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# **HOUSING FINANCE, PRODUCTION AND DISTRIBUTION IN POST-SOVIET KYIV**

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post-Soviet Kyiv: comparative analysis of Ukrainian,  
Hungarian and Russian cases

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## **Summary**

This thesis is a study of the housing transformations in Kyiv, Ukraine, after the end of USSR through the lense of political economy. Thus, the thesis explores the housing sector development in the context of post-Soviet peripheral capitalism focusing on real estate-finance-state interplay in the period from 1991 to the present. The study examines the processes of privatisation, commodification, financialisation and assetisation of housing in Kyiv since the demise of USSR. The form, spatial and historical dimensions of these transformations in Kyiv varied compared to Western and also to other post-socialist cases. These varieties are underpinned by the model of integration of Ukraine into the global economy, as well as by international and national power verticals and cultural context. Moreover, the transformations of housing finance, production and distribution was an actor driven process and the case of Kyiv revealed the conflicts, alliances and dependencies between international and domestic capital. Also the outcomes of the subsumption of housing by market differed from the broadly studied scenarios of gentrification, but took specific for the post-Soviet context form of socio-spatial polarisation. Another aspect of housing finance, production and distribution addressed in the thesis is the discourse on housing and urban space, which shows the ideological side of the housing transformation. Through study of city in the periphery of Europe the thesis, on the one hand, shows that housing commodification, financialisation and assetisation are global trends interconnected with the shifts of world capitalist economy, such as global financial crisis of 2008, and on the other hand, challenges the conceptualisation of these processes through the mechanisms and outcomes typical for Western societies, offering empirics on forms of commodification, financialisation, assetisation, as well as housing inequalities and violation of right to the city from Kyiv context.

## **Sommario**

Questa tesi è uno studio delle trasformazioni abitative in atto a Kiev, Ucraina, dopo la fine dell'URSS, analizzate attraverso la prospettiva dell'economia politica. Dunque, la tesi esplora lo sviluppo del settore residenziale, cosiddetto housing, nel contesto del capitalismo periferico Post-Sovietico, concentrandosi sull'interazione tra settore immobiliare, finanza e Stato, nel periodo dal 1991 ad oggi. Lo studio esamina i processi di privatizzazione, mercificazione, finanziarizzazione e assetizzazione delle case a Kiev dopo la scomparsa dell'URSS. La forma, le dimensioni spaziali e storiche di queste trasformazioni nella città di Kiev si differenziano sia da quelle occidentali che da altri casi in Paesi Post-Socialisti. Queste varietà si spiegano osservando il modello di integrazione dell'Ucraina nell'economia globale, nonché le verticali di potere internazionale e nazionale in cui è inserita e il suo contesto culturale. Oltre a questo, le trasformazioni della finanza residenziale, della produzione e della distribuzione degli alloggi, si sono configurate come un processo guidato dagli attori, e il caso di Kiev ha rivelato conflitti, alleanze e dipendenze tra il capitale internazionale e quello locale. Anche gli esiti della sussunzione delle abitazioni da parte del mercato differiscono dagli scenari, già ampiamente studiati, di gentrificazione, ma si riferiscono specificatamente alla forma del contesto Post-Sovietico di polarizzazione socio-spaziale. Un altro aspetto della finanza, della produzione e della distribuzione abitativa affrontato nella tesi è il discorso su alloggio e spazio urbano, che mostra il lato ideologico della trasformazione abitativa. Attraverso lo studio della città nella periferia d'Europa, la tesi da un lato mostra che la mercificazione degli alloggi, la finanziarizzazione e l'assetizzazione sono tendenze globali, interconnesse con i mutamenti dell'economia capitalista mondiale, come la crisi finanziaria globale del 2008; dall'altro sfida la concettualizzazione di questi processi attraverso meccanismi ed esiti tipici delle società occidentali, offrendo evidenze empiriche sulle forme di mercificazione, finanziarizzazione, patrimonializzazione, nonché sulle disuguaglianze abitative e sulla violazione del diritto alla città, a partire dal contesto di Kiev.

## **List of Abbreviations**

AHML - Agency for Housing Mortgage Lending  
ATO - Anti-Terrorist Operation  
AUB - Association of Ukrainian Banks  
CEE - Central Eastern Europe  
CIS - Commonwealth of Independent States  
CPSU - Communist Party of Soviet Union  
EBRD - European Bank for Reconstruction and Development  
EU - European Union  
FDI - Foreign Direct Investment  
FIG - Financial Industrial Group  
FSU - Former Soviet Union  
FX - Foreign Exchange  
GDP - Gross Domestic Product  
IBRD - International Bank for Reconstruction and Development  
IMF - International Monetary Fund  
KCSA - Kyiv City State Administration  
KMB - KyivMiskBud  
NEP - New Economic Policy  
NBU - National Bank of Ukraine  
NPL - Non-Performing Loans  
PPP - Public Private Partnership  
RC - Residential Complex  
SIAC - State Inspectorate of Architecture and Construction  
SMI - State Mortgage Institution  
SOE - State-Owned Enterprise  
SOK - Save Old Kyiv  
UAH - Ukrainian Hryvnia  
UEFA - Union of European Football Association  
USD - United States Dollar  
USAID - United States Agency for International Development  
USSR - Union of Soviet Socialist Republics  
WB - World Bank

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## Introduction

In Summer 2018 in Kyiv, the capital city of Ukraine and one of the largest cities in Eastern Europe, two events took place, which were widely discussed in both the local and national media. On the 7th June a paramilitary far right organisation, Natsional'ni Druzhyny, destroyed a Roma camp in one of the city's parks; this pogrom was one of the first in a wave of anti-Roma violence in Ukrainian cities, which led to the murder of a young Roma and the serious injury of three other people, including a 10-year-old child (Scott 2018). The second event was the flooding which occurred repeatedly in Kyiv after heavy rain. Every time the transport system in the city was brought to a halt and extensive damage was done to public and private property (Krasnikov 2018).

At first glance, these events do not have anything in common, apart from the fact that they happened in the same city. Yet they are indicative of the way the housing has developed in Kyiv over the last few decades. Roma, who occupy the lower social classes, are much more likely to become victims of far-right violence than those who can afford housing and do not need to reside in temporary settlements. This is an extreme case of housing inequality, but not the only one. The systematic violation of the right to housing in Kyiv was reflected in the Bloomberg ranking of cities according to least affordable housing: Kyiv took second place after Caracas (Tartar & Lu 2018). The second scandalous event - the flooding - also reflects the current state of the Kyiv housing. Rain alone was not responsible for the floods. Parts of the city were submerged because of a lack of non-permeable surfaces, the high density of urban development, which has taken the place of empty land which previously absorbed water, and the absence of strategic urban planning, which meant that the city's drainage system had not been repaired for 45 years (Sardalova 2018). The area of Kyiv's urban development that most frequently breaks the rules of city planning and causes environmental disasters is housing.

The violation of the right to housing and the skyrocketing increase in housing amount in Kyiv are directly related to each other and represent the dilemmas of the city's housing development. Recent growth has been driven by several factors, from macro socio-economic processes on a global level, such as the influx of Western financial capital into Eastern European economies (Sokol 2017), to actor networks and communication on a local level. In post-socialist<sup>1</sup> cities, the complexity of this interdependence is exacerbated by the rapid integration of regions in (semi-)peripheral positions into global capitalism. This took place through numerous channels, but housing was one of the main ones (Stanilov 2007). Most of the state-owned housing stock was privatised by individuals, practices such as real-estate trading and renting out property were legalised and started to be developed, and housing production ceased to be a state obligation and became part of the business and, later, financial sector. Once the 2008 crisis had established mechanisms of housing finance, production and distribution underwent significant changes and

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<sup>1</sup> The term 'post-socialist' refers to both socialist countries and the Soviet bloc, as the USSR was also nominally a socialist state.

had an impact on the country's economy and politics. These rapid changes have not been adequately addressed in the academic literature. This is the starting point of this study.

Before beginning the empirical part of my research, I created a theoretical framework in order to address the post-socialist case study. There are several views on how to approach the post-socialist region in the social sciences. All existing theories can broadly be divided into two veins. The first involves analysing post-socialist and other underdeveloped countries with the presumption that they must be developed to the level of the United States or Western Europe. One of the most prominent examples of this approach is transition theory (McFaul 2002, Bunce 2003). Transition in this context means the process of 'democratisation, marketisation, state-institution and civic-nation building' (Kuzio 2001). Most of the research supporting this vision tends to explain the social problems of these states by their inability to adopt a proper market economy and democratic institutions (Linz & Stepan 1996). For almost three decades, Ukraine, like many other countries, has attempted to develop the 'right' market mechanisms, however the country is still governed by multiple blocks of capitalists who have captured the state and make large profits from international trade (Yurchenko 2018). I wanted to avoid looking at Ukraine as the 'younger sister' of Western Europe, which does not know how to play the game. Unfortunately, such simplifications were present among Western researchers, "at the root of Ukraine's problem of underdevelopment is a cultural or civilizational problem" (Zog 2001). Instead my aim is to see it as a society where market mechanisms have already been functioning for three decades and are creating certain contradictions. In order to achieve this, I decided to follow another approach: that of critical political economy. In contrast to the first approach, this line of thought claims that underdeveloped countries, such as post-socialist ones, are already integrated into the global market economy, functioning as a periphery or semi-periphery. As a result, the economy and political regime in these countries differ from the countries that lie at the core of the capitalist economy (Arrighi 1994, Amin 2010). The theoretical framework of this thesis combines theories of uneven geographical development, production of space, the urban growth machine, city bargaining, among others, and adapts them to the post-socialist context. The less abstract the theory is, the more research on the Western context differs from empirical evidence taken from Eastern European cities. This shows that there is a need for 'parallel' stories from different regions when analysing global trends within capitalism. The main aim of this thesis is to tell the story of the post-socialist region's integration into the global economy through housing development, and show how transformations in the post-socialist region are connected to global changes just as much as transformations in Western countries are, however different in form these transformations may be.

Why has Kyiv been chosen as a case study? It is the largest urban agglomeration in Ukraine and one of the largest in Eastern Europe. Over the last three decades the city has experienced drastic economic restructuring, seen several waves of migration inwards and outwards, received a significant influx of both national and international capital, and lived through several mayors with divergent agendas, as well as three major social uprisings. These processes have had a strong impact on housing finance, production and distribution. The boom and bust of the mortgage system affected both the volume of housing production and the socio-economic position of many Kyivans. Moreover, there has been a move in Kyiv from the gradual, planned

growth of modern *mikrorajons*, instigated from above between the 1950s and the 1970s, and the postmodern, often constructivist-inspired, high rises of the 1980s, to the haphazard development of housing on nearly every vacant piece of land, often in the form of low-quality buildings or gated communities. The pace and complexity of these changes make Kyiv a case which has the potential to contribute to political economy research on multiple levels.

The main general research question of this thesis is formulated in the following way:

*How the regimes of housing finance, production and distribution in Kyiv embed the global trends of uneven development, housing commodification and financialisation and influence the cities' urban landscape and everyday life of Kyivans?*

To open up this question the research includes four major steps, every revealing certain research question. The historical transformation of the structural conditions of housing growth is addressed through next research question:

*How did the economic and political transformations in the country and globally shape housing in Kyiv?*

The level of agency of the process studied is revealed through study of cooperation and competition, as well as conflicts and alliances between different drivers of housing growth. In order to realise it next research questions were posed:

*How did the competition and cooperation between international and domestic forces turn housing from a tool of state welfare distribution and control to a commodity and an asset, resulting in the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

*How were conflicts and alliances between public, private and third sector actors in Kyiv interrelated with the processes of housing transformation and establishment of the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

The discourse which reproduces the power relations and enhances the economic and political logic of the growth was studied on the example of housing advertising with next research question:

*How did the advertising of housing contribute to performativity of housing finance in Kyiv after the 2014?*

As a concluding step I decided to broaden the scope for enlarging the analysis and conducted comparison of Ukrainian case with the Hungarian and Russian ones. Main variable being the model of integration of each country in the global economy, I asked following research question:

*How did the models of integration into the global market, along with the governing regimes, contribute to the mechanism of financialisation of housing in Ukraine, Hungary and Russia?*

Deriving from these research questions the empirical part of this thesis begins with an exploration of how Kyiv's housing growth has become a market-oriented since the end of the Soviet regime and how this process is connected to the integration of the former Soviet Union into the global market. Firstly, I divide the process of housing development in the Kyiv metropolitan area into five historical periods based on three indicators: the volume of housing produced (designated by Harvey (1978) as the built environment), the level of commodification of housing, and the volume of finance invested in it. During this stage of research I used quantitative analysis of economic data as my main tool and operationalised housing growth using several indicators including housing prices and mortgage loans. As a result, five periods of housing development emerged. In the early 1990s, housing was still financed, produced and distributed by state institutions, but the weakness of the state led to stagnation. Private interest in real estate in this period was low, because the emerging domestic capitalist class was engaged in privatisation and state capture, and there was nothing to attract international investments to Kyiv real estate. At the end of the 1990s, political structures were stabilised and real estate started operating according to market logic. Private and public developers began financing housing production with revenues from international trade and small-scale investments from households. Housing became a commodity, but it was still not a financial tool. The situation changed in the 2000s, when the mortgage system was established. Housing finance was booming thanks to foreign capital from trade revenues, domestic banks borrowing from abroad and foreign banks entering Ukraine. The financial crash after 2008 was as dramatic as the previous growth had been. State intervention in the banking sector, backed by the IMF and World Bank credits, allowed real estate to recover relatively quickly, but this recovery was interrupted by a new wave of crises in 2014-2015, caused by political instability and a slump in global prices of exported goods. The current situation is fairly contradictory and can be seen as an extreme example of the state of housing finance in the region – housing production is booming without any mortgage system. Banks are unwilling to supply consumers with affordable mortgages, yet housing prices in USD have decreased, allowing those with savings or income in foreign currency to invest in housing. In this context, developers act as quasi-financial institutions, transforming housing into safety deposit boxes. The existing mechanism of housing finance is extremely risky, especially given that investments are attracted in the very early stages of construction. Thus, when liquidity from households runs out, another bust should be expected.

This transformation of the housing was driven by certain actors, who networked with each other and built strategies to pursue their interests. I argue that, during each period, a different combination of actors drove the growth. Nearly all of them are divided into the categories of public and private, in order to reveal the dynamics of the relations between capital and the state, and domestic and international, in order to address questions of dependency and internationalisation. The type of actors which dominated the housing growth during different periods reveals which interests were embedded in housing growth in Kyiv and shows who benefited, and who did not, from housing development and the transformation of the Kyiv urban

landscape. In the early 1990s, the housing development was led by state institutions according to Soviet-era plans, however funding for completing these plans was cut drastically. To replace the weakening state actors, private developers, banks, architectural bureaus and other private actors were formed, largely through privatisation and state capture. As long as there was no solid political structure, these actors were not organised as a coalition and did not begin developing the city. This meant that, while public actors were contributing to growth during this period, private actors were still weak. The situation changed when a power vertical was established in Ukraine in the mid-1990s and when financial-industrial groups were formed and accumulated their first capital. This enabled capital to be channelled into the built environment and gave priority to the private interests of developers and real-estate investors. At this point, the vast majority of these actors were still domestic. Growth intensified when international capital took over. Before 2006, international banks were not directly present in Ukraine, so the influx of foreign capital took place through domestic banks, which brought them significant profits. After the global financial crisis, the position of both domestic and foreign private actors worsened and, as in many other cases, their losses were transferred to the state. The future of Kyivans and of urban development was decided at a very high level. The Ukrainian state was unable to save the banks, so credit from international financial institutions was sought, further increasing the state's debt. However, this quickly regenerated the mortgage market and, consequently, housing growth. This time, growth was led by domestic private actors who were highly dependent on state financial support that came from international financial institutions. When the country entered a new stage of crisis, the drivers of growth – banks – withdrew from the sector. Since 2014, housing growth has been stimulated without mortgage mechanisms, as banks are not willing to risk their capital. The coalition of actors includes fewer groups than ever before: developers, public authorities who represent their own interests, and a narrow cluster of consumers whose income is tied to foreign currency, such as those working in the IT sector. Nevertheless, the volume of construction in Kyiv has not decreased over the last two decades, as the actors driving development have changed several times, bringing different sources of capital to fuel growth. This analysis depicts the interrelation between macroeconomic changes on a national and international level and the dynamics of alliances and conflicts between local actors. These shifts from one coalition to another are accompanied by the investment and withdrawal of certain types of capital – domestic or foreign, private or public – in the housing.

This analysis of actors, their networks and their strategies omits one very important aspect: the role of housing consumers. The contribution of these actors to the growth was extremely important in the early stages of the development of housing, because it was households who were financing housing, either with or without the help of mortgages. To address their role and explore housing distribution, I analysed discourse produced by developers to pursue consumers, and more to stimulate the demand. Through analysis of discourses in housing advertising, I show various ideologies underpin the growth. My main argument is that discourse that convinces the potential consumer to invest in housing at the same time reproduces certain ideas on urban space, developers and inhabitants, that legitimise housing inequalities, socio-spatial exclusion, violation of right to the city, etc.

I put my research on Kyiv in a broader Eastern European and global context through comparison with two other post-socialist cities - Moscow and Budapest. The comparison focuses on the financialisation of housing in the pre- and post-crisis periods. The mechanisms and consequences of the financialisation of housing and the model of the peripheral position of these CEE and FSU countries are brought together. The three case studies reveal the variations in housing finance systems, and show why differences between post-socialist and Western countries arose. They also focus on post-socialist countries through the prism of uneven development both between and within the selected regions. This supports the argument put forth at the beginning of the study: that the models of finance, production and distribution of housing in Kyiv - however specific they are due to the historical and regional context - reveal growing trends of the intersection of finance, real estate and state, as well as the increasing economic and political dependence of countries on the periphery of Europe on those of the centre.

This thesis extends research carried out on real-estate finance, post-Soviet transformations, and urban socio-political dynamics and socio-spatial transformations in the context of peripheral capitalism and clientelist political regimes. It also contributes to the study of the discursive aspects of housing finance, which have not received much attention in the literature, especially with regards to the post-socialist region. Even more importantly, it shows how these aspects of housing finance, production and distribution are interconnected, and builds up a multiscalar analysis. Going beyond academia, this thesis offers a general, structured and critical perspective on housing issues for urban initiatives that challenge mainstream understandings of housing as a commodity and financial asset. As housing inequality increases and the degree of home ownership declines, more Kyivans are encountering severe violations of their housing rights. Unfortunately, due to the weak status of social movements, especially those involved in housing issues, there is a deficiency in the language needed for the oppressed to express themselves. This research contributes to the development of such a language and offers a systemic vision of social problems which, at first glance, may not seem connected.

The first chapter outlines the theoretical framework of the thesis. The methodology, detailed structure and the thesis and research design are explained in the second chapter. The periodisation and macroeconomic analysis of housing development are discussed in the third chapter. The fourth chapter develops the same narrative, but from the perspective of actors driving growth. The fifth chapter adds to the analysis a study of communication between supply and demand parties. The last chapter compares the Ukrainian financialisation of the housing model with similar processes in Russia and Hungary ones. Finally, the conclusion discusses the contribution of this research to three different academic veins and sets out a programme for potential further development.

## **Chapter 1: Housing development in post-socialist cities: the theoretical frame**

### **1.1 Introduction**

How to theorise urban socio-spatial transformations happening in a context different from the one which gave birth to main frameworks and concepts and which is still the dominant area of their application, refining and development? This is the question that the present chapter strives to contribute to, focusing on the case of Kyiv, the capital city of Ukraine.

Sooner or later, every researcher of urban political economy (or, for that matter, almost any social reality) in Eastern Europe faces the problem of conceptual language to process the data collected in the field. However fascinating the latter may be, in the end they have to be fitted into conceptual frameworks developed for other contexts, be it direct importation of Western World concepts or too hasty parallels equalising the processes in understudied Eastern Europe with the developments in Latin America or other better researched areas. The result of such operation will always be some impoverishment of the initial data to make fit the established narrative. An alternative option, popular in local para-academic milieux, is much worse - rejecting all known approaches and schemes as 'imperialist' and postulating completely unique and unprecedented character of the conjuncture the researcher has stumbled upon in her field. Taken to their logical ends, the two patterns lead the process of knowledge production either into unjustified homogenisation or towards infinite fragmentation into an assemblage of completely unrelated anecdotes.

What is more, the existing stock of produced and theorised data is not equally distributed across the post-socialist region of Central and Eastern Europe (CEE). Countries which today constitute Eastern periphery of the EU (especially the V4 block) have received much more scholarly attention than the Former Soviet Union (FSU) sub-region, given the weakness both of its domestic academia and of its academic connections to the West. These informal hierarchies between national cases make it even harder to theorise the less 'generalisable' ones in a reflexive way and paying due attention to the complexities of the context of uneven and combined development.

Faced with the dilemma of conceptualising the processes of housing sphere development and socio-spatial transformations in today's Kyiv, in this chapter I offer a tentative way out of this impasse between the uncritical borrowing of internationally acknowledged concepts like gentrification or financialisation and their complete rejection.

To wit, I will address four clusters of theoretical frameworks in order to understand the advantages and limitations of these theories when they are put into dialogue with grounded realities of Kyiv in 1991-2018. I group them into clusters according to the topical range and level of abstraction relevant to it. This chapter is organised around the four clusters thus identified:

- (1) *Global and national macroeconomic processes and urban growth;*
- (2) *Local political and economic actors and strategies, cultural context;*
- (3) *Discourse on housing;*
- (4) *Socio-spatial transformation.*

In the following section I will address theoretical frameworks and concepts pertinent to urban political economy which operate on the highest levels of abstraction: capital accumulation, financialisation, uneven geographical development. Having described them in general, I put them into post-socialist context and then, as the last step, try to ground them in politico-economic realities of Kyiv. Second section follows the same structural logic treating theoretical issues connected to local actors and strategies pertinent to urban development. The third vein of theorising is to explain the discursive aspect of the housing finance, production and distribution, which is performed in the communication between the supply side - developers - and demand side - consumers. Finally, the last section addresses the issues of socio-spatial transformation on the ground. In conclusions the relative utility of various theoretical concepts and frameworks for analysing urban politico-economic transformations in Kyiv is discussed and a set of area-specific theoretical hunches which are developed in line with the most general 'universal' assumptions but differ from the more concrete concepts and approaches pertinent to different spatio-politico-economic configurations than those of CEE/FSU is offered.

## **1.2 Historical context: what was there before the market?**

In order to present the historical context I outline the social history of the housing development and governance in cities which used to be cities of the Soviet Union in order to explain the background of the radical shift to a market-oriented development, which occurred after the end of the USSR.

In his classical work 'Urban Question', Manuel Castells (1977) claims that urban processes are reflecting different modes of production. But as the capitalist system varies in its performances in different geographical areas - core-periphery - and historical periods (Arrighi 1994), socialism also had different variations of housing systems depending on the socialist state and historical phase (Murray & Szelenyi 1984). Deriving from this conception I will explain how the housing question was approached in USSR cities and which inequalities were constructed under Soviet housing policy.

It is important to note that Soviet model of housing system differed from the variety of models all over the socialist republics in Eastern Europe, which due to path-dependency influenced the different models of transformation after the end of socialist era (Stanilov 2007; Nedović-Budić, Tsenkova & Marcuse 2005). Moreover the Soviet model was identical for the whole space only in the legal terms, however as I explain later it endorsed regional and urban/rural inequalities, bringing different spatialities to different level of development by 1990s. So the following historical outline, as well as the analysis of post-Soviet transformations in Kyiv



later is to be spread out to other post-socialist and post-Soviet cases very careful and with precise attention to the details.

To analyse the housing situation during different periods of the Soviet Union and later in the post-Soviet time I adopt an approach presented by Szelényi (1983). Namely I employ two aspects of housing which are interrelated, but still differ from each other. The first aspect is housing production, second - housing distribution. It is highly important to distinguish the two, because lack of housing is often explained through the first aspect, but what is really producing the social problems is the second. As Szelényi (1983) puts it, “The housing problem arises from housing policy, and within that policy especially from the system of distributing housing in conditions of housing shortage. But however general its causes, the housing problem will certainly surface, and appear to people, as a housing shortage. To break the vicious circle, it may well be necessary among other things to provide more housing, but it matters at least as much what kinds of houses are built, and who gets them”.

#### *Early years of Soviet socialism*

During the first ten years, from 1918 to 1928, the intensity of housing production was stable. During the New Economic Policy (NEP) period individuals and cooperatives had opportunities to build housing - more than half of the new urban housing stock was constructed by individuals using savings or state loans. The majority of housing was constructed in rural areas also by small scale producers (Tsentralnoe Statisticheskoe Upravlenie 1971). From its first years Soviet government started redistributing housing in a different way compared to the times of the Russian Empire. The majority of the housing in the central areas of the cities were nationalised and transferred to municipalities. However, the system of redistribution was established in a way that privileged groups, as state bureaucracy, intelligentsia, academic and high level workers were getting housing (Mervyn 1972; Kamolov 2009).

#### *Stalin period*

Nevertheless, in 1929 the level of production drops twice. When NEP was cancelled in 1928, housing production became more state-led, less housing was constructed by individuals and also housing constructed in *kolkhozes*, newly organised collective farms (Tsentralnoe Statisticheskoe Upravlenie 1971). Apart from the centralisation of housing production (from individuals and small-scale producers to state organisations), the geography of housing production was also changed. With strong industrialisation which started with 1st 5-year-plan, rural areas became one of the main sources of this development. On the one hand, cities were seeking newcomers in order to fill the working places on the factories, on the other, *raskulachivanie*<sup>2</sup> and collectivisation campaigns were pushing people to leave the villages (Rakov 2013).

As all the investments were to be put into heavy industries, extreme savings were made through cuts in infrastructural investments and housing construction. So through mass migration from rural to the urban areas population of cities boosted, though this boost was administratively

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<sup>2</sup> *Raskulachivanie* is campaign of dispossession of properties from the farmers

controlled. And this top-down control while bringing workers to cities, did not provide infrastructure and housing for the labour forces attracted for the cities (Filtzer 1993, 2004). This phenomena of state control over urbanisation not favouring housing growth due to spendings on 'more important spheres' was described by Szelényi (1983) on Hungarian cases as 'underurbanisation'.

In war and postwar periods, housing was being developed more intensively compared to pre-war times, very much thanks to individual production. Despite of this, it was almost impossible to come close to covering the demand, also because of the destruction brought by the World War II - one third of the whole housing stock was destroyed (Trudolyubov 2015). Moreover the architecture itself reflected the social processes of the period, "Hierarchy was everywhere, in salaries, in access to material goods... Scientists, military they were the 'useful people', others were on the second place. The same hierarchy was in architecture and urban development, the capital is more important than province, centre is more important than periphery, facade is more important than the inner yard" (I29).

The lack of housing as other social goods in the cities was covered with oppressive methods. For example, dissatisfaction with life in cities was bringing workers back to the villages, but an outflow of labour from the industrial centres was not according to the plan, so the workers were not allowed to change their job or quit it (Filtzer 2004).

#### *Khrushchov period*

The delayed urban growth also described by Szelényi (1978) on the case of Hungary, started in the Soviet Union with the 7th five-year-plan in 1956 (Tsentralnoe Statisticheskoe Upravlenie 1971). Under Khrushchov principles of mass production started being implemented not only in heavy industry, but also in housing production. Huge multi-storage brick Stalinist buildings decorated with ornaments and towers were changed by five-storey block housing named *khrushchiovka* following the surname of Mykyta Khrushchov, First Secretary of the Communist Party of the Soviet Union (Shevchenko 2018).

1955 marked the start of the most significant period in Soviet housing, the one during which most of the housing existing now in the post-Soviet cities was constructed. The policies introduced by Khrushchov team (Central Committee of the CPSU and the USSR Council of Ministers 1955a, 1955b) set the agenda of holistic approach to housing, namely investment in building industries, research, education of architects, engineers, etc. But at the same time it was an approach, which aimed to built as much housing as possible with the lowest spendings as possible. This led to simplifying of the housing conditions, for example, reducing the size of the flats, joining bathroom and toilet, absence of elevators (I29). Various ways to access the housing were established. Firstly, the renting from the state institutions, for very affordable (around 4-7% of income) prices which included rent and utility bills, so called *kvartrplata* (Davidow 1976); secondly, buying or constructing through a cooperative. Though housing became way more affordable than before it played a role of an award, so those having better jobs, and with more

social and cultural capital were getting the housing, and those less privileged had to wait in line for years (Szelényi 1978).

Khrushchev's approach to housing production and distribution consequenced in rapid erection of the second or third circle of resident housing, fulfilling of housing needs for broad part of the population, though not for everyone who were in needed. This had a positive effect on life-expectancy and birth rates, and pushed for a traditional nuclear family lifestyle. The main downsides of these policies were low quality of housing, because of small flat sizes, lack of utilities and sprawled residential districts.

