

Re-semanticization of the central areas of Brazilian cities and the residential real estate market: the case of Recife (Brazil)

Ressemantização das áreas centrais das cidades brasileiras e mercado imobiliário habitacional: o caso recifense (Brasil)

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Abstract

In the 1990s, the low growth rates of the Brazilian economy, along with the country's insertion in the globalized world, had repercussions on the historic centers of large cities, since local governments were driven to invest in these areas in order to attract private companies. Due to this, private capital has returned to these centers, which has led to the revaluation of their respective surroundings by means of housing real estate developments. In view of this dynamics, this paper aims to identify the implications of the return of investments in historic centers for the real estate market of old housing units and for the market of new dwellings in their surroundings, responsible for the creation of new spatialities that are poorly articulated to the old ones. Our object of study is the central area of the city of Recife.

Keywords: central areas; historic city centers; residential real estate market.

Resumo

Na década de 1990, as baixas taxas de crescimento da economia brasileira e sua inserção no mundo globalizado tiveram repercussões sobre os centros históricos das grandes cidades ao impulsionarem os governos locais a neles investirem para atrair empresas. Isso tem significado a volta do interesse do capital por esses centros e a revalorização dos respectivos entornos mediante empreendimentos imobiliários habitacionais. Ante essa dinâmica, o objetivo deste texto é identificar as implicações do retorno dos investimentos aos centros históricos sobre o mercado imobiliário de unidades habitacionais antigas e sobre o mercado de moradias novas no seu entorno, responsável pela criação de novas espacialidades que pouco se articulam às antigas espacialidades, tendo como objeto de reflexão a área central recifense.

Palavras-chave: áreas centrais; centros históricos; mercado imobiliário habitacional.



Introducing the debate

For some time now, the literature has been informing about the return of the private capital's interest in city centers. In the Brazilian case, this return has been happening, especially from the 2000s onwards, within the paradigm of urban entrepreneurship, and strongly boosted by public policies of financial/tax incentives and of infrastructure recovery. These urban renewal policies emerge as a strategy for the re-semantization of existing spatialities with the purpose of selling them as new urban products.

The case of the Historic Center of the city of Recife (HCR) – formed by the districts of Recife, Santo Antônio and parts of the districts of São José, Boa Vista and Soledade – is paradigmatic. In the first half of the 1980s, with residents and the most prestigious activities migrating to other localities, programs to recover parts of its territory started to be formulated. The recovery of the district of Recife, which began in the 1990s, was stimulated by the implementation, from 2000 onwards, of the project *Porto Digital* (Digital Harbor). The project aims to structure the area in order to attract information and communication technology (ICT) companies and creative economy (CE) enterprises by means of appropriation for infrastructure implementation/recovery, strong tax incentives (a 60% reduction in the Municipal Services Tax - ISS), assignment, by the Government of the State of Pernambuco, of constructed spaces to these companies, and acquisition of real property by the Management Committee of *Porto Digital*. “The Park is a frequent theme of articles published

in the local press, emphasizing its advances, like this one (Saboya, 2018), which highlights the 315 “embarked” enterprises, 9 thousand generated jobs and revenue of approximately R\$2 billion in 2018” (Fernandes & Lacerda, 2019). Shortly after the start of *Porto Digital*, federal funds¹ were provided, by means of the *Monumenta Program*, for the rehabilitation of historic monuments with potential for attracting tourists.

In addition to this dynamics, it is important to approach, here, two others in which a favorable macroeconomic conjuncture plays a leading role. One of them is the district of Recife's potential for housing equipment and services. In this regard, by means of the project *Porto Novo* (New Harbor), old warehouses were recovered in order to house stores, bars and restaurants, offices, cinemas, a museum, a convention center, and a maritime passenger terminal. To make the project feasible, the Port of Recife leased a large strip of land to a consortium, including the warehouses. In 2018, the municipal government of Recife approved the Project for the Recovery of the Old Recife Mill, also located in the above-mentioned district. It is a mixed-use complex composed of buildings that will house a hotel, apartments and a convention center, as well as facilities for complementary uses, like bars, cafes, restaurants, an art gallery, stores, a rooftop, and others.

The other revaluation dynamics refers to the rediscovery of the central area by private technical and higher education institutions, strongly boosted by the public policies of incentive to education and qualification that were in force during the governments of Luiz Inácio Lula da Silva (2002-2009) and Dilma Rousseff (2010-2016). The district of

Santo Antônio – characterized, up to the first decade of 2000, by the remarkable presence of partially empty buildings – has been the stage for the implementation of academic centers and has started to be marked by the concentration of educational equipment. In the districts of São José, Boa Vista and Soledade, in turn, where the housing function persists, incentives to the implementation of specialized activities and services are scarce and degradation is visible.

Unlike Recife's historic center, its surroundings are not governed by restrictions on changes in the occupation pattern. Vertical real estate developments have been built in this area, targeted at the middle – and upper-classes, which has led to the creation of new residential spatialities. This dynamics results, in the national sphere, from a favorable conjuncture to the production of new dwellings, which resulted from credit availability to producers and consumers, especially from the 2000s onwards – and intensified with the launch of the housing program *Minha Casa Minha Vida* (My House My Life), in 2009. In the local context, the favorable conjuncture results (1) from the generation of qualified jobs in the HCR, deriving from the economic dynamics portrayed above, (2) from the excessively high prices of land in other parts of the city, which has led the real estate sector to search for new areas for its investments, mainly areas located in waterfronts, and (3) from urban immobility, caused by people's difficulties in moving from one place to another. All these factors have valued the surroundings of the HCR. It is as an area with a great potential for exploration, conforming a "new frontier" of capital appreciation in Recife. In this

context, it is not surprising to find, in these surroundings, housing developments and also commercial and services enterprises (call centers, the headquarters of Globo Broadcast Television Network in Recife and, more recently, delicatessens, bars, restaurants, etc.). In spite of its specificities, this dynamics exists in other downtown areas in Brazil: For example, in the cities of Belém, São Luís and Salvador.

