The geopolitics of real estate: assembling soft power via property markets

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Abstract

The article problematizes the role of real estate in geopolitical circulations. The internationalization of real estate increases mutual dependencies and vulnerabilities between nation states and therefore calls for a better appreciation of the geopolitical externalities and exteriorities of real estate. The article brings together disjoint bodies of literature on real estate globalization, assemblage theory, and international relations to show how real estate is a case of the geopolitics of the multiple – geopolitics that is being assembled by diverse and distributed actors, discourses, and materialities representing the contingent and emergent formation of connections and considerations, which affect the ways how foreign relations are negotiated today. The argument is substantiated by considering several dimensions of the real estate/geopolitics nexus: (i) external influences over domestic real estate markets; (ii) the implications of outward real estate investment; (iii) state-led mega-projects conveying externally the power of the state. These dimensions are considered empirically in the context of the renewed geopolitical tensions between a resurgent Russia and the West. Overall, the article calls for a better positioning of real estate in the conceptualizations of soft power, state power, and geopolitics.

Key words: real estate internationalization; geopolitics of the multiple; assemblage; soft power; soft geopolitics; Russia
Introduction

Real estate is increasingly internationalized. Ever more property actors penetrate markets beyond their area of origin, drawing on multiple networks and sources of knowledge, finance and materials. A growing body of research investigates aspects of this process, ranging from cross-border property investment, the transfer of knowledge to the transformation of real estate into liquid financial assets. Yet, this literature hardly explores how the internationalization of real estate affects geopolitics, that is, ‘struggles over territories for the purpose of political control over space’ (Lacoste, 1993, p. 696). And yet, as newspapers write on an almost daily basis about the ‘invasion’ of global cities by foreign property investors, there is a growing awareness that the geopolitical relations of property internationalization warrant academic investigation (Rogers, Lee, & Yan, 2015).

Setting out from this (lack of) recognition, the present article seeks to explore some of the venues that may expose the ‘geopolitics of real estate’ (Büdenbender & Golubchikov, 2016; Golubchikov, 2013): that is, how the internationalization of real estate interplays with, and redefines, contemporary geopolitics and how the latter is made more complex as a result, involving actors and discourses that can sit inside but also outside formal state institutions. Indeed, owing to its multi-scalar and distributed nature, the realm of real estate fits well both into those conceptualizations of state authority that see the latter as de-territorialised and diffused (Agnew, 2005) and into the new conceptions of geopolitics, which, as Moisio and Paasi (2013, p. 257, drawing on Reuber, 2009) suggest, ‘refers to a complex assemblage of phenomena and agency, such as geopolitical discourses as representation of space and power, or the geo-policymaking of political actors, scientists, consultant, and the media…’. What this also alludes to is an increasing messiness in the construction of international relations in the era of globalization, giving rise to what we call here the ‘geopolitics of the multiple’.

In the following, we discuss the extant literature and its inattention to the geopolitical intricacies of real estate. We explain this with a lack of dialogue between bodies of relevant literatures. On the one hand, work on real estate internationalization focuses on private actors, which are not commonly associated with international relations or geopolitics. On the other hand, the state-centrism of traditional International Relations (IR) has weakened this discipline’s ability to account for non-state actors and their multi-scalar and interpenetrating relations. We take inspirations from political geography, the idea of ‘soft power’ and assemblage thinking to account for the complex actors and channels making up states’ interrelationships in the global political economy. We argue that real estate is a case of ‘the geopolitics of the multiple’ - that is, increased international influences and dependencies that emerge not simply through the conscious actions of institutionalized authority but also circuitously, via the wider assemblages of actors, practices, discourses, and materialities.
We explore our propositions empirically through the instance of Russia. The case is interesting given the renewed geopolitical tensions between a resurgent Russian state and the West. The internationalization of real estate, driven both by foreign actors in Russia and by Russian interests abroad, has created interdependencies, which contribute complexity to the ways international relations between Russia and Europe are negotiated today. We firstly overview the internationalization of property within Russia, and show how this process is shaped by competition between institutions and organizations representing different nationally specific interests. We explore the ways in which these dynamics have defined and affected geopolitical considerations. Secondly, we turn our attention to the opposite directions of internationalization, that is, Russian real estate activities abroad; here, we focus on both property investments in the so-called safe tax havens and Russians’ property acquisitions in Southern Europe as examples of non-state-driven geopolitical assemblages. Thirdly, we consider the overseas expansion of the Russian Church via property acquisition and the realization of mega real estate projects within Russia (Sochi Olympics) as domains that are more commonly associated with Russian soft power and international influence. These varied cases will help us illustrate how real estate is charged with geopolitical symbolism and soft power corollaries.