#### *Brezhnev period*

The next period overlapped with the previous one, as the mass housing typical of the Khrushchov period was also being built in time of Brezhnev. But from the middle of the 1960s, the innovations were being applied to the housing, so the Brezhnev housing is being considered a specific type of housing. During this period the housing provision was also happening through state-led mass production of housing. But this time in order to stop the urban sprawl and increase the quality of housing, up to 16-storey houses were constructed, this time with larger flat sizes and better quality equipped including, for example, an elevator. So though there were more living space produced, such an approach resulted in longer waiting lists for the housing. Moreover under conditions of state-owned land the new *mikroraiõns* were enlarging the city in spite of the attempts to organise the space. This approach would work creating neighborhoods with comfort density if the infrastructure was developed accordingly, however it was not the case as I will show later on the example of Troieshchyna (Shevchenko 2018; Shyrochin 2017).

To conclude, at the moment of Soviet regime to fall the housing sector in the region bared the following characteristics, which strongly differed it from the housing finance, production and distribution mechanisms in the capitalist societies.

#### *'Underurbanisation' and delayed growth*

Canalisation of all of the resources in heavy industry during the Stalin period resulted in 'underurbanisation'. But with new policies in the time of Khrushchov and mass housing production starting from mid-50s; delayed growth occurred. These phenomena are caused by the organisation of production and governance. If under capitalism relatively small producers motivated by profit extraction are in charge of housing, under the real socialism state was in charge of it. In the first case, when there is any capital accumulated in the hands of these producers, it gets invested in new housing, but in the second case, the state might invest in the spheres determined as 'most necessary' by the plan, so investment in housing happens much later than it is needed for the population (Szelényi 1981).

#### *Orientation towards even geographical development*

Almost in every period described, urbanisation was distributed all around the country as it was happening not due to the concentration of capital in particular spaces, but according to the presence of resources in certain spaces, as cities were developed around certain industries. Which

industries to focus on was dictated by the plan, which often did not meet the real demand. Although this strategy was not able to satisfy housing needs, it did distribute housing more evenly around the space both on state and urban levels (Lang et al. 2015).

#### *State-led production of housing*

Though it varied from a period to a period, the main trend of the Soviet era was that housing was controlled by state institutions of different forms and levels with orders coming from the top to lower levels (Lang et al., 2015). Unlike under a market economy (Molotch 1976), there was no coalition of actors pushing the growth, rather a number of actors, whose actions were controlled from above and adjusted to the plan.

#### *Non-market housing inequalities*

Though the goal especially established with Khrushchev period was quite the opposite, there were numerous housing inequalities produced in non-market way (Shyrochin 2017). Szelényi (1983) not denying the role of informal connections reveals that it was not personal links and corruption schemes that were producing the housing inequalities in Hungarian cities, but rather the fact that housing served as an award for the workers. As he shows workers which were contributing more to ‘building of socialism’ were awarded with better housing (unlike under the socio-democratic system of social housing which guarantees housing to the lower classes) and workers having lower positions, consequently were getting worse housing (Meerovich 2008). Despite of the broad presence of housing inequalities, in the end of 80s housing variation coefficient per capita in the US was twice as high as in the USSR (Trudolyubov 2015).

These were the starting points of the transformations I address in this chapter and the thesis. I show that the market-oriented development followed by the housing sector already for almost three decades subsumed and reshuffled the space, governing models and social inequalities constructed in the Soviet period.

### **1.3 Global socioeconomic processes and post-socialist urban transformation**

#### **1.3.1 Which political economy theories to apply to socioeconomic transformations?**

The transformations in post-socialist cities cannot be viewed separately from the process of the region’s integration into the global economic, political and social systems, which themselves have been undergoing transformations over the last three decades. To grasp the complexity of these processes, we start with theories depicting the political economy of the urban on a very high level of abstraction - namely with the concepts of circuits of capital, uneven geographical development and financialisation of real estate. This perspective is structuralist and yet dynamic enough to provide us with tools to explain the intertwining historical processes in the region and their influence and connection to the case - housing in Kyiv.

Contemporary analysis of urban political economy largely builds on the notions of uneven development and capital expansion. Combined and uneven development has been a concept of utmost importance for understanding capitalism for the better part of 20<sup>th</sup> century. It was

developed by Marxist thinkers trying to look beyond Second International's linear economic determinism - most prominently, by Trotsky (Trotsky & Nichol 2010) - and further developed later by Mandel (1978). Parallel with Trotsky, Luxemburg (1951) worked on the problem of overaccumulation of capital. Theorising the capitalist reproduction system she emphasises that as capitalist production constantly seeks to appropriate as much surplus value as possible, it constantly seeks expansion: "the capitalist method of production furnishes not only a permanent incentive to reproduction in general, but also a motive for its expansion, for reproduction on an ever larger scale" (Luxemburg 1951). For this process to occur there are four conditions to be met.

(1) Firstly, the production is to involve extraction of surplus value, "production should create surplus value, for surplus value is the elementary form in which alone increased production is possible under capitalist conditions"(Luxemburg 1951).

(2) Secondly, the process of capital expansion requires exchange on the commodity market, "this second condition thus leads us to the commodity market. Here, the hazards of exchange decide the further fate of the surplus value, and thus the future of reproduction" (Luxemburg 1951).

(3) Thirdly, the accumulation should take place, "provided that part of the realised surplus value has been added to capital for the purpose of accumulation, this new capital must first assume its productive form of labour and inanimate means of production" (Luxemburg 1951).

(4) Finally, as the consequence of the three the expansion is to happen: "The additional quantity of commodities representing the new capital plus surplus value will have to be realised, that is, reconverted into money. Only if this conversion has been successful, can it be said that expanding capitalist reproduction has actually taken place (Luxemburg 1951).

Through these explanations Luxemburg brings in the spacial aspect in the Marxist understanding of capitalist system. To conclude, she saw capitalism as an open system which requires the existence of non-capitalist outer environment serving as an outlet for the capital which cannot be productively employed inside the system.

The two concepts - capital circulation and uneven development - were combined in the work of Harvey (2006), who applied them to the study of spatial dimension of capitalism, and were further elaborated in the domain of Marxist geography by Harvey's colleague Smith (2008). Harvey (1978) builds a theoretical model which explains how capital shifts from one circuit to another in order to overcome its inherent contradictions. Harvey continues the theoretical thread started by the early Marxists, but his analysis is focused first and foremost on urban processes. They provide one of the important 'fixes' allowing to temporarily solve structural problems of capital reproduction. This general framework gave birth to a more specific theory of financialisation of real estate, which highlights the role of housing in the circuits of capital. Following Aalbers (2016), I build the research upon the following interrelations:

(1) Housing can and often does play the role of a commodity in the primary circuit of capital.

(2) Housing is also a means of wealth hoarding; it becomes the preferred alternative to other tools of wealth preservation when the latter do not promise sufficiently high returns and/or

involve great risks. Thus, housing is employed as a tool of neutralising the adverse outcomes of capital overaccumulation, crucial aspect of the secondary circuit.

(3) Housing is a commodity carrying the potential of increasing the productivity of the workforce; thus, it is also a means of improving the quality of the labour power in the tertiary circuit of capital.

(4) Housing is an important aspect of ideology in capitalist societies. Being simultaneously an individual use value and an investment tool, it helps blur the conceptual difference between individual possessions and private property (capital), and thus crystallizes the idea of private property as the paramount and inevitable way to organise access to goods.

(5) Housing circulates as a commodity that could be used, sold and bought;

(6) Housing is one of the important means of stimulating economic growth in both of the two mainstream macroeconomic doctrines - Keynesian (through investment) and monetarist (through mortgage loans) (Aalbers 2016).

The last two characteristics make housing an important part of the financialisation process. Aalbers describes it as capital switching to a yet another, quaternary, circuit: “The essence of a quaternary circuit is not that power shifts from the non-financial to the financial, but that financial and non-financial firms alike become increasingly involved in financial markets” (Aalbers 2016). Mortgage markets are not just enabling this process, they are driving it; moreover, they replace the state in a number of domains.

When financialisation became a widespread explanatory tool, it has met criticism from Marxist scholars. They stipulate that financialisation is a symptom rather than the main cause of the economic crisis which of 2008. Kliman (2011) uncovers the structural factors behind the crisis and its long-term origins, arguing that in reality “a persistent fall in the rate of profit is an important (albeit indirect) cause of the crisis and recession”. In a recent paper, Carchedi (2017) shows that a financial crisis on its own is not enough to trigger an economic slump, as long as profits in the productive sector of the economy are not falling. Roberts in his latest book (2016) argues that the tendential fall of the profit rate explains the current “long depression” much better than the financialisation thesis. Norfield (2017) analyses British finances from the same orthodox Marxist point of view, rejecting simplistic dichotomies between financial markets and the rest of the capitalist economy. However, whether we see financialisation as a symptom of known tendencies or as a completely new logic of capitalist development, what is important for the purposes of this article is the existing empirical evidence of a strong connection between the financial sector and the housing production, which cannot be ignored.

In order to become a useful analytical tool, concepts of capital circuits need to be embedded spatially. This can be done with the help of the uneven development theorisation. As aforementioned, the concept was first theorised by Trotsky who challenged the vulgar linear understanding of historical process and ‘stage theory’ (Allinson & Anievas 2009). Smith developed the notion further in the spatial context. In his dissertation and later book ‘Uneven Development. Nature, Capital, and the Production of Space’ Smith (2008) presents and justifies the importance of the notion of uneven geographical development by bringing together Marxism

and academic geography, thus making Marxism 'spatial'. According to him, there is a unity of geographical space and society, but this unity is not based on the mechanical connections between two independent entities, but through the process of production of space.

Space has been evolving throughout historical development of society, and the space constructed under capitalism carries characteristics specific to this formation. Smith (2008) describes these characteristics through the following contradiction: "While social development leads to an increased emancipation from space in one direction, spatial fixity also becomes an increasingly vital underpinning to social development". This means capital is highly mobile, but at the same time it accumulates in specific spaces developing them and leaves them when other spaces become more attractive. Moreover, as capitalist system constantly expands, new spaces are being constantly opened or reopened in process of capital flows.

Whereas for Marx concentration of capital is primarily social (i.e. concentration of its ownership in the hands of the capitalist class), Smith argues that it is also important to talk about spatial concentration. He differentiates three main scales on which the process occurs: "As the landscape falls under the sway of capital [...], these patterns are grouped into an increasingly systematic hierarchy of spatial scales. Three primary scales emerge with the production of space under capitalism: urban space, the scale of the nation-state, and global space" (Smith 2008).

(1) Urban space is the most direct geographical expression of centralisation of capital, as well of labour. So on the one hand capitalism produces the contradiction between urban and rural, but on the other hand it also creates contradictions within the city, between its different parts: "As a direct result of the functioning of ground rent a binary axis - from low ground rents at the periphery to high ground rents at the core - is woven through the more complex patterns of urban differentiation.

(2) Global space is, on the contrary, not a product of centralisation, but of equalisation. Being in the constant need of expansion to new spaces for raw materials and labour, capital has digested practically all the possible spaces on the globe by remoulding pre-capitalist spaces according to its own needs. Ironically, the Central Eastern Europe and Former Soviet Union became the last large part of the world to experience 'colonisation' by capital; this latest round of spatial expansion helped the global capitalist system to overcome the crisis of the early 1990s.

(3) The scale of nation-state is structured by the conditions of circulation and accumulation created by common legal and political field (Smith 2008).

One of the main social consequences of these macro processes is social and spatial exclusion, which I analyse through the prism of concept of right to the city developed by Lefebvre (1996) and Havey (2008). Following Lefebvre (1996), I intend to look at urban social inequalities not as at issues which could be solved by the technical or design means, (however these being highly important), but as at systemic outcomes of the capitalist development of cities: "Urbanism, almost as much as the system, is fashionable. Urbanistic questions and reflections are coming out of circles of technicians, specialists, intellectuals who see themselves as at the 'avant-garde'... At one and the same time urbanism becomes ideology and practice. Meanwhile, questions relative

to the city and to urban reality are not fully known and recognized, they have not yet acquired politically the importance and the meaning that they have in thought (in ideology) and in practice (we shall show an urban strategy already at work and in action)". Space produced through unequal social relations contains spatial exclusion. Moreover, the social change involves a change on the spatial level, as Lefebvre (1991) puts it in his other work 'The Production of Space', "Social change is necessarily a spatial change". Such change could happen through collective claim of those excluded and oppressed for their right to the city, collective, not individual right, to change the urban and the social: The right to the city is far more than the individual liberty to access urban resources: it is a right to change ourselves by changing the city. It is, moreover, a common rather than an individual right since this transformation inevitably depends upon the exercise of a collective power to reshape the processes of urbanization. The freedom to make and remake our cities and ourselves is, I want to argue, one of the most precious yet most neglected of our human rights (Harvey 2008). Looking at the social and spatial exclusion from such an angle requires linking the mechanism of urban development, economic and political, to the everyday life practices of spatial and social conflicts met by urban dweller, which I attempt to do on the example of Kyiv housing development.

Urban level constitutes the primary focus of this dissertation, however, according to the approaches presented above urban level cannot be analysed on its own terms, separately from the global and national processes. So I aim to analyse Kyiv as a hub which interconnects global and national network of capital and migration flows, platforms of political conflicts and alliances, as well as space reproducing identities and cultural practices (Sassen 1991; Larsen, Urry & Axhausen 2006; Massey 2007). This is especially important in the context of post-socialist cities, where the influx of capital was not a gradual process, expanding from one scale to the next one, but a rapid transformation involving all the scales simultaneously. In the following section I will take a closer look at the literature, which applies the aforementioned theories to post-socialist cases.

### **1.3.2 Uneven geographical development, circuits of capital and financialisation of housing in post-socialist region**

#### *Uneven geographical development and socialist legacies*

Throughout the history of state socialist regimes the process of urbanisation was distributed spatially in a manner different from the one typical for market capitalist societies, since it was driven not by the 'natural' processes of spatial concentration of capital, but rather by conscious policies. The latter were motivated, in turn, by the spatial allocation of natural resources (hence the phenomenon of cities constructed *ex nihilo* around certain industries), but also by political or other considerations (Gaddy 2014). These policies often failed to capture the dynamism of local contexts and actual needs, being highly centralised and dependent on the will of narrow political circles. Still, in the final account this style of decision-making did lead to a more even spatial distribution of assets both on the national and urban levels (Lang et al. 2015). As a result, a lot of post-socialist cities were 'underurbanised' (Szelényi 1983).



In the 1990s (and in some cases even before that) the ‘transition’ policies in Eastern Europe set the region on the track towards the uneven geographical development. One of the main tools of the reconstruction of the industrial economies in this period in what now constitutes Eastern EU were foreign direct investments (FDI). Taking the case of Slovakia, Smith and Ferenčíková (1998) show how the geography of the country was changing under such policies. FDI had a positive impact on qualitative and quantitative growth of specific enterprises, but negatively affected regional economies which suffered from high unemployment and lack of the promised demand-led growth. Overall, the researchers conclude that “what are being produced in Slovakia are ‘regional islands of investment’ in which the local dependencies of state socialism - reliance upon one key producer for employment and service provision/ social reproduction - are being replaced by new forms of globally integrated local dependency” (Smith & Ferenčíková 1998).

Russia experienced a similar trend. The shift of capital and labour to bigger cities, Moscow being at the forefront of the process, led to uneven geographical development of the country. Describing the spatial and regional aspect of the economic growth in Russia in the 2000s, Golubchikov (2007) shows that Moscow, Leningrad and Tyumen’ oblast’ become the centres of capital accumulation. The trend of uneven development is treated in more detail in the collective paper of Golubchikov, Badyina and Makhrova (2014) where they show that with the change of the economy some cities managed to adapt and became centres of service and cultural economy, (Moscow and Saint-Petersburg), of industrial economy that found its place in the global and regional trade networks (oil and gas industry being the most prominent), or found other profiles. Moreover, the authors show that Soviet legacies did not contradict the new market development agenda, they structured the ways in which it was applied on the ground: “legacies, while being the important condition for post-socialist uneven spatial development, need to be understood as the integral part of the capitalist political economy, conducive to the capitalist processes, rather than ‘alien’ carriers of history” (Golubchikov, Badyina & Makhrova 2014).

However, Russia differs from other post-socialist countries, not only due to the sheer size of its economy, but also because it has already been in the position of a regional centre for a long time. On a more specific level, Jelinek and Pósfai (2018) highlight the housing aspect of the uneven geographical development - the unevenness of housing financing which was underpinned by the neoliberal policies. They show that the geographies of Hungarian housing development were changing in the periods before and after the global financial crisis. They identify three types of spaces.

(1) The central areas were attracting capital, both mortgage loans and state subsidies, even in the crisis period.

(2) The areas adjacent to the central ones - “the immediate agglomeration area of Budapest, or major secondary cities and their immediate outskirts” - were strongly subsidised by the government, predominantly by non-refundable subsidies for accessing homeownership.

(3) Small cities and towns became the periphery of the financialisation process: they “may have experienced housing market activity in the most expansive phase of mortgage lending, but which experienced dropping house prices, a completely frozen housing market and blocked

channels of mobility in recent years”. At the same time access to state subsidies in these areas is conditional: they are only available to large families etc. (Jelinek & Pósfai 2018).

The process of geographical restructuring took place in almost every country of the post-socialist region on different spatial scales. On the global level, the region was integrated into the global economy as (semi-)peripheral spaces; on the national level, some relatively isolated ‘islands’ managed to attract investments and became the points of capital accumulation or state investments; on the urban level, spatial inequalities acquired new dimensions, as we discuss in the third part of the paper. Ukraine and Kyiv also followed these trends.

#### *Financialisation of housing and peripheral position of the post-socialist region*

There are no strict consensus of what financialisation is, so I stick to the one broadly used by the geographers and urban researchers: “the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households” (Aalbers 2016). Financialisation of housing became a widespread phenomenon spanning across the globe, and the post-socialist space was not an exception. However, the specific form this process took in the region is different from other cases; moreover, there have been numerous varieties between countries. To explain the connection between the financial sector and the establishment of housing sector in Ukraine, I first take a look at the research done on neighbouring countries - Russia, Poland and Hungary.

Büdenbender and Lagna (2017) show that already in the 1990s in Russia the financial sector was formally established, including securitisation mechanisms. Western, especially American, international institutions and advisors played an important role in this process. However, the legal and institutional framework for securitisation was devoid of ‘real’ contents, since the mortgage market was really small and there was no need for such complicated instrument. The situation changes under Putin: the new ‘power vertical’ prevents international actors from exercising strong political influence in the financial sector and eliminates the multilevel financial procedures established by them. Finance penetrated the housing in a different manner: oil industry was the main source of capital. Russian government was transferring oil revenues into finance and real estate through the Agency for Housing Mortgage Lending (AHML) created in the 1990s as a result of Western influence. Russian political and economic elites managed to keep away global players and push their own interests. Besides, the process of financialisation did not involve the population, taking place primarily through the public and private institutions. When the 2008 crisis came, the state managed to use it in order to strengthen itself and created a financial vertical: “infrastructure of state-owned institutions through which the government promoted its political and developmental objectives” (Büdenbender & Lagna 2017). Researchers argue that the dominance of the state makes Russian case qualitatively different from the financialisation which happened in the US or Western European countries. At the same time since the securitisation infrastructure is already in place, a the full-scale financialisation could theoretically begin when the conditions for it are ripe.

Büdenbender and Lagna (2017) also analysed Polish case. The first steps towards establishing a market-oriented system of housing finance were made there in the early 1990s. The newly created Mortgage Fund became a link between the funds of World Bank, USAID on the one hand and the Polish government and the private banks on the other. This institutional framework did not include securitisation and did not enable financialisation of housing. But it did occur avoiding the legal framework, through a different channel. It happened thanks to the early penetration of the US and West European banks which became dominant on the national market already by the beginning of the 2000s. Unsurprisingly, Poland's accession to the EU increased the clout of international finance even more, and Polish housing finance system was engulfed by the global trend of financialisation. This was supported by the political elite who counted on the economic growth brought about by this influx of foreign capital.

So the two cases show that a legal framework established through the influence of Western actors was not the key institutional condition necessary for the financialisation to happen. Even when it did exist in post-socialist states, it could be turned into a tool serving the aims different from those for which it had been conceived. When it was not there, finance institutions simply used alternative channels to access housing sector. What actually mattered was the promise of profitability sufficient to interest these institutions.

Explaining the case of Hungary, Pósfai, Gál & Nagy (2018) offer the notion of dependent financialisation. They identify the following characteristics of the phenomenon, which might be relevant to other post-socialist countries as well, including Ukraine:

(1) The rapid influx of capital in the beginning of 2000s and its rapid withdrawal in the end of the decade indicates that peripheral countries of Eastern and Southern Europe were stronger exposed to the global crisis than the Western European core: after the crisis hit, they were left with the highest rates of non-performing mortgages.

(2) Mortgage loans became a core tool of housing finance system while financing from state budgets shrunk; the mortgages offered were mostly short-term, involved flexible exchange rate schemes and had higher interest rates compared to the countries of European core.

(3) Similarly to the Polish case, in Hungary foreign banks played a crucial role. This became possible due to their expansion of in the end of 1990s. At that time they had been mostly catering to the largest players in the corporate sector, but later in the 2000s they shifted to providing financial services for households: “the share of foreign liabilities provided by foreign parent banks in the total volume of liabilities in Hungary grew from 8 per cent in 2005 to 25 per cent in 2008” (Pósfai, Gál & Nagy 2018). This model of foreign financing replaced the FDI-driven one in the boom period.

(4) The national political context prevailing at the time facilitated these processes: they happened thanks to “the political elite aiming to improve the perceived living conditions of lower middle classes through a model of consumption based on indebtedness” (Pósfai, Gál & Nagy 2018).

(5) One of the main consequences of the financialisation of housing for Hungary was the reproduction and deepening of the uneven development on different levels, from the multinational to the urban (Pósfai, Gál & Nagy 2018).

The cases of Russia, Poland and Hungary give useful insights for analysing the case of Ukraine. The periodisation is fairly similar for all countries: in the 1990s the foundations were laid by designing institutional framework and/or inviting foreign banks; in the 2000s, all the countries experienced an influx of foreign capital into housing, even though it took different shapes; after the crash of 2008, the countries were left to cope with the consequences, each finding its own ways out. Another similarity is that national elites in attempt to flourish countries' economies were eagerly welcoming this unsustainable influx of the foreign capital. Based on these similarities, one can speak of a regional variety of dependent or (semi-)peripheral financialisation; however, the mechanisms and actors were specific in each case. In the next section, I take the case of Ukraine and Kyiv to discuss the applicability of this model.

### **1.3.3 Explaining the macroeconomic roots of housing transformation in Kyiv**

#### *Uneven geographical development of Ukraine*

Post-Soviet capital accumulation began in the places of concentration of assets relevant for the process Ukraine's integration into the global economy. Among such places were not only big cities such as Kyiv, Lviv or Kharkiv, but also industrial towns of Donbas, Zaporizhzhia and Krivbas boasting mining, metallurgical and energy-producing industrial clusters (Kallioras & Tsiapa 2015). However, the visible outcomes of this process were different for the two types of locations described above. Spaces not marked by either large conurbations or industrial giants, naturally, followed yet another path.

Mykhnenko and Swain (2010) analyse the process of deepening regional divergence, showing its rootedness in the spatial inequalities formed in Soviet times. Analysing the cross-regional income dynamics between 1900 and 2007, they conclude: "Whereas one-third of Ukraine's regions gained relative to the national average, two-thirds lost... Broadly, central Ukraine, lacking industry and cross-border activities, experienced the largest relative decline under post-communism. The east and south performed better, but Kyiv was the biggest gainer in terms of percentage point change (+168 percent)..." (Mykhnenko & Swain 2010). These trends became especially prominent after the Orange revolution, during the economic boom of the 2000s. Kallioras and Tsiapa (2015) found that "internal scale economies and relative specialisation in non-agricultural sectors" were drivers of the regional growth in this period. Moreover, "trade openness and FDI were characterised by spatial selectiveness as they seem to favour the most developed areas" (Kallioras & Tsiapa 2015). The 2008 crisis reshaped the process by introducing "a differentiated development model based on the specialisation on primary and tertiary sector, and on the trade openness and the attraction of FDI in those regions that do not experience any (industrial) recession" (Kallioras & Tsiapa 2015).

Besides interregional inequalities, intra-regional division between big urban centers and smaller towns and villages became deeper. Gross value-added (GVA) in urban regions in the period between 2002 and 2010 was significantly larger than in rural ones. Kyiv, the city with the highest GVA, was showing better economic performance both in the period of boom and during crises (IBRD & WB 2015). Availability of jobs in bigger cities was one of the factors behind growing internal migration out of the unemployment-ridden countryside. This coincided with the abolition of the institute of *propiska*<sup>3</sup> and the emergence of informal mechanisms of renting and consumption of public services. All of this stimulated megapolis-bound human flows: though in 1990s the population of Kyiv was slowly decreasing, according to the official sources between 2002 and 2017 grew by 273 000 which is around 10% (Derzhavna Sluzhba Statystyki Ukraïny 2018a). In reality these numbers are way higher, because Ukraine did not have the census since 2001 and the data is collected only from those Kyivans who are registered for some reason. Often there is no reason to get registered as the significant part of the labour market, as well as rent market are in the shadow. In recent years the armed conflict in the east of the country contributed to the trend: more than a million people left the region to settle elsewhere in cities and towns of Ukraine (Kuznetsova et al 2018).

Both dimensions of the uneven geographical development of Ukraine - the growing interregional and urban/rural inequality - contributed to the primacy of Kyiv. Even though the size of the surrounding region's economy was below average (Mykhnenko & Swain 2010), Kyiv clearly became the 'winner' in the uneven geographical development no matter what was going nationwide. As Kallioras and Tsiapa (2015) put it, "the capital region (city of Kyiv) has a dominant role as well as a perpetual attractive power in concentrating economic activities and foreign investment". This made real estate operations in Kyiv a highly attractive economic activity and underpinned the commodification of housing.

#### *Kyiv: the forefront of housing commodification*

Housing did not become the destination of capital flows until the end of 1990s. Before that, in the 1990s, Ukrainian economy still had been functioning predominantly in the primary circuit and the processes of privatisation and restructuring had not been over yet. By the end of the 1990s real estate started becoming a productive sector of economy in the capitalist sense of the term, that is, a channel for large capital flows. In Kyiv, as well as in other post-socialist cities, this process did not follow the familiar pattern of financialisation of housing typical for the Global North. Mechanisms ensuring and resulting from the mutual penetration of housing and capital circuits were different from those at work in the core countries. Significantly, the influx of capital into the country did not bring about securitisation as it had happened in the USA or Western Europe. Still, the influence of finance in the housing domain was very strong.

According to the data obtained from the National Bank of Ukraine (Dostup do pravdy 2017), the amount of mortgage loans granted nationwide grew 3,6 times (from 20.52 m to 73.08 m

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<sup>3</sup> Institute of *propiska* is Soviet institute of registration which was *de facto* bounding people to the place they were born in and excluding the migrants from the big cities especially, similarly to the inner passports in nowadays China.

UAH) between the beginning of 2006 and the end of 2007. Over the following year the figure has almost doubled, reaching 143.42 m UAH. The currency rate was stable in this period (Åslund 2009); however, in practice the market was completely dominated by US dollars. From 76 to 84 % of mortgage loans were nominated in this currency, while the share of the euro was around 1-2% and the rest was nominated in Ukrainian hryvnias. These are nationwide data, and we can safely assume that the level of dollarisation in Kyiv was stronger. Compared to other countries, Ukrainian mortgage market was not that extensive in absolute numbers, but the remarkable pace of its development attracted the attention of European financial institutions. The latter massively entered Ukrainian economy after 2004, offering loans in US dollars. Facing the competition, Ukrainian banks began offering dollar-denominated loans as well: to acquire foreign currency, they first had to take loans abroad. In the final end, vast majority of the mortgage system was functioning in the US dollars.

The liquidity required by Ukrainian market was provided thanks to the peculiar position of local financial market, relatively isolated from the global ones. Ukrainian macroeconomic environment, with its high inflation and *de facto* USD peg, promised high risks, but the potential returns were high as well. Acting in the interstices, it was possible to borrow cheaply in the Western markets and then lend in Ukraine for much higher interest rate. These speculations were pumping insane amounts of liquidity into the national housing market, making obsolete the complicated processes of securitisation.

The mechanism of housing finance, which functioned in 2000s, was fueled by the international financial capital. It has produced an enormous ‘housing bubble’: by the end of 2006 the size of Ukrainian real estate market amounted to 400% of the national GDP, compared to 160% in the US (Sas & Vityuk 2008). The bursting of the bubble had its social repercussions; however, unlike in the US where lower classes became the main ‘victims’ of the crash, in Ukraine they have not had access to the housing consumption in the first place, living in the packed apartments privatised in the 1990s or recouring to private rent market. Instead, the brunt of the crisis was born by the ‘middle class’ which had emerged during the boom of the 2000s only to fade away in the course of the subsequent waves of the structural economic crisis.