These findings stimulated the formulation of the objective of this text: To analyze – based on Recife's case – the dynamics of re-semantization of central urban areas (historic centers and their surroundings) to show that the market of old properties located in these areas is poorly articulated to the production dynamics of new residential spatialities in their respective surroundings, which results in different markets with a low level of comparability.

Fulfilling this objective required, initially, to reveal – by means of data from the 2001 and 2010 Censuses – the persistence of the housing market in the HCR, specifically the rental market, despite the absence of a housing policy for this area. Subsequently, it required to show how the recent spatial dynamics of residential real estate investments has been configuring itself in Recife, targeted at the sales market: during a long period (from the 1970s to the 2000s) that practically corresponds to the period of degradation of the HCR, its surroundings were "despised" by the real estate housing sector and, in recent years, these surroundings have been forming a "new frontier" of expansion of the real estate sector. Then, it was necessary, by reviewing/complementing the theoretical reflections that the authors of the present article have already

performed, to highlight the different types of functioning of the residential real estate market in the HCR, marked by the significant presence of rented properties, as compared to the sales market of new housing units located in the surroundings. This allowed us to conclude that, although these two markets participate in the resignification process of Recife's central area, they have different functioning mechanisms.

Rental housing market: an important means of access to housing in the Historic Center of Recife

Recife's central area – composed of the historic center and its surroundings – plays, today, a role of functional urban centrality and of superlative historical centrality, containing the largest spectrum of this city's historic times represented in its buildings. Therefore, this central area can be considered an urban mosaic composed of different occupation patterns characteristic of specific periods and governed by different urban laws.

In light of this, it is necessary to present to the reader, by means of Figure 1, the location of the Historic Center of Recife in relation to the city, informing the names of the districts and parts of districts that compose it, as well as the area delimited as its surroundings.

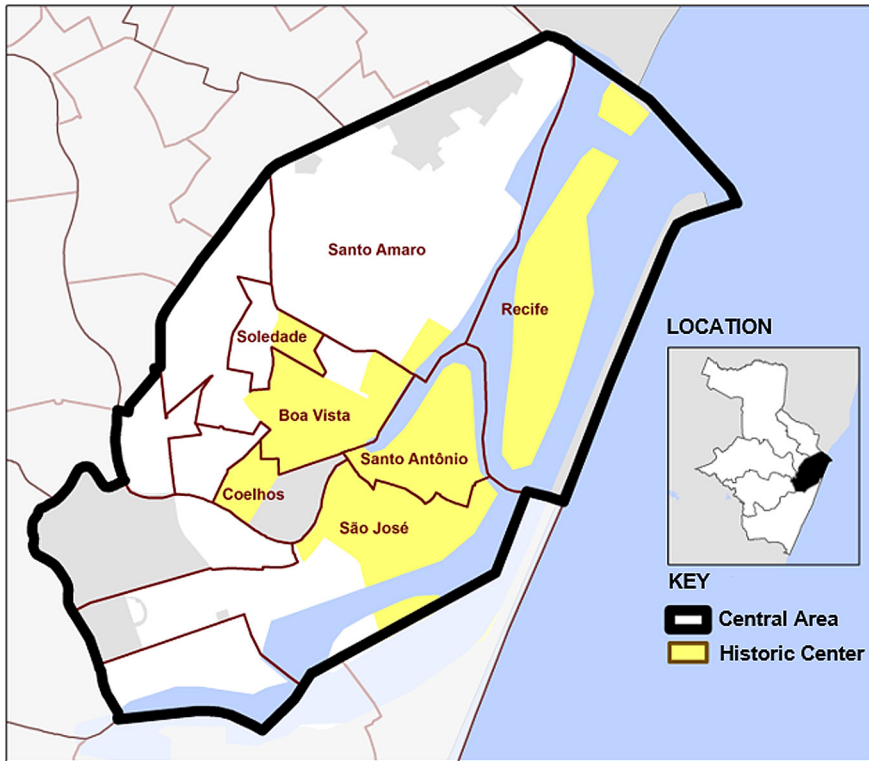
It is important to note that the spatial dynamics that have been occurring in the HCR and its surroundings are governed by the real estate market, formed by sub-markets according to the following differentiation

elements: (1) new or secondary properties (originated in previous production cycles); (2) properties for residential or commercial/services use (functionalities); and (3) properties for rental or sale (type of transaction). As what interests us here is the housing market in central areas (historic centers and their surroundings), the first task was to investigate, considering all the possible combinations referring to housing use, which combinations stood out in these areas. Applying combinatorial analysis to the 3 differentiation elements mentioned above, we have 8 types of markets, of which 4 refer to housing use: new residential properties for sale, new residential properties for rent, previously owned residential properties for sale, and previously owned residential properties for rent.

With the aim of showing that the rental market is an important means of access to housing in the HCR, it is important to highlight that, in 1991, 51.6% of the properties built for habitation purposes in the HCR were rented properties (Table 1), and this figure decreased to 46.1% in 2010 (strongly concentrated in the district of Boa Vista). A non-significant reduction, as almost 20 years separate the Censuses considered here. This reduction probably reveals the change from habitation use to commercial use. Anyway, the data show that rental constitutes an important form of access to housing in this city center. In the city of Recife, the ratio was, in 2010, 22.2% of rented properties, while home ownerships represented 73.1%.

Undoubtedly, housing loans played a significant part in the high share of properties owned by individuals in Recife – especially loans granted by BNH (National Housing Bank)

Figure 1 – Recife's central area (PAR1) and Historic Center of Recife



Source: the authors.

from 1964 to 1986 and by the *Minha Casa Minha Vida* Program from 2009 onwards -, which enabled sales of housing units. After all, the production of new dwellings by the real estate sector is essentially targeted at the sales market. The representativeness of rented properties in historical areas specifically and in the central area as a whole, where buildings are relatively old, can, on the contrary, denote that, regarding properties originated in previous cycles, there is a significant

representativeness of the rental occupation regime in these areas.

