* (colloquially known as Lex Backström – available at https://riksdagen.se).

[337] "Lagen räcker inte för att stoppa hyreshajarna," *Aftonbladet, 21* April 1978. Source: *Svenska Dagstidningar*. (Online archive).

[338] "Udda Projekt aldrig riskfria," *Dagens Nyheter,* 1974.

ing with company shares, real estate was becoming a major component of the new-fangled financial wealth that Gustav Olivecrona analysed in *Spekulanterna*.

Crucially, property deals were almost always leveraged. In fact, most of the property investors who came to the scene during this period, including the names mentioned in the beginning, were able to get into the real estate business with very little of their own capital. In the beginning, the lion's share was financed with loans provided by commercial banks, despite the increasingly restrictive credit conditions. Banks were more than eager to finance lucrative real estate transactions—initially on their own balance sheet and later via on-lending to financial companies which stood outside the jurisdiction of the Riksbank and the reach of credit controls (until they were brought under regulation in 1980).[339] The rate of speculative property transactions in Stockholm increased to such an extent, that the head of Stockholm's real estate council circulated a list of the worst offenders to the Banking Inspection in an attempt to pressure commercial banks to review their lending practices.

Götabanken provides an instructive example of the degree to which commercial banks were implicated in real estate speculation. In one particular case, which caught the attention of the Banking Inspection, the bank financed the transaction of one and the same building in the centre of Malmö on three separate occasions in the space of just one year. The initial sale price of the property—which combined offices and a hotel—yielding an annual rental income of only SEK 15.000, came at SEK 1.5 million. In real estate jargon, this translates to a property yield of only 1 percent (the average at the time was around 7 percent).[340] Within eight months, the owner increased the annual rental income to SEK 450.000 and flipped the property for SEK 4,8 million—which equals a yield of 9,5%. The new owners then took out a new loan from Göta to refurbish the building and flipped it again for SEK 5.3 million. The chain was only interrupted because the Banking Inspection called for stricter oversight of the bank's lending practices over its involvement in "shady" transactions with commercial properties.[341]

As speculative deals proliferated by the mid-1970s, the Banking Inspection became increasingly concerned with the financial risks that these transactions posed to the credit system. Stricter oversight and explicit warnings about bankrolling property transactions ultimately pushed shady dealings to

[339] Englund, "The Swedish 1990s Banking Crisis."
[340] The lowest average yield recorded in central Stockholm to this day is 3,25 percent, just before the property sector became affected by the sudden increases in 2023.
[341] "Bankinspektionen slår till efter miljonkarusel: Malmöbank får kritik!," *Arbetet,* 12 Juni 1976. Source: Svenska Dagstidningar (Online archive).

the shadow banking system. However, broader changes in the financial system in the 1980s—prompted by the intractable structural crisis—brought property speculation back with a bang.

Det glada 80-talet:[342] finance, property and crisis

> The normal thing when looking at properties is to get in touch with a property manager via a broker who has a bunch of keys with him. The keys go to the attic, basement, laundry room, and in turn, electricity, heating, ventilation and drainage are inspected as a standard control for the operating costs. But that procedure was rationalized away when everything went so well and everyone talked about values; instead, you got into a limousine at the airport and the sellers presented their items through the car window. If you wanted to take a closer look, the car would slow down, if you were super interested, the driver could stop and wind down the window, and if you said yes, the banks, who wanted to be flexible, had loans prepared.[343]

The excerpt above offers a glimpse of the exciting world of real estate and finance in the late 1980s, just before a swift decline in office prices brought Swedish banks to the brink of collapse. Hans Wallenstam, owner of one of the biggest commercial property companies in Sweden today, calls it the "champagne" era; a period of optimism, money, and a rapid accumulation of wealth in the real estate sector, bookended by the deregulation of the credit market on one side, and a nearly disastrous financial crisis at the other.

The banking crisis of the early 1990s has produced a notable stream of academic research, government investigations, insider accounts and media articles analysing the actions of policy-makers, banks and financial institutions in the decade leading up to the crash.[344] Collectively, these accounts offer valuable insight into how credit deregulation set the stage for the real estate speculation frenzy of the late 1980s. Academic studies show that policymakers underestimated the capacity of banks to adapt rapidly to the new market conditions following the swift removal of credit controls. This shift levelled the playing field between banks and other financial institutions,

[342] "The roaring 80s"—a popular expression that compares the rise of financial speculation in the 1980s with the economic boom of the 1920s which preceded the Great Depression.
[343] Hans Wallenstam, *Mot Alla Odds – Vägen ur fastighetskrisen* (Nona 2020), 47.
[344] Burkhard Drees and Ceyla Pazarbasioglu, *The Nordic Bank Crises: Pitfalls in Financial Liberalziation?* (IMF: Washington, 1998); Englund, "The Swedish 1990s banking crisis."; Lars Engwall, "The Swedish Banking Crisis: The Invisible Hand Shaking the Visible Hand," in *Regulation and deregulation in European financial services*, ed. G. Morgan and D. Knights (London: Palgrave Macmillan, 1997); Lars Jonung, "The Rise and Fall of Credit Controls: The Case of Sweden 1939-89." in *Monetary Regimes in Transition,* ed. M. Bordo and F. Capie (Cambridge University Press, 1993).

prompting banks to expand their market share by assuming greater risks in mortgage lending.[345]

But while the wide-reaching changes in the credit market undoubtedly deserve special attention, there were other factors which facilitated the switching of capital into land and real estate. Credit deregulation was not the sole driver of financial investments in the commercial real estate market during the 1980s.[346] Most of these accounts are thus somewhat one-sided as they mostly leave out developments before 1985 from their analytical focus. In the rest of this chapter, then, I attempt to provide a fuller picture of the dynamics in the commercial real estate market at the beginning of the 1980s before revisiting the crisis.

Insurance companies ahead of the curve

As I already mentioned in the first part of this chapter, the deregulation of commercial rents in 1972 fuelled speculative investment in commercial real estate. Prices for offices in central Stockholm doubled in response to a massive increase in direct returns, from 7.5 percent return on capital invested in 1975 to 11 percent in 1980—an all-time high. But as prices continued to increase in the first half of the 1980s (by an average of 27 percent per annum[347]), direct returns began to decrease.[348] The main driver was the sharp increase in real estate investments by finance institutions—particularly the insurance sector.[349]

During most of the post war period the investments of insurance companies were heavily influenced by the regulations of the Central Bank. All financial institutions had to comply with capital placement requirements determined by the state, which aimed to channel a major share of the available savings into financing state expenditures (government bonds and debentures) and housing (mortgages). In the mid-1970s, almost half of the combined assets of the insurance sector consisted of prioritized investments, of which 35 percent in mortgage-backed bonds.[350] But as the Million Housing Program was wrapped-up by the end of the 1970s, the volume of invest-

[345] Engwall, "The Swedish Banking Crisis."
[346] Englund, "The Swedish 1990s banking crisis."
[347] Compared to 20 percent during the boom years of 1986-1991. "Kraschen 25 år," *Fastighetsvärlden*, 2015.
[348] Ibid.
[349] Until 1986, the state had strict capital investment requirements in place. Larsson and Söderberg, *Finance and the Welfare State,* 92-3.
[350] Ibid, 93.

ments in mortgage bonds decreased significantly, creating an opportunity "for a broader investment strategy".[351]

The property deal which arguably heralded the champagne era of real estate took place in 1982—three years before the government lifted the restrictions on insurance companies' investments. The buyer, Trygg Hansa, one of the three largest insurance companies in Sweden at the time[352], spent SEK 800 million to buy the property company Diligentia from SE-Banken. While Diligentia's predominantly class-A commercial stock located in central Stockholm was undoubtedly attractive, the price was so inflated in comparison to the actual income generated by the portfolio of buildings, that critics from the industry pronounced it borderline "idiotic."[353] Trygg Hansa 's CEO, Per Welin, defended the deal by arguing that the expected rise in the demand for offices justified the high price paid, and even if it did not, it would hardly make a dent in the capital managed by the insurance giant—which was increasing at an exponential rate alongside the rise in private pension insurance.[354]

Welin's decision to overpay for Diligentia was not entirely out of left field; for most of the 1970s, the real estate sector bucked the trend of Sweden's deteriorating economy, with property companies doubling their stock market value by the end of the decade unmoved by the profitability crisis that shook the productive sector. Expecting that property values and rents would continue to outperform inflation, insurance companies increasingly lined up to snag as many commercial buildings located in major urban centres as possible. Just before Trygg Hansa's eye-watering deal, another insurance giant, Skandia, took two property companies off the stock market in the space of a year,[355] followed closely by two major deals from the largest actor in the insurance market, Folksam.[356] Over the next four years, Trygg Hansa's total investments in real estate increased from SEK 3 billion in 1983 to SEK 7 billion in 1987.[357] As prospective investments in the stock market began to

[351] Ibid, 93.
[352] Insurance companies were one of the last segments in the financial market to be deregulated.
[353] Trygg Hansa bought Diligentia at a direct return of only 6,6% which was well below the average of 10-11% for commercial real estate in central Stockholm at the time. "Kraschen 25 år," *Fastighetsvärlden*, 2015.
[354] Trygg Hansa's total capital increased from just over SEK 25 billion in 1983, to 55 billion in 1987. "Han placerar två milj varje timme: Det gäller at trygga pensionärernas 'kulor,'" *Dagens Nyheter,* 15 April 1983; "Tummen ned för 10 års tankemöda?," *Dagens Industry,* November 30, 1987.
[355] "Skandia koper fastigheter," *Göteborgs-Posten,* March 25, 1982.
[356] "Folksam tar över Gallerian," *Aftonbladet,* February 19, 1983.
[357] "Han placerar två milj varje timme," *Dagens Nyheter,* 1983; "Tummen ned för 10 års tankemöda?," *Dagens Industry,* 1987.

dry up, eyes began to turn to the property market—and further and further away from the city centre.[358]

The supply of available property assets increased with the rise of sale-and-leaseback deals in the corporate sector, as companies began to change their real estate strategies—opting to rent instead of buying or building on their own account. [359] As Lind and Lundström[360] explain, the drivers were strictly financial, with most companies selling to release capital when lending was too expensive or difficult to access. The sale-leaseback market, as Dagens Industri wrote in 1988, was held entirely by insurance companies.[361] In the beginning of the 1980s, pension and insurance companies had as little as 1 percent of their capital invested in real estate. By the end of the decade, they had become the dominant owner of commercial property in Sweden (a position which has only strengthened over the following decades) with the value of their total assets exceeding 65 percent of the total commercial space in Stockholm's CBD.

But the landscape of investors expanded rapidly once the government decided to lift most of the restrictions on the credit market in 1985. The following section focuses on these wide-reaching changes, and how they have radically altered the dynamics of accumulation—not only in the commercial property market but in the economy more broadly. These developments led to the proliferation of property companies on and off the Stockholm Stock Exchange, and the parallel emergence of financial institutions as the main driver of investments in commercial real estate.

Back to the future: financial deregulation and the 1990s property crisis

The political and economic crisis that had gripped the Swedish economy in the 1970s reached its peak in the early 1980s, as the structural crisis exposed the limits of the Swedish Model and brought into question the viability of the post-war welfare state. The rapid rise of government deficits and public debt amidst the continued decline in productivity provided the impetus for a broader political shift away from the supply-side economic policies of the post war era, and a gradual turn toward a more neoliberal governance regime.

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[358] "Skandia köper centrum för halv miljard," *Dagens Industry,* June 26 1984.
[359] Lind and Lundström, *Kommersiella fastigheter i samhällsbyggandet*, 52.
[360] These deals increasingly involved the public sector in the 1990s and 2000s. See Hans Lind and Ted Lindqvist, "Real estate management in the Swedish public sector," *Journal of Corporate Real Estate* 7, no. 2 (2005).
[361] Led by the insurance company SPP, whose CEO was named "most dynamic real estate investor in Europe" in 1987. "Kraschen 25 år," *Fastighetsvärlden*, 2015.

These changes were inaugurated with the Social Democrats' return to power in 1982. Their new economic approach, centred around monetary and fiscal policy,[362] was promoted as a last-ditch attempt to preserve the legitimacy of the post war Swedish Model by forging a new path between the rise of neoliberal doctrines (headed by Margaret Thatcher and Ronald Reagan) and the post war Keynesianism that anchored the Swedish Model. In the words of its engineer, finance minister Kjell Olof Feldt, if Sweden with its "large public sector, high level of taxation, and strong union movement can succeed in restoring economic stability as well as creating a dynamic and growing economy, then the demands for systemic changes will have been dealt a severe blow."[363] Unfortunately, while these measures improved the economic situation in the short term, in the long term they proved insufficient. Ultimately, it was the failure of this economic strategy to address the underlying problems which catalysed the departure from the post war regime.

The first crucial change in this direction was the removal of credit controls and the return to a market-based monetary policy.[364] The main justification offered by the state as the reason for its retreat from the regulation of credit flows was the expansion of the shadow banking market, which increasingly undermined the efficacy of the existing controls. Additionally, the deterioration of public finances and the enduring inflation diminished "the institutional capacity of the Central Bank to ration credit and control the money supply."[365] In view of these issues, certain credit controls were already loosened in the late 1970s. However, the most important changes—particularly from the perspective of what later transpired in the property market—were the removal of investment quotas for commercial banks (specifically the requirement that banks hold government and housing bonds) in 1983, and the removal of the ceiling on banks' lending rate in 1985. These two changes triggered a radical increase in the supply of credit available to the private sector, which brought a new economic reality to Sweden. Crucially, it had an almost immediate effect on the real estate market.[366]

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[362] Branded "The Third Way"—not to be confused with the legacy of Tony Blair. The strategy was centred around three core objectives: improving the profitability of export industries and the balance of accounts through a devaluation of the currency; decreasing budgetary deficits by scrapping state support for uncompetitive industries; and promoting savings at the expense of public and private consumption via a restrictive monetary policy. Kjell-Olof Feldt, "S-politiken: offensive mot nyliberalismen," *Tiden 3,* (1985), 142.
[363] Feldt, "S-politiken: offensive mot nyliberalismen", 142.
[364] Jonung, "The Rise and Fall of Credit Controls."
[365] Ryner, *Capitalist Restructuring,* 149.
[366] In 1986, the ratio of bank loans to GDP increased sharply to almost 60 percent—from an average of 40-43 percent in the 1970s. See Drees and Pazarbasioglu, *The Nordic Bank Crises*, 10.

Throughout the post war period, credit controls underpinned the profitability of banks by limiting competition both from domestic and foreign financial institutions.[367] The deregulation challenged this privileged position. As Magnus Ryner points out, the removal of credit controls created a "recycling problem" for commercial banks. Traditionally, Swedish corporations were domestic banks' largest net borrower. However, after the removal of restrictions on private borrowing in 1982, Swedish companies switched to alternative sources of funding by borrowing abroad. By extension, the dependence of industry on domestic bank borrowing in the 1980s decreased significantly. The position of the banking sector was further threatened by market competition from financial institutions—which previously operated in the grey market. The increased competition pressed down interest rates, which led to the search for better yields. This is where the real estate market provided a useful outlet. To fill the vacuum created by the retreat of industry, banks began to increasingly offer loans for riskier investments. The largest recipient of these loans, both directly and through financial companies (which funded their lending by borrowing from the banks), was the commercial real estate sector.

With the stroke of a pen, the liberalization of the financial market led to the *de facto* normalization of the speculative practices of the 1970s, which the state had set out to eliminate with the introduction of *Lex Backström*. "The property speculators who were reviled in the 1970s," as Fastighetsvärlden recalled recently, were suddenly met with the utmost respect.[368]

As speculative transactions returned, property prices, especially for offices, began to increase exponentially. The economic boom and the growing demand for premises from the expanding service sector—both buoyed by the deregulation of finance—turned the office market into a cash cow for a growing number of property investors.