#### **1.3.4 Macroeconomic theories: what do they give us?**

In this part I have shown how such theories as uneven geographical development and financialisation of housing give us tools to analyse the post-socialist, including Kyiv. Uneven geographical development of Ukraine reinforced and sometimes reshaped spatial inequalities produced under the Soviet Union and made Kyiv the center of the Ukrainian economy with highly attractive real estate sector. The boom of the 2000s was driven by both local and international actors, among which financial institutions were prominent. The fact that the legal framework as securitisation tool was not developed did not impede the process. On the contrary, it was way more profitable for Ukrainian banks and developers working hand in hand with them to avoid the complicated mechanisms and borrow in USD directly from foreign banks.

Nevertheless, a number of limitations poses an obstacle to an uncritical and direct application of these theories to the CEE and FSU context. Here, contrary to the typical narrative, strong spatial inequalities came into being even in the absence of market economy before the 1990s; only with the beginning of the ‘transition’ were they subsumed by the market rule. Then again, financialisation did not really depend on the legal framework which could be completely absent in some cases. Along with the ‘heterodox’ technical character of post-socialist financialisation, it is important to underline its structurally dependent nature.

These theories, then, are very well applicable and relevant to the CEE/FSU area in general, but their application cannot be effectuated in a mechanical manner by simple extrapolation. General trends of uneven geographical development, circuits of capital and financialisation manifest themselves through different mechanisms in different regions.

## **1.4 Local political and economic actors and strategies, cultural context**

### **1.4.1 Which theories to apply to agency in post-socialist cities?**

Zooming in to see the agency of specific actors of post-socialist urban transformation, I address a number of theories focusing on the conceptualisation of the actors’ rationale, strategies and social network in the urban social and political life. Among them are the theories of urban growth machine, urban regime, and city bargaining.

The concept of urban growth machine emerged four decades ago from a radical claim that urban growth is an agenda which mobilises various actors with political, economic or symbolic power in a coalition which drives this growth (Molotch 1976). According to it, the city is ruled by a ‘coalition of growth’ consisting of elected officials, bureaucracy, bankers, developers, and other actors interested in producing local economic growth. This idea was based on the experience of American cities in the 1970s. When it was applied to the European context (Bassett 1999; Le Gales & Harding 1996; Vicari & Molotch 1990, 1988), researchers discovered a number of differences in land use, urban policy making and role of the state and regional power. However, the core principle remained - a coalition of actors, even if different from the American one, provides the impetus for the growth of European cities (Wood 1999; Molotch 1999).

At the same time this theory underpinned another one, that of the urban regime. This theoretical approach is based on the following reasoning: even though governments do own and operate various auxiliary enterprises, they are constrained by the need to promote investment activity in an economic arena dominated by private ownership. An urban regime, then, is a set of “informal arrangements by which public bodies and private interests function together in order to be able to make and carry out governing decisions”, which require an “institutional scope” and “cooperation” (Stone 1989). Private interests are primarily those formulated by capitalists, but also by “labour-union officials, party functionaries, officers in non-profit organisations or foundations, and church leaders” (Stone 1989). Four types of the urban regimes were presented in the study:

(1) Maintenance regimes provide basic public services and “involve no effort to change established social and economic practice, no extensive mobilisation of private resources is necessary and no substantial change in behavior is called for” (Stone 1993).

(2) Development regimes are “concerned primarily with changing land use in order to promote growth or counter decline” mainly by linking the public and private actors.

(3) Middle class progressive regimes “focus on such measures as environmental protection, historic preservation, affordable housing, the quality of design, affirmative action, and linkage funds for various social purposes” (Stone 1993) with strong control from civil society on government, active involvement of NGOs and volunteers.

(4) Regimes devoted to lower class opportunity expansion “involve enriched education and job training, improved transportation access and enlarged opportunities for business and home ownership” (Stone 1993).

Another significant contribution to this vein of theorisation was made by Savitch and Kantor (2004): analysing various strategies of urban governments in Western Europe in their dialogue with capital, they advocate the concept of city bargaining, by which they define as “the ability of a city to garner resources in order to maximize its choices and ultimately realize its objectives in the capital investment process” (Savitch & Kantor 2004). There are several types of resources which enable this process:

(1) Market conditions are factors, which make city attractive for investment of private capital. Historically there are strong inequalities between cities all over the globe in the level of attractiveness, just few enjoy being the economic and financial centres (Sassen 1991).

(2) Intergovernmental support is combination of the integration between different levels of governance, which might be a vertical - between higher and lower levels of authority - and lateral - between the authorities on the same level.

(3) Popular control systems are the practices of citizens expression of their interest and control of authorities.

(4) Local culture is understood as the ‘common sense’ on social values and norms on kind of urban development.

However there are cities, which might not be able or willing to compete, most of the contemporary cities employing these variables develop either in social-centered or market-centered way depending on which actors in the city take advantage of the growth. Of course, these two ways of urban growth are just extreme-points and there are numerous variations between them. These theory in detail shows that the black and white explanations of the urban political economy of either growth or anti-growth oversimplifies the process (Savitch & Kantor 2004).

Giving us a wide range of tools, these theories, however, are problematic when used in the post-socialist context. Firstly, they perceive city authorities as a separate actor, confronting the business elite or colluding with it, but from an independent position. In the realities of CEE, the domains of the private and the public are often intermingled to the degree which makes it



impossible to separate the government and the business even analytically. Secondly, the theories do not capture the high level of power centralisation typical for many Eastern European countries, thus neglecting the role of the national political and economic elites. To clarify these and other aspects of the urban politics in the post-socialist region, we summarize the research on urban growth machines, urban regimes and city bargaining in the post-socialist cities.

#### **1.4.2 Urban growth coalitions, urban regimes and city bargaining in post-socialist cities**

During the last decade urban growth machine theory attracted the attention of critical researchers of post-socialist cities, who have shown that an urban growth machine is not an exclusively Western phenomenon and that it can explain the transformation of urban centers which had just recently adopted the growth agenda (Valiyev 2014).

The post-socialist growth machine was conceptualised by Kulcsar and Domokos (2005): it is governed by a more tight and monolithic coalition than in the West, having fewer cleavages between the interests of various actors. They encounter less opposition from the public and anti-growth grassroots movements. The role of external players in defining urban policies, namely transnational capital and the national state, is accordingly greater. So the power core lies with the local administration rather than with the economic elite. These differences were further developed and adapted to Russian conditions by Golubchikov and Phelps (2011): there, the role of the state and “political-bureaucratic processes nested at different administrative levels” is even greater. Centralised taxation system means that local authorities cannot count on tax revenues from the investment project, and their main incentive is the “planning gain”, that is, conditions stipulated in the “investment agreement” with a developer: in exchange for the chance to realise her project, the latter promises to repair the adjacent road, to surrender a certain proportion of new housing to the municipal fund, etc. Importantly, the local government retains the ownership of city land in its hands, collecting rent from owners of structures standing on it. In case of Baku the growth coalition was led by the public actors as well, they are closely tight to the oil business revenues from which were being invested in the hotels and other elite real estate (Valiyev 2014).

The urban regime theory was applied to post-socialist cities several times. Already in early 90s after the end of Soviet socialism the market transformations pushed for formation of regimes. Owen (1994) analyses a case of emerging urban regime in Plock, Poland. The regime was established through the landing of a Levi Strauss factory in 1991, just after the end of socialist regime in Poland. The international capital was attracted to the city by reducing taxes and providing the land, building and infrastructure. It resulted in the construction of the factory as well as the development of local construction, transportation and service industries. It is clearly a development regime, which involves city administration, represented mostly by the mayor, and international business (Levi Strauss Company) as the main actors, as well as a number of secondary actors: a senator and ministries from national government, the voivodeship (regional administration), local business (namely the petrochemical factory, which lent the city government the money for leasing a building belonging to the voivodeship in order to sublet it to the Levi Strauss. The research also briefly looks at another Polish city, Lodz, which had similar characteristics but lacked an entrepreneurial mayor able to attract the factory and so lost the

competition for capital landing. Another research was conducted in the beginning of 1997 in Novosibirsk, Russia. Hughes, John and Sasse (2002) show the sub-national (regional and urban) elite network: it is composed of (1) administrative officials from different level of governance - regional, urban, *raïon* (district), (2) elected politicians and heads of political organisations, (3) economic managers, and (4) cultural-professional intelligentsia. The elected politicians and heads of political organisation (mayor, regional governor) are in the centre of the networks, the bureaucrats and businesswomen are on lower levels of the decision-making network. Almost a decade later Gel'man and Ryzhenkov (2011) have shown the way local regimes function in Russia. They assert that the decades after the end of the Soviet Union saw the emergence of a 'power vertical' which incorporated the local regimes on the regional and urban levels. This makes Russian local regimes highly dependent on the federal centre; consequently, the local development is used as a political tool.

City bargaining theory was also applied to a post-socialist case. A study of two urban redevelopment projects in Kazan' (Kinossian 2006) allowed to conceptualise several crucial differences in the mode of negotiating of the public and the private. Firstly, both projects were delayed because of the lack of intergovernmental support: communication between different public institutions as well as between public bodies and business was complicated with a number of issues. Secondly, the regime was led by regional politicians who "shaped the re-development programmes to suit their individual political interests and used coercive methods to force the private sector to contribute financially" (Kinossian 2006). The most recent outcome of such configuration of public and private is that the projects are implemented primarily to gain political capital, so there is a strong gap between the image presented and the actual results. Thirdly, unlike in the Western cases, coercion and informal arrangements play very important role.

I would emphasize the following crucial characteristics of the post-socialist urban politics. Firstly, strong networks between the public and private sectors of the post-socialist coalitions were present almost in every case studied. Secondly, these links between private and public are based not only on the economic interest of each actor and formal cooperation between them, but also informal social networks, including family and friends ties. Thirdly, another complexity comes from the fact that governance in the countries is often organized around 'power vertical', so nation state governors might have stronger power to shape the urban processes than local governors, to the extent that city mayors could be 'puppets' of the nation state politicians. Finally, the weakness of urban social movement creates a perfect ground for such regimes to ignore the needs of local inhabitants, especially of the lower classes.

### **1.4.3 Actors and their strategies in Kyiv**

In this part, I outline the urban growth coalition, urban regime and city bargaining processes in Kyiv in order to argue that these theories are useful for the further study of Kyiv housing growth. I will try to make the analysis more time-sensitive than that demonstrated by the cases referred to above, since the city witnessed a number of distinct periods and coalitions over the last decades.

As mentioned before, since the beginning of 1990s the city was going through the period of economic stagnation. Housing production was still led by the state, but Soviet-era plans were severely cut. This can be called the period of maintenance regime; business was not interested in the housing, consequently, there was no coalition and bargaining. However, this was also the time of formation of the actors who will lead the growth in the subsequent periods. They were formed in the processes of extensive privatisation and capture of public enterprises, as well as privatisation of housing.

The coalition arose in the end of 1990s, when the beginning of the economic growth kicked off the processes of formation of the ‘middle class’ - predominantly urban dwellers who managed to improve their socio-economic position during the boom of the 2000s. In Kyiv the coalition is not as strictly centralised and subdued to the state as it is in Moscow, but the city government appointed by the state also occupies a central place in the decision-making landscape. Up until mid-2000s, the urban strategy was defined by city mayor Oleksandr Omelchenko who had made a career in the constructing business. Publicly owned corporation Kyivmiskbud, tied to Omelchenko, was a virtual monopolist, performing its traditional functions from the Soviet times – constructing residential housing; only now it re-oriented itself at the effective demand of upper and upper middle class. Profits reaped from these activities are lost in the cobweb of private interests behind this public company. After Omelchenko’s deposition in 2006, the market turned from monopoly to an oligopoly of several large domestic developing companies, whose interests (along with those of Kyivmiskbud) are routinely represented in the local government under every political regime. This is the core of the coalition defining the forms of capital landing in Kyiv; on its orbits one can locate domestic and international financial capital providing mortgages and credits; national government regulating tax policies and sometimes initiating political overhaul on the local level; professional and grassroots lobbying groups of various nature.

The most typical form of capital landing until 2008 was the fill-in construction of elite high-rise housing in ‘empty’ pockets in the city, including parks and other public spaces, but also in the suburbs. The latter were filled not only with one-family houses, but also with high-rise housing. Normally, the developer starts construction activities without all the necessary permits. The company advertises the new project, selling apartments in the future building for relatively low prices compared to the old housing stock. By doing this, it not only obtains zero-interest financing of the project, but also builds the coalition of ‘investors’<sup>4</sup> interested in its finalisation. Simultaneously, residents of adjacent houses coalesce in a protest movement against the illegal building site. The company hires security/thugs to confront the protesters and continues building. When the conflict reaches the press and the city government, the developer argues that some formal irregularities should not prevent Kyivans from getting their very own homes, especially since the building is already in progress anyway. This position is supported by ‘investors’ who already paid money for their flats and are ready to protest in favour of continuing the construction. The outcome of the conflict is decided behind the closed doors of the city hall: if

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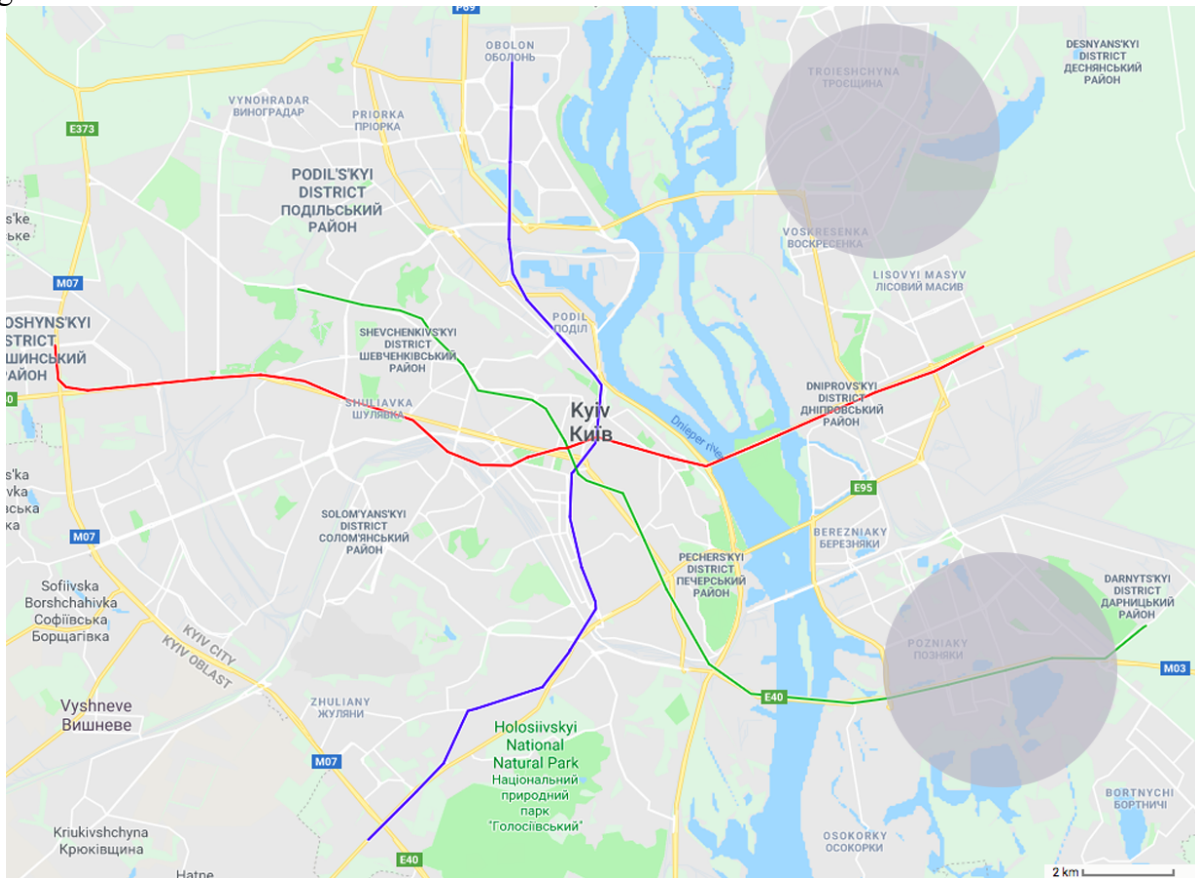
<sup>4</sup> ‘Investor’ is a Ukrainian real estate jargon word for consumer of newly built housing.

the developer manages to somehow convince the authorities, she obtains the necessary documents and legalises the construction site.

Often, the commercial construction is masked under the guise of a ‘social’ project: thus, in the mid-2000s the president of a university initiated construction of a house for the faculty right on the campus, situated on a prime location in the city centre. The house, which was supposed to be four-storied - equal to the height of surrounding university buildings - ended up being almost twice as high, and completely commercial. The faculty members were indeed approached by the university management with an offer to buy apartments, but even the discounted price (\$4000/square meter) was in sharp dissonance with the salaries they received from the university. Eventually, the apartments were sold at market prices.

Instead of fill-in projects in the midst of existing neighbourhoods, the company may start developing a relatively ‘virgin’ patch of land. In this case, the city authorities can adjust long-term urban development plans to make the future neighbourhood more attractive for its potential clientèle. One classic example is the history of changing priorities in the development of Kyiv metro. The project of building a fourth metro line to join the huge residential district of the city called Troieshchyna on the Left (Eastern) Bank of Dnieper with the city centre across the river first appeared simultaneously with the construction of the district in the 1970s. Today, Troieshchyna is home for 300 thousands people, but the phrase ‘Troieshchyna metro’ has become an ironic meme, signifying an object of wishful daydreaming. The project has been consistently shelved in favour of more topical ones - such as the extension of the green metro line deep into the south-eastern part of the city in the 1990s and 2000s. New stations were constructed in the middle of almost pristine nature; a popular joke was that metro station Chervonyi Khutir (the easternmost station today) was built for the convenience of hares inhabiting the nearby forests. In reality, the new stations were destined to serve the inhabitants of the new middle class neighbourhoods Osokorky-Pozniaky-Kharkivskyi, under construction by *Kyivmiskbud* simultaneously with the metro line. Conventional gentrification logic would dictate the decision to build the Troieshchyna metro line, displace local dwellers by market mechanisms, renovate the housing stock and sell it profitably to the more affluent public. But politico-economic realities of Kyiv spoke in favour of leaving Troieshchyna alone and rather concentrate on a greenfield urban extension of middle class housing. Similarly, on the other end of the green line the planned extension was rerouted from the eastern direction of a densely populated area westwards, in the direction of garden plots which can become profitable building sites in the near future.

Figure 1. Map of Kyiv metro with Troieshchyna and Osokorky-Pozniaky-Kharkivskyi neighbourhoods



Source: Google Maps.

After the crisis the mechanism of organizing the construction process did not change, developers still attract money on the very early stages and later solve the issues which occur in a number of informal ways, putting the risks on the consumers. What did change is that there are no more available cheap mortgages, so the ‘elite’ high-rises are being replaced with tiny studios advertised as ‘smart-apartments’.

To sum up, since end of 1990s we can see a development regime, which turned out to be stable enough to persevere the global financial crisis: even though numerous housing development projects were not finalised after the crash of 2008, the same developers started nonchalantly working on new projects. Moreover, the post-2008 economic instability and the new waves of crisis in 2012 and 2014 did not prevent the new housing boom, which is run by the same coalition as before. The only difference is the type of housing on offer. Another important trend of last years is that the mass social uprising of 2014 catalysed the development of new social movements advocating for a pro-middle class progressive urban regime which should prioritise public spaces, preservation of heritage, bike lanes, etc. Whether this counter-coalition will advance further than lobbying for small projects, which rarely contradict interests of the dominant coalition, depends on many factors.

#### **1.4.4 Actors and strategies of urban politics**

An attempt to apply urban politics theories to post-socialist cities and Kyiv reveal an even stronger difference between the CEE/FSU space and the cities of Global North, compared to the more generalist financialisation and uneven development concepts. Even though the urban growth machine which has been formed in Kyiv in 1990s comprised a number of different actors and even different political groupings, its core has always been and still is constituted by an alliance of the city administration and developers. It tries to establish a development regime, but it is strongly dependant on external factors, such as national politics and economic situation. As this core of the coalition is quite a closed circle, the bargaining occurs along its social networks. So for a long time there was no need for a solid strategy of development of the city, and international players were not welcome in the city bargaining process.

The limitations one encounters in trying to apply the theories of urban politics, conceived in the West, to post-Soviet cities, are great. One can indeed interpret the situation in general terms of a coalition comprising a number of actors; however, the character of this coalition is very different from what is described in the literature on cities in Western Europe and the Northern America. First of all, its dependence on the national government's policies and patronage ties is much greater; the level of urban actors' independence is not as significant as it is in the West. Secondly, the threshold of membership in the coalition is much higher; it is usually comprised of a relatively small and exclusive stable circle of actors, little disturbed by NGOs, grassroots pressure groups or the press. Finally, as a general rule, the coalition acts in an informal and non-transparent manner, relying on clientelism and informal networks more than on formal rules and public procedures. All of this calls for great caution while discussing urban coalitions in the post-socialist context, particularly in Kyiv.

### **1.5 Discursive level**

#### **1.5.1 Which theories to apply to discourse on housing finance, production and distribution?**

The socio-economic and political processes shaping housing could not be viewed as essential. Especially the history of post-socialist transformation attests that the mechanisms of housing finance, production and distribution might rapidly change, as well the key actors might be reconfigured. However such a change is intertwined with the transformation of the way the housing is being portrayed on discursive level. To grasp this aspect of housing transformation in post-Soviet Kyiv, in this part I address the theory of performativity of economics focusing on two ideas core for the theory.

The first idea is the core one and the one from which the theory started. To put it simple, "any discourse acts on its object" and economic knowledge is no exception (Callon 2006). Deriving from this abstract assumption, the theory reveals the relation between economics as science and knowledge and economy as field of social life. And this relation is that economics designs, supports and pushes the economic processes while describing them (Callon 1998; MacKenzie 2004). As MacKenzie, Muniesa and Siu (2007) put it, "The issue that needs to be tackled in

relation to economies and economics is not just about ‘knowing’ the world, accurately or not. It is also about producing it. It is not (only) about economics being ‘right’ or ‘wrong’ but (also, and perhaps more important) about it being ‘able’ or ‘unable’ to transform the world. Economics swings between representation and action, between science and policy, between academic inquiry and political intervention, both as a discipline and in the careers of many individual economists”. Using such a prism this approach does not dismantle the macro structural level of analysis, it is rather the opposite. Performativity of economics concept is a theoretical tool which is to bind the structural political and economic processes with micro level of representation, language and routine everyday life practices. Employing this approach in order to study housing transformation will allow me to analyse such processes as privatisation, commodification and financialisation of housing, as ‘taught’ and ‘learned’ in the flow of post-socialist transformation in Ukrainian contexts.

Revealing that economic knowledge is not just a description, but also a tool of transformation the researchers working in the field of performativity of economics came to another important for my research assumption. It is not only the economics which is performative, but the separation between the economic and political as well: “As soon as the economy becomes a matter of performative language..., the great divide between economics and politics, economy and society is revealed as the partial and provisional outcome of a long historical project of separation. More concisely, politics and economies are not so much separate as they are made separate” (Cochoy, Giraudea, McFall 2010). Consequently, the economic knowledge being a description and a tool of transformation at the same time is impregnated with the political relations among certain actors, and stepping back from the depoliticised economics reveals vast multiplicity of mechanisms driving it (Butler 2010; Callon 2010; Mitchell 2010). So the study of performativity of economic processes has a potential to bring together not only the macro and micro levels of the housing transformation, but also focus on the exact mechanisms of the connection between political and economic in political economy of housing, namely to understand how the actors discursively drive the housing finance, production and distribution.

Employing these two insights from the theory of performativity of economics my main aim is to show how the processes are connected with shaping the urban change. Step into this direction was made by Christophers (2014). He argues that the economic models, calculations and other forms of knowledge shape the socio-economic processes, including the urban development. And one of the tools of this process is normalisation of profit-making by certain actors, taking of the risks by others and even financial crisis (Christophers 2014). Following him, I combine the performativity of economics theory with the political economy theories presented above in order to show how the structural change and networks of actors are involved with production of ideologies supporting the housing finance, production and distribution. A need for such combination was stated by Christophers (2014) as well: “Political-economic scholarship has for too long been silent on the calculative agencies and practices that create and enhance the possibilities for capital accumulation. Meanwhile, work specifically on such agencies, practices and devices does not have a great deal to offer - yet - by way of engagement with the broader social-scientific critique of systemic relations of power: relations including those of capital,

assuredly, but also of patriarchy and racism. In the recognition that neither approach is sufficient by itself, this article hopes to make a contribution towards a broader conceptualisation - which must always be based on and informed by close empirical investigation - of how they can be put together”. Next step is to see how post-socialist context contributes to these vein of thought.

### **1.5.2 Discourse of financialisation of housing in CEE**

In urban and housing studies of CEE and FSU region the ideology of market-oriented housing development was barely addressed. However a recently completed PhD project addresses the performativity of economics on the case mortgage market in Czech Republic. Samec (2018) reveals discursive mechanism of stimulation of debt-led housing finance. Firstly, the author points out on the discourse of urgency and inevitability in acquiring housing through mortgage: “If we consider the broader Czech and Central European context of housing - privatisation of housing stock, the lack of public housing and a solid housing policy, and the uncertainty and high-prices of private rental, we see how the *urgency* and *inevitability* performed in media discourse to raise fear and anxiety in potential buyers could hit fertile soil... These emotions then provide an outline of the only possible way how to deal with them: take on a mortgage and becoming a homeowner” (Samec 2018). Secondly, mortgages as a Successful Entity, “Performing the mortgage as a success helps to create a context where taking on debt is depicted not as a threat, but rather as a life-path and opportunity to become a successful person (i.e., a homeowner) taking advantage of the successful (expanding, growing) device being offered – the mortgage. The message was that a mortgage would allow for a *better* piece of real estate to be secured, implicitly relying on the idea of a particular structured housing-career and life-time cycle” (Samec 2018). Thirdly, responsible borrowing tips, “The articles, which contained the instructions thus normalised the mortgages through making the reality of mortgage debt potentially safe (if the instructions are followed) and open to anybody (who accepts the pedagogical guidelines); and also enabled people – the potential clients – to proceed in practical terms, to really perform the mortgage (i.e., find a financial advisor, start filling up the documents, assess the financial convenience). Such genre of articles is thus important in making a tacit knowledge about how ‘to do a mortgage’ and in creating a common- sense idea that mortgages might be in the end safe endeavour” (Samec 2018).

This analysis reveals the role of discourse in in housing finance, namely of normalisation of risks in the mortgage market in CEE countries. It is a highly useful example for the my study of language of developers, however using a similar perspective I address the role of discourse in housing finance system where in the conditions of mortgage market crisis the main source of investment are not mortgages, but the households budgets. So in case of Kyiv the discourses might be reproducing different housing finance, production and distribution mechanisms.

### **1.6 Socio-spatial transformation in the city: gentrification and beyond**

In this section, I will tackle the issues of post-socialist urban housing on the lower level of abstraction, that of the socio-spatial transformation of the city. The specific content of this transformation, considered universal and typical for the late capitalist city, is usually generalised in the literature under the label of gentrification. In what follows, I unpack this concept and its



critique, identify the processes of urban socio-spatial transformation typical for the post-socialist region, and then put this theoretical framework into dialogue with the grounded realities of Kyiv.

### **1.6.1 Gentrification and its critics**

The concept of gentrification was first formulated by Glass (1964) to describe a very particular situation in Anglo-American cities at the end of their industrial development era. It referred to the processes the middle class ‘invasion’ into historically working-class areas of inner London, which led to social class recomposition of the affected neighbourhoods, their traditional inhabitants being pushed out by the growing cost of life. The term, thus, has originally been grounded in a very specific context of post-war suburbanisation, growing demand for housing on the part of the new middle classes, the mechanism of rent gap working in the particular global economic conjuncture of the 1960s and 1970s primarily in the UK and the US.

However, gradually gentrification came to be an umbrella concept used to explain any broadly ‘capitalist’ dynamics in very diverse parts of the world at the beginning of the 21<sup>st</sup> century. Such an expansion led many to criticise the use of the concept as overstretched: “gentrification scholarship often follows a diffusionist model of theory testing that uses conditions ‘there’, in the South, to confirm theory from ‘here’, in the North” (Ghertner 2015).

Current stretching of the term leads to its de-contextualisation: what is left in its meaning is the notion of social ‘upgrading’ of the area, capital investment and social differentiation. But even in Paris or cities of Germany some processes currently swept under the carpet of gentrification are actually quite different from the American cities out of which the concept was coined. More so in places like Istanbul, Kyoto or Brazilian cities. Southern Europe has its own context, quite different from the European ‘core’, and this is even more true for CEE, with its very special history of urbanisation. Using single term for processes running in such different environments “may only lead to uninterestingly broad and theoretically less controllable constructs” (Maloutas 2012): instead of tracing diverse causal mechanisms and processes of socio-spatial change, one is tempted to look for similarities in their outcomes, thus turning gentrification into a “regulating fiction”. Developing this idea further Maloutas asks: “Does not this abstraction of context lead to the theoretical banality that within our unequal societies the groups with more resources will be more or less successful in appropriating the most sought after goods and services – if the latter are sufficiently commodified – and this involves of course residential locations, re-valued for one reason or another, and formerly occupied by less affluent groups? And how meaningful can it be to analyse the practices of different middle and upper middle class groups involved in gentrification processes and their place related identity formation strategies if they are not inscribed into particular contextual coordinates?” (Maloutas 2012).