The above-mentioned rental market offers remarkably different previously owned dwellings and its functioning is determined by the behavior of its numerous agents, especially owners/landlords and tenants. These issues will be further analyzed when we compare the functioning mechanisms of the rental market of old units to those of the market of new units.

Table 1 - Evolution of the occupation condition of habitation properties in the HCR (1991-2010)

Habitation condition of properties built for habitation			Recife's historic center by districts					Recife	
			Recife	Santo Antonio	São José*	Boa Vista*	Total		
1991	Total	V. Abs.	130,0	132,0	531,0	3.332,0	4.125,0	305.901,0	
		%	100,0	100,0	100,0	100,0	100,0	100,0	
	Próprios	V. Abs.	122,0	33,0	251,0	1.416,0	1.822,0	227.601,0	
		%	93,8	25,0	47,3	42,5	44,2	74,4	
	Alugados	V. Abs.	5,0	84,0	252,0	1.786,0	2.127,0	62.427,0	
		%	3,8	63,6	47,5	53,6	51,6	20,4	
	Cedidos	V. Abs.	3,0	14,0	28,0	116,0	161,0	13.591,0	
		%	2,3	10,6	5,3	3,5	3,9	4,4	
	Outros	V. Abs.	–	1,0	–	14,0	15,0	2.282,0	
		%	–	0,8	–	0,4	0,4	0,7	
	2010	Total	V. Abs.	X	142,0	649,0	3.936,0	4.727,0	470.470,0
			%	X	100,0	100,0	100,0	100,0	100,0
		Próprios	V. Abs.	X	65,0	344,0	1.972,0	2.381,0	343.914,0
			%	X	45,8	53,0	50,1	50,4	73,1
Alugados		V. Abs.	X	73,0	286,0	1.822,0	2.181,0	104.621,0	
		%	X	51,4	44,1	46,3	46,1	22,2	
Cedidos		V. Abs.	X	4,0	14,0	126,0	144,0	18.606,0	
		%	X	2,8	2,2	3,2	3,0	4,0	
Outros		V. Abs.	X	–	5,0	16,0	21,0	3.329,0	
		%	X	–	0,8	0,4	0,4	0,7	

Source: IBGE. 1991 and 2010 Censuses.

Remark: The 2010 IBGE Census does not provide data about the occupation condition of habitation properties for the census tracts that compose the district of Recife.

* Note: Data from the São José and Boa Vista districts refer to the parts included in the HCR perimeter.

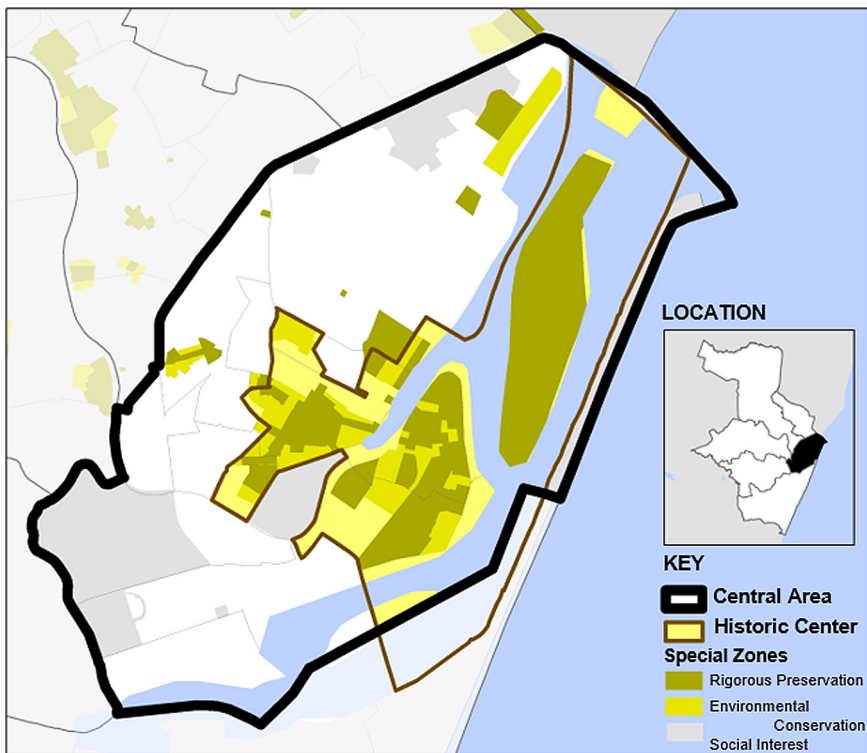
Market of new housing units in the surroundings of the historic center

Today, due to the urban configuration and to the legislation that governs the production of the built environment in the surroundings of the HCR, their occupation patterns can be changed and new properties can be constructed in a considerable part of this territory. Although Recife's central area has Special Zones of Preservation of Historic-Cultural Heritage – ZEPHs (Figure 2), as well as

poor areas classified as Special Zones of Social Interest, where transformation possibilities are relatively limited, almost half of its territory – which we call, here, the surroundings of the historic center (in white) – can house new property production cycles.

In spite of the relatively remarkable presence of ZEPHs, where possibilities for capitalist action in the production of new residential spatialities are limited, today, this central area in the city of Recife – corresponding to the Political Administrative Region 1 (PAR1) – has 107.97 hectares corresponding to the sum of lots classified as