As credit flooded the market, the value of property became more and more detached from real returns. Commercial properties could be mortgaged at more than 100 percent of their value, with total disregard for the income that they currently generated.[369] The debt was then used to finance more speculative property purchases, which further pushed office prices up, creating a self-reinforcing spiral of appreciation. Between 1985 and 1990, prices

[367] Drees and Pazarbasioglu, *The Nordic Bank Crises,* 10.
[368] "Kraschen 25 år," *Fastighetsvärlden*, 2015, 4.
[369] See Wallenstam, *Mot Alla Odds,* 46. In extreme occasions, mortgages were up to 4 or 5 times of the underlying value of the property, as in the case of a dairy factory in Vimmerby that was bought for SEK 5 million, revalued at SEK 7 million, and mortgaged at SEK 25 million.

for office buildings in Stockholm grew almost 800 percent, while rents in comparison began to stagnate. [370] The direct return on commercial property gradually dropped from a record-high 11 percent in 1980, to a record-low 3,8 percent in 1989.[371] When property prices became prohibitively high, money was in turn channelled into new development or into foreign property markets.[372] The stock market value of the Swedish real estate sector during this period increased almost four times—matched by a near tripling of growth for banks.[373]

The spectacular growth was sharply interrupted in 1989, as office employment began to drop against the background of an economic recession.[374] As office vacancies rose with unemployment, property prices—and the wealth that they underpinned—were swiftly annihilated. A precipitous drop in office prices—12 percent in 1990, followed by a devastating 40 percent drop in 1991—swiftly reverberated to the financial system.[375] As property prices took a dive in 1989 and 1990, about 75 percent of the property companies listed on the Stockholm Stock Exchange were wiped out either through bankruptcies or corporate takeovers.[376] By the end of 1991, the entire banking system was on the precipice of ruin—prompting one of the biggest public bailouts in the history of Sweden. The ensuing recapitalization of the banking system led to a complete restructuring of the property market which, alongside the parallel corporatization of state property in the 1990s, set the contours of today's commercial property sector. The final part of this chapter details how the emphatic (re)turn to market-based governance in the 1990s shaped the state's response to the crisis and set the foundations to the massive concentration of wealth in the property sector today.

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[370] Lind and Lundström, *Kommersiella fastigheter i samhällsbyggandet*.
[371] "Kraschen 25 år," *Fastighetsvärlden*, 2015, 5.
[372] The office market in London, for example, which went through its own boom-bust cycle just a few years before, provided plenty of undervalued buildings for sale.
[373] Englund, "The Swedish 1990s banking crisis," 15.
[374] Following global geopolitical events and several crucial policy changes domestically. See Ryner, *Capitalist Restructuring*; Englund "The Swedish 1990s banking crisis."
[375] The bankruptcy of the finance company Nyckeln in 1990 is considered the ground zero of the crisis. Its downfall is in turn credited to the property company Allhus. In addition to an outstanding debt of SEK 700 million (used for a buyout from the stock market), in 1989 Allhus borrowed another SEK 350 million to build an office complex in London at the famous Elephant & Castle train station. When interest rates increased sharply in 1990 against the background of geopolitical events, Allhus suspended all of its interest payments to Nyckeln, marking the beginning of a tsunami of bankruptcies in the property and finance sectors.
[376] Affärsvärlden, *När Sverige kraschade.* 1992. See also Ari Kokko & Kenji Suzuki, "The Nordic and Asian Crises: common causes, different outcomes," In *The Great Financial Crisis in Finland and Sweden: The Nordic Experience of Financial Liberalization,* ed. L. Jonung, et al. (Edward Elgar Publishing, 2009), 268

Restructuring and consolidation of property capital in the aftermath of the 1990s banking crisis

As the crisis in the property market threatened the national banking system in 1992, the government reacted swiftly by establishing a special vehicle—a so-called "bad-bank"—tasked with limiting bank losses by taking over non-performing loans, liquidate them, and stabilize the financial system. Since the crisis had originated in the property market, the bulk of the collateral that Securum took over consisted of commercial real estate. Beyond recapitalizing the financial system, then, Securum's task was to restart accumulation in the property market by mobilizing the state's financial and market-making powers. While Securum was run like a private for-profit corporation, it possessed the legal and financial freedom of action—accorded to it by state ownership— which was not available to private capital. This allowed it to sidestep the institutional and financial obstacles facing other bank institutions, and deal with the ramifications of the crisis much more efficiently.

Securum started as a subsidiary of Nordbanken—where the state had been the majority owner since 1990—with the purpose to isolate the bank's non-performing loans and thus restore Nordbanken's profitability. Soon after it took over the non-performing credit portfolio, ownership was transferred from Nordbanken directly to the state so that the former could operate freely as an independent company, unconstrained by banking legislation and guided only by corporate law. This transition was crucial. Had it remained under Nordbanken's corporate umbrella, Securum would have been severely limited in its ability to restructure its remaining portfolio—which by this point consisted mostly of real estate assets. That would have meant, first and foremost, a rapid and unavoidable sell off at the bottom of the property market, in order to quickly recapitalize Nordbank's balance sheet. Moreover, the Banking Act restrained commercial banks from investing directly in property or shares in order to prevent them "from pursuing activities that are too risky", which would have further limited Securum in its powers to maximize the market value of its remaining assets.[377] The view of the government at the time was that such a scenario would entail an unacceptable transfer of wealth from taxpayers into the hands of private investors. The solution was to allow Securum to transition into an asset management firm so it could function "in precisely the same way as any normal property or industrial company".[378]

However, the crucial difference with respect to any other regular property company is that Securum had practically no exposure to the travails of capital markets because it was capitalized by the government—which is to say, it

[377] Bergström, Englund & Torell, *Securum and the Way out of the Swedish Banking Crisis*, 5.
[378] Ibid, 6.

practically faced no financial risks.[379] To paraphrase Whiteside, this allowed Securum to do what no for-profit corporation is essentially able to, which is operate "outside of the regular circuits of accumulation and valorization of capital."[380] Not only was it able to wait out the market, it had considerable power to shape its recovery.[381]

Securum was formed with the explicit aim to maximize the market value of its property portfolio and sell it at the highest possible price.[382] To give it a fair chance at the Sisyphean task of turning around a portfolio of thousands of underperforming properties, the government gave Securum a minimum of ten years before it put everything back on the market. The latter finished the job in just five. This is how the Economist explained the company's success in turning around "the duffest assets":

> Equally important was the sensible way Securum was managed. The government resisted the temptation to create an agency stuffed with bureaucrats. Instead it appointed private-sector businessmen and bankers to run it, encouraging them with performance-related bonuses, then leaving them to their own devices. Within months they had seized distressed borrowers' assets, sorted them into one of several companies formed by industry or location, and hired industry experts to manage them.[383]

As the president of the company, quoted in the same article, put it, "We realised we had to manage the thing like a private conglomerate bent on maximizing shareholder value, then breaking itself up."[384]

The extreme efficiency of the state's asset managers, however, came at a cost. On one hand, there were indications that compared to other financial institutions, Securum had been "more inclined" to guide borrowers into bankruptcies as opposed to renegotiating on more favourable terms.[385] Over 70 percent of the companies that ended up in its service were either declared bankrupt or liquidated within the first year.[386] The high bankruptcy and liqui-

[379] Ibid, 1.
[380] Whiteside, "State's Estate," 522.
[381] Byrne, "Bad banks and the urban political economy of financialization."
[382] Peter Englund and Vesa Vihriälä, "Financial crisis in Finland and Sweden: similar but not quite the same," In *The Great Financial Crisis in Finland and Sweden: The Nordic Experience of Financial Liberalization,* ed. L. Jonung et al. (Edward Elgar Publishing, 2009), 106
[383] The Economist, "Cleaning Up", June 28, 1997.
[384] Ibid.
[385] Bergström, Englund & Torell, *Securum and the Way out of the Swedish Banking Crisis*, 23.
[386] Out of a total of 790 companies. The overwhelming majority of the companies that went bankrupt or were liquidated under Securum's stewardship were property companies (70%), followed by finance (12%) and industry (8%). The assets taken over from these companies consisted predominantly of real estate—including the two latter categories. Bergström, Englund & Torell, *Securum and the Way out of the Swedish Banking Crisis*, 13.

dation rate pursued by Securum, in turn, made the Swedish government the sole owner of over two thousand properties spread all over the country and abroad (the UK, Germany, the Netherlands, etc.).[387]

In the next four years, the company completely restructured this portfolio through sales and acquisitions, concentrating most of its assets in and around major cities. Out of this restructuring came out four major commercial companies—including the second largest company in the commercial real estate market today, Castellum.

What Securum did in the interim was crucial to the restarting of a new cycle of accumulation. By holding on to property assets until the market recovered, it helped put a floor under property prices, and avoid a further deepening of the property and financial crises. It also helped restore liquidity in the market by providing so-called vendor finance—thus circumventing the credit stop in the financial market. Finally, through this state-sponsored revaluation of commercial property, it set the conditions for the "continued and expanded extraction of wealth from the build environment."[388]

Conclusion

This chapter has demonstrated the central role that the state has played in transforming the conditions of profitability in the commercial property market during the 1970s and 1980s. The removal of rent controls in the early 1970s against the background of rising inflation and a creeping structural crisis facilitated the flow of credit and private wealth into the built environment. Throughout the 1970s and 1980s, real estate—and especially of the income-generating kind—emerged as one of the most profitable financial assets. Aside from the deregulation of the rental market, its attractiveness was boosted by two parallel developments: on the demand side, the fast expanding service sector (driven no less by the concentration of finance capital) and on the supply side the deregulation of the credit market. The latter provided a massive flow of money that was increasingly parked into commercial real estate via two avenues: the relaxation of state-mandated capital placement requirements for financial institutions and the removal of lending ceilings for banks. The rapid concentration of capital in the finance sector following these policy changes further fueled the demand for offices. The confluence of these developments culminated in the formation of a property

[387] Niklas Bengtsson & Thomas Polesie, *Från Fastighetskris till Castellum – en studie av gestaltning och styrning* (SNS Förlag, 1998), 24.
[388] Byrne, "Bad Banks and the Urban Political Economy of Financialization," 696.

bubble in the latter half of the 1980s, which elicited a public bailout and the consolidation of capital in the real estate sector.

The narrow focus of previous accounts on the surface froth—the boom-bust dynamics of the property-finance nexus—is, I would argue, why most of the existing analyses of the 1990s crisis emphasize the overshoot in optimism and misplaced expectations on part of bankers and property investors as the main driver behind the increasing entanglement between finance and property markets. The implication of such a narrow view is, I would argue, that it fails to spot the broader changes that have preceded and outlived the crisis. Crucially, by limiting their analytical focus on the immediate developments, existing accounts treat property crises as a self-contained event. These explanations portray the latter half of the 1980s as some sort of temporary collective madness, the by-product of the 1980s unique "casino" mentality. The search for answers thus inevitably circles back to the question whether the guardrails on banks were removed too swiftly, leaving little time to get adjusted to the new environment. What they rarely question is the reasons behind their removal in the first place.

The broader argument that I want to make is that focusing squarely on the immediate causes of the property-finance crisis, the deregulation of financial markets and the subsequent expansion of credit, misses the broader structural changes that have created the conditions for an overaccumulation in the property market in the first place. These changes were already underway since the 1970s; the deregulation of the market was just their logical conclusion. As Greta Krippner argues in her analysis of the broader turn to finance in the US during the 1970s and 1980s, the deregulation of financial markets was "an inadvertent result of the state's attempts to solve other problems"[389]—namely, the tri-partite social, fiscal and legitimacy crisis of the post war political-economic model, brought on by the mounting structural problems at the end of the 1960s. Financialization, Krippner argues, was an ad-hoc response to the rising distributional conflicts in an era of declining prosperity and the difficult question over who will carry the burden of that decline.[390] These were the same issues that plagued most Western capitalist economies in the 1970s, including Sweden. As Magnus Ryner demonstrates in his revisiting of the "organic crisis" of the Swedish Model in the 1970s and 1980s,[391] the deregulation of credit in Sweden was preceded by conflicts over the distribution of value between labour and capital, conflicts which

[389] Krippner, *Capitalizizng on Crisis,* 2.
[390] Ibid., 139.
[391] Ryner, *Capitalist Restructuring,* 123-58.

brought into question the legitimacy of the post war compromise between the labour unions, the state, and private capital interests.

Even though it was imagined as a way out of the structural crisis that would circumvent the need to resort to market-based governance, the SAP's Third Way politics ultimately pushed Sweden on a similar path as other Western capitalist economies. Retreating from credit-rationing policies and shifting to a market-based monetary policy allowed the state to depoliticize economic outcomes—which, ultimately, came at the cost of labour through public austerity and welfare retrenchment. The turn to finance thus allowed the state to "extricate itself from guiding economic outcomes simply by asserting market rule".[392] However, despite the general improvement of macroeconomic conditions in Sweden in the mid-1980s, the removal of credit controls did not increase productivity substantively.[393] Financialization has thus proven to be only "a partial and temporary" solution to the underlying contradictions of the capitalist system. [394] As the events of 2008 demonstrated, these contradictions can come back with a vengeance.

The consolidation of public finances after the financial crisis in the early 1990s, in conjunction with the deregulation of the credit market, inaugurated a broader turn to market-based governance. The following chapter analyses how this turn has reconfigured the role of the state in the accumulation of real estate capital.

[392] Ibid., 20-1.
[393] Ibid., 151.
[394] Ibid., 22.

6. Market-based urban policy and finance-led accumulation

The story in the present chapter continues where chapter five ended— with the broader turn to market-based governance. But while the previous chapter dealt mainly with supply-side factors—financial liberalization and the turn to market-based monetary policy—the present chapter comes back to demand-side forces, examining once again the role of the local state in shaping patterns of accumulation. The chapter is divided into two parts. The first part provides an overview of the broader changes in the financial context of the local state since the 1990s and the related turn to market-oriented urban governance. Against this background, I bring back into focus municipal land politics, and specifically, the reconfiguration of Stockholm's urban policy around the privileging of developer's profits.

The second part of the chapter explores the spatial dynamics of capital accumulation within the framework of Stockholm's splintered[395], project-based urban governance model. Through a case study of the redevelopment of the Slakthusområdet, I examine how the City balances financial and political objectives by cross-subsidizing private investments via land value capture. My main argument is that the municipal land instrument continues to play a redistributive role under the present neoliberal conjuncture, but that this role has been thoroughly reconfigured around the redistribution of the risks associated with private property development.

Fiscal conservatism, land privatization and the Stockholm Model

Since the 1990s, Stockholm City has gradually moved away from the "planning-led development regime" established in the post war period and transi-

[395] Steve Graham and Simon Marvin, *Splintering urbanism: networked infrastructures, technological mobilities and the urban condition* (Routledge, 2001).

tioned to a more or less market-led land allocation approach.[396] As City politicians and planners typically describe it, the defining feature of what has become colloquially known as the Stockholm model (*Stockholmsmodellen*) is giving more space to the market—as in commercial property and development interests—to dictate what should be built and where. What this means, essentially, is that the municipality encourages private actors to take initiative by identifying land suitable for housing or commercial development ahead of the start of a formal planning process. Unless an investment proposal conflicts with broader planning objectives—or is deemed economically unsustainable for the municipality in the long term—then it proceeds to the planning stage where developers and municipal planners, coordinated by the Development Office, jointly develop a legally binding detailed plan.[397] The Stockholm model, then, seems almost like a complete reversal of the post-war development regime where private investment followed closely the path charted by planners.