In a more detailed critique, Bernt specifies that since markets are socially embedded and politically organised institutions, naked rent-gap theories are not sufficient for understanding the limits to the commodification of housing; “[g]entrification theories are thus at the same time extremely useful to understand one half of the story, but terribly limited in understanding the

other half” (Bernt 2016a). His suggested strategy is to practise deterritorialised approach by avoiding even regional markers such as “post-socialism” as too generalising. Instead, he calls on treating each city on its own terms, acknowledging the specificity of each case. Similarly, he encourages to “simultaneously see and un-see” gentrification: “to accept the concept as a useful device and reject any claim on using it as a universal explanatory framework” (Bernt 2016b).

And yet, a complete refusal to look for common traits and generalise yields an equally sterile accumulation of ‘unique’ facts. In the case of CEE, this means plainly stating the existence of insurmountable ‘legacies’ and ‘path dependencies’ of ‘socialism’ which erase all chances of understanding the region on common terms. Golubchikov, Badyina, and Makhrova (2014) try to avoid either of the two theoretical dead-ends by connecting the outcomes of post-socialist legacies with those of the law of value in the concept of “the hybrid spatialities of transition - ‘strange’ geographies that function according to the tune of capital but often conceal their capitalist nature with socialist-era ‘legacies’” (Golubchikov, Badyina, & Makhrova 2014). That is, ‘path dependencies’ are real, but they are constantly being rerouted by capital in order to suit its general framework.

The hybridity perspective acknowledges the existence of different patterns, contexts and experiences of gentrification – or even complete lack of it in some situations – but persists in the ambition to theorise global laws of restructuring space by capital flows. This goes along well with the general understanding of capitalism as a global but highly heterogeneous system developing in a combined and uneven manner. Using these optics, I can now take a closer look at how the ‘gentrifying’ dynamics typically manifests itself in the cities of CEE.

### **1.6.2 Post-socialist socio-spatial transformations**

Tracing patterns of socio-spatial change in post-socialist cities, one can identify a number of similarities shared by cities of the post-socialist and, more specifically, post-Soviet space.

#### *Functional gap and commercialisation*

Szelényi’s (1996) point on underurbanisation as the general trait typical for state socialism has already been mentioned above. However, he used this concept to describe not only the macro scale, but also the socio-spatial organisation of the cities themselves: fewer retail trade and commercial entertainment, less ‘human marginality’, lower density and more empty space. The issue of ‘underutilisation’ of space was pushed further by Sýkora: not only were large portions of urban space, so precious under capitalism, left vacant, but this is also true for the built environment. As old building stock was falling into disrepair, the state preferred to initiate new projects on other locations rather than renovate the existing structures (Sýkora 1993).

This observation allows to conceptualise the ‘functional gap’ - a specific post-socialist kind of rent gap, describing the difference between the rent generated by the property under its current regime of use and the one available after changing its function, even without investing into physical renovation. These functional gaps were easiest and first to be closed after regime change in 1989: non-residential spaces were quickly commercialised.

### *Unilateral polarisation*

Smith (1996) describes socio-spatial structure of a city under state socialism. It consists of five basic parts: high-status inner areas for the 'socialist middle class'; low-status inner areas with deteriorating housing but good access to social infrastructure in the city centre; outer high-status areas with a large share of cooperative apartments housing white-collar workers, enjoying good social infrastructure and transport network; outer low-status areas consisting mostly of state housing, a place for blue-collar workers and in-migrants to the city, defined by poor infrastructure and hosting dirty industrial objects; peri-urban private housing of bad quality with poor or no social infrastructure, hosting recent in-migrants. Despite such formidably sounding classification, many researchers agree that in practice social segregation never reached the Western standards of completely isolated socially homogeneous neighbourhoods: "Although residential areas near the centre were always favoured by Soviet political and professional elites, segregation based on special connections in the housing market was much patchier than is sometimes imagined. Different social groups typically found themselves living next door to each other in central Moscow" (Badyina & Golubchikov 2005).

Even today, after two decades of social polarisation, its results do not include obvious spatial segregation in cities. As Bernt (2016b) puts it, "wealth and poverty can still be found in very close proximity in almost all Russian cities. Twenty-five years after the start of transition, poor and rich people still tend to live cheek by jowl, and neither gentrification nor its opposite, the formation of marginalized neighborhoods, has yet become the main characteristic of any area. In fact, the lack of Western patterns of residential segregation is the common diagnosis of basically all empirical research conducted on this subject in Russia". This continuity is especially true for the 'easternmost' part of CEE. Thus, Saint Petersburg and Sofia are both marked by the persistence of stable, socially mixed resident population in inner-city areas as well as high-rise socialist complexes. This stability is accompanied by the rise of newly built socially elitist suburbia; taken together, this process can be called unilateral polarisation (Neugebauer & Kovács 2015).

### *Splintered 'legacy' ownership*

Among different CEE and FSU countries there were different models of privatisation mechanisms of privatisation of housing stock from socialist era, which contributed largely to different dynamics of housing ownership structure. The changes ran along different routes across the region: thus, in East Germany, Estonia, Slovenia, Slovakia and Czech Republic properties nationalised after WWII have been restituted to former owners or their heirs. This policy ensured that the whole buildings were owned by a single proprietor who was free to sell the property, renovate it at her own will and set the rent rates (even if regulated by the authorities). In other countries, restitution was not a politically feasible option: in Hungary and Romania, sitting tenants were allowed to buy their flats from the state for 10-15% of their estimated market price. This created fragmentation of property rights, which severely limited the potential for wholesale renovation of entire neighbourhoods, typical in the West. Importantly, the decision to sell flats to

their actual inhabitants, at however low prices, created a separate category of people who did not possess resources to privatise their apartments and maintained their status of tenants.

In such countries as Russia and Ukraine, on the other hand, it was politically unacceptable to demand however small amount of money from sitting tenants for ‘their’ flats. The ownership rights were transferred to them for free, as a sort of compensation for the predatory privatisation of industrial assets taking place simultaneously. Absolute majority of city dwellers made use of this right (Struyk 1996). Thus, the factor of underprivileged tenants in public housing was virtually absent from subsequent urban politico-economic conjunctures (although there were and still are such people, but their numbers are much smaller). On the whole, such privatisation, put against the dynamics of some upward social and spatial mobility of middle classes, led to the fragmented housing ownership structure in which asset-rich citizens might be income-poor (e.g. pensioners living in now expensive downtown flats) and people with high incomes might own no housing. This contradiction has not been completely resolved until today.

### **1.6.3 Socio-spatial transformations in Kyiv**

Post-socialist transformation, which imposed upon cities the new regime of accumulation in the context of uneven development, forced them to compete with each other, relying on those structural resources which turned out to be useful in the new environment. The winners are usually large urban agglomerations, export-oriented industrial centres, and transport hubs (Golubchikov et al. 2015). Kyiv clearly belongs to the winning team: whereas between 1990 and 2016 overall population of Ukraine has declined by 17%, or by 9 millions, Kyiv is one of only two regions which have been witnessing population increase (for Kyiv, by 12% or 0.3 million) (Derzhavna sluzhba statystyky Ukraïny 2018a). It is characterised by “a minimum level of social exclusion, minimal poverty, the most favourable preconditions for middle-class formation, and the highest quality of life” (Mezentsev, Pidgrushnyi & Mezentseva 2015). Moreover, it is not only a ‘post-industrial’ services centre and capital city; in 2011 Kyiv hosted 12.3% of Ukraine's industrial output (Mezentsev, Pidgrushnyi & Mezentseva 2015). After the beginning of the military conflict in the industrial areas of Eastern Ukraine, Kyiv’s relative share must have grown even more. That is, compared to other cities, Kyiv’s authorities are probably best positioned to spend on the improvement and extension of residential housing stock, which could consequence in gentrification and displacement (Marcuse 1986). And yet, this is not happening. But this does not mean that the social problems connected to the spatial transformations do not occur. The high level of homeownership, weak public regulation of the urban development, monopolisation in the real estate sector led to range of issues which have little common with gentrification, nevertheless are highly important.

First of all, while the displacement is not widespread, what is happening in Kyiv is the increase in density level. Though the housing prices have decreased after the global financial crisis as well as after the military conflict unfolded, the buy and rent of housing is affordable for narrow category of Kyivans. Overpriced housing directly contributes to the lack of spatial mobility: lack of affordable alternatives firmly ties people to their current abode (Marcinczak & Sagan 2011). This factor arrests not only processes of gentrification, but also the slumification of

socialist high-rise estates forecast at the beginning of the transformation (Szelényi 1996). Even the infamous pre-fabs of Khrushchev era are still in high demand: “While the physical deterioration of these estates is obvious, we still cannot speak of marginalized social spaces, even if niches of poverty are becoming apparent” (Neugebauer & Kovács 2015:189).

Another important area, from which the government has withdrawn after the collapse of the Soviet Union, is the construction of social housing. The practice of building estates for the poorest is completely foreign for Ukraine. In 2017, public budgets nationwide contributed 166.8m UAH to the only functioning mechanisms of public housing finance - cheap mortgage loans and subsidies up to 30% covering of the construction cost. This sum is less than 0.3% of national figure of housing investment. Naturally, the distribution of this scarce social housing is an extremely competitive process, involving a lot of backroom deals. Corruption aside, the police, the military, and families of dead or severely injured veterans of the ongoing war in the East of the country have the greatest chances to get the housing. During 2014 and 2015, none of teachers or medical staff (the widest groups of underpaid public sector workers in Ukraine) received it (Dostup do pravdy 2015; Kyivska Miska Derzhavna Administratsiya 2016). Lack of government support in the growing city contributed to extreme deficit of affordable housing in Kyiv.

As result of such situation - low affordability of housing on the market and *de facto* lack of public support of those in need of housing - is that a lot of people go for such solutions as residing with parents and often also grandparents, or sharing a flat with number of other people. The social and family networks are playing a role of ‘social pillow’ in the situation of housing shortage, such a situation brings to high density which brings down the living standards (Zavisca & Gerber 2016).

Secondly, the Soviet approach to urban planning in the 1970s and 1980s was based on the *mikroraion* housing development. Under the market conditions, de-industrialized areas, spaces of *mikroraions*, as well as green spaces and the territories of public institutions presented a functional gap. These ‘vacant’ spaces are being developed since the end of the 1990s. Often those who are able to afford to buy an apartment in these new high-rises have higher socio-economic status than the residents of the surrounding older neighborhoods. This leads to spatial polarisation, with fences appearing around the newly built housing complexes to deny outsiders access to green spaces, kindergartens, parking lots, restaurants and other amenities.

One of the most vivid examples of this process is the downtown Pechersk neighborhood traversed by two metro lines, which is a great transport coverage for Kyiv standards. At the time of the end of Soviet era the neighborhood boasted historical heritage (the Kyiv Fortress), offices of public institutions, a huge park as well as an industrial zone (Kyiv factory of electric transport, trolleybus depot, radiolocation systems factory, wine factory) - and, of course, housing. During the last decades the area has been in the process of active development: the industrial zones, a part of the Kyiv Fortress as well as the area of old single-family houses were all filled with elite housing complexes. This has formally created a serious social mix in the neighborhood, but the

population was not really mixed, as the new housing complexes are mostly gated. Both labour and leisure activities of people with different social backgrounds take place in different places in the same space, so there is hardly any social interaction between them. The space is divided by 'glass walls', even though it could be broadly labeled as 'socially mixed'.

Even so, these fill-in elite complexes are spread relatively equally across the urban space, thus being unable to affect the overall socio-spatial structure: "Even the most prestigious areas with a proper supply of commercial infrastructure typical for gentrification (e.g. Western-style bars and restaurants, high-end boutiques, and branded fashion stores) still have a very mixed population in social terms, and this picture has rarely changed over the last 25 years" (Bernt 2016b). The situation in Kyiv recalls a research conducted by Axenov in Saint Petersburg discovered clear isolation between rich and poor residents: "Although rich and poor both resided in the neighborhood, the spatiotemporal parameters of their personal activity made the possibility of their meeting extremely unlikely" (Axenov 2014). This spatio-temporal segregation is a spot-on finding which provides a useful conceptualisation of class structuring of post-Soviet urban space.

Thirdly, as the post-Soviet economic growth prioritised cities, they started growing not only in terms of higher density and ever more imposing skylines, but also broadwise. The suburbs are being actively developed, but in a manner different from the Northern American small-house suburbia; here, suburban areas are filled with the same high-rises as the city core. The housing in the suburbs is less expensive both for purchase and rent, thus attracting less privileged social groups. Such a growth provides neither jobs nor social, commercial or decent transport infrastructure. In the short term perspective, of course, it solves the problem of housing shortage, but in the long term it leads to socio-spatial polarisation and deprivation.

From these observations follows an important theoretical consideration: in the situation of the lack of effective (that is, solvent) demand for new or renovated middle-class housing, can we speak of a rent gap? If, as is the situation in Kyiv today, a *khrushchiovka* on the secondary market costs more than an apartment in the new building offered under the forward payment scheme, there is literally no gap between the actual and an optimal rent. That is, under current market conjuncture in Kyiv's urban economy, it makes more sense to sell or rent out an antiquated property than to invest funds in its renovation.

#### **1.6.4 Socio-spatial changes in post-socialist cities: does gentrification explain them?**

The theory of gentrification is the least abstract one among those we analysed. It had shown itself quite unsuitable for the conditions which emerged in Kyiv since 1990s. Nevertheless it does not mean that the socio-spatial transformations did not happen. We have shown that the socio-spatial polarisation, increase in density level, as well as chaotic urban development dependent on the shady agreements between the developer and the public actors are way more common sources of social conflicts than gentrification. The key to understanding why it is so lies in the fact that development of new housing is easier to organize and manage and more profitable both for developers and authorities, than renovation programs. These comparative advantages are

produced by the constellation of specific conditions in Kyiv - high homeownership rate, ample vacant space, strong connections between the private and public actors.

### 1.7 Conclusions

I have analysed four veins of theories which touch on the macroeconomic processes, agency in urban development, discourse on housing and socio-spatial transformation. Taking Kyiv as a case study, I have shown how the four groups could be applied to the CEE and FSU cities. The more abstract the theory is, the easier it is to adopt it to the context which is far away from the one it was created in; some concepts are played out in Western and Eastern European countries in differing ways but reaching the same results, while others can hardly be applied to Kyiv in a productive manner. As a result of this theorising I built the theoretical framework which could be applied to housing growth in Kyiv (Figure 2).

Figure 2. Theoretical framework of the research

HOUSING FINANCE, PRODUCTION AND DISTRIBUTION			
SOCIO-ECONOMIC LEVEL	AGENCY LEVEL	LEVEL OF DISCOURSE	SOCIO-SPATIAL LEVEL
UNEVEN DEVELOPMENT	URBAN GROWTH MACHINE	PERFORMATIVITY OF ECONOMICS	GENTRIFICATION
CIRCUITS OF CAPITAL	URBAN REGIME		FUNCTIONAL GAP
FINANCIALISATION OF HOUSING	'CITY BARGAINING'		

Uneven geographical development did occur in Ukraine and made Kyiv the centre of the countries' economy. This was made possible by decades of planned economy which favoured capitals of the Soviet republics, and by de-industrialisation which eclipsed the importance of competing industrial cities and towns. As a result, the real estate sector of Kyiv became highly

attractive. The penetration of the finance in housing of Kyiv became a prominent trend since 2000s. Lacking the element of mortgage speculations, this process cannot be labeled as financialisation; in this case, the influx of international financial capital took a different path - via Ukrainian banks borrowing dollars abroad and fueling the construction boom in Ukraine and international banks doing the same through their Ukrainian departments.

The theories depicting the actors of urban politics - urban growth machine, urban regime and 'city bargaining' theories - show their advantages when analysing complicated intersection of actors driving the growth. They are a strong alternative to the 'corruption narrative', which remains the most common way of explaining problems of Kyiv's urban political life. The interdependence of public and private actors and their formal and informal arrangements are crucial for the growth. At the same time, the circle of actors having access to power and resources in Kyiv shapes the city's development in such a way which promises them the highest returns, the end result being a chaotic assemblage of projects having little to do with each other instead of a strategic plan.

The theory of performativity of economics addresses the discourse on the urban space and housing. Mostly they were applied to address housing finance in Western countries. I employ it in order to look at housing from more cultural perspective and to bind the macro and micro level of the housing development. Kyiv advertising of housing is a fruitful empirics to look at, especially in last years. Also such theoretical perspective will help to reveal the ideological component of the housing finance, production and distribution. Due to lack of research on CEE/FSU housing discourses it is complicated to draw conclusions on specificities of post-socialist region.

The spatial transformation did occur in Kyiv, bringing with itself more polarisation, inequality and attacks on the right to the city for many Kyivans; nevertheless, the changes in the city's landscape have very little to do with gentrification, which is a popular concept describing widespread phenomena pertinent to Western cities.

It is important to highlight that the existence of real differences between Western and CEE/FSU cities does not justify labeling post-socialist cities as 'less developed'. On the contrary, tracing different historical paths of these cities we can conclude that they have met the same contemporary trends of commodification and financialisation of the urban, each in their own way. Moreover, the specificity of the urban development in Kyiv or Warsaw hints at the interdependence between post-socialist space and the Global North, the latter being the driver of changes.

The critical evaluation of concepts of Western provenance in the East European context performed above contributes to the more general task of 'provincialising the West' facing social sciences today. It allows to discern between the truly universal tendencies and concepts productively describing contemporary global capitalism in all its uneven and combined



complexity, on the one hand, and the more specific manners of manifestation of these trends, pertinent to particular regions.

In order to reveal how the veins of theories discussed in this chapter are applicable to post-socialist context, namely to Kyiv, in this thesis I pose next research question:

*How the regimes of housing finance, production and distribution in Kyiv embed the global trends of uneven development, housing commodification and financialisation and influence the cities' urban landscape and everyday life of Kyivans?*

This question is being answered through the empirical analysis of structures, agencies, social networks, communications, as well as changes of urban landscape, which articulate Kyiv's housing. The three aspects of the housing put in the core of the question give an opportunity to look at housing as at important social institute which is crucial part of the financial and economic sectors locally and globally, while being a social good that everyone has a right to use, a right which is being massively violated in nowadays world, in spite of skyrocketing volumes of its' finance and production.

## **Chapter 2: Methodology and research design**

### **2.1 Introduction**

There are various ways to address housing in social science: as a sector of economy, as a matter of conflict between different groups and classes, as a part of people's everyday life, as environment experienced bodily, etc. (Clapham 2005). This thesis aims to explain the processes of housing finance, production and distribution on various societal scales, from macro socioeconomic processes which underpinned the housing growth, privatisation and commercialisation to scale of spatial transformation of urban landscape and communication between actors driving the growth. It is not a coincidence that the three aspects of housing are taken into account. Housing finance aspect shows housing as an important part of the global movement of capital, economic changes such as crises (Jordà, Schularick & Taylor 2016). And for post-socialist region, as I will show later, housing transformation became an important part of integration of the region into the global economy. Housing production is a structural process, but at the same time it is an actor-driven process and a process that changes the urban space significantly (Doling 2001). The aspect of distribution reflects the groups benefiting from the two other processes: a particular focus on it is made in order to explain why the growth of volume of finance invested in housing and volume of housing stock produced does not necessarily lead to housing affordability (Szelényi 1983). It is often the opposite, growth produces inequalities and exclusions. At the same time all the three aspects are interconnected. The aim of this study is to reveal and explain those connections through developing a complex image of how the housing development in Kyiv contributed to economic, political and social transformations of the city and the country, and how it influenced Kyivans' social positions and urban spaces they use. In other words, I aim to show how the global trends get embedded in the localised forms, following Sassen, "Large cities around the world are the terrain where a multiplicity of globalisation processes assume concrete, localized forms. These localized forms are, in good part, what globalisation is about. Recovering place means recovering the multiplicity of presences in this landscape" (Sassen 2000). In order to address this complexity and aspects of housing theoretical and methodological frameworks of the thesis several approaches and range of quantitative and qualitative methods are integrated. I follow King, Keohane and Verba (1994), who say that "Most research does not fit clearly into one category or the other [quantitative or qualitative]. The best often combines features of each. In the same research project, some data may be collected that is amenable to statistical analysis, while other equally significant information is not".

The research design directly derives from the theoretical foundation of this research, which includes five theoretical traditions. Firstly, the uneven geographical development, spatial expansion of capital and financialisation of housing developed in works of Harvey, Smith, Aalbers and others. These theories are used in order to place housing development in a broader understanding of macroeconomic transformation of the post-socialist region. Secondly, concepts of urban political studies analysing agency of the urban growth, such as urban growth coalition, urban regime and city bargaining theories, are employed in order to study the actors, their

networks and strategies which made the housing growth possible. Thirdly, the theories conceptualising social communication are used to study the relation between the actors driving the growth and the consumers through analysis of how housing is narrated. Fourthly, the literature on socio-spatial transformation, especially in the context of post-socialist cities, will be employed to connect the housing growth to transformations of built environment on the urban scale causing social transformation. Finally, as most of the theories of the theoretical framework are based on study of Western societies, the theories explaining the Eastern European region are underpinning the research. In order to make a step from these theories to the housing sphere of Kyiv, I developed a methodological framework, which includes four steps of the research and combines several research methods, such as statistical data analysis, in-depth interviews, document analysis and others. Each step of the research corresponds to one of the four empirical chapters and answers several blocks of the research questions. The methodology and the research design apart from being multiscalar are also comparative: depending on the aspect of the housing finance, production and distribution I compared Kyiv with other post-socialist cities at national and international levels.

This chapter begins with the questions why the critical political economy became the main approach of this research and which aspects of it were used the most. Then I explain why Kyiv was chosen as a case study and why and how this case is to be compared with other post-socialist cases. Finally, I present a detailed research design showing why and how different methods were combined in order to answer the interconnected research questions and how it is reflected in the structure of the thesis.

## **2.2 Methodology: urban political economy through different levels of abstraction**

### **2.2.1 Aspects of critical political economy crucial for the research**

This thesis follows the critical political economy (CPE) approach rooted in Marxian criticism of classical political economy and developed throughout one and a half centuries (Marx 1990-1992, McLellan 2007). Throughout decades of its existence critical political economy has touched upon various topics and developed into multidimensional field of study and theoretical and methodological approach. I derive my research from next aspects of CPE.

Firstly, the focus is on the complex interconnection between socio-economic, political and cultural conceptualised in dialectical contradiction between base and superstructure, “In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness” (Marx 1977). Following this approach, I study housing as a product of social existence in its various contradictions.

Secondly, the social existence is not stable, which means that particular social processes could be understood through study of development in a certain time period and in their interconnection with other processes occurring in the same period of history. This approach was conceptualised in Marxist tradition as historical materialism (Engels 1946). However special attention to historical development of social phenomena are not unique to Marxism. In last decades social sciences are going through ‘historic turn’ (McDonald 1996). This drives me to look at housing in Kyiv since the time it started emerging as a market sector with the development of capitalist social order in the region, so I have chosen the 1991-2018 period for this research.

Thirdly, as this research is focused on urban issues and production of the built environment, it follows the trend of ‘spatial turn’ (Warf & Arias 2009). Classical Marxists engaged spacial problematics in their analysis (Engels 2009, Luxemburg 1951), the sophisticated conceptualisation of relation between space and capitalism in critical political economy happened only with works of Lefebvre (1991), Smith (2008) and Harvey (2009). For my research the focus on spatial aspect is not only important because of housing being the subject, but also because of the region I am studying, as transformation of housing went hand in hand with integration of post-socialist region into the global capitalist system.

Finally, one of main aims of this thesis is to show the multiscalarity of the housing development approach. Following the logic of linking “everyday life to transnational flows of population, discourse, commodities and power”, as was done by dissertation group working at the University of California, Berkeley (Burawoy, et al 2000). Therefore I explain how the social transformations were not only a structural process, but were also driven by actors and how they are reflects in space and how the ideological superstructure created through communication influences these transformations. Such multiscalarity in analysis of one aspect of social life - in my case housing - gives opportunity show that processes on the global scale, like financial flows between Western and Eastern Europe, and on the microscale, like daily struggle of Kyivan Ivan<sup>5</sup> to pay back the mortgage, are reciprocally connected.

### **2.1.2 Positionality and engagement**

While I see this research as a contribution to the vein of attention to housing in critical political economy, which especially strengthened in Western academia after 2008, when the interconnection between financialisation of economy and housing inequality became apparent, I also position it as an input in the study of global trends in non-Western context and especially Central Eastern Europe and Former Soviet Union, as well as highlighting the experiences from peripheral capitalism.

My background in European Urban Studies and perspective of Ukrainian citizen and Kyivan gave me opportunity to combine the analytical understanding of the subject of the study and

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<sup>5</sup> Ivan is very typical Ukrainian name.

bodily experience of it. I realised this bifurcation of my engagement when in early spring of 2018. While working on the theoretical framework of this thesis, I encountered an USAID report arguing for commodification of housing and communal services and establishment of subsidy program for the poor (Vaughan 1995). More than 20 years after publishing of this report the policy advises made in it are implemented. The utility prices have risen three times since 2014. Growing number of Kyivans are not able to pay their bills, the collective household debt grew dramatically. As a consequence, the energy supply enterprise has cut the duration of central heating: it functions only till March, when it still might be snowing. So I was reading this report showing the influence of international actors on transformation of Ukrainian housing already in 1990s sitting under two blankets in a very cold apartment. I evaluate such direct involvement in the subject as an advantage, also because the everyday experience drives the research interest towards the social issues of current interest of Kyivans.

### **2.3 Case-study in non-Western context and comparison**

#### **2.3.1 Why Kyiv?**

Choice of the case study for this research was motivated by several factors. Among them are internal to logic of the research, following the research questions, and external, coming from the practical feasibility considerations.

Firstly, post-socialist region, especially the FSU countries, receives less attention in academia than the Western countries due to global hierarchies in knowledge production (Weingart 2006). Also there are hierarchies inside the region. Kyiv is one of the most understudied capital cities of Europe as well as of CEE and FSU regions, though it is one of the biggest cities in the region (2,9 millions according to the official data). The database of Google Scholar offers 2 170 results when words ‘Budapest housing’ are searched among the articles published in 2018, for ‘Berlin housing’ this number is 15 800 and for both ways of writing Kyiv in English - Kyiv and Kiev - together the number of articles found is 1046 (Google Scholar 2018). This on the one hand creates a need to feel in the gap in the knowledge production, but at the same time opens up an opportunity to enlarge the research on urban issue with new empirics.

Secondly, as the main subject of the research is housing growth, the case-study had to be among the cities benefiting from the uneven development. The process of capital movement on different geographical scales produces spatial inequalities (Smith 2008). As a consequence of uneven geographical development, some geographies lose population and decrease economic performance and some gain both. Kyiv is definitely in the benefiting cluster. Even while population of Ukraine is decreasing dramatically, the city keeps growing in terms of population and housing for the last 20 years. At the same time Kyiv is not a global city, like Moscow, which leads to lower level of interest of the foreign and even national investors, however it experiences strong influence of foreign actors in its housing and other fields. Such an in-between position produces dynamics deserving attention.

Thirdly, as this research is oriented towards study of actors-driven processes, it is important for the case to have diverse scene of actors in political and economic spheres at the urban and national levels. In these terms, Kyiv is one of the most appropriate cities in the post-socialist region. The city has changed more than 6 mayors since the end of Soviet Union, during this time dozens of developers, some of them were really large ones, went bankrupt or significantly weakened their positions, and were replaced with competitors. A variety of urban growth coalitions in different historical periods gives an opportunity to analyse housing growth through actors, their rationales, networking and strategies.

Fourthly, Kyiv develops according to highly chaotic urban planning model. Highrises grow in the middle of Soviet *mikroraions*, underdeveloped transport system strengthens inequalities between districts, but at the same time ultra high level of homeownership does not let the full scale gentrification start. The socio-spatial transformation of the city went rapid and brought to quite specific, even for CEE and FSU cities, types of socio-spatial inequalities. These and other social contradictions such as the one that Kyiv has one of the most unaffordable housing in the world (Tartar & Lu 2018), are a fruitful empirics.

Finally, as aforementioned, when engagement was discussed, I spent more than half of my adulthood in Kyiv. So when starting the research I already had a significant social capital to enter the field -after two years I have enlarged it even stronger - thanks to language skills and understanding of the cultural context. This made this research more feasible than if I was writing about a city I did not know.

However, a focus on one city can not convey the complexity of housing development in the post-socialist region. So as the last methodological step of the research I conduct the analytical comparison of financialisation of housing in three countries - Ukraine, Hungary and Russia basing it on my own research and on two other recent works of Büdenbender (2017) and Pósfai (2018). In order to conduct this comparison I focused on one aspect of the housing - financialisation and designed a frame for comparison.