Figure 2 – Recife's central area: special zones



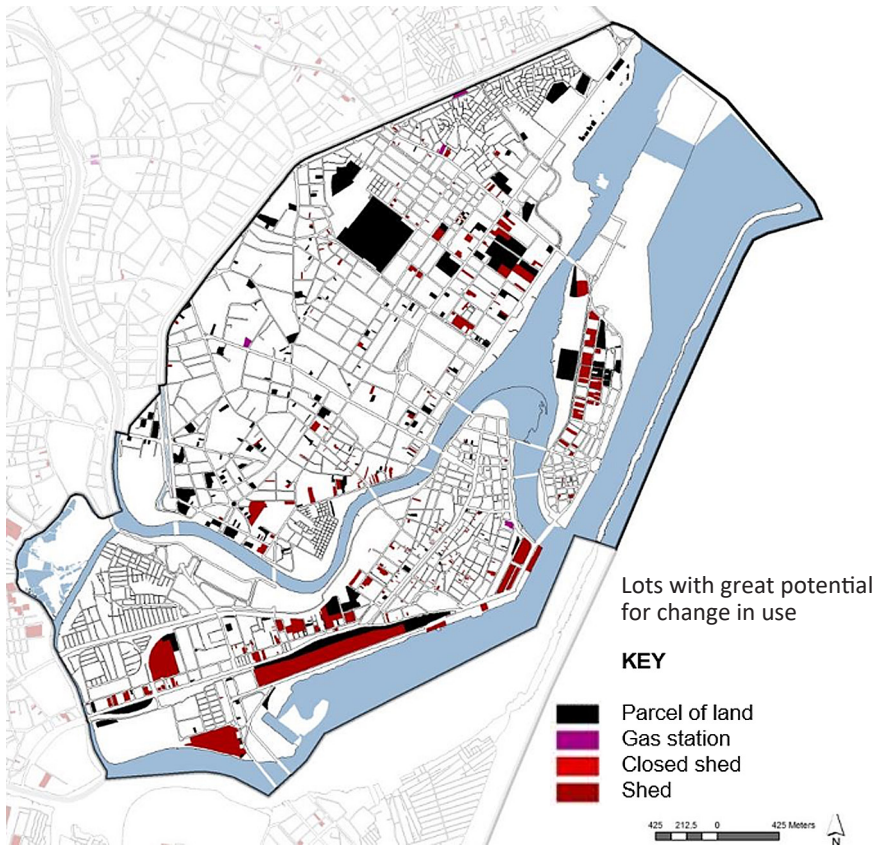
Source: Bernardino, 2018.

Table 2 – Recife: areas of lots (hectares) with transformation potential by PAR

Locality/areas	RPA 1	RPA 2	RPA 3	RPA 4	RPA 5	RPA 6	Recife
Sum of the areas of lots with transformation potential (absolute values)	107.97	6.75	52.86	334.93	42.33	94.62	639.45
Sum of the areas of lots with transformation potential (percentages)	16.88%	1.06%	8.27%	52.38%	6.62%	14.80%	100.00%

Source: Bernardino (2018).

Figure 3 – Recife’s central area: Lots with potential for real estate transformation



Source: Bernardino, 2018.

parcels of land, sheds and gas stations (Table 2). These lots, in the majority of times, are seen as parcels of land with great potential for reconversion (change in use and change in the occupation pattern). This amount, compared to the reconversion potential of Recife as a whole (639.45 hectares), represents 16.88%. This does not include combinations of lots, a possibility supported by the urban legislation in force.²

The lots that are relatively favorable to interventions in PAR1 have varied locations and dimensions, but the existence of extensive lots and pieces of land located in waterfronts is remarkable (Figure 3). In addition, there are lots that are relatively distant from waterfronts but can house new verticalized properties with a “definitive view”, as what separates them from the privileged view to the horizon are historic zones with a practically stable limit for buildings’ height.

The contrast between areas with strong incentives to the production of new verticalized properties – with floor area ratios that are higher than those of other parts of the city and with no building height limits – and areas institutionally recognized as ZEPHs has enabled new verticalized multi-family buildings to neighbor one another and oppose the old residential spatialities present in these historic zones, as shown by Figure 4.

In view of a relatively favorable conjuncture to the production of new residential spatialities, characterized by credit availability to the production and commercialization of properties, Recife’s central area started to attract the interest of the real estate sector for the production of new residential properties in the last decade (2008-2018). This dynamics of

revaluation of Recife’s urban centrality (HCR and surroundings) has been grounded, objectively, on investments in infrastructure, on tax incentives to the installation of ICT, CE and education activities, and on urbanistic parameters favorable to population density and verticalization. Subjectively, it has emerged in the mental imagery of the upper and middle-classes as an “ideal habitation area”, directed at different family profiles due to its proximity to workplaces – which tends to reduce the amount of time and resources spent with routine circulation – and at the possibility of experiencing history and being “close to everything”, as denoted by some advertisements that promote residential properties located in it (Bernardino, 2018). This means that a new urban convention has been socially constructed, grounded on the sharing of beliefs by a set of participants of the market (Abramo, 2007).

As a result of the “rediscovery” of this central area by the real estate housing sector, there has been an increase in the relative share of PAR1 in sales transactions in Recife’s real estate launches. Up to the middle of the 2000s, this region’s share in the total number of transactions and launches in the city was inexpressive. This situation has changed and, in 2014, PAR1 was responsible for 24% of the properties sold in the city, as shown by the graph below.

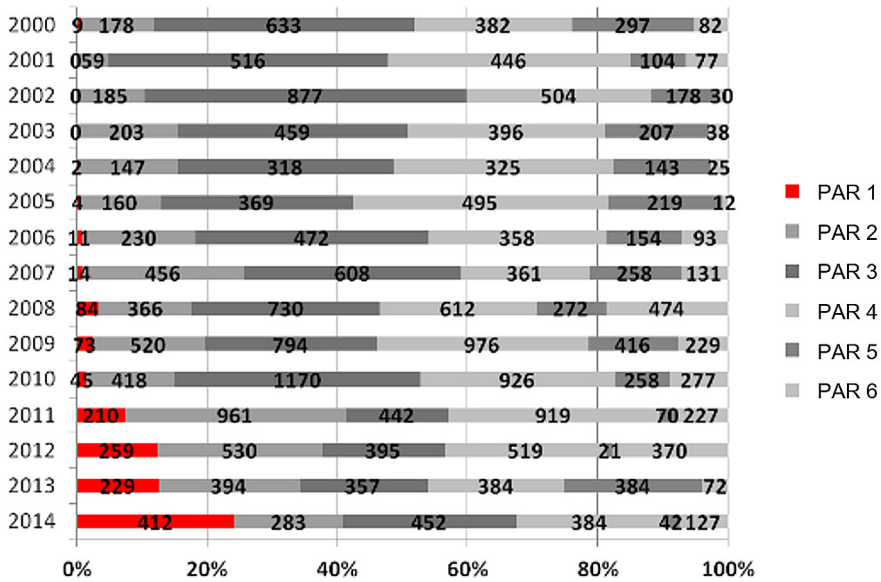
Between 2008 and 2018, new residential developments (completed,³ launched and under construction) represented an addition of 2,845 new housing units to Recife’s traditional central area. Considering that the Region presented, in 2010 (IBGE, 2010), 29,256 properties, the new housing units represent a relative growth of 9.72% in the number of

Figure 4 – Central area of Recife:
graphical illustrational sequence of residential spatialities



Source: Bernardino, 2018.

