

Urban redevelopment, public land and speculation: strategies and conflicts in Porto Maravilha - Rio de Janeiro

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The Porto Maravilha project

The aim of this paper is to contribute to the debate on the production of financialized spaces within contemporary cities. Specifically, we will present a case study that is located outside of the main urban centers of advanced economies. Instead of producing a solely theoretical paper, our goal is to debate the financialization of real estate in the Brazilian context through the case of Rio de Janeiro's port redevelopment project, Porto Maravilha.

The analysis will focus on the project's financial structure, based on an urban development instrument called "Urban Operation", addressing specifically how it impacted the management of public land. In our understanding, this regulatory tool is representative of the growing influence of financialized rationales in the governance of Brazilian cities.

The Porto Maravilha project aims at redeveloping a dilapidated area near Rio's city center. The stated aim is to create a mixed-use neighborhood, bringing together housing, commercial towers, services and touristic venues. The project encompasses the harbor area itself, plus a few adjacent neighborhoods that have for long been stigmatized as poor and abandoned places. Still populated by a not small number of low-income residents, it has been marginalized by governmental authorities and by wealthier social groups that started to leave the central residential neighborhoods since the first decades of the 20th century towards new areas.

It is interesting to see how this project follows an underlying rationale very similar to the one identified by Neil Smith (1996) in contemporary process of urban redevelopment. The urban frontier metaphor is used by agents ahead of the project to explain and justify the importance of Porto Maravilha. In the words of Rio's current mayor,

"Our focus is the port area. Rio de Janeiro always fled going west. The center is degraded? Go to Copacabana. It's over, go to Ipanema, then Leblon. Afterwards they invented Barra da Tijuca. Now, for the first time in history, there is a willingness to return to the center, to

revitalize an area of 5 million square meters [...] **The government is looking for new frontiers, so we created Porto Maravilha**"¹ - Eduardo Paes. (emphasis added)

According to Smith, "The frontier discourse serves to rationalize and legitimate a process of conquest, whether in the eighteenth-century and nineteenth-century West, or in the late twentieth-century inner-city" (Smith, 1992). The urban frontier imaginary perceives the inner-city population as a natural element: an element of wilderness in opposition to civilization, an object of territorial and social conquest.

When reading the above quote from Mayor Eduardo Paes, one could suppose that this is the first time that a project of this kind has been conceived. The idea to redevelop Rio's port area, however, is not something new. But is true that some previous attempts have failed, and Porto Maravilha project gathered a set of economic, political and regulatory conditions that finally allowed it to be implemented. The timeline below shows the most important events since the launching of the project.

Brief timeline of the developments in Porto Maravilha

- | | |
|-------------|--|
| 2009 | Municipal law <u>n° 101/2009</u> created the Urban Operation in Rio de Janeiro's port area
Municipal law created n 102/2009 CDURP – company that will manage the redevelopment project |
| 2010 | Police Pacifying Unit (UPP) created in Morro da Providência
Port area included in the Rio Olympics 2016 plans (by request of the mayor)
The municipality and the Consortium Porto Novo signed the public private partnership contract to develop a new infrastructure and provide services |
| 2011 | CEPACS were auctioned and bought by FGTS
Olympic Committee agreed to the placement of some venues and operative facilities in "Porto Maravilha" |
| 2012 | Trump Towers announced the development their first building in the country inside the project's area |
| 2013 | MAR (Museu de Arte do Rio) was inaugurated |
| 2014 | After his attempt to implement some Olympic venues in the area in order to boost the project, Rio's mayor proposed to remove all Olympic related construction from the Port area all together |

¹ Interview with Eduardo Paes (Carta Capital, 2013).

Complementary law 143 stimulating residential use in the area (new built or retrofit/
reconversion
First round of implosions in “Elevado da Perimetral”

2015 Tishman Speyer announced the development of their first residential building in Rio
within Porto Maravilha

Urban Operations: a new pattern of urban redevelopment

Urban operations have become an emblematic regulatory tool employed by municipal governments in Brazil to promote urban redevelopment policies, especially in a context of the alleged fiscal retrenchment of the State. The first attempts to promote large-scale urban interventions based on this mechanism trace back to the beginning of the 90s. It is currently assumed in speeches made by enthusiastic policymakers, real estate developers and even scholars that this regulatory tool enables city governments to carry out developmental plans without spending public resources.