### **2.3.2 Different cases in the same region**

The aim of the comparison in this thesis is to understand which aspects of the process of financialisation of housing are specific for the case and which are common for the region or even globally, and to explain why is it so. In order to do so I follow the comparative logic conceptualised by Tilly (1984) as encompassing comparisons. The core idea of this approach is that “different instances at various locations within the same system, on the way to explaining their characteristics as a function of their varying relations to the system as a whole” (Tilly 1984). For this research the ‘system’ is the CEE and FSU region as peripheral capitalism societies, and different cities and countries of the region are the ‘different instances’. Four variables were interrelated in this comparison; they will be discussed later.

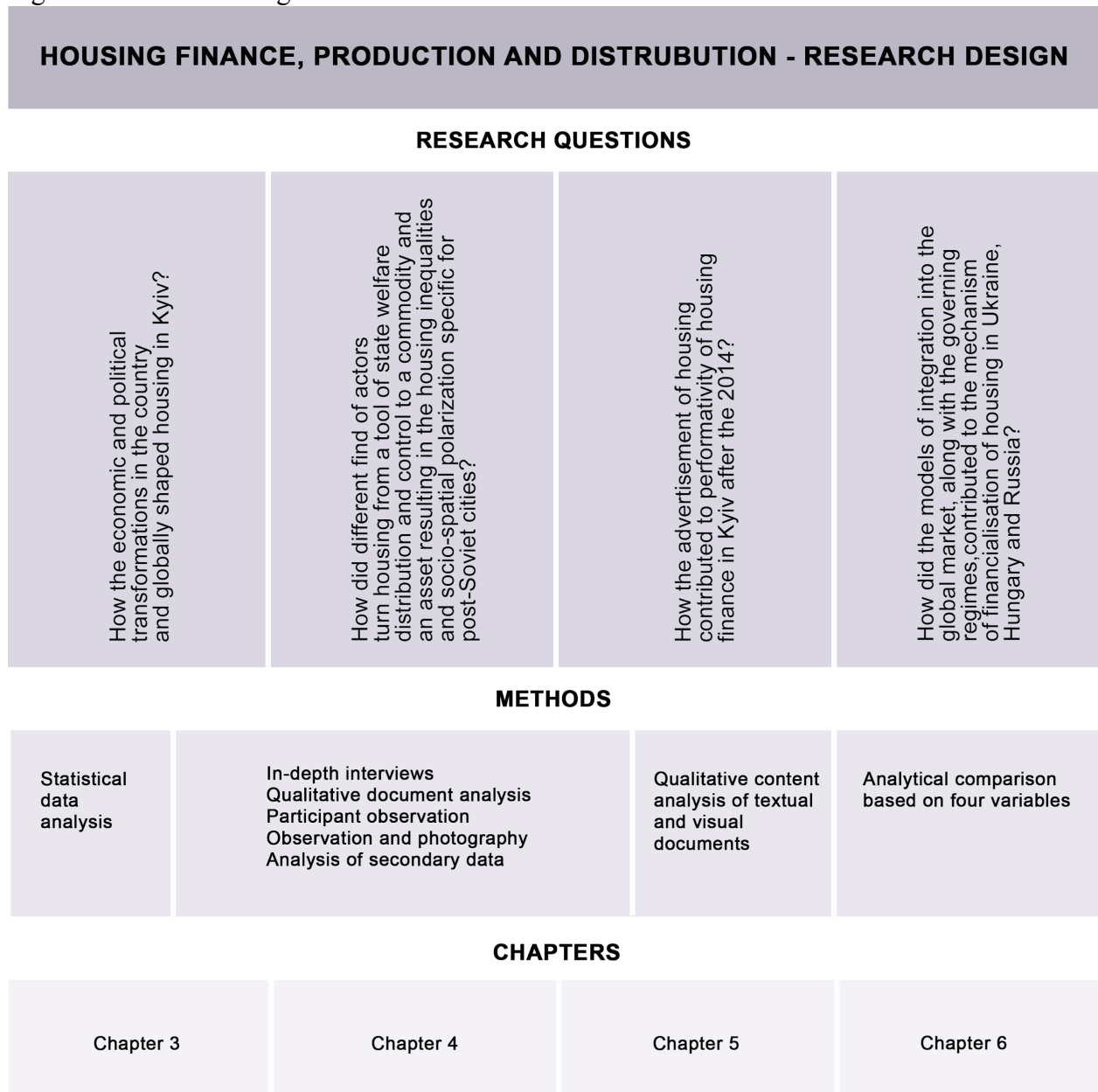
The comparison of experiences of financialisation of housing in Hungary, Ukraine and Russia, firstly, reveals the varieties of the process even within one e region. To embody this idea

I show that mechanisms of financialisation of housing and their outcomes varied from country to country. Secondly, the comparison shows how and why the (semi-)peripheral implications of global social transformation differ from the ones experienced (and better studied) in the Western societies, how the financialisation of housing in the three countries was dependent on the foreign finance. Finally, the interconnections between the mechanisms of financialisation and the position of the country in the region and globally explain the dynamics of the post-socialist region itself.

#### **2.4 Research design, methods and structure**

The research design structures the research questions posed in the thesis and shows which methods are employed to answer the questions. I formulated the research questions following the two criteria offered by King, Keohane and Verba (1994). “First, a research project should pose a question that is ‘important’ in the real life. The topic should be consequential for political, social and economic life, for understanding something that significantly affects many people’s lives, or for understanding or predicting events that might be harmful or beneficial. Second, a research project should make a specific contribution to identifiable scholarly literature by increasing our collective ability to construct verified scientific explanations of some aspects of the world” (King, Keohane and Verba 1994). The research questions posed in every chapter are interconnected in one logical structure, as the aspects they address are interconnected as I have shown in the theoretical part. All of these is summarised in Figure 3.

Figure 3. Research Design



### 2.4.1 Macro-economic analysis of growth

The first aspect of housing development is to address the connection between the economic and political transformations in the country and globally and the transformation of housing in Kyiv. In order to do it next research question and sub-questions are posed:

*How did the economic and political transformations in the country and globally shape housing in Kyiv?*

*(1) What periods could be distinguished in development of housing in Kyiv?*



*(2) What models of housing finance, production and distribution did function in each of the periods?*

*(3) How did macro socio-economic and political factors influence formation of each of the model?*

The answers are presented in the third chapter, which became the first empirical step in analysis of housing development in post-Soviet Kyiv. It requires an explanation of the process from the macro perspective, both in terms of data and in terms of argumentation.

To answer the questions I used demographic and economic statistical data which has shown how housing has been transforming as a built environment, commodity and financial asset. The sources were State Committee of Statistics, Kyiv City Administration, two real estate advertising agencies, National Bank of Ukraine and other. Some data was in open access and some I did request through the service 'Dostup do pravdy' (Access to truth), an organisation helping journalists, researchers and activists to get the data from the authorities. Many data sets had limitations which restrained the research. For example, the data on housing prices from advertising agencies was based on the prices indicated in the advertising, not on the purchase prices. Also such data is being collected only since 2003, when the market actors began being interested in some level of analysis of the market. There is similar situation with the data on mortgages. National Bank of Ukraine began collecting it only in 2006, right at the time when the mortgage boom was on the way. So there is also a political economy of data collection and knowledge production behind the data availability, which influences the research. However, these issues with statistical data did not become obstacles for periodisation and explanation of the housing growth.

#### **2.4.2 Analysis of the actors of housing and socio-spatial transformation**

Next step in the research was to move to a lower level of abstraction and research the agency that produces the growth explained in macro socioeconomic before. So to the more structural perspective were added the role of actors of the housing growth, namely their role in changing what housing is and production of inequalities and polarisation over the time. All the actors were distinguished in private - public and domestic - international, which is reflected in the research questions:

*(1) How did the competition and cooperation between international and domestic forces turn housing from a tool of state welfare distribution and control to a commodity and an asset, resulting in the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

*(2) How were conflicts and alliances between public, private and third sector actors in Kyiv interrelated with the processes of housing transformation and establishment of the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

### *Semi-structured in-depth interviews and document analysis*

The instrument to enter the field was qualitative document analysis. Apart from it, the semi-structured in-depth interviews were one of the main instruments in the part of the research revealing the agency in the housing market. I developed an approach based on experiences of other researchers basing their research on qualitative methodology with the main aspects being the choice of the interviewees, the logic of the question formulation and the analysis of the qualitative data (Horton, Macve & Struyven 2004).

The qualitative data on actors collected either in documents or through the semi-structured interviews was analysed in two ways. Firstly, through what actors say about themselves through documentation or in the interviews. Sources of documentation containing self representation varied from legal documentation to advertising. For example, I used database of the Parliament of Ukraine (Verkhovna Rada Ukraïny 2019) containing all the legal norms produced by state institutions since independence of Ukraine, websites and social media, interviews with people engaged in the housing sector. Through interviews I discovered how actors describe what and why they do. The statements were critically perceived through the question of which rationale are the actors following when doing something and/or commenting on these actions. Secondly, actors and their actions were analysed through what others say about them, documentation and interviews were also used. In this case the critical lense of rationale was also used. The textual sources were mostly journalistic articles, NGO or state institutions reports. Work with the first source included fact-checking, unreliable information was left aside. The same interviews were used as a source of self representation and as a source of attitudes and evaluation of other actors' actions. The use of sources varied according to accessibility of the actor and the amount of the information available in the documentation.

The choice of the interview partners was made according to following logic. As this part of the research was qualitative I seeked to enlarge the variety of categories of actors rather than the number of actors in each category. 47 interviews were collected in total. Some people interviewed belonged to two or even three categories of actors.

All together I had three waves of interview collection. Firstly, I invited people who had a general perspective on the housing, including journalists, activists, lawyers and real estate agents. The topics we discussed were more general - how the housing developed in Kyiv, who are the main drivers, which resources could be useful for my research; moreover, during this exploratory stage I discussed my research with the interview partners. This helped me to complete the research design. Secondly, together with my colleague Pavlo Fedoriv, who at that time (Summer of 2017) was working on his Master thesis on financialisation of housing in Kyiv (Fedoriv 2017), we interviewed people working directly engaged with one of the actors. Working in a team with Pavlo was very useful for approaching potential interlocutors. Thirdly, when I started structuring the collected knowledge I saw that there were gaps in the data I had collected, so I organised a number of interviews during which we discussed specific topics.

So what kind of actors were analysed and engaged in the research? Following the critical political economy perspective on urban politics I distinguished around 10 categories of actors. What people represented each type of actors is shown in the Table 1.

Table 1. Actors of housing sector

<b>Type of actor</b>	<b>People representing the actor</b>
Developers	Employees and ex-employees of development companies or their subcontractors. Focus was made on the large enterprises and projects.
Governors	Employees and ex-employees of state institutions of various levels of governing and spheres of influence. The interviews were mostly conducted with ex-officials or those in opposition to the existing governing coalition, as they were more eager to be critical and to talk openly about the problems.
Banks and financial institutions	Employees and ex-employees of banks working with mortgages and affiliated organisations
Real estate agents	Employees of real estate agencies
Media	Journalists writing on urban issues or related to housing, such as corruption, land grab, etc.
Lawyers working on urban issues	Lawyers representing the interest of a community in conflicts between citizens and developers or government
Architects	Professionals working for public and private architecture bureaux
Rentier	Housing owners using their property for business
Housing consumers	Residents of different types of housing
Urban social movements	Activists of anti-development movements, as well as NGOs working on improving certain areas of urban life

The interviews were semi-structured with different questions for each category of actors, but the logic was more or less similar. Firstly, I asked an interview partner to present herself and the organisation she was engaged in. Secondly, I asked which actors of the housing sector his organisation is working together or conflicting with and asked to evaluate other actors and their contribution to the housing. Thirdly, depending on the experience of an interview partner I discussed how the housing and engagement of other actors had changed over time. The further I was going with the research the more concrete questions were asked during the interviews.

### *Participant observation*

Another method to study the actors was participant observation. I took part in three events concerning urban issues. For example, *Ukrainian Urban Forum*, where I gave a lecture about this research and organized a discussion on housing rights with activists, governors and NGO representatives (Mistosite 2018). At another event I took part in debates on housing policies with a head of development company. Such engagement was very fruitful in terms of studying not the actors themselves, but the way they interact and perform on public.

### *Observation and photographs*

Through analysis of the macro transformations and actor-driven growth I explain the socio-spatial changes in the city. For answering the research questions of chapters 3 and especially 4, it was very important to collect the data about socio-spatial transformations of Kyiv. Partially it was done through document analysis and interviews. And especially to trace the recent transformations I did observation and took photographs while walking around residential districts of Kyiv, such as Troieshchyna, Borshagivka, Obolon'. Many of those tours were done together with a historian of architecture, Lev Shevchenko, who significantly helped me to collect data about changes in different parts of the city.

So combination of qualitative document analysis, interviews, participant observation, observation and photographs, as well as analysis of literature such as reports, was used in order to get data on actors of housing, their networks, strategies and on socio-spatial transformations in different periods of housing development in Kyiv.

### **2.4.3 Analysis of discourse on housing**

Deriving from the performativity of economics theory I assume that the discourse on housing contributes to the reproduction of the mechanisms of housing finance, production and distribution. To grasp this discourse, I reduce the complex network of actors driving the housing growth to demand and supply side, as the main flow of finance in Kyiv housing finance system happens households to developers. So in the fifth chapter I continue to dig into the issues raised in fourth chapter, but focusing on the contemporary period (from 2014 on) and on the two actors of the housing growth - developers and consumers, which in last years became the key actors, as the mortgage system is almost absent and the main mechanism to finance the housing is to attract the household investments. Such attraction requires intensive marketing and advertising. So in order to analyse the mechanism of financial flow from the high income households into built environment and the ideological aspect of it, I posed next research question:

*How did the advertising of housing contribute to performativity of housing finance in Kyiv after the 2014?*

To answer this question qualitative content analysis of textual and visual advertising and interviews with producers of the advertising were conducted. I collected advertising of the largest Kyiv developers, mostly from their websites and distinguished the typical for the advertisement statements which are to motivate the potential consumers to invest their incomes

or savings in housing. As the next step I discussed the mechanisms of production of these statements with the employees of the public relations and marketing departments of the development companies in the in-depth interviews. Combination of these two methods gave me opportunity not to only see the way the housing is described through, but the way this description is produced on the supply side.

#### 2.4.4 Analytical comparison

One of the main aims of the thesis is to narrate the post-socialist transformation of the region through the history of housing. As Kyiv and Ukraine are quite specific cases, for example, because of the underdeveloped legal framework for market-oriented housing development and the armed conflict in the East of the country, there was a need for broader vision of the process. It was reached through analytical comparison of Ukraine with two other post-socialist countries deriving from following research question:

*How did the models of integration into the global market, along with the governing regimes, contribute to the mechanism of financialisation of housing in Ukraine, Hungary and Russia?*

It was answered through comparison of two pairs of variables: the model of integration into global economy, the mechanism of financialisation, the strategy of state intervention into the finance and real estate after the 2008 crisis, as well the model of housing finance after the crisis. Moreover the causation between the four processes was shown.

Table 2. Variables of comparison

Process	Variables	
Financialisation of housing	The mechanism in the pre-crisis period	The mechanism of housing finance after the crisis
Capital and state interrelation	The model of integration of the country into the global capitalist system	The strategies of the state in solving the crisis

As aforementioned such comparison was possible due to recent research conducted by two other scholars who wrote their PhD theses on financialisation of housing in post-socialist countries: comparative research of Russia and Poland by Mirjam Büdenbender (2017) and study of Hungary by Zsuzsanna Pósfai (2018). The theoretical and methodological approaches applied in these two works resonated well with my thesis.

#### 2.5 Methodology: conclusions

Methodology and research design of this thesis presents an example of case-study research of historical process of housing development and reveals the interrelation between structural transformations, actors, their networks and strategies, as well as discursive mechanisms of

reproduction of the housing growth. What I find fruitful examples in this thesis for future research in contiguous fields of study and cases, are its multiscale, focus not only on the macro socio-economic side of the process, but also on the discursive mechanisms of reproduction of structure and the 'translation' between different contexts embodied in this thesis.

The aim of this research was to study one process, namely housing development, from the top to the bottom and reveal the interconnection within housing at different societal levels. Such multiscale was reached through critical political economy approach in combination with theories on social communication. This has shown not only socio-economic and political aspects, but also the narratives supporting the housing finance mechanisms. Such incorporation of different approaches became possible due to application of them to one specific social phenomena and analysis of it from several angles. Combination of methods applied in this research challenges the division between quantitative and qualitative research and gives an example of how the two traditions could be combined when a concrete process and case are studied.

The discourse of commodification and financialisation of housing is rarely addressed in the housing finance research, especially in CEE and FSU region. However, it is probably the most important aspect to look at if one wants to challenge the 'common sense' ideas on housing. When collecting the interviews, taking parts in the events and even talking to my friends in Kyiv about housing I saw how deeply internalised are the perceptions of market-oriented housing development as the only possible way, housing inequalities as 'natural' and blaming the victims of housing rights violation as personally responsible for their hardships. For example, among the comments on Facebook to one of the journalistic articles I published deriving from this research were next responses: "Now the prices are too low, so the *limita*<sup>6</sup> buys flats" and "People can not afford housing, because they can not earn money. You better write how to earn money". Unfortunately, such ideas are broadly spread in the society and supported by the discourse of the developers. To offer an alternative, there is a need to deconstruct the dominating narrative, that is the reason why I found it important to focus on the role of narratives in the housing finance, production and distribution, and developing methodology for that.

Also this research required 'translation' between different contexts - Western, where the employed theories were produced and post-Soviet, where market-oriented urban development exists just for several decades, as well as 'translation' between the common sense of the people I was studying and the academic analysis. On the one hand, it was done through review of studies accomplished in post-socialist context, but on the other hand, these 'translations' required special focus on the qualitative methods. During the interviews, participant observations and qualitative content analysis I aimed to understand the notions through local context at the same time incorporating the findings in the broad picture of global processes. For example, majority of our interview partners explained the issues in housing through idea that Ukraine is 'not European enough' or that 'the only problem is corruption' and many other ideas contradicting the approach

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<sup>6</sup> *Limita* is hate speech word to signify migrant coming from other regions of Ukraine.

of this research. As debating such ideas would ruin an interview, I used the language of my informants in order to ask what was needed for the research. With every new interview I learned how to talk about financialisation of housing without criticising Western banks.

## Chapter 3: Post-Soviet transformations shaping housing in Kyiv

### 3.1 Introduction

Region of Central Eastern Europe and Former Soviet Union experienced strong transformation after the end of the socialist regimes. Emergence of free market economies, integration into the global market and formation of new national elites went hand in hand with changes on the urban level. According to Lefebvre (1991), the historical changes could not be distanced from spatial changes, the relations of production in their development do not only construct the historical change, they also produce new spaces. So the changes in the post-socialist region could not occur without spatial development. And, if to make focus on Kyiv, one of the the most prominent spatial changes was the housing development. In this chapter I show how housing was at a core of these transformation by relating the socio-economic and political changes to development of housing.

To enlarge the analysis of these transformations in this article I study the interconnection between the development of housing in Kyiv, the biggest city in Ukraine and one of the biggest in CEE and FSU and the socio-economic and political transformations in the country. Since 1990s Ukraine has been experiencing several socio-economic trends: mass privatisation, restructuring of the economy through the shrinking level of production of high value added commodities, as well as indebtedness and offshorisation of the economy. Politically the changes were no less dramatic: five presidents, each representing different composition of the Financial Industrial Groups, three mass uprising, which contributed to change of the governments and ongoing armed conflict in the East of the country. In order to reveal the connection between the economic and political transformations in the country and globally and the transformation of housing I use Kyiv as an example and pose next question:

*How the economic and political transformations in the country and globally shaped housing in Kyiv?*

This question is to be answered through next research sub-questions:

- (1) What periods could be distinguished in development of housing in Kyiv?*
- (2) What models of housing finance, production and distribution functioned in each of the periods?*
- (3) How macro socio-economic and political factors influenced formation of each of the model?*

This chapter is rather the first empirical step into the topic, than a multi-faceted explanation, so it has number of limitations. Firstly, it is done on macro level, this neglects the role of actors and everyday practices emphasising the structure. Still as housing in post-Soviet Kyiv was never addressed in the literature from a macro perspective it is important to draw general shape of the capital-state-housing interconnection. Secondly, the case chosen, Kyiv a big city and it kept



growing almost throughout whole period analysed, but economic and political transformations on the national level consequenced in uneven geographical development, so changes in Kyiv might be used only for explanations of the side of this process which collected the benefits of it. So it is rather to compare with other big cities in the region. At the same time this research broads the perspective on the commodification, financialisation and assetisation of housing, contributes to generalisations on the semi-peripheral CEE and FSU urban political economy, and creates base for future analysis of meso and micro level processes of housing in Kyiv. Moreover due to number of specific for Ukraine conditions the findings might be used for understanding of how the housing market develops in a country divided between several groups of interest, non-member of European Union, affected by war.

### **3.2 Housing growth and stagnation: periodisation**

In this part I address the first research question posed and periodise the development of housing in Kyiv. This is done through analysis of three perspectives on housing: it could be seen as built environment, as commodity and as financial asset. These indicators are following the theoretisation of Harvey (1978) and Aalbers (2016) on how the capital gets invested in the built environment. For each perspective a numerical indicator is chosen.

#### **3.2.1 Housing as built environment**

The most straightforward perspective on growth is the change in physical volume of housing. To track changes in last three decades I use the data on legal acceptance of housing space in Ukraine and the growth of housing stock in Kyiv and cities of Kyiv metropolitan area collected by the State Committee of Statistics (Derzhavna Sluzhba Statystyki Ukraïny 2018b). As the data was gathered in three different ways, the absolute numbers of the same value vary. But as the aim to show the change in the volume of the built environment produced I focus on main rises and falls.

The first important change covered by data is the drop of housing production in early 1990s. According to the data on legal acceptance of housing space between 1990 and 1995 the housing production dropped twice on the national scale, mostly due to the drop in urban areas (Table 3). This drop was not gradual and did happen right after the disruption of Soviet housing finance chains.

Table 3. Newly built housing in 1990 and 1995 in urban and rural areas in Ukraine

<b>Year</b>	<b>Total</b>	<b>Urban areas</b>	<b>Rural areas</b>
1990	17447	14024	3423
1995	8663	6456	2207

Source: State Committee of Statistic

According to the data on housing stock in Ukraine after the rapid drop the production of housing experienced an unsteady growth until early 2000s, when it became constant. Between 2000 and 2008 the volume of newly built housing every year almost doubled (Table 4).

Table 4. Newly built housing in 2000 and 2008-2013 in urban and rural areas in Ukraine

<b>Year</b>	<b>Total</b>	<b>Urban areas</b>	<b>Rural areas</b>
2000	5558	4329	1166
2008	10496	7640	2856
2009	6400	5163	1237
2010	9339	6304	3035
2011	9410	6965	2445
2012	10750	7539	3211
2013	11217	7672	3545

Source: State Committee of Statistic

The global financial crisis stroke Ukraine immediately after the bankruptcy of Lehman Brothers (Åslund 2015). Already in 2009 the volume of housing production fell to the level of early 2000s. But already in 2010 the growth was reinstated and the housing keeps growing up until now. Especially intensive physical growth began in 2014 (Table 5).

Table 5. Newly built housing in 2010-2017 in urban and rural areas in Ukraine (apart from the temporary occupied territories of Crimea and Donets'k and Luhans'k regions)

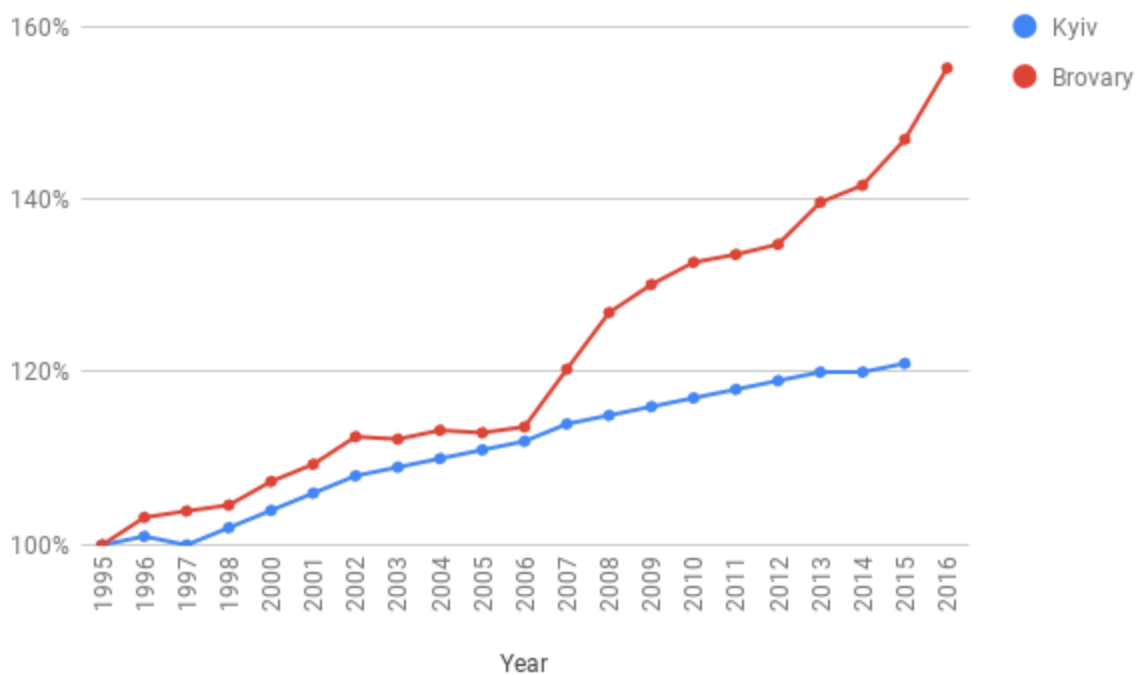
<b>Year</b>	<b>Total</b>	<b>Urban areas</b>	<b>Rural areas</b>
2010	8604	5738	2866
2011	8685	6366	2319
2012	9770	6778	2992
2013	9949	6685	3264
2014	9741	6645	3096
2015	11044	7465	3579
2016	9367	6503	2864
2017	10206	7274	2932

Source: State Committee of Statistic

The official urban/rural division does not really reflect the actual processes, because the administrative structure are being changed way slower than the spaces change their functions. Around Kyiv there are villages, which are being developed with high-rise housing for population working in Kyiv, so urban population, nevertheless these localities are still considered to be rural areas (Natalenko 2018). In order to demonstrate this unevenness of growth I compare the growth in Kyiv and in Brovary - the largest town in Kyiv metropolitan. To do so I construct next index:

$$\text{Index of physical housing growth in } N \text{ year} = \frac{\text{square meters in } N \text{ year}}{\text{square meters 1995}} * 100\%$$

Figure 4. Physical housing growth in 1995-2015 in Kyiv and Brovary



Source: State Committee of Statistics

Despite the demographic and socio-economic changes in Kyiv housing constantly grew. However there are spaces developed even more intense than the capital - its suburbs. Especially since mid-2000s the suburban towns attracted a lot of attention as it was more difficult to find the free spots in Kyiv; and they keep growing (Figure 4).

Such patterns of housing growth bring to next conclusions. Firstly, the physical growth in Kyiv was permanent since 1997 despite the economic changes. Neither the influx of international financial capital, nor withdrawal of it got strongly reflected in the amount of housing produced, new ways to finance it were constantly invented. Secondly, there is a certain trend of uneven development of the big cities and their metropolitan areas compared to the rest of the country in last three decades. Thirdly, the unevenness of development between the city and its metropolitan

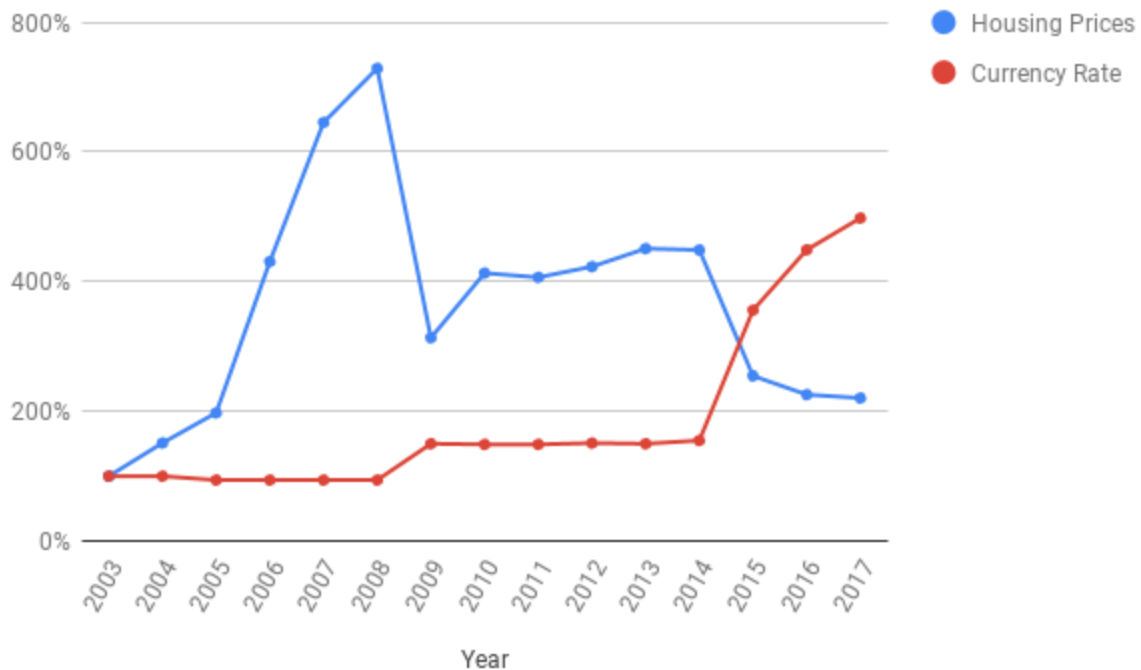
area is more striking and Brovary is no exception from the trend. Among the fastest growing cities in Ukraine in terms of population and, as the consequence, housing, apart from Kyiv, there are five towns which belong to the Kyiv metropolitan areas - Vyshgorod, Brovary, Ukrainka, Boryspil and Vyshneve. Between 2001 and 2013 these town grew on average by 12% (IBRD & WB, 2015).