Graph 1 – Housing units sold by region in Recife from 2000 to 2014



Source: Índice de Velocidade de Vendas 2000-2014. Ademi. Fiepe. Apud Bernardino, 2018

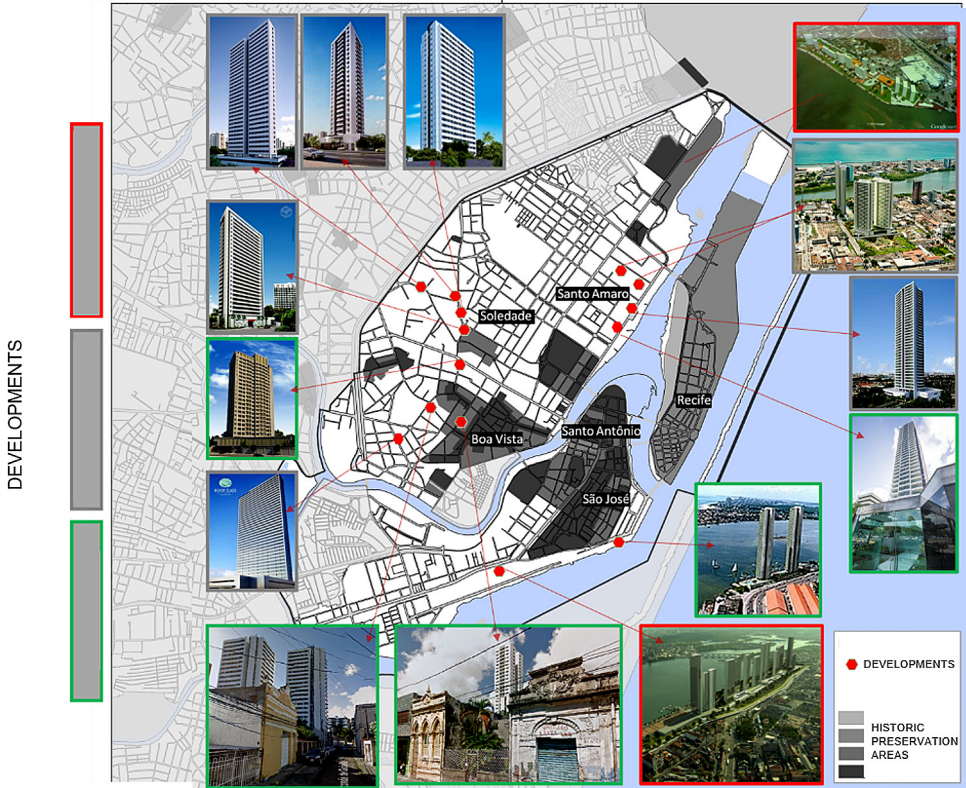
properties in the period of a decade. The new dwellings could shelter, approximately, 7,600 new residents⁴ in this region, whose resident population did not present practically any growth between 2000 and 2010.⁵ Taking into account the developments that are being analyzed by the municipal government of Recife in order to obtain the construction permit, 1,076 units will be added to the number of new residences that will be located in the central area in the medium term, with a total of 3,921 new apartments in vertical multi-family buildings.

The spatialization of some residential developments that serve the calculation of the number of housing units is shown in the Figure 5, where it is possible to visualize the ZEPHs

that compose the Historic Center of Recife and to distinguish the developments that were completed, the ones that were launched and those that are under construction from the developments that were merely advertised and whose approval is still being analyzed.

Based on a survey and on the mapping of all the residential properties constructed in the twelve previous years⁶ and situated in the surroundings of the Historic Center of Recife, it was possible to identify the companies responsible for the developments. Seven companies act in these surroundings, as well as a group and a consortium.⁷ The consortium was created to make a specific development feasible, totaling nine legal entities. The seven companies behave as developers/construction

Figure 5 – Central area of Recife: completed, under construction and advertised residential developments



Source: Bernardino, 2018.

companies, and even commercialize the new housing units directly. With headquarters in Recife,⁸ these companies are consolidated and have 30 to 65 years of action in the local market. The group and the consortium, in turn, are responsible, each one of them, for a large development that is currently being analyzed by the municipal government of Recife. Due to this, these developments have not been built yet.

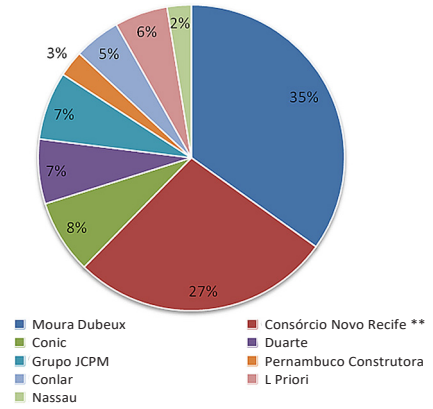
The survey also enabled us to identify the representativeness of each company in the total of 3,921 new housing units constructed and proposed in the above-mentioned period, as it is possible to see in the Table 3 and Graph 2.