An urban operation consists of the financing and implementation of a set of improvements within a delimited area of a city by selling bonds that can be converted into additional development rights inside its perimeter, called Certificate of Additional Development Rights (CEPACs). Since urban operations are regulated by the Charter of the City (Federal Law n. 10.257/2001), its implementation requires the approval of a specific law by the local government defining some of its main aspects. This law addresses issues like the area of the intervention, the zoning rules applied inside it, the aggregate stocks of additional development rights, the conditions for negotiating these rights, the general guidelines for the improvement program and the basic governance framework to manage the project. The CEPACs are issued by the municipal government and sold through public auctions. These bonds are tradable securities that can be bought by anyone, without necessarily being connected to a specific project.

There are two aspects in urban operations that turn them into illustrative examples of contemporary patterns of urban regulation. First, all the funds raised through the sale of the CEPACs must be reinvested inside the perimeter of the urban operation. This mechanism ties these resources to the Urban Operation’s area, not allowing them to

be invested in other parts of the city. This structure avoids cross-subsidization, undermining comprehensive redistributive urban policies and reinforcing uneven development (Massoneto, 2003). The second feature relates to the securitized form of these additional development rights. They are traded independently of any connection with a specific project, and so comprises financial assets with autonomous value. The CEPAC is, fundamentally, a title of fictitious capital issued by the State. Based on these characteristics, we argue that urban operations are an emblematic symbol of the financialized production of urban space.

The valorization of CEPACs is dependent on the increase of real estate prices within the perimeter of the urban operation. The issuance and commercialization of CEPACs is a way of anticipating revenues that would be collected in the future if a demand for it was created. By capitalizing on future expectations, the government raises upfront cash and invests it in a way that may trigger an effective increase of real estate values.

Because of this entrepreneurial logic, the state ends up assuming roles that are increasingly similar to that of developers and speculators. All of its actions begin to be guided towards the pursuit of a permanent increase in real estate prices, a fundamental condition for guaranteeing returns for those who invested in CEPACs and, by doing so, securing a future demand for them.

An inevitable outcome of such a regulatory arrangement is that the city government becomes prone to neglect social claims that do not help to enhance property values. They might even avoid them if such demands go against this goal. The state might disregard demands such as the provision of low-income housing in the area of intervention, or even assume a tougher stance in this direction, becoming an active agent of displacement and gentrification (Fix, 2001; Weber, 2010). Policies of this kind are never openly admitted since political institutions must deal with issues of legitimacy and the building of social consensus. They reveal a contradiction between discourses and practices surrounding these policies (Vainer, 2011).

The financial engineering underlying Porto Maravilha

Before Porto Maravilha, the funding of urban operations were carried out by a series of auctions in which the overall stock of additional development rights were gradually sold. These transactions used to occur in the stock exchange and there used to be multiple buyers of the CEPACs at each time. However, Porto Maravilha followed a different path. Instead of sequential auctions and a plurality of buyers, all the stock of CEPACs was sold to one agent within a single auction. The condition requested by the municipal government to sell the CEPACs to a single buyer was that it accepted to bear all the costs of the urban operation, which comprised: a public-private partnership contract with a private company charged with building infrastructure and operating some public services (around R\$ 7,6 billions), and the estimated managerial costs of CDURP, a public company charged of coordinating the implementation of the whole project (around R\$ 400 millions). The overall estimate was about R\$ 8 billion².

The structure of land ownership within the area challenged the ability of private agents to mobilize it for development purposes. Most of the land within the port region was public and spread through different state agencies and levels of government. Estimations on the total amount of development rights embodied in the private plots within the urban operation perimeter indicated that they would be able to absorb 25% of the CEPACs. The other 75% would become virtually useless assets if public plots were not available for real estate developments. This situation led to the inclusion of public land as an integral part of the sale of these certificates. A single bidder (FGTS) agreed to assume the liability of funding the whole urban operation as a condition of buying all the stock of CEPACs, but after demanding the inclusion in the transaction of a set of public plots enabling the use of 75% of these certificates.

This contractual structure virtually disabled the allocation of public land inside the perimeter of the urban operation for any other purposes than fulfilling these contractual obligations. In a general sense, the regulatory framework developed in this project enhanced a trend that had already been observed in other urban operations:

² These were the nominal values of the mentioned obligations by the time when the sale of the CEPACs was concluded, in June of 2011. In current values, the total expenses of the urban operation are around R\$ 10 billion (US\$ 3,5 billions).

the use of public assets to foster market dynamism and the insulation of public institutions from political and democratic control.

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