### 3.2.2 Housing as commodity

But the increase of volume of built environment by itself does not explain much. Especially if it goes along with growth of population as it is happening in Kyiv. The perspective on housing as a sector of economy sheds more light on the questions of affordability. Price dynamics show how the housing became a commodity and was losing and gaining value throughout last decades. The Figure 5 is based on data on housing purchase prices for a square meter. It shows how the prices for the newly built housing were changing in United States Dollar and how the value of USD compared to Ukrainian Hryvnia was changing since 2003. Relating housing prices to currency rate shows the affordability level, meaning that, for example, the prices decline after 2008 and after 2014 have been experienced differently by the population, because the devaluation of UAH had different dynamics. Similar to the previous one formula for calculating the index was used:

$$\text{Index of purchase housing price growth in } N \text{ year} = \text{price of a } m^2 \text{ in } N \text{ year} / \text{price of a } m^2 \text{ in } 2003 * 100\%$$

Figure 5. Housing prices in 2003-2017 in Kyiv (USD) and prices of USD in UAH



Source: Lun 2018, Domik 2018, Minfin 2018.

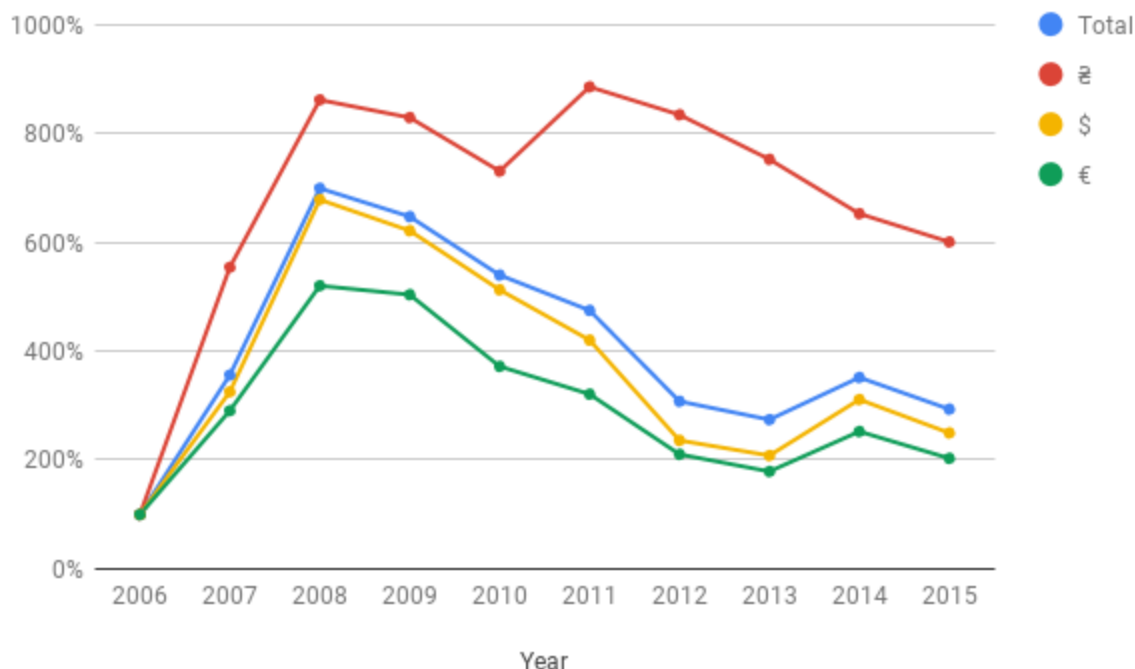
Despite relatively gradual growth in the housing production, housing as a commodity was changing its value dramatically. The statistical data is available only since 2003, but through the interviews I got more information on the patterns of housing prices changes. Summing up the data collected it is possible to distinguish several turning points which help to periodise the development of housing. Firstly, the prices started rapid growth from 2001 onwards (I5). Secondly, after global financial crisis prices plummeted. Thirdly, the economic and political crises of 2014 which devalued UAH also had very strong effect on the real estate sphere. These were three important turning points.

### 3.2.3 Housing as financial asset

One of the reasons for such dramatic changes is that housing production was used as a tool in the financial sector of the economy, an instrument for speculation. It is possible to track this process by looking at the amount of mortgage loans provided. The graph is based on data which show how much mortgages were there in Ukraine in UAH for such currencies as USD, UAH and Euro. I take 2006 as 100%. Similar formula is used:

$$\text{Index of mortgage growth in } N \text{ year} = \text{price of mortgages in } N \text{ year} / \text{price of price of mortgages in 2006} * 100\%$$

Figure 6. Mortgages in different currencies compared to the level of 2006



Source: National Bank of Ukraine

It is not a coincidence that the data on mortgages is available only since 2006. In this period influx of financial in real estate capital was the strongest (I1). The rapid growth in the volume of mortgages was present up to 2008. However the pace of growth was the strongest for mortgages in UAH, the mortgages in USD constituted 76% of total between 2006 and 2015. In 2011 the mortgages in UAH became more widespread, because FX ones were not available anymore. But in 2014 the country experienced a new crisis, one of the consequences of it was weakening of mortgage system.

### **3.2.4 Periodisation**

Based on the statistical data analysed in the previous section and on interviews with actors of the housing, especially with real estate agents and consumers, I pick out four turning points in the history of housing in Kyiv. Around 1997 physical housing growth was renewed after the decline of early 1990s, after 2004 with the arrival of international capital the boom occurred, and was interrupted in 2008 by the global financial crisis, the slow recovery after crisis was changed by a new boom (this time in terms of construction, not prices) in 2014 caused by drastic political and economic changes, like armed conflict in the East of the country. According to this watersheds I identify five periods in history of Kyiv housing:

- (1) Stagnation in the 1990s;
- (2) Gradual growth in the end of 1990s and early 2000s;
- (3) Boom in 2000s-2008;
- (4) Crash and recovery between 2009 and 2014;
- (5) New crash and construction boom in 2014 - 2018.

In next sections I show that there was a reciprocal connection between these five periods and socio-economic transformations on national and global levels as well as to changes in the state regulations, namely monetary and fiscal policies.

### **3.3 Stagnation in the 1990s: lights off, privatisation on!**

From the 1990s we can observe a period of deep socio-economic stagnation in Ukraine. In 1999 the national GDP constituted 40,8% from the one of 1990 year (Melnyk 2013). It was connected to the rapid deindustrialisation and waning of whole production sector. Describing situation in 1999 Zon (2000) points out that “registered industrial production in Ukraine had declined to less than one-quarter of its pre-independence level and (registered) agricultural production had more than halved since independence”. Among other consequences these processes brought to overwhelming poverty (Osipova et al 1999) which caused out-migration to Russia, European Union and Northern America as well as internal migration from rural areas and towns to bigger cities (Bedzir 2001, Vianello 2013).

Such a decline was going hand in hand with the formation and the new capitalist class and the national state with their specific place in the global economy. The newly formed Ukrainian capitalist class was being formed around the coal and metal natural resources and industries using those resources concentrated (Matuszak 2012). In this period the main aim of this class

was privatisation of the industrial base left from the Soviet times (Estrin & Rosevear 1999, Filatotchev et al 1996). Many other economic spheres were dismantled, among them real estate and housing production.

As the whole country the capital city was also stagnating. The industries were being closed, but nothing came to replace them yet, apart from some small enclaves of service economy and trade. The population was decreasing, predominantly due to out-migration. These had direct influence on the housing. Firstly, the state-led development was shrinking. In Kyiv as almost everywhere around post-Soviet space housing in 1990s was produced and distributed through state institutions or through state owned enterprises which were in the process of privatisation. As all spendings on social sector has dropped in 1990s the spendings on housing as well. An architect who in 1990s worked in Kyiv Proekt, the main urban planning institution in the city at that time, told next about these cuts next: “We created a project for the National Television... The tower itself was finished, but cinema-concert studio, they started building it, but abandoned, now at the construction site there are burdocks growing” (I2). In Kyiv several *mikroraiōn* of Vygurivschyna-Troieshchyna in North-East and Osokorky massiv in South-East were developed (Kovalenko 2018). This housing was still distributed through non-market mechanisms. But following the Soviet way of distribution it often went to nomenklatura - employers of army and state administrative institutions (I6).

Secondly, the changes in the governing system followed the break down of Soviet power vertical. The governing bodies were going through a process of transformation. During Soviet time Kyiv urban governing was integrated in the Soviet system. The decisions about funding were coming from Moscow, they were based on the one hand on the quite detached from the real needs of population calculations and on the other on the informal arrangements between Kyiv and Moscow bureaucracy. After the end of Soviet Union Kyiv experienced a radical change of the way in which urban politics are organized. With Declaration on state sovereignty of Ukraine and Law on economic independence of Ukrainian Soviet Socialist Republic in 1990 Kyiv governing process was not tight to Moscow anymore, but to the Ukrainian national level. In December of 1990 the Law on municipal councils of deputies and urban and regional self-government was passed which together with other similar legal regulations gave more political power to local level. Later in 1999 Kyiv as a capital got a special status which gave even more power to the urban level of governing compared to national one. At the same time there were opposite processes of centralisation of political power going on as the newly emerged capitalist class needed institutional framework in order to secure the accumulated capital. Yurchenko (2013) argues that the adoption of the Constitution of Ukraine in 1996 became a watershed of this process, as the power was taken from the oblast' and raion councils to the national level and more power was given to the president.

Thirdly, housing, land and state-owned enterprises were being privatised or captured. By privatisation is meant official transfer from public to private property, and by capture unofficial takeover of public property by state officials. However these two models might be different if the legal aspects are studied in perspective of this research they are sides of one coin, as in both case

the public property started being used for profit-making. Process of privatisation pushed by the state started already in 1991 in Ukrainian Soviet Socialist Republic with the Law ‘On property’. The state capture also became wide-spread at that time. The main interest of the bureaucrats and new businessmen in officially or unofficially taking control over public property was concentrated around heavy industries. Housing, construction sector and land got less attention as these goods could not bring fast profits, so privatisation and capture occurred for them in a different way.

Mass privatisation of housing started with the Law ‘On privatisation of state housing stock in June of 1992’ (Verkhovna Rada Ukraïny 2018a). It gave the residents of the housing who got it through the channels of Soviet distribution of housing to privatise it free of charge. As a result Ukraine has extremely high homeownership rate. According to the latest research by the State Statistics Service, only 1% of urban housing in Ukraine is publicly owned; most is privately owned by residents (93,3%) and rest of it - 5,7% is rented out (Derzhavna Sluzhba Statystyki Ukraïny 2018c). For Kyiv the numbers might be different, but there is no data available, but even if there was official data, it would not be very accurate, because according to evaluation of expert, from 70 to 90% of the rent market in the country is in the shadow (Ria Novosti Ukraina 2018).

Ukraine and Kyiv specifically inherited from the Soviet Union a strong construction sector which was able to produce a high rates of growth in building housing if needed. The majority of organisations were soon divided into different municipal communal enterprises, and some assets which were the most profitable and perspective were singled out and privatized. But a lot of them stayed in public property, however highly underfinanced. In such conditions market mechanisms started emerging. An architect from Kyiv Proekt describes the crisis of the SOEs in the next way: “Everything stopped, we had a period when we just did not have any work to do... some ‘took a bag’ and left for Poland, a lot were fired, I was lucky to stay, and I remember that money was enough for transport and to pay to Vika’s<sup>7</sup> kindergarten [her daughter’s]. But my boss, he was famous and he was invited when there was some small redevelopment or cafe opening somewhere in the basement, so there was a need for such small projects, and thanks to him we were getting so called *halturas*<sup>8</sup>. The pay was ‘from one pocket to another’ in bucks. That’s how we survived. My husband worked in academia and his salary was always delayed, so *halturas* really helped us... Working in Kyiv Proekt we worked for private business” (I2).

Another important object of privatisation was the land. Adopted in 1990 Land Code as in case with housing enabled the transfer of the land used by individuals and enterprises under their control (Verkhovna Rada Ukraïny 2018b). As these SOEs were also being privatised or captured the land occupied by them also became privatised or used as an asset. As a result there are plots which are controlled by Security Service of Ukraine, universities or small agricultural cooperative or collective of owners of a deindustrialised factory (I3). Still land owned by

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<sup>7</sup> Real names are changed in order to anonymise the informants

<sup>8</sup> *Haltura* is moonlighting, often informal short-term job which one completes having the main job



individuals and enterprises was small share of urban land. Most of it was under control of the city administration, which extracts rent from it through long-term lease since 1990s. *De jure* status of urban land as public good actually creates suitable conditions for the urban governors to use it as highly profitable asset. In case of Kyiv the commodification of land in a way jumped over the period of free market of competing small owners and was immediately monopolized by the urban public administration.

To sum up, this period in the Kyiv was characterised by stagnation as the urban development was on one hand not in interest of the new state and was not properly financed, and on the other hand the newly emerged capitalist class was not interested in the real estate yet, as the main focus of their activity was the heavy industries. Following Harvey (1978), this period could be described by primary circuit of capital. Nevertheless, the changes which occurred in this period had a strong influence on the next periods. The focus of the ruling class on privatisation of the large industrial heritage together with chaos brought by the collapse of the old Soviet power vertical created suitable conditions for privatisation of housing, state construction enterprises and capture of urban land. Still these new private property was not used as an asset. As neither housing, nor land could not bring any serious profit for large business, their privatisation rather played a role of social pillow in the failing economy.

### **3.4 Gradual growth in the end of 1990s and early 2000s**

In the end of 1990s as a result of privatisation and concentration of capital the main FIGs were formed - Dnipropetrovs'k, Donetsk ones. Erection of these particular blocks was determined by reconfiguration of trade networks. Such industrial blocks were USSR legacy, but in 1990s their links with other spheres of Soviet planned economy were disrupted, so there was a need to look for new trade networks. And they were found both within the post-Soviet countries and the West and started shaping the structure of the economy - some industries were left and expanded, some - deindustrialized. Through this production and trade capital was being accumulated. Despite of these changes the dependence of Ukrainian economy on the gas and oil trade with Russia kept to be an important factor of FIGs' formation, as to keep economic and political power in Ukraine, it was important to have loyal relations with Russia, both FIGs did (Balmaceda 2007).

To keep the establishing economic system on track the FIGs needed to have a word in politics. And Leonid Kuchma as a president became a consensual figure for the position. He stayed in power for two terms - from 1994 till 2005. Under his leadership stabilisation of the ruling blocks occurred together with the centralisation of the political power both vertically - from urban and regional levels to national, but also in terms of shifting power to the president from the other branches of authority. So by this time the political hierarchies which were disrupted by the fall of USSR got re-established, as well as the legal framework for commercial trade was created. These political transformation enabled the privatisation of the SEOs to go on under control of the FIGs which escalated dramatically by the end of Kuchma's presidency (Yurchenko 2013).

At the same time there were changes occurring on the international level. Already in the early 1990s Ukraine was taking loans from other foreign countries - mainly from other post-Soviet countries as Russia, though the process was quite chaotic. Later in 1995 the influence of the Western financial institutions became more present, among them World Bank, IMF, International Bank for Reconstruction and Development (IBRD) and European Bank for Reconstruction and Development (EBRD). As in numerous cases of other countries these institutions were forcing further market oriented reforms in the country, which were gradually putting Ukraine in a position of the periphery of global economy (Kravchuk 2015).

Precisely in this period the capital accumulated in 1990s gets invested in real estate. Kyiv real estate got a particular investment attention, as the capital city having higher number of potential consumers was promising higher revenues. The state-led slow urban growth changes to the market growth led by the coalition of business and governmental elites. There are several ways of directing the capital flows into the real estate. The biggest developer Kyivmiskbud (KMB) organized a flow of individual savings into the housing production. At that time it was still mostly a public enterprise, but it lacked the state funding, so the housing development was financed by attracting consumers' resources on very early stages of development. A rantier who invested in KMB project in early 2000s told next: "The developers were accepting even very small investments. I came to KMB office with 200 dollars in my pocket... we were buying the apartment square meter by square meter" (15). The wide use of this mechanism had a number of consequences. Firstly, the risks were shifted to the consumer, so if the developer went bankrupt the consumers who had invested their money in a promise to built the housing were left without nothing. Secondly, the real-estate was focusing mostly on housing development, not on other types of built environment, as it is easier to attract smaller investments. Thirdly, this set a path for a highly chaotic urban development, as numerous 'start-ups' entered the market to compete with KMB, avoiding state regulations through corruption and developing in every possible spot. Still being a public corporation KMB used public funds as a source of liquidity and in this way launched their business.

But there were other strategies of the capital switch. Another significant developer of that period, ZhitloInvestBud, was organized as a municipal company linked with multiple private ones - this is a mechanism of directing public funds to private actors. They mostly provided infrastructure, social and relatively affordable housing in the peripheral zones of Kyiv channeling public money into built environment. Apart from this flows of capital more 'traditional' for post-Soviet countries mechanism emerged. Private company KAN Development was founded by businessmen who accumulated capital in the oil industry. And as in Baku or Moscow these capital got invested in elite mostly commercial real estate.

Though the legal framework for commodification of land was already established in early 1990s, in the weak market could not give opportunity to landowners to use it as a high profit asset. But closer to 2000s with growing of real estate sector land also becomes commodified. Talking about that pre-2000 period the real estate agent says next: "I give you land, you give me

two apartments... everything was like this, because price of land, it did not exist, it costed penny, in 2000 the schemes started [functioning in] only money” (I1).

To conclude, with stabilisation of the political and economic system in Ukraine and after the mass privatisation of most important sectors of economy, predominantly industrial ones, the shift to the second circuit of capital uncovered. Personal savings, public funds captured by the top-level bureaucrats and capital accumulated by big business got invested into built environment. However the real estate and land had minimal confluence with the banking sector, most importantly - international banking sector. As the demand side for housing was weak and fragmented, the real estate production was focused on the production of commercial real estate and elite housing. In this period the switch of capital from primary to secondary circuit occurred making housing became a commodity, but not a financial tool yet.

### **3.5 Early 2000s-2008: booming on foreign capital**

In 1998 economic crisis occurred in Russia, it was caused by reduction of global prices for goods of fuel and energy complex. As Ukrainian economy was strongly attached to Russian, it also affected Ukraine. Facing the unsustainability government starts opening up to the private foreign capital. On the political side this process was led by Viktor Yushchenko, who for 7 years was the Head of the National Bank of Ukraine, for 2 years - the prime-minister and in 2005 after the mass social uprising, Orange Revolution, becomes president of the country. The new fiscal policies applied after the 1998 crisis enabled the growth of mortgage market going parallel with influx of foreign financial capital (Åslund 2013, Yushchenko & Yakusha 2000). The market of consumer loans, including mortgage market, was fueled by revenues from the international trade, which were growing year by year with rising prices on steel. Another source of financing the market was that Ukrainian banks started borrowing on the international market and providing this capital on the domestic market in form of consumer loans in foreign currency (Åslund 2009). When Ukrainian domestic banks has shown a rapid growth, several biggest were bought by the Western banks, which intensified the dollarized boom even stronger. Through these channels Ukrainian economy was fueled for some time, but what is more important it the real estate which absorbed this influx of capital strongly: “Crazy money entered the country... this money dissolved in our economy, as there is no economy, they went to real estate” says real estate agent about the 2000s (I1). Another interview partner, who was directly involved in the real estate-financial sector described this influx of foreign capital as follows,

“There was a lot of work done to stimulate the domestic mortgage market, but everything went wrong, when after the Orange Revolution banks, non-residents entered the market, they were buying Ukrainian banks, they financed the market in long-term perspective, but in foreign currency. The hryvnia mortgage market could not provide low rates, as there was no system, no integration with pension system, with insurance system. And at this time the dollar arrives, with lower rate. Moreover the bank that arrived started fighting for the share of the market... Everything happened really fast - in the morning one bank offers 12% rate, and in the afternoon another offers 11,9%” (I31).

Still the process of dollarisation and of channeling this capital into real estate was not only caused by the influx of foreign capital, there were also internal reasons. Due to political instability caused by competition of two political groups around Presidential elections of 2004, several domestic banks were about to bankrupt, that crisis moment was overcome by intervention of National Bank, but still many depositors withdraw their savings in UAH and were saving either in USD at home or in square meters of housing, also much more people just avoided unstable banks and were directly channeling the salaries from booming economy to the real estate.

These changes in Ukrainian economy, its short-lived growth and the crisis which followed, were strongly reflected in Kyiv. Firstly, in this period the increase of the Kyiv population became significant. It was determined by migration to Kyiv and other big cities from peripheral areas, so substantially by inner migration. In 2002 the officially registered population of Kyiv was 2 611 327 and in 2009 - 2 765 531, so it increased by 5,91%. To compare, in the previous 7 years (1995-2002) the population of the city has decreased by 1,23% (Derzhavna Sluzhba Statystyki Ukraïny 2018a). However there is an agreement between politicians, researchers and journalists dealing with the topic that the real number is way higher. For example, in 2016 in an interview vice-head of city state administration said that Kyiv population is up to 4 million people, there are other approximations around this number (Espresso 2016). Such population growth was a result of investments coming into the country, and concentrating in the capital. Secondly, the intensive housing growth which had started in 1999-2000 continued in this period: from 8 to almost 14 thousands of apartments built per year. To compare, in 1998 5,5 thousands apartments were built. Thus this growth was interrupted by the recession of 2005, from which the market quickly recovered (Derzhavna Sluzhba Statystyki Ukraïny 2018b). Thirdly, not only the amount of housing stock was growing, but the prices skyrocketed. Between 2003 and 2008 prices for newly built housing in Kyiv increased 7,3 times with the exchange rate being stable (Domik 2018). This was a general trend in Ukraine, but Kyiv was leading in terms of absolute figures. Researchers of Institute for economic research and policy consulting in Ukraine explain this growth through next factors: “The demand for housing from the mass population has increased considerably due to higher real wages and lower interest rates for mortgage loans, which became available only over the recent past. But also the demand from wealthy Ukrainians has increased strongly. A large share of the wealth generated in recent years has been poured into the housing market, due to a lack of investment opportunities in the country and the legal restrictions on investing abroad. On the supply side, the lack of competition in an oligopolistic construction market has prevented a more elastic response to higher demand” (Giucci et al 2007). Finally, the growing number of development companies points to the boom. If in the previous period KMB was the largest player with several other smaller developers, which were not competing with KMB, but rather filling in the niches left vacant by KMB, in this period development companies were mushrooming.

However the mechanism of this finance-inspired housing growth differed from the ‘traditional’ financialisation of housing in the Western countries. Similarly to CEE and FSU countries in Ukraine occurred a process for which the term dependent or (semi-)peripheral

financialisation of housing is being coined among researchers studying housing finance in peripheral countries. Detailed analysis of the mechanism of real estate finance intersection will help to conceptualise the phenomenon.

Very simple, but important difference is that in Ukraine the intensive mortgage lending occurred only since 2004-2005, so the period of the financialisation of housing was shorter than in many other places. Nevertheless it had a strong impact. The data on mortgages are available from 2006 only, but even they show the degree of dependence of the housing boom on the foreign capital in Ukrainian financial system. According to the data obtained from the National Bank of Ukraine, between the beginning of 2006 and the end of 2007 the amount of mortgage loans provided in Ukraine grew 3,6 times, from 20.52 to 73.08 millions of UAH. During the next year it almost doubled to 143.42 millions of UAH. It is important to note that the currency rate in these years was relatively stable. In this period USD completely dominated the sector: from 76 to 84 % of mortgage loans were provided in this currency, the rest was predominantly in UAH, and the share of Euro was around 1-2% (Dostup do pravdy 2017). Compared to the other countries Ukrainian mortgage market was not that extensive, but it was the pace of its development which was strong and attracted a lot of international players. A lot of European banks entered Ukrainian economy since 2004 offering loans in USD, parallel to this Ukrainian banks did the same by taking loans from abroad and reselling them in Ukraine in USD. So vast majority of the mortgage system were FX loans.

As in a lot of other (semi-)peripheral cases the financialisation of housing did not include all the mechanisms which were there in the core countries. Significantly, such an influx of capital to the country did not bring about securitisation as it happened in the USA or Western Europe. The legislative regulation of mortgage markets accelerated around 2003: new Civil and Economic Codes were adopted, as well as the Law 'On mortgage'. In 2004 the State Mortgage Institution emerged to enhance the mortgage market by issuing covered bonds for mortgage loans. However, this special-purpose vehicle never fully lived up to its role. There are several reasons for that. Firstly, the main regulatory laws were adopted only in 2005 and 2006, 'On Mortgage Lending, Transactions with Consolidated Mortgage Debt' and 'Mortgage Certificates and On Mortgage Bonds' respectively (Verhovna Rada Ukraïny 2018h). It was later than in other countries. Secondly, it was supposed to work only with loans issued in UAH while the mortgage market was dominated by loans issued in USD. Thirdly, there was no demand for the bonds issued by this institution, as Ukraine had (and still has) no institutional investors - insurance companies or private pension funds, etc.

But if not securitisation, then what fuelled the housing boom? The liquidity required by Ukrainian market was reached through the difference of local and international financial markets. In conditions of Ukrainian macroeconomic environment with high inflation and *de facto* USD peg before the crisis the risks were high, but potential returns were high as well. Because it was possible to lend in Ukraine for much higher interest rate than in the countries of origin of capital. These speculations were providing insane liquidity to the housing market and there was no need for complicated from the legal point of view securitisation.

As a result the ‘housing bubble’ became enormous: by the end of 2006 Ukrainian real estate market was valued at 400% of the national GDP, the same indicator for US is 160% (Sas & Vityuk 2008). The social consequences followed, though unlike in the USA, for example, the main ‘victims’ of this burst were not the lower classes (they were and are cut from the housing consumption and left to either in the privatised in 1990s apartments, often several generation residing under one roof, or private rent market), but the ‘middle class’ which emerged in this period and then wane with all the waves of crises.

Though this period is commonly described as period of growth, there is not enough attention paid to the fact that this growth was highly uneven. As the capital was accumulated predominantly in the urban areas, rural areas were not being developed, on contrary - apart from the towns and villages where the industries were still strong, e.g. Krivbas, areas were losing both wealth and population. Mykhnenko and Swain (2010) show how this process was deeply rooted in the spatial inequalities formed in Soviet times. Analysing the pattern of regional incomes between 1900 and 2007 they conclude: “Whereas one-third of Ukraine’s regions gained relative to the national average, two-thirds lost. The biggest losers were the two adjacent central Ukrainian regions of Chernigovskaya and Sumska. Broadly, central Ukraine, lacking industry and cross-border activities, experienced the largest relative decline under post-communism. The east and south performed better, but Kyiv was the biggest gainer in terms of percentage point change (+168 percent), while Sevastopol and AR Krym were the biggest gainers by rank” (Mykhnenko & Swain 2010). Especially these trends became prominent after the Orange Revolution. Apart from developing higher levels of inequality between Kyiv and rest of the country, this growth also contributed to social inequalities inside the city itself which kept increasing in later periods (Cybriwsky 2014). The growth desired so much by tired of 1990s’ chaos population became growth only for narrow category of middle class Kyivans.

Summarising, the course on liberalisation and opening up the economy towards the international market taken after the crisis of 1998 brought a flow of foreign financial capital to Ukraine. This consequenced in financialisation of the real estate sector. However the mechanism of it differed from the one performed in most of the Western countries. There was no complicated mechanisms as securitisation, the liquidity was reached through the borrowing on international market and lending with a higher rate on the Ukrainian market, through entering of Western banks in domestic market offering even greater amount of FX loans, as well as through revenues from the international trade of goods, like steel. The *de facto* USD peg brought to skyrocketing growth which happened in really short period of time. And as this flow of money was organised through the consumer loans, including mortgages, housing among other types of built environment became the main object of investment of this finance and became both a financial instrument and an asset.