Although varied companies participate in the real estate production dynamics in the central area, the action of one particular company, Moura Dubeux, given its participation in the Novo Recife Consortium,

Table 3 – Recife’s central area: constructed and launched housing units by construction company (2009 to 2017)

Construction Company/Developer	Number of units
Moura Dubeux	1,368
Conic	306
Duarte	268
Pernambuco Construtora	108
Conlar	192
L Priori	220
Nassau	100
Grupo JCPM	283
Consórcio Novo Recife	1,076
Total	3,921

Graph 2 – Recife’s central area: constructed and launched housing units by construction company (2009 to 2017)



is related to 62% of the new units constructed and/or planned for the central area of Recife, while the action of the other seven companies resulted in 38% of the computed housing units.

Despite the fact that part of the housing units computed above cannot be commercialized yet,⁹ it is possible to state that, in Recife’s central area, approximately¹⁰ 2,845 housing units were produced as primary assets and were made available as such in the sales market. The units are apartments in multi-family buildings of 20 to 47 floors,

which indicates a certain homogenization of the commodities produced and transacted in this market.

In view of the evidences provided so far in this article, and considering that they are also present – despite their particularities – in other central areas of Brazilian cities, we provide, in the next section, the most relevant distinctions between the real estate market in historic centers, in which rental transactions predominate, and the real estate market of new units in their surroundings, where sales transactions predominate.

Rental housing market in historic centers versus market of new dwellings in their surroundings

In order to understand the principles of the recent housing dynamics in central areas of Brazilian cities, it is important to understand the different market relations that can occur in the sphere of historic centers – in properties understood as old residential spatialities – and in their surroundings, in the new properties – understood as new residential spatialities. These relations are produced in a recent new cycle of capitalist production of residential spaces, and refer to a relatively small portion of the properties.

Lacerda (1993) draws attention – when the intention is to apprehend the mechanisms regarding the functioning of a market and, consequently, the price-fixing practiced in it – to the need of identifying the model based on which the agents make their decisions. This means investigating if the market under analysis functions based on a model of *perfect competition* or of *imperfect competition*. If it is of imperfect competition, it is important to clarify whether it assumes predominantly the characteristics of *monopolistic competition*, *monopoly* or *oligopoly*. This requires to identify (1) the characteristics of the transacted products (homogeneous or heterogeneous), (2) the quantity of agents acting in the supply and in the demand, (3) their respective degrees of information and forms of behavior, and (4) the suppliers' capacity for introducing *innovations*, either technological, organizational or product innovations.

In the case of the residential real estate market in historic centers, the products are materially diverse in terms of type (house, two-story house, apartment, room), size, construction material, state of conservation and, obviously, the properties' location. In this market, people commercialize properties that are large or small, in ruins or in an excellent state of conservation. People buy new residential properties (few) and very old properties. Therefore, it is a market of strongly heterogeneous products, very distinct from the market of new residential properties, where, evidently, there are less marked differences. The differences, in this case, concern innovations in the form of dwelling in the terms presented below.

As a result of the rigid and protectionist urban legislation, the supply of real property in the sphere of old spatialities in historic centers can be considered, today, relatively inelastic. The properties' owners/landlords must comply with the law and conserve them, that is, they must maintain their architectural qualities without extending the constructed areas. About this issue, Bernardino and Lacerda (2015) state that the legal instruments of preservation lead us to assume that the property's useful life will not end,

in view of the obligatoriness of its preservation, together with the fact that additions in the occupation of its land are not permitted. Furthermore, in this city center [Recife], the utilization of the remaining land for the construction of a verticalized building is prohibited, as this would harm the integrity of the historic landscape of the area.

Therefore, it is a market that has a high degree of inelasticity as far as supply is concerned. Even if it was possible to amplify the residential supply of these properties, by means of the “reactivation” or rehabilitation of empty buildings, there is no indication that the main agents that act in the residential market as promoters-suppliers are currently interested in doing so. Thus, there are two options for these owners/landlords: ruin or remodeling. In the parts of historic centers where the residential use persists, the absence of specific policies has led many properties to ruins. In the parts with strong incentives to the installation of companies, for example, the districts of Recife and Santo Antônio, residential use has been practically eradicated. In the case of properties located in large lots that can house a parking space, many times, residential use is replaced by commercial and services uses.

On the other hand, in the market of new housing units outside the protected areas, thanks to credit availability to production and commercialization and due to the existence of many lots and parcels of land with easily replaceable structures, as well as numerous lots that can be combined to house new residential production cycles, capital reproduction has been characterized by a high volume of financial resources in only one real estate development – a volume that is so high that, in many cases, it is necessary to create real estate consortia. This has been possible due to the urban legislation. This legislation permits – in large territories of the city, including the surroundings of its historic center – combinations of lots and high floor area ratios, giving a strong elasticity to the supply, not to mention a high

degree of freedom for product definition in terms of program (number of rooms and garages, leisure areas...). Therefore, this is a market where supply is highly elastic; a market that is “grounded on ‘denial’, on the ‘deconstruction’ of the historic center as a dwelling place” (Bernardino & Lacerda, 2015, p. 62). Furthermore, real estate promoters are greatly interested in carrying on the developments planned for the area. Although there is a consensus among the sector’s entrepreneurs that the current moment is a moment of “crisis” and “recession”, the bureaucratic approval processes of large real estate developments in the area continue to advance¹¹ (Bernardino, 2018).

Beyond the supply’s elasticity level, another aspect that distinguishes the market in the sphere of the old and new spatialities is the level and degree of information that the agents have.

As for the agents who act in the rental real estate market in historic centers, it is possible to state that owners/landlords (individuals and corporations) are significantly more numerous than sellers, that is, the developers of new housing units. In relation to the new housing units, more specifically those located in the surroundings of this central area, although there are many developers, practically half of the units produced there from the 2000s onwards have been put on the market by the action of one company, either as a legal entity or as the real estate consortium of which it is part. This development, in its central lines, expresses a huge economy of scale, influencing the demand and the prices by means of the differentiation of the supplied products, that is, by enabling a new “form of dwelling”.