Contrary to what the term "market-based" might indicate, however, the municipality has by no means retreated from attempting to shape and steer private investments in land. Most municipal land (that is, building rights) allocations predominantly take place without any direct intermediation from the market—much like during the post-war period. This has been highlighted by the market itself, so to speak, as private developers frequently voice concerns over the predominance of so-called direct allocations over tenders and open competitions.[398] Both housing and commercial development remain overwhelmingly dependent on city-led projects, typically anchored to state- and municipally-funded infrastructure investments.

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[396] Sherif Zakhour and Jonathan Metzger, "From a 'Planning-led regime' to a 'Development-led regime'(and back again?): The role of municipal planning in the urban governance of Stockholm." *The Planning Review* 54, no. 4 (2018).

[397] Building rights for commercial property development in Stockholm can be acquired either on the private property market or through a land allocation from the City—more specifically, the Development Office—either on leasehold or freehold terms. The latter is known as a municipal land allocation agreement, which essentially represents a legal contract that grants a developer exclusive right to negotiate with the municipality over a limited period (typically two years) for the right to build on a plot of municipally-owned land. The building rights, which can be transferred either on freehold or leasehold terms, are formally granted once the planning process is finished. Stockholm City generally employs three different types of land allocation procedures for developments on municipally-owned land: tenders, open competitions, and the process described above—that is, direct allocations. With the exception of land leaseholds occupied by villas and rental housing for which ground rent is subsidized by the municipality, for other types of land use—multifamily owner-occupied housing, community infrastructure, industrial and commercial land uses—the land is leased or sold at market value. See Stockholms Stad, *Riktlinjer för markanvisning.* (Guidelines for land allocations).

[398] "De mest aktiva kommunerna kring markanvisning", *Fastighetsvärlden*, February 21, 2024.

All of this serves to highlight the extent to which urban development continues to hinge on public initiative rather than purely on market forces. The suggestion, therefore, that Stockholm's land policy is primarily driven by private market initiative is something of a misnomer that obfuscates the actual extent of public intervention. The City remains, in other words, a central figure in the development process.

Having said that, there are some meaningful differences in how Stockholm City has intervened in urban development over the last few decades compared to how it has done so historically—notably, with respect to how the City has approached the management of its land assets. To put this in the language of political economy, Stockholm municipality's land policy over the last thirty so years has increasingly revolved around the *exchange* rather than the *use* value of its land.[399] Rather than surrendering the stewardship of urban development to the market, then, it is the distribution of land uses in the hands of the City that has become increasingly based on market-like principles.

What, one might ask, does this actually entail? To demonstrate, I need to return briefly to the municipal land policy of the post-war period.

As discussed in chapter four, post-war municipal land policy enabled the City to assert control over the development process and provide the conditions for a functional distribution of land uses insulated from the distortions of private landownership. Providing building rights at competitive leasehold prices was conceived as an economic policy instrument to attract firms and economic activity from suburban municipalities to the city by reducing capital's production costs. In line with this policy, the municipality often spent more on land development than could be justified by market returns, effectively subsidizing private investment.[400] While the economics of land were not insignificant—there were, after all, expectations that tax growth and the capture of land increments through the leasehold system will balance costs in the long term—the evidence suggests that maximizing exchange value was not the City's overriding aim.

This rationale began to be increasingly questioned in the 1970s by the centre-right, as the deteriorating economic situation turned the onus on the economic productivity of municipal investments. The first open competition for building rights following the post-war expansion of municipal landownership was thus organized in the late 1970s, by a majority bourgeois City

[399] David Harvey, *Seventeen Contradictions and The End of Capitalism* (London: Profile Books, 2015), 15-24.

[400] Although it was never explicitly put in these terms by municipal planners or politicians at the time, with the exception of those exceptional cases discussed in chapter four where direct subsidies were involved.

Property Board.[401] The decision to give the development rights for an office block in central Stockholm to whoever was prepared to pay the most was justified on the grounds that any price below the market rate would constitute a direct subsidy to the leaseholder. Moreover, according to the head of the Property Office, P.O. Hanson, what was also at stake was securing a fair share of the land value uplift. Hansson argued that open land competitions enable the City to determine the underlying market value of land, which in turn provided a more realistic benchmark when adjusting fees in leasehold revisions. Framing it this way suggested that municipal land policy had no effect on land prices; the only difference it made was in determining who gets to pocket the development gains.

Already in the 1970s, then, there were political elements that framed the privileging of non-economic concerns in municipal land allocations as being equal to a redistribution of the land value uplift to private interests.[402] At the time this was broadly rejected by the left as being socially irresponsible. As heated City Council debates from the late 1970s demonstrate, allocating land to the highest bidder was viewed as surrendering control of urban development to commercial interests, which would inevitably marginalize less profitable land uses. The left widely denounced allocations of city-owned land on "purely economic" principles *exactly* because such a policy, they argued, contributed to the inflation of land prices and undermined the City's planning objectives.[403]

Financial concerns have since increasingly penetrated Stockholm's land policy, but the municipality's current approach remains caught in tension between these two opposing rationales.

Market-based land policy in Stockholm was introduced as a temporary, last-ditch attempt to revive the construction market after the 1990s crisis.[404]

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[401] The allocation concerned building rights for the construction of an office building with retail premises on the bottom floor in the CBD (Norrmalm). *Utlåtande angående tomträttsupplåtelse av fastigheten Kåkenhusen 25 (Kungsgatan 12-14 och Brunnsgatan 11-13) på Norrmalm* (1979:55 RIII). Accessed at: stadsarkivet.stockholm.se/Kommuntryck/.

[402] The broader discussion is in reference to another land allocation, which involved the transfer of office building rights in the centre of the city to the Swedish Metalworkers' Union and the Swedish Factory Workers' Union. The centre-right disputed the 'subsidized" allocation to the unions (the value of the land was around 50 percent below what was extracted in the open competition), arguing that it would negatively affect the market value of land in future leasehold revisions on Norrmalm. I will return to the issue of the capture of the land value uplift in leasehold revisions later in the chapter. *Utlåtande angående tomträttsupplåtelse av mark inom RIII kvarteret Svärdfisken (Tunnelgatan—Olofsgatan—Apelbergsgatan) på Norrmalm.* (Utl. 1979:74 RIII). Accessed at: stadsarkivet.stockholm.se/Kommuntryck/.

[403] *Utlåtande med anledning av motion av Arne Söderquist RIII m. fl. (vpk) angående kommunala subventioner i samband med citysaneringen (nr 59/1972)* (Utl. 1979:75 RIII), p. 1045-77. Accessed at: stadsarkivet.stockholm.se/Kommuntryck/.

[404] "Stan rensar bland byggreglerna. Fler bostäder målet. Den som betalar bäst bör få marken, anser fastighetsborgarrådet Sten Nordin", *Dagens Nyheter*, January 26, 2000. Accessed at:

However, it was the broader transformation in the political economy of local government—underway since the 1980s—that ultimately led to its institutionalization. It all began with a series of reforms in local governance introduced in the early 1980s, centred around the consolidation of public finances in light of the state's growing structural deficit. As the economic base of the Swedish welfare state came under increasing strain since the early 1970s, political pressures to cut public expenditure mounted and the structural crisis of the central government was disproportionately shifted on the local state. These reforms increased local autonomy in a legal and regulatory sense, but at the same time progressively eroded local governments' fiscal capacity through the retrenchment of state funding for local services. As Elander and Montin write, local governments gained more freedom to act, "but within a narrower financial framework."[405] As Peck and Whiteside conclude with respect to the similar restructuring of "intergovernmental fiscal relations" in the US context, "the atrophy of redistributive financing" on the national scale led to the "localization of risk and responsibility" on the local scale.[406]

Over the 1980s, municipalities began to adapt to their new financial environment by adopting a more entrepreneurial governance model, pursuing cost-savings via an increased reliance on public-private partnerships. Notably, this led to the emergence of a more market-friendly urban policy, which the planning scholar Thomas Hall wryly described at the time as a reorientation of the planning apparatus around "whatever is commercially attractive for business to finance."[407] These changes were by no means unique to Stockholm—or even to Sweden—but form part of the almost universal urban trajectory shaped by the political economic crisis of Western capitalism and the concomitant devolution of austerity to local governments.[408] Scholars studying the political and economic aspects of these changes often find that city governments have become increasingly unable to adopt urban agendas that diverge from the interests of finance and real estate capital, as urban development has become a means to expand tax bases and improve municipal revenues. Local states have therefore increasingly sought to transform their regulatory powers to attract capital to their constituencies, with urban policies often taking the form of selective advantages to commercial devel-

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https://arkivet.dn.se/. "Byggföretag får ta större ansvar", *Svenska Dagsbladet*, June 22, 2000; "Låsta positioner när s och m duellerade om bostadspolitik", *Svenska Dagsbladet*, April 14, 2000; Accessed at: retriever.se.

[405] Elander and Montin, "Decentralisation and control."

[406] Peck and Whiteside, "Financializing Detroit", 238.

[407] Thomas Hall, "Bygga på åttiotalet – fråga om kohandel?", *Dagens Nyheter*, 1989.

[408] David Harvey, "From managerialism to entrepreneurialism: the transformation in urban governance in late capitalism." *Geografiska Annaler: series B, human geography*, *71*(1), (1989); [408] Peck, "Transatlantic city, part 1."

opers through subsidies, fiscal instruments, and the financialization of public land.[409]

The spiralling budget deficit that followed the bailout of the banking sector in the 1990s served as the catalyst for a further adjustment of local government finances. The 1991 Local Government Act (LGA) introduced a new ethos of thrift in urban governance through the vaguely defined principle of "good financial management," later sharpened with the balanced budget requirement introduced in 1999.[410] Essentially, the municipal act prohibits local governments from running a budgetary deficit over two years, encouraging a high degree of self-financing and low levels of public debt.[411] The fiscal capacity of municipalities was thus further restricted just as their operating budget costs were rising sharply due to the economic crisis.[412] The revision of the LGA at the turn of the millennium coincides with the revision of Stockholm municipality's investment strategy centred around the financial viability of municipal investments.[413]

In addition to changes in fiscal governance, the economic recession also catalysed a shift in the broader rationale concerning the management of public assets. The corporatization and commercialization of central and local government's real estate holdings in 1992 signalled a growing concern with economic efficiency and pursuing cost-savings in the public sector.[414] Since, local governments have increasingly resorted to privatizations—from sales of publicly-owned rental housing, sale-leaseback contracts on operational properties and social infrastructure, to the financialization and privatization of municipally-owned land.[415] Moreover, the Central Bank's expansionary monetary policies since 2008 have further strengthened municipal incentives to extract value from public land by contributing to land price inflation. As it was written in Dagens Samhälle in 2021, a significant number of municipalities increasingly rely on land sales to prop-up their budgets and keep public

[409] Ashton, Doussard, & Weber, "Reconstituting the state"; Weber, *From Boom to Bubble*; Weber, "Embedding Futurity."
[410] Kommunallag (1991:900); Lag (2000:889) om ändring i kommunallagen (1991:900). Kommunallag (2017: 725).
[411] Specifically, the balanced budget requirement (*balanskravet*), prevents municipalities and county councils from having yearly expenses exceed total revenues. In case costs do exceed income, the deficit has to be balanced out with a corresponding surplus within three years. Lag (2000:889) om ändring i kommunallagen (1991:900).
[412] Kommunivest, *Local Government Borrowing 2015* (Kommunivest, 2015).
[413] *Styrning och uppföljning av investeringar och andra betydande projekt* (Utlåtande 1999:174 RI); Stadsledningkontoret, *Handbok för kalkylering av investeringar och andra betydandeprojekt i Stockholms stad* (Dnr 319-2464/2005).
[414] Lind and Lindquist, "Real estate management in the Swedish public sector."
[415] Many municipalities in Sweden have extensive land and property holdings, built-up since the post-war period with the help of generous state subsidies that have abolished since the 1990s.

debt as low as possible.[416] The normalization of entrepreneurial urban governance over the last thirty years has, in other words, made the financialization of public assets a standard practice for an increasing number of municipalities in Sweden.[417]

While Stockholm has arguably steered away from the kind of wholesale land privatization evidenced in other municipalities,[418] since the late 1990s there has been a more or less stable commitment across city administrations to use the City's land assets as a source of financial income.[419] In a recent study that examines the shifting political and economic rationales behind municipal landownership in Sweden, Zetterlund finds that in comparison with other municipalities, the use of public land as a financial asset in Stockholm has become particularly salient. The aim to maximize financial returns from municipal land assets, she argues, has gradually overtaken the use of public land as "an instrument of [market] control."[420]

Capital gains, however, are not used to finance operating costs but are reinvested in the built environment. [421] The City's investment strategy over the last two decades has thus increasingly centred around the use of land proceeds to self-finance public investments in urban development and keep within strict budgetary targets.[422]

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[416] "Miljardklirr: Så stora vinster gör kommunerna på markaffärer – hela listan", *Dagens Samhälle*, May 5, 2021.

[417] The most extreme example of such decisively neoliberal municipal economy is Danderyd, a suburban municipality located north-east of Stockholm. For years, local politicians pledged to maintain one of the lowest income tax rates in Sweden—and deliver they did. Yet in 2019, to widespread surprise, the municipality announced that its economy was on the brink of collapse, despite the fact that it is the home of some of the most affluent people in the country. As it was later revealed, the municipality covered a structural deficit by selling its land assets *en masse*, until the proceeds finally dried out in 2019. As the head of the municipal council admitted wryly two years later, they were practically "burning the furniture to heat the castle. "Danderyd: Vi kan sänka nu trots tuffa tider", *Dagens Samhälle*, November 30, 2023.

[418] Although the rate of public land sales has increased since 2010, a significant share of the City's land is still distributed on leasehold terms. The income from land and property sales varies considerably from year to year. For the period 2017–2024, income from sales was between 10 and 35 percent of the municipality's operating budget. Leasehold fees constitute roughly four percent.

[419] Zakhour, & Metzger, "From a 'Planning-Led Regime.'"; Zetterlund, *The Landed Municipality.*

[420] Zetterlund, *The Landed Municipality,* 160.

[421] Based on numbers from Annual Budget Reports, 2014-2025. Stockholms Stad, *Annual Report 2023 with follow-up on the budget for the City of Stockholm*. Accessed at: https://start.stockholm/.

[422] The municipality's investment strategy is revised in conjunction with other long-term financial goals in its annual budget. The broader financial framework is set by the Municipal Act, with a set of guidelines collected under the umbrella "good financial management". With the exception of the balanced budget requirement (mentioned above), the Act does not define in detail what good financial management should actually entail in practice. Each municipality must adopt its own set of long-term strategic financial goals (such as equity ratio, debt targets, and a strategy on how to finance municipal investments). These guidelines can be

This policy is in no small measure imposed by current legislation—specifically the Municipal Act. According to guidelines on "good financial management"—in place since the Act was revised in 1999—municipalities are advised against using their operating budget to cover investment costs, which, in turn, explicitly rules out tax-base growth—present or future—as the rationale for public investment. Instead, the onus is placed on cost-effective and strategic management of municipalities' land and property holdings. Accordingly, Stockholm City's investment policy encourages city districts and municipal agencies to consider financing their projects by privatizing non-strategic, or surplus, properties:

> Profitable loan-financed projects that do not burden the income statement over a longer period can still have a negative impact on the city's financial position and equity ratio. […] Property management committees and company boards must therefore […] examine the possibility of divesting properties that lack strategic importance. With greater participation from private actors regarding short-term needs for housing, premises and facilities, the city's investment expenditure can be held back, while the value of own disposal must always be considered from both a financial and operational perspective.[423]

As the quote above demonstrates, privatizing land is prioritized over the use of credit as a mode of financing—even in those cases where projects have a positive return.[424] As a representative from the City's finance department put it bluntly: "If you sell a lot, you can build a lot. If you don't sell a lot, it's harder for us to finance our projects. We don't wanna take up loans."[425] In sum, the financial architecture of Stockholm's urban governance regime relies overwhelmingly on the financialization of municipal land. As Metzger and Zakhour summarize it, "[t]he costs associated with urban development are not framed as 'investments' which could be balanced with future returns

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adjusted in accordance with the specific financial conditions of each local government. The amount of assets, like land and property holdings, that a municipality can use as a source of financing represents a major component of such financial analyses. Kommunallag (2017: 725). See also Prop. 2022/2023: 119, "Effektiv ekonomistyrning i kommuner och regioner" (Regeringskansliet, 2022). Accessed at: regeringen.se.