### **3.6 Crash and recovery between 2009 and 2014**

With the global financial crisis investments which arrived in 2000s got withdrawn, Ukrainian FIGs also experienced losses due to the falling demand for their products on foreign markets.

UAH which for 7 years was *de facto* pegged to USD devalued by more than 60% (Minfin 2018). Even within East European region, which on the international scale was affected stronger than other semi-peripheral regions, Ukraine stands out as economy which experienced the most substantial collapse, together with Latvia, Lithuania and Estonia (Berkmen et al 2012). The consequences for the population might have been very dramatic which could have led to the social discontent. On top of it, presidential elections were coming in 2010. There was a strong need both economically and politically to fill the gap with 'fresh' capital. One of the main ways to do it was to enhance connections with IMF. So between 2008-2010 Ukraine receives the biggest in Ukrainian history credit from IMF - 14,4 billions USD (Kravchuk 2015, Milesi-Ferretti & Tille 2011). This made Ukraine one of the biggest IMF borrowers. Additional resource of the foreign influx of capital were UEFA Euro 2012 related investments, however these investments could not bring high revenues (Humphreys & Prokopowicz 2007). These funds filled Ukrainian state budget and part of them was channeled to the recapitalisation of the banks. This process continues until present time and it reached a point of nationalisation of one of the biggest Ukrainian banks which before was crucial part of *Privat* FIG (Dnipropetrovs'k), this step was also advised by IMF (Yanitskii & Stack 2018). Immediately after the crisis such significant state intervention recovered economy and financial sector to certain level.

In the housing the decline after the crisis was as dramatic as the boom. The building of housing abruptly went down, though not for a long time. According to the State Statistics Service of Ukraine in the urban regions in 2008 the 7640 thousand square meters of housing was finalized, which already was slightly less than in 2007 - 7737, and in 2009 this number was already 5163. So between 2007, when the peak occurred, and the 2009, when the crisis uncovered, the pace of housing construction decreased by 33% (Derzhavna Sluzhba Statystyki Ukraïny 2018b). The drop of prices was even more dramatic. If in 2008 the average price per square meter in Kyiv was \$2777, in 2009 it was already - \$1194, so the prices decreased by 57% (Domik 2018). The same happened with the mortgage market, as there the foreign capital was escaping the country and the National Bank changed its vector of policies from stimulating foreign finance led growth to regulation of the mortgage market: "Interest rates went up, due to a necessary tightening of liquidity by the National Bank in order to fight inflation and as a consequence of the international financial crisis. Since as a rule construction companies and households rely heavily on bank loans, the rise in interest rates has increased the financing cost for both sides of the market and thus reduced the supply and the demand for housing" (Giucci, Kirchner & Voznyak).

In this situation the risks which were taken during the boom - for example, the purchase of apartments on very early stages of construction - fell on the consumers and brought to a number of social conflicts. A lot of construction sites were not finalised. There were cases when the consumers were dealing with it by themselves - literally organising a new enterprise to finalize the construction, but some just lost their investments, and the objects in which they invested are still standing abandoned. Also mortgages for some apartments were never paid back. Such conflicts are supposed to be solved in the courts, and due to the highly bureaucratized legal system these cases might be still there. At the same time it is important to highlight that evictions

never became widespread. In these conflicts the courts were mainly in the side of the consumers, because in general the legal system has number of norms which protect the residents, but also because it is very corrupt and there are ways to ‘proof’ that you belong to the category which is to be protected, for example, people with disabilities, even if you do not. Though more than decade has passed many of the mortgages are non-performing (I32). In 2017, the share of non-performing consumer loans was around 60%, most of them are FX mortgages (Natsionalniĭ Bank Ukraïny 2017).

Without complete solving the damages of the 2000s boom and following crisis the new stage of financialisation of housing was started. This time the mechanism was more secure - the mortgage rates were higher and the loans were issued in domestic currency. Such control over financial sector raised power of the state and NBU specifically, which did not democratise the regime, rather the opposite: the team of Viktor Yanukovych mostly representing the interests of Donetsk FIG re-established the power vertical in the country in order to keep capital accumulation going on (Kudelia 2014; Yurchenko 2017).

Among the state interventions there were attempts to revitalise a state housing finance mechanisms for young families, Derzhmolodzhytlo, but the outcome of the program were very limited. In 2013 3393 families used the mechanisms of the programme for development or purchase of housing, in 2014 this number was 577 and in 2015 - 248 (Derzhavniĭ Fond Spriannia Molodizhnomu Zhytlovomu Budivnitstvu 2013, 2014, 2015). However in the post-crisis period there was a relative intensification of such mechanisms, state subsidies of housing in Ukraine are highly underdeveloped, in 20 years, between 1998 and 2018 only 38 172 got benefits if the program. However even if the volume of state investment in the subsidised housing was higher, the mechanism would not be able to address the needs of those whose housing rights are being violated, as it does not create social housing, which could be rented out for non-market price, but stimulates the development and purchase of it. So it is efficient for stimulation of market-oriented housing growth, as in the end the finance goes to developers, but not addresses needs of high number of citizens.

On the whole, in order to overcome the crisis the new circle of financialisation of housing was started, this time without strong foreign involvement, but with significant state interventions, which gave the opportunity to the newly elected political elite to strengthen the power vertical. When the mortgage system was reestablished in UAH, the real estate was fueled. But as the liquidity potential of national economy was way lower than before, this time the growth was more concentrated in big metropolitan areas, which contributed to the uneven development. One of the mechanism of state intervention was the policy of state housing subsidies for young families, however it served the needs only of few citizens. New model of state-finance-real estate was being established, but was interrupted by the drastic political and economic changes.

### **3.7 2014 - 2018: booming without mortgage system**

The mass social uprising of 2014-2015, commonly referred in Ukraine as Revolution of Dignity or Euromaidan, decline of the prices on the goods Ukraine exports and the economic



course of the new government, as well as the armed conflict which occurred in the East of the country have strongly changed the socio-economic conditions. Ukrainian economy got more reoriented towards the trade with Western countries, which consequently led to economic restructuring, strengthened one FIGs and weakened others. At the same time Ukraine stays unattractive for big foreign investments due to unstable political situation (Kravchuk 2016b). Moreover the recent study has shown how damaging for Ukrainian economy are the offshore mechanism, which are highly widespread among FIGs (Antonyuk et al 2018). Such macroeconomic situation got reflected in another drop of the currency rate - UAH has devalued 3,5 times (Minfin 2018). Such a drop was profitable for the export sectors as economy controlled by the network of FIGs, but it led to the impoverishment of the population, including those social groups which had been able to afford housing in the previous periods. At the same time with the economic decline decreased the housing prices, but not as much as the incomes in UAH which devalued together with dollar. If in the beginning of 2014 the average price for a square meter of newly built housing was \$1710, in 2015 it was \$970, and in 2016 and 2017 - \$860 and \$840, respectively (Lun 2018). The main reason of this drop is the decrease in the possibilities to buy an apartment for those whose income is in UAH, because the it has dropped dramatically. Still especially in Kyiv, but also in migration providing regions there are social groups whose income or savings are not in local currency.

For the groups whose income is tied to U.S. Dollar, Euro or even Russian Ruble the housing became way more affordable and they started 'catching the moment'. In previous periods the income and savings population had in foreign currencies, often in cash and kept at home, were not enough for housing finance, in 2014 it became enough. But quite exclusively population with upper-middle level income are able to afford such investments, as the poorer population cannot afford such purchases and the rich have other ways to secure their wealth, such as moving it to other countries with more stable economy and political situation. This brought to a seemingly unexpected housing boom.

Apart from this, there are other reasons for the boom. The level of trust to banks was low even before, but when in 2014-2015 dozens of banks were shut down, the real estate became the way to secure savings (Forbes 2017). The real estate agent explains it so: "The developers were stimulated by 2014. The the dollar rate grew up and people took everything they could from the banks and this money went to the real estate" (II). Also the developers working in the higher sector of the housing market attract investments from outside of the country, despite the political instabilities. Are the non-Ukrainians who are attracted by the relatively low prices and buy apartments in Kyiv going to reside there? Very unlikely.

So predominantly this boom is being financed through the same scheme as before - consumers fund the construction on very early stages, and very often their money goes to finish the previous project. With one significant difference: this time there is no supply of affordable mortgages. So the real estate is not just a sector which helps the finance to circulate as it was in the previous boom, now it sucks the money out of consumers: "There is only one scheme which really functions now. The developer builds at the expense of the investor. They do not want to

invest their own money, being afraid, they do not want to engage loans, because everyone was burned by the mortgages... also there is a problem of 'pyramids': the developer tries to sell on the 'trench stage' and uses money he got to finish the other project, so the project on the 'trench stage' might be finished earlier or not finished at all" (I1).

This process has been reflected in the trend of 'smart housing'. While earlier a consumer could take a mortgage and get a 2-3 rooms apartment, now, relying only on her personal savings or the proceeds from selling an apartment elsewhere, she can only afford 13-15 square meters. However such apartments break the legal norms for housing construction, as the consequence, it became "another reason for state officials to collect the bribes" (I10). For the higher sector of the market there are other strategies of attracting the consumer: various advertising and marketing strategies are being employed.

In short, housing keeps being developed, but not as in previous periods through the circulation of financial capital through it, but as a final destination of capital. This points to its role: it is more often used as an asset to invest in order to secure the savings and income in conditions of highly unstable economic and political situation. Taking into account that national economy is not even about to start intensively growing, financing the real estate out of consumers' personal budget has its limit, and the housing finance mechanism established now might run out of liquidity, which might consequence in another stagnation period. The future of the sector now depends much on, if the urban growth coalition will be able to find another source of financing the development, in mortgages or foreign investments. At the same time there are high chances that the political climate in the country will change with the elections coming next year. Understanding this the developers are already getting ready: "We had to make a break in construction of this project, first of all, because we need to finish the other project as soon as possible, and also so much money went to [name of one of the largest political force]" (I4). Still the growth which might come with favourable for the real estate economic and political conditions might change the affordability level for some cluster of the society, but not address the housing needs of the majority.

### **3.8 Conclusions**

From being a useless leftover from the Soviet times which was privatised to tenants in order to provide minimal housing rights in collapsing society and at the same time in order to get rid of the renovation burden housing got transformed into commodity and asset affordable only for narrow category of urban dwellers. This chapter revealed how this market-oriented development of housing in Kyiv in post-Soviet period was strongly tied to changes of the national and global economy and to state regulation of finance and real estate. Deriving from statistical data on housing stock, housing price and volume of mortgage loans in different currencies I distinguished five periods of housing development: stagnation, gradual growth, boom, crisis and recovery, new crisis and construction boom. As next step, for each period the relation between models of housing finance, production and distribution were explored in their connection to the macroeconomic and political changes. Table 6 structures these findings.

Table 6. Housing, economy and state in post-Soviet Kyiv

<b>Period</b>	<b>Macroeconomic conditions</b>	<b>State role</b>	<b>Housing finance, production and distribution</b>
Stagnation in the 1990s	Shrinking of the state production of housing, mass privatisation of industrial base, weak interest in real estate	Chaos caused by break down on Soviet power vertical, underfunding of public institutions	Privatisation and capture of housing, state-owned construction enterprises and land
Gradual growth in the end of 1990s and early 2000s	Establishment of the FIGs, international trade, first accumulation of capital from the privatised SOEs	Establishment of new power vertical and consensus between two oligarchic blocks	Investment of the individual savings, public funds and accumulated capital in the real estate
Boom in 2000s-2008	Rise of international trade revenues, arrival of foreign financial capital, dollarisation of economy	<i>De facto</i> dollar peg, legal framework for housing finance and mortgage system	Intensive growth, mostly through housing due to the consumer FX loan mechanism
Crisis and recovery between 2009 and 2014	Rise of state indebtedness through IMF credits and banks' bailouts	Re-establishing of banking and mortgage system in domestic currency	High level of NPLs, but growth through mortgage lending in UAH, attempts to launch subsidized housing programme
New crisis and construction boom in 2014 - 2018	Strong devaluation of UAH, so incomes and housing prices decrease	No fiscal policies to strengthen the national currency as it enables capital accumulation	Boom through the investment from the individual savings and income in foreign currency

The case of Kyiv, Ukraine, shows the role of housing production in the multiscale processes of capital accumulation and switching between different sectors during the integration of the post-socialist region in the global economy, as well as in following uneven development on different levels. In 1990s the primary circuit of capital occurred, the Soviet industrial legacy was privatised or captured allowing the creation of the capitalist class. When in the end of 1990s this transformation resulted in structured mechanism of capital accumulation and functioning state apparatus, part of this capital was switched in built environment, including housing. This was the secondary circuit, which soon was switched to quaternary when the foreign financial capital got

influxed into the Ukrainian real estate. As FX mortgage mechanism became the main source of liquidity for the urban growth, the city grew very much through development of housing. Moreover the risks of this housing finance model were put on the consumer. As in many other cases this boom resulted in crisis which still continues. The peculiarity of Kyiv case is that housing did not stop being an asset even when the mortgage system collapsed, moreover housing production became a mechanism of extraction of individual savings and incomes, when no other source of financing is available.

The sociospatial result of these processes was uneven development on different scales - urban, regional and national. After years of Soviet planning, there was a lot of land which could serve as public space or for development of social infrastructure, but the logic of value extraction labeled this land as 'vacant' for housing development. This approach led to filling-in the old Soviet time mikroraions with high rises producing inequalities on the neighborhood and urban level. The restructuring of economy and deindustrialisation led to uneven development on the regional and national levels, making Kyiv metropolitan area the spatial centre of capital accumulation, consequently creating demand for labour and channeling migration flow to the city. Such trends transformed a city into the wealthiest and the most intensively growing spot in the country, and at the same time the space of increasing socio-economic inequalities.

As Kyiv housing growth is financed and produced by quite narrow category of Kyivans it leaves majority of the urban dwellers away from the decision making processes. The role of domestic and international actors in channeling the flow of capital in Kyiv, which is presented in next chapter, is to reveal the housing growth from the perspective of agency, which is to enlarge the analysis of housing growth offered in this chapter.

## Chapter 4: Housing between global and local forces

### 4.1 Introduction

Trajectories of housing development in many cities of Central Eastern Europe and Former Soviet Union went along the line of global trends of commodification and financialisation of housing. The merging of finance and real estate, the liberalisation of urban policies and the private interest-oriented urban development resulted in housing inequalities, in the exclusion of such groups as refugees, Roma, elderly population, as well as in skyrocketing levels of homelessness (Ryabchuk 2010, 2014). To bring empirical examples from the case-study: Kyiv has one of the most unaffordable rent market globally (Tartar & Lu 2017); vast majority of internally displaced people in Ukraine face difficulties in solving the housing issues (Kuznetsova & Mikheieva 2018; Vikhrov 2017); the socio-spatial exclusion reaches levels at which Roma pogroms are legitimised (Bondar 2018).

Nevertheless the social issues produced by urban restructuring in post-socialist cities could not be explained only by the global processes in which these cities got involved. Local dynamics have played an equally important role: domestic economic and political forces were shaping the development of the housing market as much as changes on the global level (Savitch & Kantor 2004). In order to broaden the macro socio-economic perspective on housing commodification, financialisation and assetisation in the last decades, I depict the social history of housing in post-Soviet Kyiv by focusing on the actors involved in the housing sector and the models of cooperation and conflict that evolved in various periods of the development of the housing sphere in the city. So the research questions answered in this chapter are as follows:

*How did the competition and cooperation between international and domestic forces turn housing from a tool of state welfare distribution and control to a commodity and an asset, resulting in the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

*How were conflicts and alliances between public, private and third sector actors in Kyiv interrelated with the processes of housing transformation and establishment of the housing inequalities and socio-spatial polarisation specific for post-Soviet cities?*

To explore these questions, I track the development of main actors of the housing sector by showing how they emerged, changed their influence, disappeared and networked during each period. Following my research on macro socio-economic and political context of housing sector presented in the previous chapter, I analyse the following five periods: (1) stagnation in the 1990s, (2) gradual growth in the late 1990s and early 2000s, (3) the boom of 2000-2008, (4) the crash and recovery between 2009 and 2014, (5) the new crash and construction boom in 2014 - 2018.

Who are these actors and how do they cooperate and get engaged in conflicts? The theoretical framework of this research builds upon the approaches studying urban coalitions and

regimes and on the city bargaining theory (Molotch 1976, 1999, Stone 1989, 1993, Savitch & Kantor 2004), where actors are public and private organisations, institutions, companies and groups of citizens that directly or indirectly influence the transformation of housing sector, embedding their interests in the process. Broadly, all actors are divided into two groups, international and domestic ones, in order to focus on the global hierarchies affecting the picture on the urban level. For each one of the five periods I show the coalition of domestic and international, private and public actors, as well as their level of interest, strategies to pursue their interests, patterns of collaboration and confrontation. The analysis of the dynamics throughout last decades reveals that the processes of commodification, financialisation and assetisation of housing were not only abstract macro-economic trends, but actor-driven transformations.

This research contributes to understanding of the real estate-finance complex through highlighting the actor dimension of it; to post-socialist urban studies it contributes by showing the peculiarities of a post-Soviet case; finally, my contribution to urban politics research lies in depicting the versatility of governing coalitions.

## **4.2 Early 1990s: disorientation**

### **4.2.1 Public actors vanish away: case of Troieshchyna**

One of the main changes of early 1990s was the rapid shrinking of the state. For decades state enterprises and institutions had been organising the production and distribution of goods and services and employing citizens. When the Soviet system collapsed under the pressure of its own contradictions, market did not replace it immediately (Yurchak 2017). The early 1990s were the period of anomia and disorientation. Initially, this did not impact housing as heavily as it did other sectors: Soviet urban development plans kept being completed. Several *mikroraiõns* were erected: parts of Vygurivschyna-Troieshchyna in North-East and Osokorky massiv in South-East, as well as Teremky in South-West and Bilychi in the West of Kyiv. However, public actors which were in charge of housing production grew weaker financially and institutionally day by day; this affected the housing development in early 1990s and keeps shaping the urban life until now.

Firstly, the change from the state-led economy to a formally large, but *de facto* poor social welfare state led to a drop in the public production of housing - the volume of housing construction in Ukraine halved between 1990 and 1995 (Atanasov 2010), although in Kyiv this indicator was likely lower due to its capital city status. The sheer quantity of new housing suffered along with its quality: budget cuts were largely made at the expense of the infrastructure, such as transport connections and social amenities. Maybe the most telling example of such cuts is the case of ‘metro to Troieshchyna’, which has become a local urban meme. According to the initial plans, the area, accommodating over 300 000 inhabitants, had to be connected to the transport network of the city by a bridge and, more importantly, by a metro line. Such a project was created in the late 1980s and entered the implementation phase in the early 1990s, but already in 1993 the construction of the bridge was frozen due to the insufficient funding. As a result, a large part of Kyivans living on the Left Bank have to use buses,

trolleybuses and *marshrutkas*<sup>9</sup> only to reach the metro (Vozyanov 2018). What is even more ironic in this story is that the bridge and the metro line are still not constructed, although every consecutive city mayor promises to do it. Apart from the underinvestment in the transport infrastructure, the *mikroraions* created in 1990s severely lacked the social infrastructure - schools, shops, cultural centres, organized green spaces - compared to those built in 1970s and 1980s, Obolon' for example. So the attempt to keep up a decent level of housing production and to 'fulfill the plans' under the conditions of severe cuts of the state funding resulted in numerous problems for inhabitants of the *mikroraions* (Figure 1). A young woman, Maria, who lives in Troieshchyna with her parents since 1990s, explained in the interview:

“Every trip seems to be an epopee. There is no metro here, and to get to the closest metro stations - Petrivka [Pochaina], Chernihivska and Darnytsia - one needs approximately half an hour. When I used to go to classes every day, it was simply hell, in peak hours you'd better stay away from the transport in Troieshchyna. I use *marshrutkas*, because a trolleybus ride takes 10-15 minutes longer. Already at my stop which is not that far away from the end of the line, it is very difficult to get into the transport in the peak hours, from 7-30 to 9-30. Usually you squeeze yourself in and stand at the very edge of the *marshrutka*. On the *Moscow bridge* there is a traffic jam almost every morning. On my way home there is usually a line to get into a *marshrutka*, even to stand inside. Sometimes you need to spend 15-20 minutes in the line to have a ride... I am open to say that living on Troieshchyna affects my lifestyle: I prefer not to get out of there in the mornings and not to go to the centre unless I really need it” (I7).

The consequences of this shift to formally broad public urban development, containing high number of standards and regulation, implementations of which are neither financed, nor controlled, are affecting the city almost decades after these changes and at the same time are producing informality.

Secondly, as the institutions which were in charge of the housing did not change but in the name, the distribution of housing was going through channels similar to those active in the Soviet time. The socialist principle of housing distribution was based on the principle of usefulness of the workers to the state. The more the worker contributed to the 'common good', the more benefits she was to receive (Szelényi 1983). At the first glance, the idea seems to be quite democratic. But as Szelenyi shows, as this principle was put in practice in the conditions of a constant lack of quality goods, it created serious inequalities in the society. The workers who had already had better positions and salaries were better benefited by such goods as cars, tourist vouchers to children summer camps, etc. On top of it they were getting better housing, and getting it before those who had lower positions. This was making the economic inequality way deeper than, for example, in the social welfare states, where social housing was balancing the inequalities created by the market. In the conditions of the lower rates of state housing production, public housing went to workers possessing either higher social status or ample social

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<sup>9</sup> *Marshrutka* is private shared taxi service functioning as public transport, became very widespread as public transport system is underdeveloped. In last years Leibniz Institute for Regional Geography conducts a research project on marshrutkas: <http://marshrutka.net/about/>.

capital. Nevertheless, a lot of housing reached those who actually needed it, for example, students. The construction of a student dormitory at Troieshchyna was frozen in the 1990s, as a lot of other state-led projects. But the University ‘Kyiv-Mohyla Academy’ acquired it and finished the construction; now the dormitory still functions. A lot of students are not satisfied with their residence, because of its location at the far end of Troieshchyna and also because of the living conditions. However this is typical for Ukrainian student social housing (17, 18).

Thirdly, the state has also withdrawn from the maintenance of housing and the surrounding areas. *Mikroraions* were left to highly bureaucratic and poorly funded public housing maintenance offices. The associations of co-owners, non-profit organisations of residents of apartment house which proliferate nowadays, were not being formed at that time. So there was no subject to collectively use the services of the private companies. The maintenance of every single apartment became an individual business of the family who privatised it. It became very popular to renovate the balconies, put a layer of insulation, as well as to install the air conditioning. This individualistic approach completely ruined the city landscape (129). This process on the one hand reflects the weakness of the public institutions, and on the other the individualistic private property approach to housing which was crystallized with the privatisation of the Soviet housing stock.

Photo 1. Apartment housing with self-renovated balconies, insulation and air conditioning



Source: Lev Shevchenko



Finally, the state in which different parts of the city met the collapse of USSR the strongly affected the way the development went later. Troieshchyna used to be a highly unattractive area for developers and businesses. Maria said,

“For coffee-shops, bars, theaters and other leisure I go to the nother bank of the Dnieper. Of course, we have McDonald’s and KFC and also disco-grill called Cult and some chain-cafes and restaurants, but there is no nice place where one can work with a cup of coffee or meet friends. All the bars and cafes were opened over the last few years, before that we had just one Mac... There is only one cinema here... Also not enough of good parks, only two, and the trees there are small, so they are not cosy at all” (17).

In contrast, Kharkivskyi Masyv, a district designed as sister-district of Troieshchyna in the South of the Left Bank, developed in a different way. The main reason for that is the metro network of Kyiv actually reaches Kharkivskyi. The area is often referred as Kyiv’s Singapore; of course, it has little to do with Singapore, but the relative pace of development of high rises, which has driven to the area a lot of middle-class residents as well as various businesses, is the reason for this comparison.

Photo 2. Kharkivskyi Masyv



Source: Author, Sergiy Chekmarev

The state and communal enterprises lacked funding and institutional support; their capacity to go on with the Soviet plans and keep using housing as a tool of benefit distribution and control was shrinking day by day. The weakening of the public system in this period did not immediately lead to its replacement with a private one (16). Due to this in the early 1990s housing has not become a commodity, at least not a commodity for big players. Even the mass privatisation of

housing did not make it a tradable good immediately. The purchase and rent markets organised around exchange between individuals had already existed under the Soviet rule; they became legal, but still functioned on the micro-level and were not controlled by any large actor. However, the first steps towards that were taken.

#### **4.2.2 Fight for political leadership**

During the first years of Ukrainian independence the governance in Kyiv has been in a highly anomic state. From the ruins of Soviet hierarchies there emerged new ones, but it was still unclear how different parts of the new system should coordinate between each other. The legal framework implied that the city council would be the main governing body. The elections of 1990 brought to the city council the Communist Party, an alliance of liberal and nationalists called Democratic Bloc, and independent deputies. As none of the groups really adhered to the ideology they were proclaiming, a part of the ‘communists’ and a part of the ‘democrats’ just after the elections created an alliance called Democratic Center, which opposed both the ‘communists’ and the ‘democrats’. Agreeing on something, even on electing the speaker of the council was impossible under these conditions. Later there was a very undemocratic attempt to solve the situation: the mayor was assigned from above by the President Leonid Kravchuk. But even this authoritarian move did not help to form any sort of coalition, since a year later the President got into a conflict with his protégé. The elections of 1994 finally resulted in some sort of social consensus: Leonid Kosakivskii became a city mayor and had good chances to stabilise the local governance in some sort of a system, had it not been for the victory of Leonid Kuchma in the presidential elections in the same year: the new head of the state had his own agenda (Chalenko & Turchinskaya 2008). So the leading positions during this period were occupied by figures who could be actors themselves. Given the lack of exposure to the institute of liberal democracy in the previous decades, it failed to function properly after it was finally imposed from above. The authoritarian methods did bring results, but not following the Soviet kind of top-down policy making, quite the opposite: it was the President’s decision through ‘his’ mayor to start the privatisation of Kyivmiskbud, the public housing developer. The strengthened subordination between the urban and national level put an end to the political chaos caused by the competition for the mayorship and contributed to establishing the emerging capitalist class, whose main aim in that period was the privatisation of Soviet assets.

#### **4.2.3 Privatising the public monopolist**

The privatisation of the housing stock was a highly important process for the commercialisation of the housing, but what was even more important is the reorganisation of the state-owned enterprises (SOEs) which prepared the ground for the future privatisation. Under the Soviet rule, there were several state enterprises engaged in the production of housing in Kyiv, the main among them being GolovKyivmiskbud, an enterprise which was in charge of developing almost all built environment of the city; it brought together the organisations and factories (so called ‘housing building combinats’) which were providing the materials and services for the housing production.

In 1992 GolovKyivmiskbud was transformed into the state corporation Kyivmiskbud (KMB), which was comprised of several dozens of smaller enterprises; all of them stayed in the public ownership. But already in 1994 Kyivmiskbud became a joint-stock company. Such decisions were normally taken by the highest ranks of national authority. The elected city council deputies did not have coordination mechanisms to influence the process. As at that time there was no mayor, Leonid Kosakivskii, who was the regional representative of the President of Ukraine (Liviĭ Bereg 2016), was officially responsible for this decision, but *de facto* it was the decision of the President. The national elite directly set the agenda for the privatisation of the biggest developing company in the country. Nevertheless, officially the company is being presented as owned by the Kyivans. It is rather a marketing step in order to give the consumers an idea of a secure investment, as well as a mechanism to avoid taxes by keeping a less profitable part of the corporation public, while the financial flows were privatised.

Though the company changed the type of ownership and the name, it did not change its top-management. For instance, Volodymyr Poliachenko, who was the executive head of GolovKyivmiskbud in 1979-1982 and in 1988-1992, became the president of KMB in 1992 and stayed on this position until 2006. Moreover, he became a member of Kyiv City Council in 2002 and a member of the Parliament of Ukraine in 2007 (Oficiĭna Ukraĭna S'ogodni 2012). Similar trajectories were followed by many other Soviet managers. So the main housing development company in the city was an asset for the 'red directors' like Poliachenko to join the capitalist class and become important players in the governing process.

So the capture of the largest housing development enterprise enabled by decisions made on the national level went hand in hand with the formation of the domestic bourgeoisie closely connected to the state administration on national and urban levels. However, in the 1990s the real estate was not considered a profit-making sector, so these processes were not happening as quickly as in the industrial sectors.

#### **4.2.4 'Bottom-up' private actors**

A lot of actors typical for the market-oriented housing were not really present or were present just formally; nevertheless, their emergence was being prepared. For example, the main players of the future mortgage booms were created in the 1990s, even though at that time the banking had nothing to do with housing. Among these 'bottom-up' private actors are banks, private developers, real estate agencies, architecture offices, etc. The 'bottom-up' label is a part of their own narrative, even though their establishment was not independent of the privatisation, the state capture, as well as of the political competition on different levels of governance. A more detailed analysis of each type of the actors will show these interdependencies.