As for the demand, it is large both in the market of secondary housing properties located in historic centers and in the market of new housing units in their surroundings. What changes is the demand's profile. In the case of Recife, according to the 2010 Census, only 10% of the individuals who live in the HCR received more than 5 minimum salaries. Meanwhile, in its surroundings, those who received more than this represented 19%.

Concerning the degree of information, the owners/landlords and tenants of old properties have practically the same level of information. Today, they can refer to specialized websites or ask about the history of prices practiced in the area where they want to sell housing units. This does not occur in the case of buyers and sellers of new units. The difference lies in the fact that developers are comparatively better informed than buyers when the matter is knowing, in advance, the possible public and private investments that will be made in the areas of interest of the real estate housing sector. Moreover, they are well-organized. In the case of Recife, they are supported by the Association of Real Estate Companies (Ademi-PE). Ademi-PE carries out, systematically, market research indicating the speed in which products are sold according to location (district); in addition, it pressures the executive and legislative branches concerning the content of laws related to land use and occupation. Privileged access to information configures an element of *monopoly*.

In short, in the case of the old spatialities, the supplying agents and the consumers have similar degrees of information and similar capacities to interfere in the functioning mechanisms of the market: they

know little about the dynamics of the residential real estate market in the central area as a whole and they have practically no capacity to interfere in its functioning logic because, among other reasons, they are not well-organized, and the levels for discussion of the interests and objectives they may have in common are scarce.¹²

In the case of the new spatialities, there is a great disparity in the degrees of information that supplying agents (sellers) and consumers (buyers) have, which affects their respective capacities to interfere in the market's functioning mechanisms. Real estate promoters, besides finding ways of being represented in multiple technical discussions in the sphere of the instituted social participation councils, also find other means to influence and interfere in the directions of the urban policy. The consumers of the new residential spatialities, on the other hand, have a low level of organization and little knowledge about the market dynamics beyond their "consumption expectations".

Bernardino (2018), by establishing a comparison between consumers of old spatialities and consumers of new spatialities, highlights that it is possible to infer that the former have, in many cases, a distinctive behavior, as, depending on the properties' age and state of conservation, choosing an "older property" in which to live presupposes remodeling and maintenance works. Consumers of the new residential spatialities, on the other hand, sometimes seem to respond directly to a consumption stimulus enabled by marketing strategies that ground innovations related to localization and to real estate products.

In any case, in the real estate market in historic centers, the agents (owners/landlords and tenants) are numerous to the extent that they do not interfere, in isolation, in the market. They have knowledge about the availability of the offered properties and prices, with almost no possibility of an economy of scale due to protectionist laws. Therefore, we have here numerous elements of a *perfect competition*. However, as the products are heterogeneous, the monopoly of each owner in relation to his or her property (location, state of conservation, quality of the public space where it is situated...) interferes in the functioning of the market. This means that this market functions based on a model of *imperfect competition*, more precisely, of *monopolistic competition*, as it has elements of *perfect competition* and *monopoly*.

Furthermore, we can conclude that the real estate market of new units also functions based on a model of *imperfect competition*, more specifically an *oligopolistic* model. After all, the large and successful companies constantly search for competitive advantages in various ways: (1) buying raw material at a lower cost, (2) launching new products, (3) influencing demand by means of publicity, (4) organizing themselves as a business segment (Ademi), (5) having a high level of information about the market, and (6) forming consortia to enable the construction of large real estate developments. All these advantages mean an important economy of scale and indicate a potential for dominating the market spatially (concentration of production). It should be noted that, of all these competitive advantages, a competitor's most powerful weapon is *innovation*, which can be reflected in the supply of new forms of dwelling, in the

technology used in the production process, or in enabling the construction of enormous productions (consortia).

Thus, neither in the rental real estate market in historic centers nor in the sales market of new residential spatialities in the surroundings areas is it possible to say that there is the conformation of a perfect competition. Competition is imperfect in both cases, but for different reasons. In the case of the old spatialities, competition is imperfect because it configures a monopolistic competition in the terms proposed by Chamberlain (1933, apud Lacerda, 2018). Given the heterogeneity of the transacted properties, as they were "produced in different times, under different production and circulation conditions, and are situated in diverse areas (qualitatively differentiated)", they can be considered unique (Lacerda, 2018). As unique properties, during the real estate transactions, their price-fixing mechanisms are based on availability and on the consumer's payment capacity, a fact that configures a situation of "rental monopoly, practiced by the properties' owners". As the author reports,

In 1933, Edward Chamberlain, in his work *The theory of monopolistic competition*, was one of the first economists to propose the hypothesis of *monopolistic competition*. He adopted the sales market as the center of his analysis. One of the fundamental points of the monopolistic competition model lies in the conditions of demand. To him [Edward Chamberlain], product differentiation induces consumers to choose one from a certain seller, which confers on supply the capacity to exercise some control over prices. From this follows that

different sellers or landlords will obtain diverse prices, according to the consumers' judgement, in relation to the comparative qualities of different products, remarkably with regard to location. (Lacerda, 2018, pp. 14-15)

Edward Chamberlain was the first economist to recognize, still in the 1930s, *monopolistic competition* as the structure of certain markets. Inserted in this structure,

each seller, in this case the landlord, has the monopoly of the product, but is subject to the competition of substitute products, more or less imperfect. Although he was part of a very specific historical and empirical context, this economist stood out due to his capacity for identifying general features of the urban land market as being of a *monopolistic competition*. We are not proposing, here, adherence to a timeless and universal theory; rather, we

Box 1 – Distinctions between the real estate market in historic centers and the market of new units in their surroundings