[423] Stockholms stads budget 2024, Bilaga 9:4.

[424] The rationale behind the reduced reliance on debt and asset realization to finance investments has partly to do with limiting the municipality's direct exposure to the ups and downs of financial markets. This rationale has also been encouraged by the pursuit of a higher credit rating, with Standard & Poor's (S&P) consistently underscoring that its positive evaluation of Stockholm municipality's financial position relies partly on its capacity to mitigate debt build-up in the long-term by reducing capital expenditures through land sales: "We also expect Stockholm to generate substantial capital revenues associated with the development and sale of land, and to use these revenues to fund infrastructure investments." See S&P Global, "City of Stockholm Affirmed At 'AAA/A-1+'; Outlook Stable", *S&P Global Ratings*, 16 November, 2018. Accessed at: spglobal.com.

[425] Interview, City of Stockholm, Finance Department, officer P.

from an expanded tax base or a surrounding land appreciation, but capital costs which should be balanced directly with the present value inherent in the land on which the project will stand."[426] This has inevitably led to an increase in land sales, as leasehold fees are often insufficient to cover the municipality's direct investment costs.

This strategy goes hand in hand with a clause which makes public investments contingent on development profitability:

> Development projects must be profitable. This means that the cost estimate for a development project should normally cover the investment costs that the project entails. […] At the same time, urban development and investments should contribute to the development of the entire city. In order to enable the redistribution of resources from profitable to unprofitable projects, the development committee is therefore granted the right to decide on a selection of unprofitable projects […]. These investments should be financed by profitable projects.[427]

As the quote above underscores, the realization of projects that might yield a negative return is circumscribed by the financial viability of the municipality's total investments. In other words, the municipality's investments must be balanced out with sales and capital gains extracted from municipally-owned land. Crucially, what the investment strategy does not disclose—but is evident in practice, is that this is a territorially fragmented, project-based urban policy. What that means, essentially, is that profits generated from, say, investments in the CBD cannot be used to offset losses from unviable projects in a run-down neighbourhood in the suburbs. Instead, the costs and returns must be balanced within the territorial boundaries of each project—an approach that, as the interview excerpt below illustrates, effectively translates into the rule that *all projects must be profitable*:

> Maja: What happens when the Development Office decides to move forward with a project that is not financially viable?
>
> Interviewee: Yeah, we don't do that. Our policy is that the project is gonna do financially good, or at least at the zero level [break even]. We don't do projects that isn't financially bearing. You can do it in a certain area. Like, for

[426] Zakhour & Metzger, "From a 'Planning-Led Regime.'"
[427] Stockholms Stads budget 2024, Bilaga 9:4. The municipality distinguishes between replacement and strategic investments. Replacements and maintenance costs for existing urban infrastructure (roads, water and sewage infrastructure, as well as schools and other social infrastructure) must be equity financed—that is, funded from taxes and other recurring income. The quote above concerns specifically the policy with respect to strategic investments. This policy has been around roughly since the early 2000s, although the strict adherence to ensuring that all investment costs are balanced has become more salient in the last fifteen years.

> example, Norra Djurgårdstaden; we have this big decision that we have for the whole area and in that area a smaller project can have a result that isn't that good, but then another area, another project in that area is really good financially, so the two can share the profit. But the investment strategy that we have in this town is that the project is gonna—we don't go up with a decision if the project is not positive. So yeah, we don't have negative present value.[428]

Given that Stockholm City owns over two thirds of the buildable land within its administrative borders, land policy fundamentally shapes the dynamics of property development in the city. The terms, conditions and timing of municipal land allocations, in other words, directly structure the opportunities for commercial property companies to invest profitably in urban development. The key question that we need to ask, then, is what exactly are the implications of this policy for commercial property actors?

Development profits

As we saw from chapter 4, the local state has a long history of ensuring the profitability of urban development for private capital—whether by subsidizing construction costs through lower land rents, mitigating risk by guaranteeing demand, or underwriting private investment more broadly by providing those elements of the built environment which are not profitable or viable for private capital to invest in. As we will see in the rest of this chapter, as far as private capital is concerned, this remains very much the case today. However, the critical difference with respect to the post-war period, I would argue, is not only in the extent to which this role has become generalized, but more importantly, in the fact that it has been permanently inscribed in the institutional framework of urban governance. In order to grasp the political economic implications of this—not only for private capital accumulation, but the social and economic consequences of the reconfiguration of state powers more broadly—we need to start by examining how the profit-imperative in Stockholm's municipal land policy has been operationalized.

This is most easily discernible in the reconfiguration of the land allocation process, which I already touched upon in the previous section. The rule that all municipal provisions related to land development must be profitable implies, without exception, that the production of building rights by the Development Office must always be guided by commercial viability. Financial viability for the municipality and competitive profits for private developers are, in other words, two sides of the same coin. We can see how this logic works if we break down the process of land valuation.

[428] Interview, City of Stockholm, Finance Department, officer P.

The valuation model used by Stockholm municipality in land (or building rights) negotiations typically entails a combination of two methods: comparable land sales (location price, or *ortsprismetod*), which is most often used for fee revisions on existing leasehold contracts; and a project return calculation (*avkastningskalkyl* or *projektkalkyl*) which is used mostly in the case of development.[429] The value of land derived in the latter way is essentially a residual figure estimated by deducting the price of production, that is, the cost of finance, construction costs, and a "normal" return for the developer, from a projected market value of the finished building. The remaining value is the price of an undeveloped, ready-to-build plot. Land price, in other words, is based on the production costs and the building's estimated income-generating capacity, which in turn depends on a projection of future rents and property investors' return requirements. As one development officer explained, "if you have an office site and you think you can have 4,000 SEK/m^2 per year as a rent, then that sets the frame on both what you can pay for land and what you can pay for the construction."[430] In sum, the projected rental value of a finished and fully let building and investors' yield requirement—set the limits of a project's financial viability, and by extension, the price of land.[431] This limit can be stretched by increasing the building density, i.e., the volume of building rights, or by adjusting down the yield requirement. Before proceeding, a short clarification is in order to unpack what this actually means.

The yield requirement essentially tells us how much property investors are willing to pay for, say an office building in a given location based on its anticipated, or potential, for future value growth (understood broadly as both capital gains and rental yield). At the risk of oversimplifying, in prime locations, such as Stockholm's CBD, where the demand for office space is normally the strongest, property investors will generally accept lower returns. This is typically the playground of financial institutions—pension funds, insurance companies and the like—which are normally after lower-yielding but

[429] Herman Donner, *Värdering av råmark, byggrätter, och projektfastigheter: arbetssätt, problem och slutsatser* (KTH Royal Institute of Technology, 2018).
[430] Interview, St. Eriks Markutveckling, 21 december 2022.
[431] SOU 1990: 23, *Tomträttsavgäld: Betänkande av tomträttsutredning* (Bostadsdepartementet: Stockholm, 1990), Bilaga 4. Accessed at: https://lagen.nu. The same viability model is used, more or less, by all public bodies in Sweden that lease their land. The model originates from a 1988 state inquiry of the leasehold system, prompted by the lengthy legal disputes between municipalities and leaseholders over fee renegotiations—a problem that stems from the lack of detailed provisions for leasehold revisions in the Land Code. The aim of the investigation was to develop a standardized approach to leasehold valuation which would exclude the need for legal proceedings. While the inquiry did not result in any meaningful legislative changes, the suggested viability model has since been widely used in practice—although mostly in the case of new allocations.

less risky investments with a good potential for capital appreciation. By contrast, in markets where the demand for premises tends to be less stable and vacancies are generally higher—for example, areas further away from the city centre, lacking good transport links and amenities—yield expectations, in accordance, are also adjusted upwards. To have one property developer explain it,

> [W]e don't own the fancy offices in the city, we own the non-fancy properties just outside the city because we find that—it's easier to earn money on them. There's not as high competition on them; […] there aren't as high expectations on climate, on quality of stuff, on layouts. It's easy—I shouldn't say it's easy, […] it's not as hard to earn money on these kinds of properties compared to owning something exclusive in the city. So we tend to have […] a little bit more vacancies, but we get a better earning. A little bit cheaper, we don't have to invest as much in them, and they also have pretty good development possibilities. […] Compared to what the tenants are willing to pay, the properties are cheaper. So there is a little bit higher return on this, than buying in the city centre.[432]

These areas are the preserve of "risk" capital (I will return to the reason for the scare quotes shortly)—which in Stockholm is represented predominantly by listed property companies which seek to generate higher returns on shareholder capital.[433] The gap between these two investment scenarios is captured by the risk premium: the additional return that the investor requires as a compensation for the greater uncertainty associated with achieving target returns in riskier locations.

It is worth pausing here for a brief moment to appreciate just how extensively financial logics have penetrated Stockholm's municipal land policy over the last few decades. While the needs of capital were obviously not irrelevant before the 1990s, the valuation of building rights today is essentially based on a range of financial inputs which examine everything from the investor's perspective. Most of these inputs are assumptions about the future extrapolated from market dynamics; they are not readily available facts which can be applied to find the most optimal land use, but variables adjusted specifically to fit investors' accumulation requirements. In other words, at every step, the viability model used to decide how building rights

[432] Interview, Property company I.

[433] I should put a disclaimer on the distinction between different property investor groups (financial institutions versus listed companies) illustrated above, as the differences in investment strategies—as we will see later in this chapter—are not as cut and dried. Rather, companies change their approach in accordance with the shifting market conditions. This is exactly what has happened in the last fifteen years in Stockholm, where the distinction between financial investors and property companies has increasingly disappeared.

should be shaped and municipal land valued privileges financial considerations and, by extension, the private market.

Crucially, all of these inputs are up for negotiation with one key exception: developer's profits. As one development officer pointed out, the marginal return on developers' investments is the only fixed input in the model described above: "[w]e have the total value and then we have the building costs, or construction costs, and the kind of accepted risk level, or the return on investment of land and building costs—which is usually around fifteen percent."[434] This level of risk, as was revealed later in the interview, has become the broadly accepted normal measure for the rate of return on private investments since the late 1980s, when the viability calculation model first emerged in conjunction with a state inquiry that sought to find a standardized model for the valuation of leaseholds. Despite acknowledging the challenges associated with determining what would be a "reasonable" project return *ex ante*, the inquiry concludes—based on the prevailing market conditions in 1988—that for office development in the centre of Stockholm profit should be set between ten and twenty percent.[435]

Needless to say, profits on finished projects vary widely and therefore deviate considerably from viability assumptions. Consider, for example, an office block recently completed on land allocated by Stockholm municipality to the property company Atrium Ljungberg. Life City—as the project is called—is located in the up-and-coming life-science cluster in the Hagastaden area, about two kilometres from the CBD on the border with Solna. When it was completed in 2022, the company announced that the project had delivered a striking return on invested capital of 70 percent. The CEO of Atrium Ljungberg, Annica Änas, described it as the best project in the history of the company.[436] How, might one ask, did the City fare? The land was sold to Atrium Ljungberg in 2017 for SEK 270 million—roughly a quarter of the realized profit.[437] The company's investment costs at project completion landed around SEK 1,7 billion, which indicates that the allowance used by the City was probably in the range of 15-16%—broadly in line with the standard rate used in most viability estimates.[438] Was this, then, truly a fair

[434] Interview, Development Officer Q.
[435] SOU 1990: 23, *Tomträttsavgäld: Betänkande av tomträttsutredning* (Bostadsdeparementet: Stockholm), Bilaga 4, 271-2.
[436] "AL:s projektvinst för Life City: 70 procent", *Fastighetsvärlden,* February 11, 2022. Accessed at: https://www.fastighetsvarlden.se/.
[437] "Överenskommelse om exploatering med försäljning av mark för centrumändamål/kontor inom fastigheterna Vasastaden 1:16 och 1:45 (blivande kvarteret Molekylen) i Hagastaden, Norrmalm, med Atrium Ljungberg Life City AB." (Exploateringskontoret, September 9, 2017).
[438] Atrium Ljungberg, *Års- och hållbarhetsredovisning 2022* (Report, March 1, 2023), 49. Accessed at: https://www.al.se/.

market value for the land? The answer to that question is not as straightforward.

"Finding" the market value when land is overwhelmingly distributed off-market through direct allocations introduces a fair amount of ambiguity in the process.[439] As a representative of St. Eriks Markutveckling—a City-owned company which trades land and property on the market on behalf of the municipality—noted during our interview, the final land prices determined in direct allocation agreements are ultimately the result of a negotiation "between Exploateringskontoret [the Development Office] and the developer."[440] Land values, in other words, are always negotiated and these negotiations form the benchmark for future allocations as comparable sales.

In theory, municipal land valuations and the size of the imputed development profits rest on a broad estimation of the risks associated with property development. Similar to the expected yield on property investments described above, developer profit is understood as a compensation for "the risks involved in achieving the anticipated income or capital value following [the] physical completion" of a particular project.[441] Broadly speaking, the risk depends on the content of building rights and the specific market conditions (supply and demand) in a given location. The higher the anticipated risks, the greater the profit allowance built into project viability calculations—which in turn is reflected in a lower land price, or in the case of leaseholds, lower ground rent. The latter shows why, as one development officer admitted, developers always try to move the profit margin up: "if they have a possibility, they also question this [15% risk] assumption."[442]

There is a touch of irony, then, as Christophers points out, in fixing developers' profit *ex ante* in land valuations, since treating it as a non-negotiable "necessity" effectively strips "entrepreneurship" of its defining characteristic—risk.[443] In other words, the very returns which are justified as a reward for taking on the risk of property development are, essentially, derisked by the local state through the privileging of developers profits in viability calculations. It is less important, then—though by no means irrelevant—whether Atrium Ljungberg made three or four times the profit on the

[439] Max Neutze, "A tale of two cities: Public land ownership in Canberra and Stockholm to the early 1980s", *Scandinavian Housing and Planning Research* 6, no.4 (1989).; "De mest aktiva kommunerna kring markanvisning", *Fastighetsvärlden*, 21 February 2024.
[440] Interview, St. Eriks Markutveckling, 21 december 2022.
[441] International Valuation Standards Council, *IVS 410: Development Property–Exposure Draft* (IVSC: London, 2016), 12.
[442] Interview, Development Officer Q.
[443] Brett Christophers, "Wild Dragons in the City: Urban Political Economy, Affordable Housing Development and the Performative World-making of Economic Models," *International Journal of Urban and Regional Research* 38, no. 1 (2014): 87.

land price paid to the municipality. What truly matters is that Stockholm's urban governance model is centred on guaranteeing developers a *right to profit*—even when the market cannot.

How, might one ask then, is profitability produced in practice? Developer's returns do not just magically materialize as soon as they are imputed in an excel sheet down at the Development Office. What sort of work goes behind realizing the world that viability models describe?[444] This is the question which I explore in the last section of this chapter.