Seeking the geopolitical in real estate globalization

Following Clark and Lund (2000, p. 468) the globalization of real estate implies a growing number of actors “at increasing distances from the market area, involved in the production, ownership, maintenance, use and reproduction of the built environment.” This process is not only driven by the international expansion of property investors and consultants but also by the increasing integration of all types of real estate, from housing to infrastructure, into global financial flows (Aalbers, 2016; Weber, 2010). Indeed, financial de- and re-regulation, innovation and the rise of institutional investors have facilitated the transformation of spatially fixed and idiosyncratic properties into ‘just another asset’ that can be traded like any other financial product (Loon and Aalbers, 2016).

While real estate internationalization is driven by economic interests, the scale and scope of this process creates vulnerabilities and leverage that those girded with state power and other actors may consider when negotiating their states’ position in the international political economy. Yet, the literature exploring the internationalization of real estate does little in the way of addressing the potential geopolitical implications of this process. If considered at all, geopolitics is used descriptively, as a context in which business is conducted (e.g. Maier, Kaufman, & Baroian, 2014), not as a process that may well involve real estate itself as one of its ingredients and that needs to be problematized as such. In other words, there are no explicit attempts to consider the co-production of real estate and geopolitics – i.e. seeing geopolitics not merely conditioning, but also conditioned by, real estate production and circulation.

One reason for this inattention to the role of real estate in the production of geopolitics lies with this literature’s predominant focus on private actors, such as households (Cook, Smith, & Searle, 2013; Montgomerie & Büdenbender, 2014), real estate businesses (De Magalhães, 2001) and foreign investors (Rogers et al., 2015) – as opposed to nation states
and international relations. This is further complicated by two other factors. First, the use of geopolitics in this literature is somewhat bounded by state-centrism of international relations (IR) that has traditionally shaped geopolitical imaginaries even well beyond its own discipline (Flint and Taylor, 2011). In traditional IR studies, state sovereignty is considered contingent on territorially bounded state spaces; domestic and foreign affairs are seen as separate; state power is performed by formal state structures. It is not surprising then that the networks of private real estate actors are not considered as agents of IR and of geopolitical relevance, while state power is seen tangentially, as external to real estate circulations. Second, even when rejecting the crude idea of state capture, the literature on real estate internationalization nevertheless tends to emphasise a weak state vis-à-vis international real estate interests and to see regulatory changes as the outcome of the seductive powers of private markets (e.g. Aalbers, Engelen, & Glasmacher, 2011). The interplay of state power and real estate internationalization is consequently seen as producing ‘downward’ effects for state power, while the potential for the ‘upward’ effects, such as consolidating, circulating and discharging state power via real estate processes, remains beyond the explanatory nets of this literature.

Recent advances in political geography and IR studies, however, challenge state-centrism and the view of the state as necessarily weak; they offer conceptual tools to better account for the multiple actors and spaces of modern statecraft, which can also enrich the real estate internationalization literature. For example, state-space theory, exploring the relationships between economic globalization and the spatial organization of the state, rejects the notion of the nation state being hollowed-out; it instead highlights a shift in state spatial priorities from the all-national territorial development to selected subnational locations as strategic sites and scales for state regulation and accumulation (Brenner 2003, 2009). In conjunction with an increasing openness of national economies and a greater regulatory power of supranational agencies, this process is conceptualized as ‘glocalization’ (Brenner, 2004; Swyngedouw, 2004). It also considers ‘glocalized’ real estate projects and processes as a way of making states externally competitive – although the focus here is on geo-economic, not geopolitical competitiveness, as well as on a purposeful agenda-setting by state agents (Cowen and Smith, 2009; also Moisio & Paasi, 2013). However, despite its advances, the literature preserves a hierarchical, scalar language and imagery, which makes it difficult to capture non-hierarchical (and oft-unintended) embodiments and entanglements of state power (Allen and Cocharane, 2010).

What is more, Agnew (1994; 2004), argued that conventional IR theory has led to a ‘territorial trap’ and that territorially bounded ‘container’ perspective of the state is insufficient to account for the diverse spheres, actors, and materialities that make up the infrastructure of state power and geopolitics. Nye’s (1990; 2004) concept of ‘soft power’ may address these criticisms, at least to some extent, as it opens up conceptual space to account for alternative, benevolent and non-coercive means of state power, such as cultural diplomacy, economic links, and co-option. Nye’s writings have been particularly directed at analysing the role of soft power in promoting US interests in the contemporary world. As such, the origin and the use of this concept is inherently geopolitical. Indeed, it has been quickly adopted in writings on geopolitics, informing, inter alia, the distinction between ‘hard’ and ‘soft’ geopolitics (Gritsch, 2005). While the boundary between soft and hard
power – and between soft and hard geopolitics for that matter – is open to interpretation, the key value of the idea lies particularly in its recognition that non-state actors can be (and are) part of the production of geopolitical landscapes.

The above-discussed works can elucidate our understanding of the different scales, domains, and agents of state power under globalization. What is still missing, however, for the purpose of our analysis is a unifying framework that would capture how exactly multi-scalar and distributed places, actors and relations can come together to perform ‘the geopolitics of the multiple’, and the role of real estate within it. Thinking geopolitics through assemblage theory is an apposite strategy to address this gap.