Relevant aspects	Real estate market in historic centers	Real estate market of new units in the surroundings
Predominant real estate transaction	Rental – previously owned, relatively old properties.	Sales of new properties and/or properties under construction.
Composition of the supplied stock	Heterogeneous properties – houses, rooms, apartments in buildings of up to 8 floors with different architectural styles and states of conservation.	Little diversified properties (apartments) in buildings with 20 to 50 floors and multiple housing units.
Urban laws	Laws restricting morphological and typological changes, which hinders properties' adaptation to new housing needs.	Urban laws of incentive to verticalized construction, with high floor area ratios.
Housing policies	Public policies of incentive to the maintenance of housing use are inexistent or have a reduced range.	Public policies of incentive to production and commercialization of housing units from 2000 onwards.
Supply	Practically inelastic supply: Real estate agents not interested in the rehabilitation of properties for housing purposes.	Strongly elastic supply: Favorable urban laws, public policies for housing, availability of land and interest on the part of real estate producers.
Suppliers' profile	Many owners/landlords.	Few developers/construction companies.
Consumers' profile	Many tenants with low and medium buying power.	Many owners with medium and high buying power.
Degree of information	Owners/landlords and tenants have practically the same level of information.	Suppliers and consumers with disparity regarding information.
Agents' behavior	"Passive", disperse agents, with little capacity for articulation and interference in the market's functioning mechanisms. Non-Schumpeterian owners/landlords: non-creative destruction.	Active, articulated and organized agents with capacity to interfere in the market's functioning mechanisms. Schumpeterian entrepreneurs: creation of new spatialities.
Model of market functioning	<i>Imperfect competition: Monopolistic competition.</i>	Imperfect competition: Oligopolistic competition.

Source: the authors.

propose to understand the general panorama to be able to comprehend the particularities and the concrete changes in the modes of organization of the different types of real estate market.

Monopolistic competition is very strong when we are dealing with a historical property, as its irreproducibility is notable. On the other hand, in the case of the new spatialities, competition is imperfect because, although the properties are relatively less heterogeneous and the demand can be characterized by a high number of agents, the presence of few promoters-suppliers concentrating a significant part of production allows us to state that this configures an oligopolistic model of market, as the withdrawal of one of these suppliers can change the market's functioning in a substantial way.

The Box 1 presents the functioning differences of the rental housing market in historic centers in comparison to the sales model of new housing units in their surrounding areas. Furthermore, it examines to what extent the dynamics of these two markets depends on credit availability. This availability impels the agents of these two markets to act in a radically different way; therefore, with opposed effects in spatial terms.

Concluding remarks

The owners/landlords of rental properties in historic centers have not been behaving as *Schumpeterian* entrepreneurs. Undoubtedly, the protectionist laws prevent them from being impelled by *creative destruction*. Thus,

they have not been adopting *innovations in the form of dwelling*. Furthermore, they have been contributing to the reproduction of preexisting spatialities, where their properties are located. In other words: without incentive policies to the recovery/rehabilitation of these areas, many of them have adopted a posture that, in its central lines, has been meaning a *non-creative destruction*, that is, a deterioration, many times irreversible, of the properties.

In the parts with strong incentives to the installation of companies – as we have witnessed in the districts of Recife and Santo Antônio, in the Historic Center of Recife –, residential use has been practically abolished. In this case, the companies are not the traditional ones of the real estate market of new housing units; they are companies of the modern commercial and services sector. This return, as we highlighted in the Introduction, has been happening in the HCR under the command of the public sector (appropriation for infrastructure recovery, tax incentives, sector policies...) and has impelled the agents to reinvent the real estate market in this area by means of actions that lead to an innovative conservation, in the terms proposed by Lacerda (2018). By means of governmental incentives, these agents innovate by means of the conservation of properties. This means modernizing them, making them capable of housing contemporary activities from the commercial and services sector. Sometimes, this happens at the cost of annihilating a substantial part of the housing use.

In light of what was discussed above, it is possible to state that the re-semantization dynamics of central urban areas of Brazilian cities has not meant the resumption of the habitability of their respective historic centers,

where the rental market of previously owned dwellings predominates. Furthermore, it is possible to assert that this market is poorly articulated to the production dynamics of new residential spatialities in their respective surroundings, which results in different markets with a low level of comparability.

To conclude, it is important to note that, despite the decrease in investments from 2013 onwards, due to the Brazilian economic crisis, this sector started to have, in these surroundings, an expressive land bank, which supports the resumption of investments in a more favorable economic conjuncture.

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Notes

- (1) With allocation of resources also by the Inter-American Development Bank – IDB.
- (2) The Master Plan that is currently in force was revised and the draft of law of the new Master Plan is being discussed in the City Council of Recife since the second semester of 2018.
- (3) Three of the completed developments have a 2009 certificate of occupation and one has a 2017 certificate of occupation.
- (4) Considering the density of 2.67 inhabitants per household in PAR1 (IBGE, 2010), the number of new housing units was multiplied by the density of dwellers per household, which resulted in 7,596.15 new inhabitants.
- (5) As we mentioned above, PAR1 presented 78,098 inhabitants in 2000 and 78,114 inhabitants in 2010, which means a population growth of 16 inhabitants in 10 years.

- (6) Construction Permits (ranging from 2006 to 2015) and Certifications of Occupation (ranging from 2009 to 2017) at <http://licenciamento.recife.pe.gov.br/sites/all/selurb-serv/licenciamentoFiscalizacao.php>
- (7) The Novo Recife Consortium and the JCPM Group are responsible, respectively, for the projects Novo Recife and Largo dos Casados (mixed developments – business/commercial/services/residential), which are at distinct stages of licensing and discussion with the municipal government.
- (8) Three of these companies have acted in other states of Northeastern Brazil.
- (9) Because they have not been officially approved and are not part of “launched” developments, as is the case of the developments of the JCPM Group.
- (10) This figure refers only to units launched by large construction companies affiliated to Ademi. There may be smaller developments of other companies that were not included in this survey.
- (11) This is the case of the Novo Recife Project (Novo Recife Consortium) and of the Largo dos Casados Project (JCPM Group).
- (12) Neighborhood associations like “Amigos da Aurora”, formed by people who live on Aurora Street, in old and new spatialities, promote actions and events in the public space, claim for the permanence or withdrawal of street vendors, and claim for improvements in some aspects of the shore at Aurora Street. Their action is considered very limited.

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