Producing profitability

The first part of this section explores the dynamics of accumulation within the framework of Stockholm's project-based urban governance model, using the redevelopment of the Slaughterhouse district (Slakthusområdet) as instructive example. Building on interviews and archival material, I explore how the City balances financial and political objectives by cross-subsidizing commercial property development via land value capture.[445] My argument is that the municipal land instrument continues to play a redistributive role under the present neoliberal conjuncture, but that this role has been thoroughly reconfigured around the redistribution of the risks associated with commercial property development.

The second part explores the politics of land value extraction in the CBD. The empirical focus is on the long-standing struggles between the municipality and commercial leaseholders (led by institutional capital) over the distribution of ground rents, which is being played out simultaneously on two interrelated fronts: on one hand, the extraction of public subsidies in the redevelopment of commercial property in the CBD, and on the other, challenging the distribution of ground rents through the legal system, based on a false narrative that paints real estate owners as the sole risk-taker (and value creators) and the City as the passive rentier which merely extracts this value for itself.

Slakthusområdet: cross-subsidizing developer profits

A vast industrial area stretching over thirty hectares of municipally-owned land to the south of Stockholm's inner city, Slakthusområdet is currently being transformed into a mixed-use neighbourhood set to accommodate

[444] Ibid.
[445] Olsson, "The neoliberalization of municipal land policy in Sweden."

around 4,000 housing units and about 14,000 workers.[446] The area was built in the early 1900s by the municipality, to provide modern and sanitary facilities for the city's growing meat processing industry. Over the years the City has kept ownership of the land and the original buildings, but the area has gradually densified through private development to accommodate a diversified base of food-processing industries (around 39%), consulting and business services (12%), retail and other small businesses.[447]

Plans to redevelop the area go back to the late 1990s when a growing number of industrial tenants had begun to relocate or close down, leaving behind vacant offices buildings, warehouses and market halls. These were gradually occupied by alternative uses—such as entertainment and cultural activities—attracted by low rents and the distinctive setting. While there are no more stockyards and livestock exchange in sight, the area has retained most of its original character, with its long history inscribed in a unique landscape that resembles an open industrial floor (see Figure 1). From the outset, planning proposals have centred on anchoring redevelopment around preserving part of this landscape—along with some mix of the established food and entertainment industry—which would work as an extension to the so-called Stockholm Entertainment District that flanks the area on its eastern side.[448] The rest would be filled in with housing, offices and retail. However, after preliminary investigations by the Planning Department and the Development office concluded that some of the established industries were incompatible with housing, the municipality decided to relocate the industrial cluster to a smaller industrial zone six kilometres further south, and in turn, to increase the planned amount of offices and retail spaces.[449]

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[446] Stockholms Stad, "Inriktningsbeslut för Slakthusområdet i stadsdelen Johanneshov", Exploateringskontoret, 2 February, 2017.

[447] Stockholms Stad, "Programarbete för Slakthusområdet i stadsdelen Johanneshov", Exploateringskontoret, 28 November, 2011. See also: Anders Brundin, Anders Johnsson & Eta Kroon, *Kött & Blod – Slakthusområdet i Johanneshov 100 år: Mat, människor och miljöer i Stockholms historia* (Informationsförlaget och Fastighetskontoret i Stockholms stad, 2012).

[448] This is the commercial area anchored around the famous Globe Arena—built in the 1980s— and the Tele-2 Arena developed in 2010.

[449] The area in question is Larsboda, one of the few remaining industrial clusters in Stockholm. The initial plan, before AL came into the picture, was that the municipality would build a new Slakthusområdet in Larsboda, to provide the necessary conditions for a smooth relocation of the tenants from the food industry cluster. With the transfer of the land, the responsibility for the relocation of industrial tenants was transferred to AL—along with the building rights for the new Slakthusområdet. The decision, as one development officer explained, was motivated by a conviction on a political level in the City that the municipality should no longer take over the sort of responsibility "like we did a hundred years ago when we sort of built the first Slakthusområdet." (Interview, SEM). Stockholms Stad, "Programarbete för Slakthusområdet I stadsdelen Johanneshov. Utredning av möjligheterna för de byggnader staden avser att äga långsiktigt i Slakthusområdet. Utveckling av nytt livsmedelscentrum i

Figure 1. The Slakthusområdet and the adjacent Globe area. Source: Stockholm municipality.

Before the planning process officially kicked-off in 2010, the City started to consolidate land and properties in the area. Although it already owned a significant share of the land already, over the years some of it had been sold or transferred on leasehold terms to individual companies. As explained by a representative from St. Eriks Markutveckling (SEM)—the municipal company which buys and sells property on the real estate market on behalf of Stockholm City—land was acquired at current-use value (at the time the Slakthusområdet was still zoned for industrial purposes).[450] Most of the property owners, according to SEM, "were not interested or not competent enough to join the city-development process."[451] The majority were companies whose core activities were unrelated to real estate, and typically owned only one building and the leasehold on which it sat—which made it significantly easier for SEM to consolidate landownership in the area. Moreover,

Larsboda industriområde. Reviderade utredningsbeslut", (Exploateringskontoret, 15 january 2014).

[450] Interview, SEM. The total value of the properties was around SEK 500 million. Stockholms Stad "Förvärv av byggnader i Slakthusområdet från S:t Erik Markutveckling AB" (Exploateringskonotret, 20 September, 2016).

[451] Interview, SEM. The total value of the properties was around SEK 500 million. Stockholms Stad "Förvärv av byggnader i Slakthusområdet från S:t Erik Markutveckling AB" (Exploateringskonotret, 20 September, 2016).

since most of the Slakthusområdet was slated for demolition, the owners had little choice but to sell.

As the SEM representative explained, the rationale behind consolidating land and property ownership ahead of the market was to gain control over the redevelopment process and to capture the value enhancements from land use change which would otherwise be appropriated by private developers.[452] Besides land acquisitions, this strategy entails that the City assume full responsibility for site preparation, which in the Slakthusområdet involved a wide array of tasks from tenant evacuations, demolitions of existing infrastructure, land remediation, to laying out new streets, public spaces and infrastructure. In turn, the municipality's costs were fully covered by ground rents and sales revenues, generated through the sale and leasing of ready-to-build sites to commercial developers. Put simply, the City has assumed the up-front costs and risks related to land development in order to deliver attractive sites to private actors.

After a first round of land negotiations with the Ikano Group fell through,[453] the Development Office announced in 2018 that it had granted an early land reservation agreement (*markanvisningsavtal*) to an anchor developer—the property company Atrium Ljungberg (AL).[454] The deal, finalized two years later, entailed a one-off transfer of most of the City-owned land and properties in the Slakthusområdet to AL—excluding a handful of leaseholds already owned by two other office developers (Corem and Castellum)—along with 200.000 m^2 of building rights for offices, retail and tenant-owned apartments.[455] In addition, the City granted AL additional land options for both offices and retail development, contingent upon the completion of the first phase of development. The deal thus effectively gave the company control over development across a third of the area.[456]

The advantages for AL are hard to overstate. By consolidating landownership, the City effectively positioned the company as a dominant actor in the redevelopment, allowing it to influence the density and distribution of land uses. Crucially, this enabled AL to negotiate a substantive increase of the office component at the expense of housing, in order to be more competi-

[452] Interview, SEM.
[453] A company group owned by the Kamprad family—the owners of IKEA—that spans different business sectors (banking, insurance, retail, real estate investment, and so on). The negotiations revolved around the establishment of a new IKEA store in the area, but the idea was eventually dropped due to fears that it will bring too much traffic in the area.
[454] AL is one of the largest office developers in the Stockholm region, with a property portfolio that consists mostly of offices and retail properties concentrated in major urban regions.
[455] al.se/omraden/stockholm/slakthusomradet/.
[456] Stockholms Stad, "Avsiktsförklaring för Söderstaden Slakthusområdet mellan Exploateringsnämnden, Fastighetsnämnden, S:t Erik Markutveckling AB och Atrium Ljungberg AB" (Exploateringskonotret, 17 September 2018).

tive with other office submarkets in the Stockholm region.[457] "They compare themselves to Solna", explained one of the development officers working on the project, justifying why the initially planned office space for 10,000 workers was increased to 14,000 in the final deal with AL:[458] "[Solna] have like 40,000 to 50,000 square meters of total office spaces, [developers] say, so to be attractive enough and to sort of compete with Solna we need to have at least 30,000 square meters [in Slakthusområdet]."[459]

However, allocating more building rights for offices weakened the project economics, prompting yet another re-adjustment of the land use distribution:[460]

> That's a big loss for me. It's more profitable to me to sell housing projects than to sell office spaces. Much more profitable. […] So that's sort of, it is a big problem for me in a financial way because, I have lost a lot of money in my project. […] So, yeah. Different goals that you're trying to combine ended up in this that we lost 1,000 [rental] apartments. And instead we have moved like—we have moved 10,000 expected persons working in the area to 14,000.

The solution was to increase the volume of building rights for tenant-owned housing.[461] The steady growth of housing prices over the last couple of decades has made the latter by far the most profitable land use for the City. Where the financial viability of development projects hangs in the balance, then, the municipality has a financial incentive to zone as much housing for sale as possible in order to maximize the value extracted from its land holdings. As the same development officer observed, offices on their own simply cannot offer competitive land prices:

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[457] Stockholms Stad, "Avsiktsförklaring för Söderstaden Slakthusområdet mellan Exploateringsnämnden, Fastighetsnämnden, S:t Erik Markutveckling AB och Atrium Ljungberg AB" (Exploateringskontoret, 17 September, 2018). Atrium Ljungberg is a listed property company (owned in major part by the family Ljungberg), with a property portfolio that consists largely of offices and retail properties located predominantly in Stockholm.

[458] Stockholms Stad, "Slakthusområdet. Reviderat inriktningsbeslut. Genomförandebeslut etapp 1" (Exploateringskontoret, 12 November, 2020).

[459] Interview, Development officer H. The reference to Solna pertains to another recent major redevelopment—the so-called Arenastaden—which drew a growing of number tenants from Stockholm's office market, including the CBD. Over the past couple of decades, suburban municipalities such as Solna, Nacka, Sundbyberg, and Huddinge have attracted a lot of commercial development thanks to a combination of cheap land and their relative proximity to Stockholm. Arenastaden is by far the most successful of these ventures in the last two decades. Located only a four kilometres from Stockholm's city centre, it has quickly become one of the most prestigious office addresses in the region, drawing firms from Stockholm's CBD with modern spaces and lower rents.

[460] Interview, Development officer H.

[461] In Swedish *bostadsrätt.* The Swedish housing system has three forms of tenure: rental housing (which can be further segmented into private- and publicly-owned), tenant-owned and owner-occupied housing.

> [C]ompanies […] that invest in new office spaces, they couldn't pay that kind of money to us to make their kind of project development profitable. But if we go to a housing company building new apartments that they sell to private customers, then they are willing to pay almost the double amount per square meter as they would for office spaces.[462]

In other words, the extraction of monopoly rents from housing consumers allows the municipality to offer competitive building rights to office developers. This kind of "co-rent seeking" is not unique to Stockholm municipality but reflects a broader pattern in the Swedish context.[463] In relation with the steady expansion of credit since the 1980s and a tax system that favours homeownership, prices for tenant-owned housing have increased by 250 percent in the last two decades.[464] Within the current hierarchy of land uses according to profitability, therefore, tenant-owned housing sits at the top. Offices, in contrast, fare particularly poorly—worse even that rental housing where the land tends to be heavily subsidized: "[Y]ou can say that office spaces is the lowest category. Well, more than schools of course. But then you have office spaces, and then you have rental housing, and then you have bostadsrätter [tenant-owned housing]. Then I need to sort of *markanvisa* [allocate] more *bostadsrätter* [tenant-owned housing] than I would like to, to sort of balance my profitability."[465] Revenues from the sale of land for tenant-owned housing construction are expected to cover around 80% of the City's total expenses for the redevelopment of the Slakthusområdet.[466]

On the other hand, when the financial viability of a project hangs overwhelmingly on a single type of land use, such as tenant-owned housing in the present case, any market changes affecting demand for that use might bring into question the project's implementation.[467] To guard against the risk of changing market conditions in the tenant-owned market, the City adopted a more conservative land value estimate in viability calculations—meaning, it assumed a higher risk/profit allowance—in order to provide a buffer. To adjust the economy of the project, the density in the tenant-owned housing component was further scaled-up. In other words, demand risks were also mitigated on part of housing developers.

Cross-subsidizing developers' profits, however, is not where the City's support for private capital ends. As the Development Office states in their deal with AL, it is likely that over the course of the project, before the area

[462] Interview, Development officer H.
[463] Olsson, "The Neoliberalization of Land Policy in Sweden".
[464] Sveriges Riksbank, *Finansiell stabilitetsrapport 2023:1*, 2023, 39.
[465] Interview, Development officer H.
[466] Stockholms Stad, "Slakthusområdet. Reviderat inriktningsbeslut. Genomförandebeslut etapp 1" (Exploateringskontoret, 12 November, 2020).
[467] Ibid.

has been fully developed, there will be both recessions and booms affecting demand.[468] The municipal land allocation process is thus used to manage market uncertainty by spreading risk across time. Not only does the transfer of building rights take place *after* the planning and allocation process has been concluded—shielding developers from planning risks—it typically happens as close as possible to construction start. This allows the developer to defer payment and avoid tying-up capital in land for too long before their investment starts to generate revenues. Moreover, the Development Office often uses something called a *land option*, whereby building rights are reserved in advance, but the transfer to the developer—and by extension payment—is staggered. This is often used in projects with a higher assumed risk and a lower revenue potential, such as office development in the Slakthusområdet. Crucially, this means that if demand for offices deteriorates in the meantime, the developer can simply choose to waive the land option at zero cost. In AL's case, most of the building rights were transferred this way:

> [W]e connect the development strategy overtime saying that 'OK, when you—year one you have accomplished this, then you can apply for this option to buy—to construct this new building and get this *markanvisning* [land allocation] on that plot. And year two, then, you are supposed to have reached that kind of accomplishment and then we give you option two', etc. So over time, over like five or ten years of time, they have a quite big sort of possibility to also buy other parts of the Slakthusområdet.[469]

Last but not least, by providing the conditions for a comprehensive and coordinated redevelopment process, the City created a unique opportunity for the capture of rent gaps. To paraphrase Smith and LeFaivre, potential rents cannot be capitalized by redeveloping a single building; one renovated house in a run-down area will not gain much in value unless the entire neighbourhood is upgraded.[470] A case in point is the fact that property companies long anticipated the gentrification of the Slakthusområdet as commercial development gained ground nearby, but investing in the development of one or two office buildings in a sea of industry would not yield the desired value uplift. The property company Castellum, which has owned offices and industrial property in the area since the 1990s, had one of its buildings sit practically empty for years until the City's intervention created the right condi-

[468] Ibid.
[469] Interview, Development officer H.
[470] Neil Smith and Michele LeFaivre, "A Class Analysis of Gentrification," In *Gentrification, displacement, and neighborhood revitalization,* ed. J. Palen and B. London (State University of New York Press, 1984).

tions for redevelopment.[471] The municipality's "exchange value oriented land-enhancements", to borrow Heather Whiteside words, open new avenues for the profit-making opportunities.[472]

Crucially, the transformation of Stockholm's land policy around market-based logics has had a knock-on effect, to the extent that it contributes further to the distortion of profitability among different land uses, which in turn requires the recurrent deployment of cross-subsidizing. The privileging of tenant-housing construction has led to what Massey and Catalano describe as "the spatial problem", or what Christophers conceptualizes more broadly as the "socially dislocating market failure" of private (*financial*) landownership—namely, the spatial *and* social dislocation of less profitable land uses.[473] In 1970s London where Massey and Catalano observed this issue, it was housing and manufacturing that could not viably compete with the rent-paying capacity of an expanding finance sector. Four decades later, Christophers suggests, it is mostly urban industry and a wide range of critical urban infrastructures that find themselves on the losing side of a profitability dynamic skewed heavily toward the development of luxury housing.[474] While their empirical observations emphasize the salience of these effects in relation to *private* landownership specifically, as this chapter shows, market-oriented land policy in Stockholm has produced a strikingly similar pattern of spatial and social dislocation as observed by Massey and Catalano—and particularly to the one described by Christophers in contemporary London. As housing has become the most profitable venture, offices and other less profitable uses have been slowly displaced from the city centre. The justification for allocating more offices in the Slakthusområdet was, partly, in order to address this imbalance. However, to the extent that addressing this imbalance relies on maximizing land values elsewhere, it is a recursive policy which suffers from diminishing returns.