Assemblage theory, while admittedly representing diverse and not always consistent arrays of ideas, draws on philosophical traditions that emphasize the heterogeneity and relationality of things, people and the broader world of substance, material being and experience (Deleuze & Guattari, 1988). This provides the foundation for analyses of the co-combination and mutual constitution of what is often ontologically divided: material things and bodies, social representations, and subjective experiences (Robbins & Marks, 2009, p. 197). DeLanda (2006) proposes assemblage as a theory of ‘relations of exteriority’; in other words, a whole (e.g. a state or company) is made up of component parts, material and immaterial, which are themselves not reducible to their function within it, nor to a single logic, but can simultaneously be part of other wholes or reassembled into other relationships (Dittmer, 2014; Ong and Collier, 2005). A particular focus here lies on emergence, contingency, performance and events rather than on formations and permanencies (McFarlane, 2009). From this perspective, the state appears not as a territorially closed and internally coherent unit, but rather as fickle performative assemblage of heterogeneous and continuously transforming components.

A number of scholars have applied elements of assemblage thinking to the realm of state territory and power. Sassen (2008), for example, conceptualizes modern state power in terms of assemblages of distributed authority, which are constituted and continuously renegotiated by state hierarchies, private actors, partnerships and supranational institutions. Following Allen & Cochrane (2010, p. 1078), such assemblages ‘perform a key role in effectively unbundling what were formerly seen as exclusive territories such as the nation state, but in ways that produce partial formations of private and public authority operating according to their own rhythms and spatial practices’. In addition to accounting for the role of different actors and materialities in making up assemblages of state authority, the perspective repudiates the oppositions between territorial and relational, macro and micro, domestic and foreign. It also emphasizes the contingence of state power on the dynamics of its constituent elements.

Turning to geopolitics more directly, Dittmer (2014, p. 386) argues that ‘assemblage embeds a relational ontology that dissolves the macro/micro scalar tensions at the heart of geopolitics.’ Indeed, geopolitics emerges here as a domain of the multiple – as emergent and diffused, performed by a multiplicity of agencies that produce dynamic narratives, subjectivities, actions, and routines that interplay with the more formal spheres of international relations. From this perspective, geopolitics may well also appear within and through the worlds of real estate.
Of course, there are still copious debates with respect to assemblage theory per se, including critiques of its ability to conceptualize the forces that hold assemblages together, account for underpinning motives of actors, as well as for the more persistent and hegemonic tendencies and causalities (Fuller, 2013). However, our take on assemblages is more tactical than ontological. Assemblage thinking equips us with a more integrative and interpretive apparatus that mediates between the perspectives offered by the works on real estate internationalization, state spaces and soft power, thus, facilitating proper initial accounts of conceptualising the geopolitics of real estate as the geopolitics of the multiple.

In order to specify and substantiate this perspective, we will now turn to different dimensions of the real estate/geopolitics nexus. We structure our discussions with attention to the following themes: (i) external influences and objectives shaping Russia’s domestic real estate markets; (ii) the geopolitical implications of Russia’s property investments abroad; (iii) mega-projects that externally convey the power of the state.

The internationalization of real estate from the outside in

Real estate as a marketable and profit-making good emerged during Russia’s transition from state socialism to capitalism. During late socialism most properties, including land, buildings, factories, infrastructure, were state owned or collectivised. In 1990 before privatization began, 67% of the national housing stock was state-owned. In urban areas, state ownership was even higher with 79% of the housing stock in state hands. In rural areas housing tenure was more balanced with only 37% state- and 54% private home ownership (Kosareva, 1993, p. 202). In the 1990s, large-scale privatisation and liberalisation programmes transferred a sizeable portion of real estate to private hands, opening opportunities not only for local but also for international advisors and investors.

Indeed, national and multinational bodies ‘emerged en masse at the end of the Cold War, at the end of history, marching out of American and Europe to teach the rest of the world to be like them’ (Pomerantsev, 2014, p. 36). Sweden, for instance, played a key role in the development of Russia’s land registration and cadastral system (Volovich & Nikitina, 2012), while German experts and state institutions provided expertise in the field of spatial planning (Wende et al., 2014). While they were all ‘missionaries of democratic capitalism’ (Pomerantsev, 2014, p. 36), ideological differences concerning the specific financial, legal and institutional systems they promoted remained. The development trajectory Russia or other transition countries would take mattered internationally as it was thought to determine which countries would be able to extend political influence and benefit most from the newly created markets.