Monetary policy and property-led accumulation after 2008

The Central Bank's turn to expansionary monetary policies after the 2008 Global Financial Crisis profoundly reshaped the commercial real estate sector. Concerns that the persistently low rate of inflation would trigger a recession led to the adoption of negative interest rates throughout the 2010s and

[471] *Ett rum med utsikt* (n.d.). Accessed at: https://www.ettrummedutsikt.net/.
[472] Whiteside, "The state's Estate", 507.
[473] Massey and Catalano, *Capital and Land,* 159-60; Christophers, *The New Enclosure,* 38-43.
[474] Christophers, *The New Enclosure,* 288-91.

into the 2020s, a measure designed to stimulate private consumption.[475] As the returns on low-risk interest-bearing assets such as government bonds dropped to practically zero, financial investors increasingly sought for higher-yielding investments—including, most notably, in commercial real estate. Since 2010, direct investments in commercial real estate by financial institutions have risen sharply.

Between 2008 and 2013, Swedish institutional investors stood for over a quarter of all commercial property transactions in the Swedish market.[476] In less than a decade, institutions went from having one of the lowest direct exposures to property among Nordic countries—an average of just 6.9 percent of total assets under management in 2011—to one of the highest, practically doubling their relative allocation to real estate by 2019. Occupying only a marginal presence in property markets at the beginning of the decade, pension funds and insurance companies have since become the largest combined owners of commercial real estate in Sweden.

As one real estate broker explained, commercial property remained relatively attractive, even though the growing demand pushed property prices up, and by extension, lowered the direct yield:[477]

> [I]t has been a super good investment, basically, to be in the real estate sector during a time when the real interest rate goes down. You can buy an office asset in central Stockholm at a 3 percent yield approximately today [2020] which is very low. But still, you could argue that since the leases are in most cases 100 percent inflation-linked that those 3 percent is a real return. […] And if you buy a government bond you get minus return. So the difference between a real estate investment and a bond investment is at least those three percentage units—if not more, which is a massive premium.[478]

When interest rates on low-risk assets fall at or below zero, investors have practically no financial incentive to hold them: "if you sit on it till expiry, you get obviously one hundred percent back, not more, not less."[479] Consequently, despite the relatively higher risks involved in investing in alternative interest-bearing assets such as commercial real estate and corporate bonds, finance capital has no other option but to switch to higher-yielding investments. These dynamics intensified after the Central Bank's turn to

[475] Low inflation is often taken as a sign of weakening overall demand for goods and services, which can dampen economic growth and, in turn, lead to an economic recession and higher unemployment.
[476] Nordanö Partners, *The proper(ty) allocation – The role of property in portfolio management* (Leimdörfer, 2014), 8.
[477] Between 2010 and 2020, prices in Stockholm's office market have tripled. W. Wredenmark, "Hyror och priser går up med brutalt kraft", *Fastighetsvärlden,* January 2020.
[478] Interview, Real Estate Broker A.
[479] Interview, Financial Consultant, 21 May 2021.

quantitative easing (QE) in 2015[480]—a policy often used in the aftermath of financial crises—which further loosened the credit taps in order to encourage private consumption.[481] Thus, in addition to setting the key interest rate at a historically low level, the Central bank stimulated credit expansion even further.

Aside from increasing the competition from institutional investors in the real estate market, expansionary monetary policies also eased access to debt for property companies. As financial investors flocked to the corporate bond market since 2015, the share of market financing among property firms has skyrocketed—even as their absolute levels of bank credit have continued to rise as well.[482] The net effect was a further acceleration in the rise of property prices and diminishing returns from buying and holding real estate. The following section explores how the growing supply of finance capital changed the dynamics of accumulation in the commercial real estate market, and how, by extension, it affected the political economy of urban development in the CBD.

Removing investment barriers: financial property ownership and the "fair" return on municipal land

The surge in institutional demand for commercial real estate assets after 2008 has been felt most strongly in the CBD, where these actors now dominate. In conjunction with geographical constraints and the high building density in the city centre, which limit opportunities for increasing the supply through development, the CBD saw a massive increase in property prices.[483]

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[480] Essentially, this involves large-scale purchases of securities in open financial markets designed to pump more money in the banking sector and, by extension, encourage lending to households and businesses at lower interest rates. Using open market transactions as a credit steering instrument is by no means unprecedented in the history of the Central Bank. Similar measures had been employed in the past to a varying extent. On the history of monetary policies in Sweden, see Peter Sellin, "Riksbankens räntestyrningssystem 1885–2018", *Penning- och valutapolitik, nr 2,* (Sveriges Riksbank, 2018).

[481] Lowering the policy, or key, interest rate—the Central Bank main tool for influencing the cost of borrowing and deposits—would have been ineffective in achieving the desired macroeconomic effects, as short-term rates were already zero. Björn Andersson, Meredith B. Österholm, and Peter Gustafsson, *Riksbankens köp av värdepapper 2015–2022,* (Sveriges Riksbank, December 21, 2022).

[482] These effects were reinforced by the European Central Bank's QE measures introduced in 2014, and later by the Swedish Central Bank, which in 2020 further scaled-up its QE program in response to a short-term withdrawal of intuitional money from the capital market. See Ola Melander, "Effekter på finansiella marknader av Riksbankensköp av statsobligationer 2015–2017", *Penning- och valutapolitik, 2021:1* (Sveriges Riksbank, 2021).

[483] In 2021, the Development Office auctioned the "last" buildable plot in the CBD. "Humlegården vann Klara City View för hela 82.000 kr/kvm", *Fastighetsvärlden,* September 20, 2021. Accessed at: fastighetsvärlden.se.

Crucially, as the growing supply of institutional capital pushed down the expected rate of return on acquisitions, it became increasingly difficult for property companies to get a good return on investment in the transaction market.[484] The oversupply of finance capital, as one interviewee noted, "affected the real estate market [in Stockholm] in somewhat absurd ways:"

> You have requirements from your owner that you need to deliver a total return, or some sort of return requirement of some percent, for the owners to think that you are successful. You cannot really do that just by buying offices because it is starting to get too expensive. International capital came in and—Sweden was a very attractive real estate investment market, so Americans and Germans came in—and started pushing down and pushing down the yield requirements, and pushing up the [property] values. It was pretty hard for quite a lot of the traditional Swedish real estate investors to actually win bid wars when [there] was attractive real estate for sale—and then to be able to pay enough to actually win and sort of still believe that you can deliver the return requirements for the owners. I have money to allocate, but I can't seem to win any transactions, or any purchases.[485]

This is why passive rentiers in the CBD—which historically have limited their investment strategies to buying and holding property—began to change tack after 2008 and increasingly took on the role of property developers. With high property prices and little room for horizontal expansion, profitable opportunities on Norrmalm now lie almost entirely in intensifying the use of land.[486] This means extracting more value from existing sites by maximizing land use density through physical upgrades—ranging from modest renovations, to demolitions and rebuilding. As one interviewee explained, while the ongoing decline in the expected yield posed barriers to investors in the transaction market, it could be turned to their advantage as long as they were able to invest in renovations and rebuilding:

> [I]n some ways it became easier to actually successfully project develop, because [when] you start a project and the market yield is 5% and then after three years you are done with the project and […] the market yield is instead 4,5%, then you have been extremely successful in creating value just by sort of pure market luck. [487]

Office redevelopment thus became more and more common in the CBD after 2008, as buildings from the 1970s and 1980s—deemed obsolete due to a

[484] The domination of financial investors in the CBD since 2008 has led to Stockholm having one of the lowest office yields in Europe in recent years. Savills Sweden, *Swedish Office Market Overview Autumn 2024.* Accessed at: savils.uk.co.
[485] Interview, Property company S.
[486] Haila, *Urban Land Rent,* 21.
[487] Interview, Property company S.

number of factors—were being progressively demolished and replaced with new structures. Emerging trends in office work like flexible working spaces and co-working—which have led to a substantive increase in space efficiency in the last fifteen years, provided an added incentive for property owners to redevelop. As one real estate broker explained, these trends led to an effective doubling of rental income per unit in the CBD in the last decade:

> A rather big step in efficiency increase, the activity based way of sitting in the offices, meant that you could more or less double the number of people [working] in the same amount of square meters. So if you were prepared to pay the same absolute rent, you could theoretically pay twice the rent per square meter. […] We, for instance, moved to these premises some five years ago and we moved together three companies under one ceiling basically. […] Before we were sitting in three locations at 3.000 square meters, now we lease 1.400 square meters. And we have increased the staff since then, in these premises. And by accident or so, the absolute rent is the same. So that means that the [rent per] square meter that we're paying now is twice [what] we paid five years ago.[488]

What we see here, then, is some of the main drivers behind the property and development boom that I touched upon briefly in chapter 3. An oversupply of finance capital after 2008—boosted by historically low interest rates—had led to an increased rate of investment in real estate, driving up property prices on one hand, while compressing yields one the other. The squeeze on returns in the transaction market, in turn, had led to more and more money being invested in property redevelopment.

Two such projects in the CBD have stood out both in terms of the scale of redevelopment and the total capital invested. The first is Vasakronan's Sergelstan project—a whopping SEK 4bn investment completed in 2020, which involved a partial rebuilding, renovation, and extension of an office and retail block constructed in the 1960s. Spurred by the move of a major tenant to a newly built office block in Arenastaden, the redevelopment allowed Vasakronan to increase the rentable area of its property from about 45,000 to 60,000 m^2.[489] A stone's throw from Sergelstan is AMF's Urban Escape project, which was also spurred by the flight of a major tenant to Arenastaden. Finalized in 2015, the redevelopment was centred around the rebuilding of an office block and an extensive renovation of shopping mall, which share two hectares of prime city land with four other AMF-owned properties. The redevelopment—which cost AMF around SEK 5bn—

[488] Interview, Real Estate Broker, G.
[489] Stockholms Stad, "Överenskommelse om exploatering med tomträttsupplåtelse, för bostäder, centrum, handel, kontor och hotell inom fastigheten Hästskon 12 på Norrmalm med Vasakronan Fastigheter AB". (Exploateringskonotret, 2016);

allowed the company to effectively double the floor area of the original office building, from around 23.000 m2 to just about 44.000 m2.[490] If we take into account the increase in space efficiency, the gains are even higher. The new office building was designed to accommodate one employee per 8 m2—and in certain areas as little as 6 m2.[491] The average figure for modern office spaces in Stockholm at the time was around 12 m2 per employee[492]. As AMF boasts on their website, the Urban Escape block has the equivalent of effective work space to thirteen Hötorg skyscrapers, accommodating around 7,000 office workers on just two hectares of city land.[493] As a comparison, Slakthusområdet will accommodate just about 14.000 workers on circa 30 hectares of land.

There is one crucial factor, however, that is missing from this picture but is common to the majority of the office projects which came to fruition in the 2010s: the fact that most of these developments sit on City-owned land. The salience of this factor was brought to light in 2014, when Fastighetsvärlden revealed that the American property investment company, Pembroke Real Estate, had received an exceptionally generous twenty-year leasehold-fee discount from the municipality, in connection to the rebuilding of one of the company's office properties in the CBD.[494] According to Fastighetsvärlden, in Pembroke's renewed leasehold contract the land fees landed at 145-160 kr/sqm[495] per year—which is merely a fraction of what a newly built office property in the CBD could fetch, and about four or five times lower than comparable leaseholds in the area.[496] In total, the deal had

[490] Stockholms Stad, "Överenskommelse om exploatering med tomträttsupplåtelse för bostäder, centrum, handel och kontor inom Trollhättan 30 m fl fastigheter på Norrmalm med AMF Pensionsförsäkring AB" (Exploateringskontoret, 2016).
[491] Part of the building was designed specifically for the real estate giant WeWork, which championed the coworking concept after the 2008 financial crisis.
[492] "Så blir AMF:s nya "superhus" i city", *Fastighetsvärlden,* April 4, 2019.
[493] The Hötorg skyscrapers—five identical office towers developed in the 1950s and 1960s during the City-led renewal of the CBD—seem to be the unofficial unit of measure for office space in Stockholm.
[494] "Pembroke erhöll rekordlåg avgäld i citykvarter", *Fastighetsvärlden,* March 5, 2014. According to the Swedish Land Code, when the land use or the rate of exploitation changes through a partial or complete rebuilding of an existing property, leasehold contracts need to be revised (or rather, renegotiated).
[495] The first figure is the price of building rights for offices, and the second is for so-called ground floor commercial premise—that is, retail and parking.
[496] "'Omöjliga' tomträtter blir åter at räkna med", *Fastighetsvärlden,* Nr 2/Årgång 29, March 2014. Unfortunately, there are no public records available from the municipality's development agreement with Pembroke, except for one document which only states the total leasehold value per year, SEK 5.700.000; this matches Fastighetsvärlden's estimates.

cost the municipality around half a billion Swedish kronor in forgone land rents—which constitutes a direct subsidy to Pembroke.[497]

Shortly after the case was revealed, critics began to raise concerns about a "demolition wave" going on in central Stockholm[498]—bringing to mind to the urban clearance which accompanied Norrmalm's renewal in the 1950s. But although the actual extent of rebuilding hardly compares, there appeared to be certain parallels with respect to the role that the City might have played in underwriting the redevelopment.[499] The exact rationale behind the decision remains an open question as the land allocation agreement with Pembroke cannot be found in the municipality's archives. Moreover, neither the Development Office nor the City administration provided any clues as to what motivated the decision, simply dismissing the case as a one-off. But as more and more office buildings were slated for demolition to make way for new development, the Development Office admitted that, in hindsight, the deal had been a mistake as it "led to driving forces that we do not want to encourage in the city."[500] Inevitably, the City faced increased pressure from other property companies asking for equal conditions to be provided across the board.

An overview of land allocation agreements going back to the 1960s—when subsidies were first used in relation to commercial development (see chapter 4)—reveals that since 2008 land rent discounts have become something of an established practice in Stockholm; a policy rather than a one-off, in contrast to what the Development Office claimed in its initial dismissal of the Pembroke case. Land "waivers", to quote one developer, "have been around Stockholm for a while", however, "they are kind of handled—not in secret—but they are kind of handled not really publicly" as they make the terms of future land negotiations somewhat unclear. This is why they are not "always registered in the City's official papers."[501]

From the information that is publicly available, it appears that subsidies were initially provided mainly in conjunction with the rebuilding of commercial property in the CBD, with only the odd case outside the inner city.[502]

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[497] ""Omöjliga" tomträtter blir åter at räkna med", *Fastighetsvärlden,* Nr 2/Årgång 29, March 2014.
[498] Elisabet Andersson, "Rivningsvåg i Stockholm", *Svenska Dagbladet*, January 18, 2014.
[499] Elisabet Andersson, "Byggherrar får rabatt för att riva i Stockholm", *Svenska Dagbladet,* October 26, 2016.
[500] Åsa Wigfeldt, head of land valuation at Stockholm's Development Office, quoted in Fastighetsvärlden, "Omöjliga" tomträtter blir åter at räkna med", Nr 2/Årgång 29, March 2014. Quote translated by the author.
[501] Interview, Property company I.
[502] One of the rare examples beyond the CBD involves Slakthusområdet, where the property company Castellum negotiated a twenty-year reduction in land rent, in return for meeting the City's requirement to preserve the original volume of an office building from the 1960s. The

Examples include the construction of a hotel near the Central Station by the state-owned property company Jernhusen, completed in 2012; a highly controversial redevelopment of a landmark office building in southern Norrmalm by Skanska and Slussgården, completed in 2018; and most recently, yet another office project by Pembroke.[503] Notably, subsidized land contracts were also provided to the two largest projects in the CBD by Vasakronan and AMF Fastigheter discussed above.[504]

This raises the question: if the returns that property companies stood to gain from rebuilding were so competitive, then why did the projects require public assistance?