The choice of the national housing finance model is a case in point. The adoption of a housing finance system in Russia was shaped by the competition between institutions

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1 The higher share of privately owned housing in rural areas can be explained with the urban bias of socialist policies, which often left rural-dwellers to their own devices including the provision of housing (Harloe, 1996 for an overview of Soviet housing policies see: Sillince, 2014)
representing different national models (Stephens, Lux, & Sunega, 2015). For example, even though German Bausparkassen² offered advantages in the Russian context (which was characterized by the undeveloped banking system, few institutional investors, and the absence of personal credit histories) they were not able to dominate the expert discourse (Khmelnitskaya, 2014, pp. 161–162). US-based actors spearheaded by the US Agency for International Development (USAID), who lobbied for mortgage-backed securitization³ (Zavisca, 2012, pp. 49–69), decried the Bauspar system for not being ‘modern’ and side tracking savings ‘out of the normal financial system’ (Diamond, 2002, p. 4). They succeeded, and between 1993 and 1998, the legal foundations for a secondary mortgage market were put in place and the Agency for Housing Mortgage Lending (AHML), modeled after US Fannie Mae, was established.

America’s ability to promote financial globalization to enhance its own ‘soft power’ has been widely researched (Panitch & Konings, 2008; Seabrooke, 2001). Focussing on the globalization of real estate, Gotham (2006) showed that the US actively steers this process by promoting the adoption of financial tools, standardized legislation and best practices. Yet, it is evident that the US was only partially successful in incorporating Russia into a US-dominated system. In the early years of transition, the development of the primary mortgage market – not to speak of securitization – was inhibited by a dysfunctional banking system, high inflation and interest rates (World Bank, 2003). In the 2000s, when Russia experienced economic growth, mortgages began to take off; yet, lending was primarily financed by state-owned banks and government subsidies. Even though securitization grew rapidly in particularly 2006-2007, its share of overall mortgages remained around 5% (IFR Russia, 2008).⁴⁵ Regardless of these limitations, the US has succeeded in extending its ideological hegemony. Despite the blatant anti-Americanism in Russia’s present-day politics, Russian policy makers do not question the superiority of long-term debt over saving models in housing finance. The US-backed institutions have firmly determined all key parameters in which housing-related policy reforms are pursued. Furthermore, the institutional and legal infrastructures are in place to kick-start full-fledged securitization at a right time, in this respect making the extension of US financial power an imminent possibility in the future.

It is not only via the institutions and mechanism of housing finance that the geopolitics of real estate has been demonstrated. The permeation of property by foreign capital and

² The system of Bausparkassen is a comprehensive instrument for financing homeownership. It is based on a loan-savings collective that is independent from the capital market. Housing loans are financed by the savings of ongoing members and redemption payments of those who have already been given a loan.

³ In the process of securitization lenders move mortgage loans off-balance and sell them as financial asset to investors. The role of securitizers is taken by so-called special purpose vehicles. They are the market makers who buy mortgage portfolios from lenders (‘originators’), package them and resell them as MBS to investors (Aalbers, 2008, p. 152).

⁴ To put this into perspective, mortgage securitization in the U.S. amounted to more than 50% of the mortgage market in 2009 (Federal Reserve, 2009).

⁵ It is important to note that the failure of the US model of securitization did not leave a complete vacuum in the provision of housing finance. On the contrary, since the early 2000s the Russian state has actively promoted mortgage financing by offering subsidized housing loans to different sectors of society, e.g. families (through maternity capital) and state employees (subsidized mortgages for teachers and housing vouchers for military families) (Khmelnitskaya, 2015; Zavisca, 2012).
expertise as well as the acquisition of land and real estate abroad are key sites through which (multi-scalar) international relations unfold. Already in Soviet times, a few foreign real estate companies operated in the Soviet territory as part of specific bilateral trade agreements. Turkish Enka and Finish YIT, for instance, were involved in infrastructure projects and participated in the reconstruction of historic buildings (Enka, 2016; YIT, 2012). When the Soviet Union collapsed, these companies continued to operate in Russia. Yet, it was not until the early 2000s when Vladimir Putin was elected President that the internationalization of property gained a wider momentum. Upon his arrival in power, Putin reformed political institutions and the tax system, putting an end to the previous decade of institutional chaos. Coupled with rising oil-prices these reforms initiated a period of economic growth, which translated into rising salaries and growing consumer appetite, giving rise to a boom in office and retail construction (Rutland, 2008).

This expansion in development activities was heavily financed by foreign capital. Indeed, in the context of notoriously high inflation in Russia and a liquidity glut globally, foreign capital readily replaced domestic sources of funding (Arakelyan & Nestmann, 2011). Not only were all real estate banks operating in Russia foreign owned, but Russian banks themselves increasingly financed their lending activities on international capital markets (Egorov & Kovalenko, 2013). What is more, foreign investors began to enter the Russian market directly. According to the estimations of leading real estate consultancies, the share of foreign investors in commercial real estate transactions reached over 60% between 2004 and 2008 (Cushman and Wakefield, 2016, p. 14; JLL, 2014, p. 4). While this number should be treated with caution, as it is likely to over-represent more transparent transactions involving foreign capital as well as to reflect an offshore structure of Russian business, it is unquestionable that the share of foreign capital and investors engaging commercial real estate transactions in Russia increased dramatically.