The official rationale for the provision of subsidies in land allocation contracts is that they were intended to offset the unusually high construction costs arising from the challenging building conditions in the city centre. Both development officers and property companies argue that the complex logistics of organizing construction—especially demolitions—in a densely built-up urban area such as Norrmalm renders construction much more costly compared to similar interventions on less central sites.[505] Moreover, whether buildings have to be demolished or simply extended by building more floors on top, the construction cost per unit, compared to development on a cleared and ready-to-build site, is also higher. But beyond just that, interviews paint a more complex picture:

> [There is] always a discussion with a leasehold tenant on whether they should develop their property or not. The City has a long term view of development, even if it costs more for every square meter that's coming on top of the building, for example, because you cannot start from scratch to build to increase the volume of the building rights. And that's what happening in both Sergelstan [and the other cases]. […] There have been discussions [in] the City, 'is this a priority for the City, is there a way for the City to positively encourage the development in some way and to respect the increased cost of those building rights that are coming in addition?' And so the solution was to actu-

rationale was simply that this restricted Castellum from fully exploiting the building rights under the current zoning plan, leaving modest additions and renovation as its only alternative.

[503] Stockholms Stad, "Överenskommelse om exploatering för hotell-, butiks-, kommunikations- och bostadsändamål med tomträttsupplåtelse inom fastigheten Orgelpipan 6 på Norrmalm med Jernhusen Orgelpipan 6 AB (Exploateringskontoret, 2015); Stockholms Stad, "Överenskommelse om exploatering med tomträttsupplåtelse för centrumändamål och kontor inom fastigheten Snäckan 8 på Norrmalm med Remulus Snäckan 8 AB" (Exploateringskontoret, 2018); Stockholms Stad, "Markanvisning för kontors-, handels- och centrumändamål inom fastigheten Putten 15 på Norrmalm till Nya Norscan Putten AB" (Exploateringskontoret, 2025).

[504] The two companies together stand for over two-thirds of the City's leasehold revenues within the CBD (author's own calculations based on the companies' property registries and publicly available data on landownership from Sweden's Cadastral and land registration authority, *Läntmäteriet*.)

[505] Interview, Development officer Q; Property company I.

> ally see the calculations of the project […] and discuss with the tenants how much it would cost extra, compared to normal construction costs, to increase the level, the volume of building rights.[506]

More than accounting for extraordinary costs, then, subsidies were provided to property owners in order to incentivize development. It is worth noting here that renovations and additions on existing structures had been more or less excluded from consideration, as neither allows for a maximization of the building rights:

> Some of the office projects—even though the location is amazing—they were pretty old and outdated. And floor to ceiling heights are difficult to alter unless you tear down the building basically. So, it's also a product issue. I mean, if the office is just bad, you can paint it a couple of times, but then that's not enough. In order to get the maximum rents, you need to have really modern products.[507]

In some instances, renovations were excluded even where the properties in question were categorized as culturally valuable and placed under heritage protection.[508] As one interviewee explained, heritage buildings are too "expensive to own" because they usually carry higher operating costs, they are less energy efficient, and last but not least, it is difficult to make the most out of the space: "If we have high cultural values, we can't develop the buildings as efficiently as we can do in new builds. […] You know, you cannot do this and this, you cannot take out a door here, you cannot take a hole there."[509] In other words, there are fewer financial incentives to invest in renovations and complicated additions in contrast to demolishing and building anew. Complex additions and idiosyncratic legal provisions, moreover, do not typically fit the requirements of a globalized investment circuit that tends to put a premium on standardized and more easily tradable assets. As Rachel Weber argues, this is as much an effect of the physical limits to maximizing the rentable space, as it is the result of an investor bias for new and modern structures. This is the sort of bias which has driven the demolition of older office buildings:

> The quality of the construction is good, but when property owners are faced with discerning clients who want the coolest offices to attract competent staff, cubicles, a small kitchenette for the coffee maker and a dark meeting room just don't work. And it's at times like these that the owner asks himself

[506] Interview, Development Officer, Q.
[507] Interview, Real Estate Broker G.
[508] As with one of Pembroke's latest office projects. "Miljökritik när 50-åriga CBD-kontoret går i graven – Pembroke svarar", *Fastighetsnytt*, June 16, 2022.
[509] Interview, Property company I.

> the question: can it be rebuilt at a reasonable price or should the whole place be demolished so that something truly modern can be built?[510]

Extensive redevelopment, however, carries higher risks. Renovations and smaller additions do not require special permits, they cost less, and take less time to be completed. The answer to the question why the City has provided public assistance for rebuilding thus circles back to the issue of de-risking private investments.

In an interview with Svenska Dagbladet, the former chairman of the Development Board, Jan Valeskog, argued that subsidizing property development was a "win-win" for everyone involved: the developers are compensated financially and the municipality gets "new investments and life into the city." But he also highlighted that "many of these projects would have never happened without a waiver on land rents,"[511] the implication being that the municipality had little choice but to meet property developers halfway—otherwise the city centre will not develop. When pressed to explain why he thought that this was the case, his answer was: "You should ask the property owners about that."[512]

According to a recent report from Sweden's Property Owners' Federation (*Fastighetsägarna)*, the issue for property owners is twofold: the steady increase in land prices and the related uncertainty around future leasehold fee revisions. This is why the leasehold system, the report argues, essentially removes the financial incentive for property capital to invest in physical improvements to their existing stock. While it offers no concrete evidence, the report indicates that established rentiers on Norrmalm generally refrain from investing in extensive improvements, which, in turn, has "delayed the renewal of Stockholm's city centre and thereby weakened the city's position in the office market."[513] In a somewhat circular logic, the report invokes the raft of subsidies that have already been granted to property companies to rebuild in the CBD as evidence that the leasehold system creates investment barriers. However, on closer inspection, the uncertainty seems to be somewhat exaggerated.

According to the Swedish Land Code, leasehold fees are calculated based on the market value of the site, multiplied by a "reasonable interest

[510] "80-talet knackar på", *Fastighetstidningen,* September 30, 2022. Accessed at: https://fastighetstidningen.se/.
[511] Elisabet Andersson, "Byggherrar får rabatt för att riva i Stockholm", *Svenska Dagbladet,* October 26, 2016.
[512] Ibid.
[513] Fastighetsägarna, "Analys och effekter av tomträttsinstitutet i Stockholm. Förslag på tillämpningsprinciper 2.0" (Report, December 2020), p. 15.

[*avgäldsränta*]" on land capital.[514] However, due to the lack of a clear legal definition over what exactly constitutes a reasonable return, the *avgäldsränta* has become a regular subject of legal disputes between property owners and municipalities. Decisions over the applicable interest are thus decided on a case-by-case basis by the Land and Environmental Court.[515] In other words, reviews are practice- rather than rules-based, which is why leaseholders argue the system introduces significant uncertainty.

The only point on which property owners, the Courts, and the City can agree is that a fair *avgäldsränta* should not be higher than the return requirement on commercial property capital—i.e. the expected yield. Since the 1970s—when the first leasehold contracts in the CBD came up for revision—the benchmark for the *avgäldsränta* has been the long-term real interest rate. In effect, the leasehold fees are set to correspond to the cost of capital for purchasing the land. Accordingly, as interest rates have gone down since the 1980s, the return on municipal land capital has also been on a steady downward trend.[516] The uncertainty with respect to the setting of the leasehold fees, then, has been somewhat exaggerated.

In a twist of irony, in a recent court-based revision of leasehold fees in the CBD, property companies managed to reduce the interest rate based on the argument that the interest on municipal land capital should instead be tied to the interest on a risk-free government bond.[517] The rationale? Since the City is not investing in any improvements on the actual site, its return on land capital should not include any risk premium. The land value uplift which, by stroke of "pure market luck" has accrued to the landowner, should thus be appropriated by the risk-taker. In the words of Christophers, no matter how extensively governments intervene to reduce risks for private real estate investment, "the retort from the private sector will always be that they need to go further."[518]

[514] NJA II 1953 s. 373 (cited in NJA 1990 s. 714).
[515] Lars Fröjd, "Tomträttsavgäld – markvärde och ränta", CBRE, October 14, 2020. Accessed at: blog.cbre.se.
[516] The current rate for commercial land uses applied by Stockholm City is 3.25 percent, compared to an average rate of 5-6 percent in the 1970s and 1980s. See Fröjd, "Tomträttsavgäld – markvärde och ränta."
[517] Stockholms kommun genom dess exploateringsnämnd v. Fastighets AB Skjutsgossen nr 8 & Co KB, Nacka Tingsrätt, Mark- och miljödomstolen, 2025.
[518] Brett Christophers, *Out Lives In Their Portfolios: Why asset managers own the world.* (Verso Books, 2024), 167.

The limits and contradictions of the Stockholm Model

The limits of Stockholm's market-based policy were revealed in 2022, when the felicitous alliance of cheap credit and rising property prices which drove the property-cum-development boom of the 2010s was interrupted by a sharp increase in interest rates against the background of spiralling inflation. Crucially, raising the cost of capital has not only spelled direct consequences for property capital but also, by extension, for the market-based urban governance that depends on it.

As anti-inflationary measures were rolled out in 2022, the property sector with its extensive liabilities became a systemic risk to the financial sector.[519] As financing costs increased, companies were forced to economize by selling assets, scrapping dividends and, what is most concerning for local governments, postponing investments in planned and already ongoing projects in order to be able to service their debt. As construction rates shuddered in the following year, municipalities like Stockholm betting on a buoyant property market to finance public investments, found themselves between a rock and a hard place. Crucially, as interest rate hikes put a chokehold on the construction market, demand for housing stalled due to the significantly higher costs for borrowing; housing prices fell over 20 percent since 2022, which in turn affected the value of land and the viability of public investments.

Here we get a glimpse at just how intimately intertwined the city's political economy is with finance and property markets, and moreover, how delicate the financial architecture underpinning property-led urban governance really is. Even though Stockholm municipality is not directly exposed to risky and complex financial instruments to fund public investments in its own capacity, it is still closely affected by changes in the financial conjuncture of private developers and the vagaries of property and financial markets. That much has become obvious after the rising number of delayed and cancelled projects in the last three years, as property companies have tried to stay afloat while struggling to meet the rising obligations on their massive debts. The property developer Castellum, for example, put the brakes on a major office project in Hagastaden because it could not—or more precisely, would not—make a pre-agreed SEK 231 million payment to the City for the transfer of land and buildings per its development agreement. As the company's head of business development later clarified, the reason behind the delay was not simply an issue of meeting a one-off payment but the increased uncertainty of future returns:

[519] Charles Daly and Anton Wilen, "Why Sweden's $41 Billion of Property Debt Is Alarming Europe," *Bloomberg*, October 19, 2022.

> Right now there are weak conditions to get started so we have to do what is best for the company and it [delaying construction start] is a great solution. We are not talking about funds; we are talking about a market that needs to be stabilized. It is a fortune-telling ball that we cannot control ourselves. With the right market conditions, we will land it. But it is a market that rules us all. [520]

The municipality allowed the company, in turn, to defer payment and construction start for two years—without charging Castellum any penalties for the deviation from the contract. The City had little options, the Development Office concluded, as renegotiating the land allocation with a different actor in the middle of a downturn would have been much more expensive. In other words, Stockholm municipality has been forced to manage the fall-out from the crisis on behalf of developers, to ensure the viability of its own investments.

Crucially, when the stability of future property values is brought into question, it not only affects the profit-making prospects of private developers, but also the viability of hundreds of planned and ongoing development projects in which the municipality has substantial political and economic stakes. Ultimately, some projects will have to wait until market conditions improve. As a representative from the City's finance department acknowledged during our interview, the municipality has been under increasing pressure to prioritize: "maybe some projects need to be delayed and they are naturally delayed because not that many companies want to build now and it is much harder for us to sell the land at the price that we want."[521]

Relying on market-based urban governance, in other words, introduces a strategic imperative toward managing "the collateral effects" of financialization.[522] As Ashton *et al.* argue, the inherent uncertainty involved in the extraction of financial value from urban assets requires a re-organization of state powers "towards managing both economic and non-economic determinants of value flows to investors." In Stockholm's case, this imperative extends beyond the extra-ordinary measures that the City must take to safeguard the profitability of projects in the face of property and financial crises. Its market-driven development model, as this chapter demonstrated, entails a systematic deployment of the local state's market-making and financial powers to ensure a positive return for private investors.

Crucially, its capacity to do so relies on a potentially unlimited supply of public land. In that sense, the so-called Stockholm model is a crisis-prone

[520] "Prestigefylld kontorssatsning i Hagastaden hänger löst – Castellum vill inte betala staden", *Fastighetsnytt*, May 30, 2023.
[521] Interview, Stockholm City's Finance Department, 30 August 2023.
[522] Ashton, Doussard, & Weber, "Reconstituting the state."

model. In the long-run, the City's capacity to balance its political and financial objectives through the financialization of public land will diminish as it continues to burn its furniture in order to keep the castle warm. Danderyd is the proverbial canary in the coal mine. Unless the political and economic parameters of urban governance change, the city will have to find new ways to keep its property machine running.

Concluding remarks

By centering urban governance around the extraction of financial income from land, then, the municipality has become a profit-seeking real estate actor in its own right. However, while this is undoubtedly one of the central principles of municipal land policy in Stockholm today, in practice, the things are not as clear cut. Crucially, this means that it has become economically invested in sustaining the conditions of wealth accumulation in the property market.

The direct corollary of this policy, as Social Democrats warned in the 1970s, is a bias toward allocating land to the most profitable uses and ultimately redirecting investment away from those areas that are less attractive for capital to finance. The crucial change in view of implementing this policy—which I already teased in the beginning of this chapter—was reconfiguring the planning process around market viability by placing the Development Office (which represents the City as a landowner) at the forefront of land use planning.[523] Aside from the valuation of building rights, broadly speaking, the work of the Development Office revolves around identifying the most competitive uses to which land can be put depending on location and leveraging the municipality's productive and market-making powers (zoning, land assembly, infrastructure provision, and so on) to deliver attractive building rights to private actors.

The extraction of financial income from public land, however, is not an end in itself, but ultimately a means to achieve certain political objectives.[524] These political objectives, in turn, place certain limits on the municipality's profit-seeking actions. At minimum, this means weighing the provision of essential but not financially viable land uses, like public spaces, schools and childcare centres, against commercially profitable alternatives. Crucially, the municipality must also make strategic choices among commercially viable uses—housing, offices, retail, and industry—weighing returns with the need

[523] Zakhour, and Metzger, "From a 'planning-led regime.'"
[524] Christophers, "Putting financialisation in its financial context."

to ensure a functional city landscape. This means that the imperative to generate the maximum amount of value through land and property development does not necessarily translate to capturing (most of) that value for the public. More often than not, the surplus profits generated from the municipality's land market operations are used to open new avenues for profitable investment, and subsidize financially unviable or less profitable land uses on behalf of private investors. The municipality ensures, at the very least, that it can offer commercial developers competitive returns—even in those cases where the market cannot.