The presence of foreign property actors, dependence on external capital and offshores not only made Russia vulnerable to global economic shocks but also opened up a new stage for its geopolitical relations. Foreign businesses, especially those owning extensive real estate in Russia, are naturally interested in its political and economic stability. This has become visible in the context of the Russo-Ukrainian conflict and the ensuing sanctions that were levied by the West against Russia in 2014. Calls by German companies (such as retailer Metro) to end the sanctions were so loud and persistent that the German lobbying association BDI felt pressured to send a disciplining letter to more than 1000 of its members (Deutsche Wirtschafts Nachrichten, 2015). Even diplomats acknowledged that business interests put the German government under pressure to avoid potentially tougher sanctions on Russia (Karnitschnig, 2014; The Economist, 2014a). While property-related companies are not the only ones to lobby against sanctions, they have good reasons to be particularly concerned. As real estate is fixed and capital intensive, making market-exit difficult and expensive, property-holding companies are particularly vulnerable to any lasting disruptions of international relations.

As we have shown above, the internationalization of real estate through the entrance of foreign knowledge, actors and capital creates complex assemblages of distributed authority. Internationalization can be part of a soft geopolitics agenda, as in the case of US
financial power. Alternatively, as in the case of foreign real estate interests in Russia, internationalization generates new interdependencies. Furthermore, the geopolitics of real estate is not only shaped by engagement with external influences, but can equally be assembled by outward-oriented activities. In the next section, we will examine how the ‘export’ of Russia’s private and public capital creates an infrastructure through which geopolitical relations are further negotiated.

**Going global: the geopolitics of outward real estate investment**

The uneven and at times contradictory assemblages of state power through real estate internationalization becomes apparent in the outflow of Russian capital into properties abroad. Russia is a major outward investing country, with its only officially registered stock of cumulative outward foreign direct investment (OFDI) having risen from US$2 billion in 1993 to $479 billion by 2014, although then shrinking to $336 billion by 2016 (CBR, 2016). This makes Russia second largest foreign direct investor among emerging economies (Panibratov 2010).6

Real estate makes up a major part of this, exceeding 20% of all OFDI according to some estimates (Kuznetsov, 2011, p. 7). Whilst the international expansion of Russian companies constitutes part of foreign real estate investments (Panibratov, 2010), property purchases by Russian households also plays a role. In 2014/5 there were 114 Russian dollar billionaires (Wealth-X & Sotheby’s, 2015) and 242,000 millionaire households (BCG, 2015) for whom a terraced house in Chelsea or a penthouse in Manhattan was the most direct entry ticket to the West and a ‘safe deposit box’ (Fernandez, Hoffman, & Aalbers, forthcoming). In 2013 5.2% of all new-built homes in central London were sold to Russians (Knight Frank, 2013, p. 4), and in 2014 Russians owned 20% of ‘super prime’ properties in London – those with asking prices of £10 million or more (Barrett, 2014). Even though already impressive, these numbers may actually understate the true total, as they do not capture offshore structures fronted by nominees, of which Russians are particularly fond (The Economist, 2014b).

The resulting formation of vested interests and trans-border interdependencies produces an unstable assemblage of regulation, business interests, built environment and financial flows that can both facilitate and constrain geopolitical interests. On the one hand, the case of Russia’s elite seeking to place their wealth outside the country, can be considered an indicator of a vulnerable Russia where ‘even those who have done well […] prefer to store at least a portion of their wealth in countries with strong legal safeguards and a history of political stability’ (Scott Cooper, 2015). This means that the basis for Russia’s current strengths and future prospects – tax revenues, investments but also an educated workforce – is eroded (Boltenko & Gaydarova, 2015; Reznik, Galouchko, & Arkhipov, 2015). On the

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6 It should be noted, however, that as per 2015, more than half of Russia’s OFDI was attributed to just three countries – Cyprus (37%), Netherlands (13%), and British Virgin Islands (12%) (CBR, 2016). These are not genuine investments but attempts to take capital ‘off-shore’ to protect it from the Russian state or to evade domestic taxation.
other hand, the large-scale capital flight from Russia and its ‘materialization’ in overseas property also equips the Russian state with certain leverage. This is exemplified by a confidential report that was famously photographed when delivered to UK Prime Minister David Cameron in the wake of the Crimea crisis, which suggested that Britain should ‘not support, for now, trade sanctions’ or ‘close London’s financial center to Russians’ (Judah, 2014, p. A19). It has been mentioned more than once that London’s thorough permeation with Russian wealth contributes to Britain’s reluctance to take a policy stance towards Russia as strong as some of its political fractions demanded (The Economist, 2014b).