It is worth highlighting, however, that while there are clearly structural factors which have been in favour of adopting such a policy—such as the changes in municipal governance examined in the previous section—there is always room for adjustment. While current legislation requires that the management and disposal of all public land assets in Sweden be market-based, as Zetterlund finds in her study of municipal landownership in Sweden, the definition and operationalization of market-based land management varies considerably among different municipalities.[525] Broadly speaking, the approach tends to be shaped by the specific political and economic objectives that each locality aims to achieve through its land bank. These can range from the purely financial, such as securing the highest return on land, to more strategic goals, such as reaching housing construction targets. Crucially, then, how municipalities manage and value their land assets rests on certain assumptions regarding what the market *is* and *does,* and relatedly, what their role in relation to it ought to be. Accordingly, while some municipalities might position themselves as just another profit-maximizing actor (read: Danderyd), others try to actively shape market conditions to achieve certain long-term social and political objectives. Stockholm's approach currently falls somewhere between these two extremes.

[525] Zetterlund, *The Landed Municipality,* pp. 149-64.

7. Conclusion

The premise of this study is the exceptional concentration of capital in Sweden's real estate sector. Commercial real estate assets held by corporate rentiers are now valued at more than half of Sweden's GDP—a development, as this study demonstrates, which stands out in a historical perspective. How can this extraordinary accumulation of wealth be explained? Why real estate, and why at this particular moment? The thesis set to explore this concentration by examining the political and economic shifts that have enabled commercial property to emerge as a financial asset, and the role of the state in shaping its accumulation.

Surprisingly, the accumulation of wealth in the real estate sector has been relatively neglected in both public debates and scholarly accounts of Sweden's political economic trajectory—unlike housing, whose changing position in welfare regimes tends to loom large in critical analyses. And yet, not only has commercial real estate served as a basis for the significant accretion of private wealth in Sweden since the 1970s, it has also become increasingly central to the political economy of the Swedish welfare state. As the analysis hopefully demonstrates, commercial real estate is too important to be left entirely to the apolitical realm of real estate economics.

The thesis has demonstrated that the present conditions in the property market are the product of a convergence of myriad factors operating on different scales. Yet, as I have argued, two critical vectors of change have underpinned the accumulation of wealth in the Swedish property sector since the 1970s: on the supply-side, the broader political economic transformation of the Swedish economy which culminated in the deregulation of the credit market, and on the demand-side, the restructuring of urban governance around the financialization of public land. Both can be placed against the background of a broader shift toward market-based governance since the 1980s, and the reconfiguration of state powers around the regulation of risk. However, insofar as the state appears as a central agent and facilitator of property-led accumulation—whether on a national scale with the turn to monetary policy, or at the local scale with the reconfiguration of urban policy around the maximization of land value—I echo Greta Krippner's argument that its role has to be understood in its broader structuring context. In

the first instance, it was the fiscal crisis of the state occasioned by the broader structural crisis in the manufacturing sector that led to the move to deregulate finance. In the second instance, it was centrally imposed conditions of budgetary austerity and the devolution of fiscal responsibility to the local state which has led to the increased reliance on monetizing land assets.

The final remarks collected here serve to bring forward the conclusions drawn from the analysis and discuss how they contribute to broader debates on the political economy of the state and the role of public landownership in shaping the dynamics of property-led accumulation. While these insights are in large measure informed by the particularities of Stockholm's urban politics and the historical and geographical specificities of the Swedish political economy more broadly, I would argue that they nonetheless speak to wider dynamics—namely, the reconfiguration of governance around the management and mitigation of risk. I argued that the state, at various institutional levels, plays a central role in shaping the dynamics of accumulation in the commercial real estate market in two critical ways: *indirectly*, through the state's own growing "infrastructural entanglement" with financial markets, and *directly,* through the reorientation of urban governance around the use of municipal land as a financial asset.[526] In the two following sections, I summarize these two key points. The final part of the chapter reflects on avenues for future research.

Upholding the links between real estate and finance

The liberalization of financial markets in the mid-1980s marks a critical point at which the accumulation of value in the Swedish real estate sector began to increase exponentially. The changes that led to this progressive concentration, however, were not simply of a quantitative nature, as previous studies of the 1990s Swedish property crisis would have it. Nor where they limited to the removal of credit controls. As chapter 5 demonstrates, the progressive entwinement of finance and property since the 1970s was the product of a series of heterogeneous process unfolding at different scales. Some of these processes—such as inflationary pressures, changes in monetary policy and the worsening profitability in the manufacturing sector—have worked in more indirect ways. The structural crisis played an indisputable role in shifting surpluses out of production and toward alternative investment outlets, while inflation—in combination with a low interest rate policy—facilitated the flow of private wealth away from traditional forms of savings.

[526] Brett, Christophers, "The role of the State in the transfer of value from Main Street to Wall Street: US single-family housing after the financial crisis." *Antipode 54*, no. 1 (2022).

The abolition of rent controls on commercial premises in the early 1970s, on the other hand, was a decisive precondition for the switching of capital in the commercial property market. Accelerated by the deregulation of the financial market, by the end of the 1980s the confluence of these developments culminated in the formation of a property crisis, which elicited a state-sponsored consolidation of capital in the real estate sector. As the recapitalization of the property market after the 1990 crisis demonstrates, the state was crucial in restarting capital accumulation through interventions in the financial system.

In the end of chapter 5 I argued that the truncated analytical view of previous accounts of the 1990s finance-property crisis has led to the omission of the broader structural changes that have preceded, outlived and emerged from it. One critical development was the subsequent deployment of state capacities around the monitoring and management of financial risks associated with the real estate boom-bust cycle.[527] As I suggested in chapter 2, this role can be conceptualized more broadly as part of the state's growing "infrastructural entanglement" with financial markets.[528] Excluding the role of Securum in the resolution of the 1990s property crisis, the effects of the state's structural bias towards supporting the "depth and liquidity" of financial markets has so far affected the commercial real estate sector mostly indirectly. But as chapter 6 demonstrates, the effects are no less significant. Expansionary monetary policies in the aftermath of the 2008 Global Financial Crisis have been a crucial driver behind the debt-led growth in the commercial real estate sector and a major driver of the property and development boom in Stockholm's CBD. The related surge in institutional demand for commercial real estate assets after 2008 led to a surge in land and property prices, which in turn has triggered a new round of de-risking by the local state. The following section turns to these dynamics.

Public land and property-led accumulation

The roll-back of central government funding and the imposition of stricter budgeting rules since the 1980s have fundamentally changed the financial context of municipalities. Since the early 2000s, local governments have faced increased pressure to economize and prioritize investments in order to meet strict budgetary targets. Alternative sources of funding have been lim-

[527] After the 1990s property crisis, the Financial supervisory authority (*Finansinspektionen*) —which monitors the risks in the national banking- and finance system—regularly flags the commercial property sector as a systemic risk due to its high dependence on debt.
[528] Brett, Christophers, "The role of the State in the transfer of value from Main Street to Wall Street: US single-family housing after the financial crisis." *Antipode 54*, no. 1 (2022).

ited to raising debt and increasing taxes, or where municipalities have accrued extensive land banks—extract value from public assets. To avoid the financial risks inherent in the first and escape the political trade-offs associated with the second, many municipalities in Sweden—Stockholm included—have reoriented urban policy around the marketization, commercialization and privatization of public land.

The central imperative of Stockholm's urban policy in the last two decades, therefore, has been that all municipal investments—regardless of land use—must be self-financed through revenues from the sale or leasing of public land. The corollary of this strategy is clear: all development on municipal land must be commercially viable, which is to say that it must offer competitive returns to private developers. The guiding principle, as formulated in the City's planning strategy, is that "it is crucial to pursue those projects that are viable and can create added value"—an imperative which has been institutionalized through the embedding of developers' profits into project viability models. In this respect, Stockholm mirrors the Canadian case as described by Whiteside, where the actions of the CLC similarly revolve around value-enhancing strategies which serve to open "profit-making opportunities" for the private market. In this respect, it is worth emphasizing that while Stockholm operates according to a profit-maximizing logic, it does so to balance broader political and financial objectives. As the case study of the redevelopment of Slakthusområdet shows, the surplus value captured from public investments—i.e., what remains after covering the City's costs—is reinvested to initiate new cycles of accumulation, or profit-making avenues for private actors. As Stockholm's latest overview plan puts it, the City's urban development strategy revolves around leveraging public resources to "show[ing] the market the way."

Crucially, by enabling Stockholm municipality to both minimize its own financial risks through a reduced reliance on external debt *and* attract private investment by de-risking property development, land value capture—as Bloom argues in the UK context—has effectively come to serve as a "technology of risk management".[529] However, where local governments in the UK have pursued debt-led speculative investments through arms-length property companies, in Sweden, the local state explicitly refrains from pursuing property development under its own auspices. This difference is critical, inasmuch as the value created through state-led investments is captured predominantly by private actors rather than the state.

[529] Bloom, "Public land, value capture, and the rise of speculative urban governance in post-crisis London."

What remains to be explored

As any academic endeavour, the present thesis has certain limitations, which are both empirical and analytical in nature. While I have tried to fill in some of the empirical gaps with respect to the general neglect of commercial real estate in the dynamics of property-led accumulation in Sweden, there is still a lot that remains under-examined. As I mention in the beginning, this thesis offers only a partial analysis of the commercial real estate market, insofar as it focuses only on offices. Two submarkets which have been left out from this study but have also seen an incredible growth over the last few years alongside the office market, are logistics and social infrastructure[530] (schools, healthcare facilities, retirement homes, government buildings, and other community properties). While some of the driving factors that have emerged from the analysis will be relevant to understand the dynamics of accumulation in these two segments, there are also crucial differences with respect to the main drivers behind their success which might nuance our understanding of the dynamics of property-led accumulation in Sweden. As I already mentioned in the introduction, the development of industrial real estate (for sale and rent) has skyrocketed in the last five years as a result of the expansion of online commerce. According to Cushman & Wakefield,[531] over 50 per cent of the entire stock in the Swedish logistics sector (ca. 14.9 million sqm) has been added in the last decade. The actors in this segment differ completely; most companies are held by asset managers, such as the Blackstone-owned Mileway, Blackrock, Barings.[532] The overwhelming success of social infrastructure investors, on the other hand, is tied to the trend of sale-and-leaseback deals in the public sector. One of the most successful actors in this category, the property company SBB which was founded in 2016, climbed to the top of the list in just five short years.[533] Supercharged by low interest rates, the company has also become a major developer of rental community properties, form elderly care homes, schools, to rental housing.

As I already mentioned in the beginning, the account of the state's role provided in the thesis is inevitably selective. In terms of the intersection of property-led accumulation and the state, one significant aspect of state action that remains unexplored here is the state's own entanglement with the real estate market both through arm's-length property companies and through the national pension system. An exploration of the rationale and role of state-

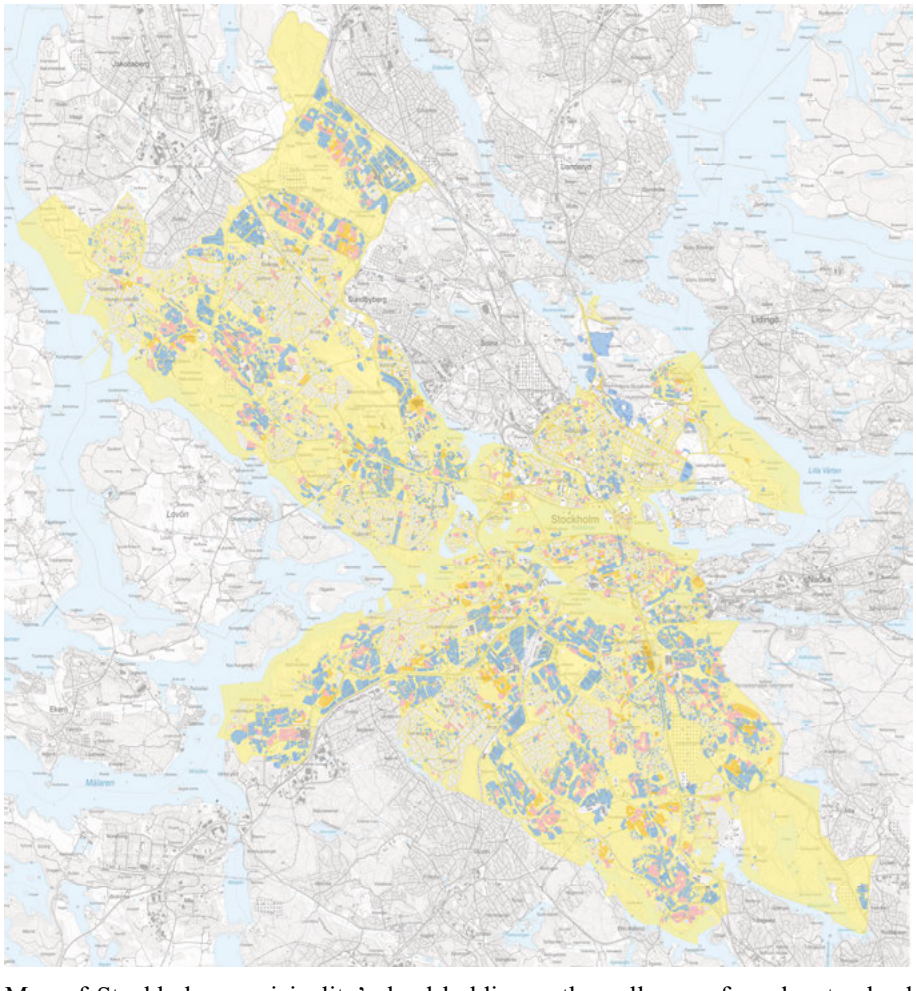
[530] In Swedish *samhällsfastigheter*.
[531] Cushman & Wakefield, *Logistics Sweden 2024* (2024).
[532] ibid, 15; Colliers, *Listed Overview 2023* (2023).
[533] The company has been since dethroned following the rise of interest rates in 2023, which forced it to sell a significant part of its assets in order to be able to service its massive debts.

linked property companies could serve to nuance the argument of the thesis concerning the politics of risk. While monetary and urban policy, as I have argued, revolve around risk mitigation and structural support for private accumulation, government-linked property actors occupy a distinct position: they engage in property speculation and risk taking in their own right, yet do so within the same framework of a financialized welfare model mirrored in the restructuring of urban governance around the financialization of public land. To answer the questions that I laid out in the beginning requires exploring these links more fully.

Appendix A. List of respondents

Respondent	**Date of the interview**
Real Estate Broker A	21.05.2021
Property Company B	25.05.2021
Property Company C	28.05.2021
Real Estate Broker D	31.05.2021
Property Company E	01.06.2021
Political Representative F	02.06.2021
Real Estate Broker G	21.04.2022
Development Officer H	01.07.2022
Property Company I	30.11.2022
St. Eriks Markutveckling (SEM)	21.12.2022
Property Company, K	10.01.2022
Development Company, L	16.05.2022
Real Estate Broker, M	24.11.2022
Political Representative, N	01.12.2022
Real Estate Valuation, O	24.11.2022
Civil Servant, FO, P	19.08.2023
Development Officer Q	12.08.2025
Political Representative R	14.08.2025
Property Company S	24.08.2025

Appendix B. Map of Stockholm municipality's land holdings.



Map of Stockholm municipality's land holdings—the yellow surface denotes land owned by the City, the blue denotes leasehold land, the pink denotes privately owned land (source: Stockholms Stad Geodataportalen).

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