Yet, the geopolitical significance of property investment abroad is not limited to the super rich. Whilst Russia’s wealth elite invests in real estate in London, New York and other world cities, the country’s middle class buys secondary properties as holiday homes in Russia’s neighboring countries and Southern Europe (Lipkina, 2013). This also has implications for geopolitical relations. Montenegro, a popular holiday destination for Russians, is a case in point. The country of only 260,000 inhabitants produces around one quarter of its GDP through tourism (WTTC, 2015). Russians not only make up the largest share of it, but are also the biggest foreign investors (SEEbiz, 2014). According to the Central Bank of Montenegro, the biggest share of Russia’s annual investments in 2013 went to the real estate sector (EUR 108.3 million), with intercompany debt (EUR 25.1 million) and investments in companies and banks (EUR 3.0 million) lagging far behind (Intellinews, 2014). Russian newspaper Novaya Gazeta and the Organized Crime and Corruption Reporting Project (OCCRP), who gained access to Montenegro’s state cadastral record, reported that as much as 40% of Montenegrin real estate is Russian-owned (Anin, Suchotin, Kobylkina, & Burskaya, 2011; OCCRP, 2011). In addition to middle class owners, Russian oligarchs have purchased large land plots for commercial purposes (Anin, Suchotin, Kobylkina, & Burskaya, 2011).

Russia’s presence in Montenegro’s real estate market not only creates economic dependencies but also a rather vocal political constituency. This became visible in the context of Montenegro’s accession to NATO and its eventual support of the EU sanction regime against Russia – to which pro-Russian groups responded by organising protests and calling for the resignation of Montenegro’s Prime Minister (Gramer, 2015; Radio Free Europe, 2015). Yet, at the same time as the current geopolitical tensions have highlighted the leverage Russia has in Montenegro, they may also contribute to the eclipse of this very influence. The devaluation of the ruble – the effect of sanctions and low global oil prices, as well as anger amongst Russians about Montenegro’s geopolitical alliance have led to a decline in tourism with many Russians trying to sell their properties and leave that country (Rujevic, 2015). It remains to be seen to what extent this will have an impact on the country’s economy, but it has already created difficulties for the Montenegrin government in finding a political balance between EU and Russia. Properties in Greece in contrast have experienced a constant inflow of Russian capital, with the number of luxury villas bought by Russians doubling in 2015. This can be partially explained with the dramatic decline of real estate prices – by approximately 50% for luxury properties since 2009 (Barzilay, 2015). What is more, however, in contrast to Montenegro, Greece’s Syriza government condemned the sanctions against Russia and has done much to strengthen Greek-Russian relations. Greek real estate therefore not only offers investment opportunities, but the close
relations between the two countries simultaneously present some sort of protection from possible asset seizures as part of the EU sanction regime (Khan, 2015). At the same time, the increasing share of Russian property interests in Greece will likely create a new level of interdependencies between the two countries.

The geopolitical relevance and sensitivity of foreign property ownership also affects everyday life discourses. For instance, a Financial Times article (Hope, 2014) about the growing presence of Russians in Bulgaria—an estimated 400,000 Russians own properties in the country—invoked heated debates amongst its readers online. Some readers complained that Bulgaria is turning into a backdoor to the EU through which Russians can influence European political agendas. Such discourses echo posters such as ‘Yesterday Russian tanks, today Russia banks’ used in Prague during the commemoration of the 45th anniversary of the Prague Spring in 2013, soon after the Russian state-owned Sberbank acquired Austria’s Volksbank International (VBI), which operates across Eastern Europe (Sputnik, 2012). While admittedly anecdotally, this ‘everyday geopolitics’ nonetheless highlights an acute awareness of the complex interdependencies and (geo)political sensitivities produced by foreign real estate ownership.

The internationalization of real estate also creates new vulnerabilities that competing states can exploit. The sanctions the EU and US imposed on Russia in 2014, for example, restricted transactions with a number of major Russian companies, some of which owned properties abroad. The heavy presence of Russian capital in Ukraine has also increased Russia’s vulnerability. For example, radicals have regularly attacked street offices of Russian retail banks in Ukraine (AP, 2016). This has led major Russian banks to seek strategies to sell off their branches in Ukraine (Dement’yeva & Lokshina, 2016).

The geopolitics of state-led projects

In the previous sections, we outlined some cases of dependencies that characterise trans-border real estate links and their implications in international relations. However, discursive geopolitics can also be generated by symbolic, rather than commercial real estate projects. The construction of a large state-funded project on foreign land (the Russian Orthodox Church in Paris) and the state-led mega-project achieved domestically (the Sochi Winter Olympics) are two examples, which we want to finally discuss here.

Since the 2000s, the Russian Orthodox Church (ROC) has expanded its structures globally and undergone a process of conscious internationalization. Building on its already dense network of properties, ROC acquired new land and built churches across the globe (Blitt 2011 p. 415). Although ROC is formally separated from the Russian state, it has traditionally played part in assembling the ‘Russian world’ (russkiy mir). Thus, even in the absence of the formal state institutions, churches and parishes in Russia’s near and far abroad provide the material infrastructure for the Russian state to additionally exert its geographic reach if not influence (Suslov, 2014, p. 46).
The geopolitics of ROC’s international expansion is well illustrated by the project of the state-financed Russian Orthodox Spiritual and Cultural Centre in Paris (Centre Spirituel et Culturel Orthodoxe Russe). The plan to build a large orthodox centre by the Seine dates back to 2007 and was supported by Russia’s highest authorities (Gauthier-Villars, 2013). The cathedral, called Sainte-Trinité, which is part of the Russian centre, will have diplomatic immunity and has become a key stage on which the complex relations between Russia and France and their respective position vis-à-vis the EU and US are played out. President Hollande has been repeatedly criticised by the US for supporting the project despite the EU sanction regime (Gauthier-Villars 2013). What is more, the project is not only a proxy in EU-Russian relations, but also served as lever in the international negotiation of Russian domestic power struggles. In 2014, an international arbitration court in The Hague ruled that Russia should pay Yukos shareholders $50 billion as compensation for bankrupting the oil company. Lawyers of Hulley Enterprises Limited, a Cyprus registered company, representing former Yukos shareholders, consequently requested the seizure of the Church in Paris, albeit unsuccessfully (BBC, 2015; Tass, 2016).

The multiple levels of contestation surrounding Sainte-Trinité highlight the assembled nature of authority and the resulting difficulty to differentiate between outward oriented functions of power projection and introspective objectives of identity building. On the one hand, the cathedral is an outpost of the Russian state, providing a material and discursive space for the Russian presence in France. On the other hand the church may be seen as an attempt to ‘gain hold over Russian émigré communities’ (Herpen, 2015, p. 251). This supports the narrative of the ‘Russian World’, which includes all members of the Russian civilization, even beyond the country’s current territorial borders. Putin, for example, has spoken about the ‘multimillion Russian world which is, of course, much larger than Russia’ (Putin, 2007). This narrative is part of Russia’s attempt to bolster its authority through a shared national, or indeed civilizational, consciousness; in Benedict Anderson’s terminology, to create an imagined community (2006), which does not unfold along territorial borders but cuts across them and draws new borderings in the process (Moisio & Paasi, 2013).

However, it is not only the trans-border presence of foreign actors that can render the domain of real estate geopolitically relevant; the geopolitics of real estate can take place even in the absence of extra-territorial presence. Like strategic military weapons, which do not necessarily need to cross borders to make a hard power statement in international relations, specific real estate projects can send certain messages internationally (even if of course of a more subtle, soft power nature). Such external geo-political effects of real estate can be enabled by symbolically significant domestic projects. Historically, these effects were performed by powerful monuments and buildings with a particular ‘statement’ – be those the Egyptian pyramids or Dubai skyscrapers. For example, ever since Soviet times, Russians have played a game of building the tallest skyscrapers in Europe (i.e. the main building of Moscow State University in 1953-1990 and a range of skyscrapers at the Moscow International Business Centre more recently). Soviet national and regional capital cities also sought to play the role of ‘model socialist cities’ to showcase, through their planning and built environment a superior socialist, pro-workers way of life. In these
examples, inherently domestic projects involve extra-domestic, and arguably geopolitical, dimensions – such as bidding for extra-territorial recognition, respect, and influence.

The neoliberal competitive state has only heightened the soft geopolitics of real estate. Here, we can draw again on Brenner’s (2004) account of the rescaling of state spaces under neoliberalism, which he describes as the attempt of the nation-state to rearticulate its economic power via privileging certain territories as ‘strategic’ and promoting them internationally on behalf of the whole state. This conceptualization of state space restructuring can be extended to account for same instances of the geopolitics of real estate. First, the ‘glocalization’ of states’ territorial priorities can be embodied in real estate projects, which may, secondly, underpin not only the geo-economic competitiveness of the state, as Brenner suggests, but also its soft power and geopolitical standing.

Among such glocalized real estate projects with extra-territorial reach are mega-projects, such as the Olympic Games. Indeed, mega-events have long been recognized as some of the key strategies that shape contemporary territorial governance (Essex & Chalkey, 2004; Gold & Gold, 2010; Hiller, 2006). They are powerful marketing tools, which provide opportunities to boost the image of not only specific cities, but also a whole country. The Olympic Games specifically are widely acknowledged for their soft power implications, which also explains why countries are so keen to host them despite records of chronic financial problems the Games create for public budgets. The 2008 Beijing Olympics, for example, provided the opportunity to demonstrate China’s rapid economic growth and increasing global dominance (Dimopoulou, 2009; Sun & Ye, 2010). Many commentators have argued that much like the Beijing Olympics, the Sochi Winter Games, which took place in 2014, also were an attempt to project an image of a re-emerging Russia (e.g. Persson & Petersson, 2014; for a more differentiated discussion see: Golubchikov & Slepukhina, 2014). Indeed, after the loss of its superpower status during the Soviet era in the ‘humiliating’ decade of the 1990s, Putin’s Russia has sought to regain its place among the world's most powerful nations. Russia’s renewed national consciousness has meant the abandonment of the non-ideological, interest based foreign policy of the 1990s (Morozova, 2009, p. 668), and a ‘a noisy and confrontational return to the international scene’ as of the early 2000s (Krastev, 2008, p. 49). The Sochi Winter Olympics represented the soft power dimension of Russia’s resurgent international ambitions.

It is significant that the international impact of the Olympics is importantly leveraged via particular real estate projects, including sport stadia, but also urban regeneration and infrastructure. In the case of Sochi, these were overwhelmingly state-sponsored. The Sochi Winter Olympics made the world news as the most expensive event in history, with the total costs of investment in the city’s preparation for the Games of around $50 billion. The project was designated as one of Russia’s national priorities, turning Sochi into ‘one of the largest construction sites in the world’ (Fox Sports, 2012). The main sponsors of the Olympics were large, often government-controlled corporations such as Gazprom, and Rosneft, and companies that received loans from state-owned banks, mainly VEB and Sberbank.
It is conceptually important that investing large amount of state resources in localized projects with a global reach like Sochi also involves states’ spatial priorities, where particular locations are represented as internationally (and geopolitically) significant (Golubchikov, 2010). Sochi has been identified as one of such places. While the 2014 Winter Olympic event was the cornerstone of this strategy, 80% of the costs Sochi’s redevelopment accrued were unrelated to sport (Golubchikov, 2016). This means that even ‘more mundane’ urban regeneration, real estate creation (including hotels and housing), and urban infrastructure became part of the complex geopolitical assemblages centred on the event of the Olympics.

Taken together, the examples of Paris and Sochi further demonstrate that the urban, the national, and the geopolitical are not necessarily autonomous from each other as the domains of different spatial scales and territories, but rather interpenetrate each other through the assemblages of meanings, practices, and processes involved in the production of politically and geopolitically significant real estate.

Conclusions

In 2014 Foreign Affairs announced that old-fashioned geopolitics is back, and with it Russia as a central player (Mead, 2014). It is true that we are witnessing a new wave of struggles over territory. Yet, this ‘old-fashioned’ or ‘hard’ geopolitics is intermingled with new forms of ‘soft’ geopolitical power offered by economic globalization. The internationalization of real estate interests represents this. Nation states (as institutionalized authority) create regulatory conditions that allow real estate business to take place across national borders; while doing so, nation states open room, intentionally or unintentionally, for the interplay of geopolitical interests – effectively inserting real estate more eloquently as a component into the fluid geopolitical assemblages.

Russia is just one example of a state that experiences the geopolitical implications of the internationalization of real estate – in terms of both promoting its own soft power and exposing itself to other states’ influences. We reviewed several entanglements of real estate internationalization and its specific geopolitical constitutions and implications. Firstly, the case of Russia’s housing finance system showed how the export of institutionalized norms and legislation presents lasting influence over foreign territory. Secondly, the cross-border capital flows through real estate have circuitous yet potent effects on making international relations: property built or purchased abroad becomes a conduit of geopolitical influences and dependencies. Thirdly, real estate can also be a venue for performing state soft power more directly – if embodied in edifices that are designed to project a certain image of the state beyond national boundaries or that are ‘read’ as such by international communities.

This is of course not to overstate the power of real estate in influencing foreign policy and international relations; real estate is simply one of many spheres that assemble international politics and geopolitics and deserves to be studied as such. Yet, real estate importantly runs like a red thread through diverse aspects of our contemporary reality, often connecting them in unexpected ways. This pervasiveness is already well reflected in the multiple streams of research that varyingly highlight the role of real estate for global finance,
everyday life, and as a dominant sector of the economy. However, the geopolitical consequences of real estate globalization remain less researched. The ontological and epistemological imaginaries in the related bodies of literatures have so far precluded investigations of the role of real estate in the production of geopolitics.

With this paper, we invite further research on the geopolitical implications emanating from real estate. In this way the scope of the literature on real estate internationalization can be extended, for example, to problematize the role of real estate in geopolitics and the understanding of real estate circulations as geopolitical circulations. Similarly, studies in international relations, geopolitics, political geography, and the likes can also be enriched through a better appreciation of the political externalities (and exteriorities) of real estate, as well as more inclusive conceptualisations of the constitution of state power and soft power. Indeed, we consider the geopolitics of real estate not simply as a politico-economic or regulatory context important for the operation of real estate markets, but rather as a case of the geopolitics of the multiple: that is, multi-actor and distributed material and discursive assemblages that represent the contingent and emergent formation of connections and considerations, which affect the ways how formal and informal inter-state relations are being negotiated and how formal and informal political geographies are being made and remade.

References