The only bank connected to the developer was Bank Arkada created by KMB; at that time, it did not issue loans or similar financial instruments. Privatbank, another actor which would later become important, was founded by a group of *ex-komsomol* leaders profiting from imports of 'deficit goods' like computers, printers, mobile phones, later even clothes and shoes. It augmented its capital through lending to newly emerging private businesses, capitalising

household savings and performing international transactions, mostly between Russia and Ukraine; but most importantly, Privatbank, as well as other banks, was one of the main tools of 'mass privatisation' of 1995, which channeled Soviet enterprises into the hands of very narrow circles of people (Yanitskii & Stack 2018). The interest in the real estate came much later.

There were attempts to launch private housing production. For example, the private developer TMM was founded in 1992 by Mykola Tolmachev who had got his first capital in the industrial economy. In 1994 the company started construction of their first housing project, but they did not manage to profit from it due to the lack of demand (TMM 2018, UBR 2018).

In the Soviet time housing purchase was a criminalised activity masked under the disguise of apartment swapping: officially people were swapping state owned apartments for free, but *de facto* they were paying for better and bigger apartments. The decriminalisation of this activity meant that real estate agents did not need to hide anymore (I6). Still the housing market was quite limited, to the extent that the number of formally registered real estate agents did not exceed a couple dozens in the capital. A real estate agent working in the sector since 1993 describes it, "Taking about 1993, the year when everyone joined the market, at that time in Kyiv there were around 20 real estate agents, in the whole city... that's how narrow the market was, now there are thousands" (I1). Apart from them, there were also informal networks fulfilling the function of real estate agencies. One of my interview partners explained it, "First real estate agents were granny neighbours who just knew who sells what and had a small income from that" (I11). Since 1990s the real estate agencies have greatly expanded, as the market has grown itself, but their main function did not change. In the conditions of a hectic and unregulated market the real estate agencies possess the needed knowledge about actual prices, as well as social capital, as I was told by an employee of a real estate agency:

"A real estate agent is being paid for the connections he has, roughly speaking, in the state structures. For example, if there are children living in the flat the purchase is not so easy, because the authorities have to approve that the kid does not move into worse living conditions, so the real estate agents help to make a 'deal' with those authorities who take care of this question" (I14).

Another function the real estate agents fulfill is issuing at least some guarantees, in the very chaotic and unregulated market conditions, that the rent or purchase is not a fraud, which often happens (I14). In other words, they do what the state is impotent to do.

Apart from the large scale privatisation and state-capture there was also a 'bottom-up' takeover of the public property. A lot of SOEs which did have means of production, real estate or land, just started losing their funding from the state and had to look for ways to earn money on the emerging markets. For example, many public architecture and urban planning offices started informally working for private businesses; in this process the role of the social capital was crucial. Another example cited by my interview partner was a university: "The developer was

started by Kyiv Engineering and Construction Institute<sup>10</sup>, so it was under the protection of the public institution... we could teach our students how to earn money” (I10).

To conclude, the private actors of the housing in early 1990s were just emerging or stepping out of criminalisation or establishing themselves in the informal sector. Weakness or absence of private actors in the housing reflects that the latter was still, on the one hand, led by the state institutions (though it was to be changed soon), and on the other hand strongly lacked private capital, as market mechanisms were still being formed. Moreover, the privatisation and capture of housing SOEs and land had immediate consequences, like meeting people’s basic needs in the conditions of social breakdown (I10), but at the same time, these processes had long-term consequences, which I discuss in next sections.

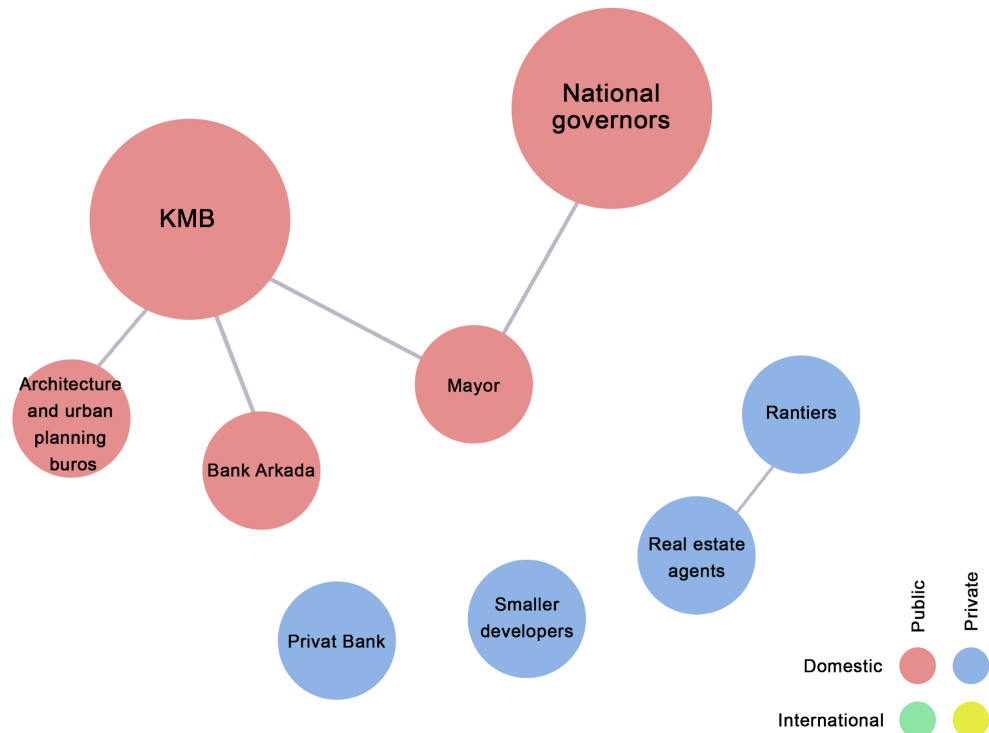
#### **4.2.5 Early 1990s: conclusions**

The period of early 1990s is characterised by confusion between the old Soviet system and the emergent new one. Housing was also divided between these two poles. On the one hand, the functioning of Kyiv housing might be fit into what Harvey (1989) calls managerialism. Public actors kept following the state-led way of urban development. However, the scaling down of the public spending made the state supply of housing very limited and strengthened the unequal character of its distribution. But this managerial approach could not last for long in the conditions of a rapidly transforming society. One of the crucial steps towards the destruction of such regime was the privatisation of the housing stock. Though for a short period of time this privatisation balanced the overwhelming poverty, it helped greatly to set the housing sector on the market track. Apart from this, the capture of SOEs and urban land were paving the road for the market rule. These processes went hand in hand with the political competition for Kyiv leadership, as the political power was the main tool needed for getting the best out of the ongoing privatisation and state capture. Kyiv competition for power resulted in the strong subjection of Kyiv government to the national level of governance.

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<sup>10</sup> Now it is reformed in Kyiv National University of Construction and Architecture

Figure 7. Actors of housing sector in early 1990s



Source: Author’s visualisation

On the other hand, private actors of market system were emerging or coming out of the shadows. Among them were banks, private developers, real estate agencies, private architecture bureaux, rentiers and many others. Most of them could not appear without the injection of capital, which would as a rule have roots in the former state institutions, so the development of private actors could not be separated from the aforementioned processes of privatisation, state capture and political competition. Nevertheless, the 1990s regime for the housing sector still could not be considered as developmentalistic, neither it is reasonable to talk about an urban growth coalition. This is not due to a democratic track of the post-Soviet transformation or a pressure coming from below, but rather because of a low demand for housing caused by the deep economic decline and privatisation and the low level of interest in the real estate on the part of international and national capital; most of the actors were focused on the productive economy, mainly industrial. At the same time, in this period the ground of the future development was set.

### 4.3 The late 1990s and early 2000s

#### 4.3.1 Developers: how did they emerge?

With the stabilisation of the economy and the political regime, the establishment of an urban regime became possible. In this part I show the tracks of growth and networking of main actors, starting with the largest one - KMB. It kept the dominant position in the sector. But as the state funding of housing construction was shrinking, the company adopted a new mechanism of funding the construction, which set a profit-making agenda for it. Investments were to be attracted from the prospective buyers on the very early stages of development. From the very beginning this mechanism was dollarised, but in quite a specific way: “While the apartment was being built, its price was constantly changing. KMB had its internal currency called *odin*. Its value was changing with the USD, but not always” (I5). This enabled the housing production to go on without the public investment and at the same time made the housing finance mechanism highly risky.

Another developer which is closely connected to the state is Zhytloinvestbud. It is a communal enterprise, which means that it is organized by the city or the region but can perform commercial activity. Usually communal enterprises are created in order to have contracts between the state and the private actors, so they are tools of public-private partnership (PPP). Zhytloinvestbud was getting numerous contracts with the city administration. In this way new mechanism of channeling public funds to enterprises with privatised financial flows was established.

Previously mentioned TMM started doing better than in the previous period. Thanks to connections with engineering research enterprises, they managed to occupy the niche of higher technology housing production. In terms of funding, they relied on the same mechanism as KMB. Apart from the real estate, the head of the company Tolmachev also invested in agricultural and energy sectors.

KAN Development is another leader of the real estate business in Kyiv over the last decades. It was founded in 2001 by the businessman Igor Nikonov, who for years had been working for Igor Bakai, the president of a prominent corporation which imported natural gas. The capital gained in the energy industry was invested into the real estate. This is typical for post-Soviet countries process: Russian, Azerbaijani business also channelled capital from oil industry into the real estate. Unlike KMB, KAN Development started as a purely private company (Evropejska Pravda 2018).

Pozniakyzhylbud (TARYAN Group) is another developer which emerged and became one of the leaders in this period. It was founded in 1996 and first was mostly focused on the elite housing, not commercial real estate. It is impossible to track where the investment came from. However, the founder of the company got into the parliament of Ukraine in 2002 as a member of a pro-president political bloc For United Ukraine (Liga Dosi'e 2015a).

The establishment and growth of these companies and other smaller developers reflect the growing demand for various types of real estate. They were not competitors at that time, rather taking various niches of the sector. Though nearly every company had its own mechanisms of financing - from PPPs to revenues from the international trade to attraction of household investments - they were channeling the accumulated capital into the real estate: housing was mostly financed with small scale investment, while gas and oil profit went into commercial real estate in central parts of the city.

#### **4.3.2 The involvement of banks: first steps**

The mortgage system was also emerging in this period. KMB was the first to contribute to this process: in 1998 bank Arkada created by this company started issuing mortgage loans. The bank was controlled by the affiliates of KMB until 2003, when the Anti-Monopoly Committee of Ukraine ordered to transfer its controlling stake to two private companies. The most peculiar part of this story is that the top-managers of KMB Polyachenko and Palivoda kept the  $\frac{2}{3}$  of the first private company and were connected to the second one as well. Moreover, they officially gained their stocks in the company by contributing ‘intellectual property’ to it (Dienkov 2010). That is, a couple of research papers were allegedly traded for the ownership of the biggest real estate bank in the country. This case might seem very shocking, but actually privatisation through this kind of mechanisms was very typical. This case was investigated by the journalists but never got any attention from the state. Later Arkada became a separate developer and it is still active on the market. However, in the late 1990s Arkada was an exception; other banks like Privatbank were already offering consumer loans but the mortgage system was not there yet (Yanitskii & Stack 2018).

And yet the absence of a mortgage mechanism and of big financial capital did not mean that housing was not being assetized. In the end of 1990s housing consumption became a way not only to find a place to live, but also to make a ‘secure’ investment. How did it work? KMB was the first to develop a system of investment in square meters on very early stages of construction. They offered population to invest even very small sums; those who managed to invest 30% of the price could start a installment plan. Those who did not manage could just take their investment back quite easy. A consumer who bought several apartments in Kyiv since the end of the 1990s explained how the mechanism was organized:

“KMB was offering very interesting options. For example, you could buy 2 metres or half a metre. You buy them at the stage of digging the foundation pit. As the construction process advances, the square metres are getting more expensive. According to the contract, if you have bought 2 square metres you could shift them to a different object priced differently. Thus, instead of 2 meters you could have 3 meters. So it was like putting money in a bank” (I5).

While such mechanism brought liquidity to the real estate, it put the consumers under high risks. This process normalised the idea of housing as a commodity and an object of investment. Nevertheless, the financialisation of housing did not unfold completely.



There were several reasons for the underdevelopment of the mortgage market. The legal framework was very weak: there was only one section regulating the mortgage lending - the law 'On Pledge', section 'Mortgage' (Verkhovna Rada 2018c). But what is more important, the economic situation did not stimulate the mortgage system development. On the supply side there was no significant financial capital to enter the market, and on the demand side the constant inflation and unstable currency rate created unfavourable conditions for mortgage lending.

Real estate finance before the beginning of the 2000s was organized on the basis of inflows of such capital as revenues from industrial economy coming from FIGs, privatised financial flows of the public enterprises, as well as savings of households. This determined gradual urban growth, which after the first part of 1990s brought the city back to life, but still this growth was quite limited compared to what has happened later. The change which has taken place in the 2000s will be discussed in the next section.

### **4.3.3 The mayor and his network**

Establishing the described system of capital inflow into built environment required political and institutional support. This support became personalised in the figure of mayor Oleksandr Omelchenko. He had direct connection to the political administration on the national level, namely to President Leonid Kuchma, who after winning the elections fired Kosakivskii from the position of the Head of the City State Administration and installed Omelchenko in his place. So for a while the city had two mayors, due to the contradictions in the legal framework. But even when Kosakivskii still headed the City Council, he did not have real political power anymore (Liviï Bereg 2016). This episode shows that urban governance in Kyiv was strictly subordinated to the national level, and political changes on the national level led to changes of the city leadership as well. This power vertical went all way to the already mentioned communal enterprises which significantly contributed to urban growth.

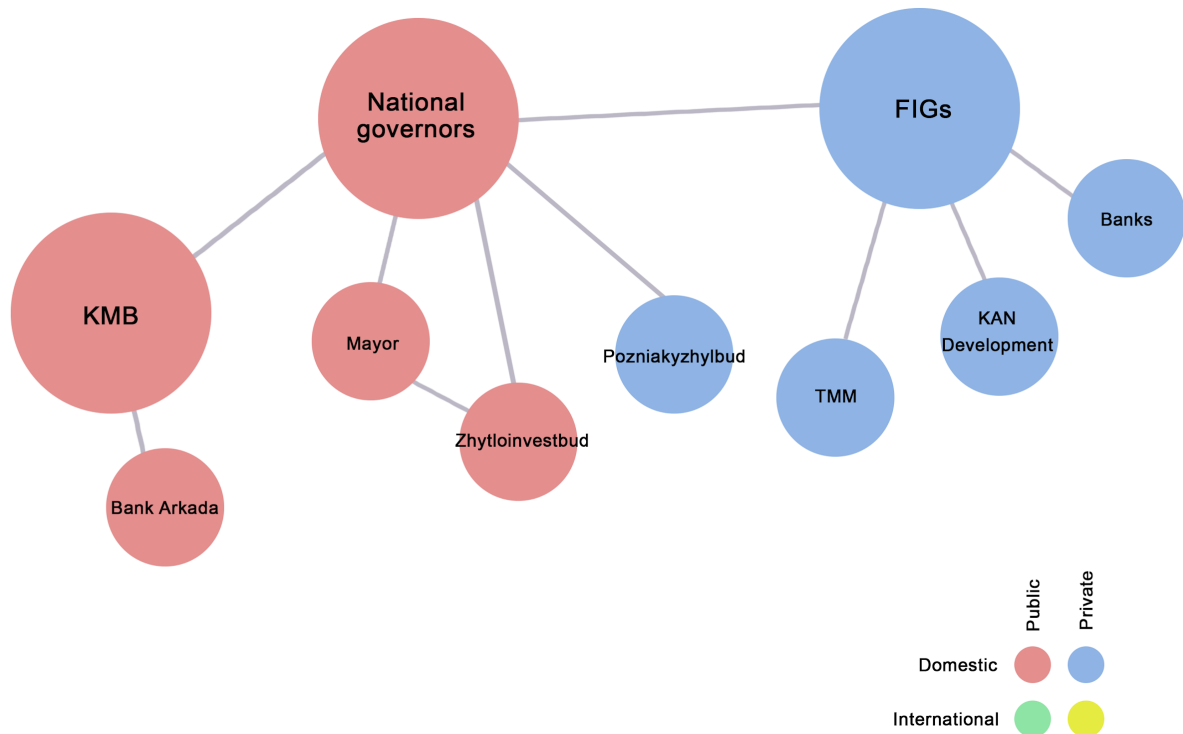
During his ten years in power, Omelchenko formed a system of 'communal business'. This system consisted of enterprises ensuring the functioning of the city, from public transport to housing producers like KMB and Zhytloinvestbud. They were either in the communal property of the city or controlled by the City Administration. Via different forms of PPP these public enterprises were bringing profits to the network which controlled them. This circle was very narrow and included people who were very close to Omelchenko. So, similarly to the national level, on the urban level the governance was established in a clientelistic manner. Omelchenko and his network stayed in office during the next period of intensive growth as well.

### **4.3.4 Late 1990s - early 2000s: conclusions**

The disorientation of the first part of the 1990s gets replaced with the market-oriented development. At this time the state-led production of housing shrinks to minimum. Actors of housing strongly diversify and strengthen themselves and networks between each other. Developmentalistic regime gets established. Nevertheless the coalition still includes a narrow range of actors. Another important characteristic of this period is that the built environment production focused not only on housing, but on commercial spaces as well. The very central part

of the city witnesses massive renovation projects along with the creation of the first luxurious shopping mall. The main driver of economic growth in these years was the national elite which was already established economically through the mass privatisation and politically through the president Leonid Kuchma. These actors were interested in setting the developers as public-private enterprises. This on one hand protected the power-holding elite from the competition with other blocks of capital; on the other hand, it enabled the privatisation of the financial flows.

Figure 8. Actors of housing growth in late 1990s - early 2000s



Source: Source: Author's visualisation

When the whole national economy was set on the market track, the capital city also became a market-oriented city adopting the developmentalist regime which was driven by the public-private coalition of actors and underpinned by a power vertical with mayor Omelchenko being an important hub in this network (Figure 8). Such a regime was rather similar to regimes in Russian cities where the public actors and their network played the role of the city entrepreneurs (Kinossian 2014). It created conditions for a secondary circuit typical for the post-Soviet region: the capital accumulated through privatisation and oil business was channelled to real estate. But this circuit mostly ensured financing of commercial real estate and upper-middle class housing. The middle class housing like the one produced by KMB was financed from the investment by consumers on the very early stages of the development. In the situation of a weak mortgage

system and weak involvement of the international actors, the local actors were dominant; they created a network which enabled the privatisation of financial flows, but not the privatisation of the communal corporations themselves. Still in this period one can talk about growth; the boom was just about to arrive.

#### 4.4 The boom

*God gave us life,  
And a bank gives us a loan,  
Goodbye, goodbye, Lenin,  
We got to heaven.*  
SWEETLO<sup>11</sup>

##### 4.4.1 New player: international financial capital

The mortgage system began developing since the early 2000s. Kyiv became its epicentre as the biggest and the most attractive city for the financial investment. By 2008 ‘Kyiv and Kyiv oblast’ got 27% of the mortgages [issued in the country]. On the second level was Odes’ka oblast’ (16%), and on the third - Dnipropetrovs’ka (8%)’ (Sas & Vityuk 2008).

In order to track the development of the mortgage system and outcome of its crash in 2008 I show the trajectories of the largest banks. According to the rate by Sas and Vityuk (2008) based on the amount of the mortgages provided in the beginning of 2007 the top-10 banks were next: Ukrsibbank, Raiffeisen Bank Aval, Ukrsoobank, OTP Bank, Privatbank, Pravex Bank, Kredyt Prom Bank, Nadra Bank, Finansy i Kredyt and Oschadbank. Neither of them was a specialised mortgage bank, as those were never established in Ukraine, mortgages were just part of the services they offered.

##### *From Ukrainian to international finance institution*

Many Ukrainian banks during the boom were bought by international banks. Best example, is probably Bank Aval, which later turned into Raiffeisen Bank Aval. It is one of the first banks which started fueling the real estate sector with the mortgages. This bank had very tight connections with the international financial market since 1990s: in 1995 it started working with European Bank of Reconstruction and Development (EBRD). The quick adoption of international standards of banking made it one of the prominent financial institutions by the early 2000s. And it intervened in the housing sphere as long as the latter started developing. In 2003 it offered mortgages with 14-15% rate in USD and 23-24% in UAH. As the Deputy Director of the Credit Department of the bank told in the interview, their strategy was to establish cooperation with the KMB, Poznyakizhilbud, Zhitloinvestbud and TMM (Delovaia Stolitsa 2003). In 2005 the controlling stake was sold to the Austrian Raiffeisen Bank.

Another one - Ukrsibbank started as a regional bank in Kharkov, which worked with the corporate clients. Later it started working with individual customers and developed a national

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<sup>11</sup> SWEETLO is Ukrainian music band with far right and libertarian political views.

network. BNP Paribas bought its first share (51%) of Ukrsibbank in 2005, by 2010 it owned 99,9%, later in 2011 15% were sold to EBRD. Now the bank is shared between BNP Paribas (60%) and EBRD (40%) (Prostobank 2018). Similar trajectory was taken by such banks as Ukrsocbank, and Praveks Bank. They became part of Unicredit and Intesa Sanpaolo respectively.

The history of Ukrsocbank goes back to the 1990, when the Ukrainian Republic Enterprise ‘Zhitlosocbank’ was transformed into a joint-stock commercial bank. In 2003 Ukrsocbank got a loan from EBRD to finance the agricultural industry in Ukraine. Later this year it was one of the first Ukrainian banks to start borrowing from the international banks. The first loan was not very big - 13 million USD, but it started the mechanism of financialisation and dollarisation of Ukrainian economy, including real estate. In 2006 and 2007 more serious credits followed - 250 and 200 million USD. Such an influx of international financial capital made the bank one of the leaders - in the summer of 2007 it was ranked first on the list of the banks providing credits in Kyiv and Kyiv region. Though at that time 95% of its shares belonged to international financial group Unicredit (Ukrsocbank 2018).

Praveks Bank was owned by Leonid Chernovetsky, the businessman who became the mayor of Kyiv in 2006. In 2008 it was also sold to an international financial group of Italian origin - Intesa Sanpaolo for 750 millions USD (Liga Dosi'e 2009, 2015b).

The motivation of the international financial groups to enter Ukrainian market was formed by the higher interest rates, as well as by the pace with which Ukrainian mortgage market grew. This was possible due to the policies of National Bank of Ukraine: even though it was causing inflation, there was a *de facto* USD peg established in order to rise the competitiveness of the exported goods, like steel. Such situation stimulated international financial groups to offer good deals to Ukrainian bankers. However, some of Ukrainian banks were not sold. So if the deal was promising, why did several large banks stay out of it? A deeper analysis of these banks can show why they opposed this integration.

#### *Ukrainian private banks - parts of FIGs*

Among the leaders of the mortgage system in 2007 which stayed private Ukrainian-owned banks were the following: Nadra Bank, Finansy i Kredyt, Kredyt Prom Bank and Privatbank.

Nadra Bank was registered in 1993 as a bank to serve exclusively the coal industry, later it extended its range of services and capital among other factors due to credit lines opened by EBRD for supporting small and middle business and by World Bank for Reconstruction and Development for restructuring and development of the coal industry in 1998. In 2000s it was getting loans from international institutions and banks, as other leading banks at that time. Its direct connection to the coal industry was the main reason why the bank was not sold to international financial groups. The business needed the bank to support itself also through crediting. As an economist from Kyiv told me, “banks collect the deposits from the population and then credit the businesses to which they were attached with these funds” (I12). Finansy y Kredit had a similar trajectory, with one difference that it was serving the interests of the

metallurgical industry dominated by oligarch Konstantin Zhevago, as well as Privatbank which is attached to business of Igor Kolomoisky and his oil and metallurgical industries, and Kredyt Prom Bank attached to coal and metal industries and trade (Shevchuk 2018; Kredyt Prom Bank nd).

The banks established to serve the coal, metallurgical and oil industries and become parts of FIGs stayed in property of the oligarchs even when there was an interest from the international financial groups in entering Ukrainian market. Privat sold some of its parts to Russian, Czech and Cypriot banks, but even the offers from such important global players as Societe Generale and Deutsche Bank were declined. Comparing two banks which from the early 1990s had similar trajectories - Aval and Privat - Yanitskii and Stack (2018) write next: “But the main distinction between the two banks - [was that] stakeholders of Aval did not have any other business. Owners of Privat in the end of 1990s had formed a whole business-group around the bank, and the bank was a financial centre of these companies. That is why owners of Aval could more easily leave the business. During the Orange Revolution of 2004 Ukrainian bankers for the first time encountered ‘bank raids’ and realised that depositors can demand an early repayment of the deposits. Banking business did not seem that stable and attractive anymore. Stakeholders of Aval decided to sell the bank”. This situation reflects the competition between domestic and international capital for Ukrainian financial sector. Both sides aimed to accumulate capital, but in different ways. While the international banks did it through taking over part of Ukrainian financial market, the domestic capital, FIGs, kept using their banks for servicing productive economy. However, there was also another strategy.

#### *State-backed bank*

Oschadbank, another bank dominating the sector in the period of the boom, had a different trajectory. It is a Soviet state bank which became Ukrainian state bank in 1991 and remained such until 1999 when it was transformed into an open joint-stock company and still is completely owned. But it remained very much state-attached as it is backed by the state. Due to the state guarantees, the bank was one of the few which provided mortgages in UAH, but its services were exclusive. There was a special program established by the Cabinet of Ministers of Ukraine which offered zero-rate mortgages for the state employees who needed “an improvement of their housing conditions” (Kabinet Ministriv Ukraïny 2004). Nevertheless the scale of such practice was quite modest, given the limitations of the budgets for such programs.

Among the largest banks there was only one exception from the trend, which is the OTP Bank. This Hungarian bank entered Ukraine without buying shares of a domestic banks, and performed quite well until 2008.

Even though banks had different development strategies, nearly all of those which came to dominate the real estate sector managed to do so through the internationalisation of Ukrainian finance sector. There were several ways to do so, and usually they were combined. First of all, the banks were becoming partners of EBRD or IBRD, helping them finance their development programs in Ukraine since the 1990s. Secondly, banks, especially those attached to industrial

groups, were facilitating the corresponding groups' international trade, largely exports of low-end produce, which brought huge revenues in foreign currency. Real estate was one the sectors where these profits could be 'parked'. The third option was borrowing liquidity directly from foreign banks and offering it in Ukraine for higher interest rates. The consequences were drastic: "The external debt of banks grew from 1,746 billion USD (1 January 2004) to 21,205 billion USD (1 July 2007), the share of banks' external debt in Ukraine's gross external debt rose during this period from 7,33% to 32,43%" (Sas & Vityuk 2008). The result of these processes was not only the indebtedness of Ukrainian economy, but also the strong sensitivity to the volatility of the international markets.

#### **4.4.2 (De-)regulators are late**

Unlike in many other post-socialist countries, in Ukraine the legal framework for the influx of capital in real estate was not well established until the early 2000s. The institutions regulating such processes only addressed the growth of the real estate when an actual opportunity to attract foreign capital offered itself.

##### *Parliament of Ukraine*

Since 1992, the mortgage mechanism was regulated through the Law 'On Pledge' and its official interpretations by National Bank of Ukraine (Verhovna Rada Ukraïny 2018c, Natsionalniï Bank Ukraïny 1993). The situation changed in 2000s with the adoption of new versions of Land, Civil and Economic Codes, the Law 'On banks and banking activity' regulating the work of international banks and foreign currency operations (Verhovna Rada Ukraïny 2018b, 2018d, 2018e, 2018f), the Laws 'On mortgage', 'On mortgage crediting, operations with consolidated mortgage debt and mortgage certificates', 'On financial-credit mechanisms and managing of the property in development of housing and operations with the real estate' and 'On mortgage bonds', which created a legal base for the mortgage market and the securitisation mechanism (Verhovna Rada Ukraïny 2018g, 2018h). What pushed for this escalation of development was not only the influx of foreign capital, but also the parliamentary elections of 2002. They brought to the parliament representatives of banking and real estate businesses, whose direct interest was to pursue these regulations (I10). Moreover, the economic 'bubble' pushed by these legislations contributed to the establishment of the middle class, which was supposed to be their electoral base in the future.

##### *National Bank of Ukraine*

The National Bank of Ukraine is the main regulator of the monetary policies in the country. Its activities in the period of the boom strongly influenced the financialisation and dollarisation of real estate. As aforementioned, the main mechanism was the establishing of USD peg in the pre-crisis period (Åslund 2009). When the exported goods, mostly steel, enjoyed a strong demand on the international market, Ukrainian business was getting big revenues in USD. In such conditions UAH could revalue, but did not do so thanks to the currency corridors enabled by the NBU. These 'corridors' were *de facto* pegging the UAH to USD in order to devalue UAH. This was in the interest of the FIGs who were actively exporting the goods from Ukraine - steel,

mineral products and agricultural products. In turn, this led to strong inflation but also to a flourishing consumer loans market.

#### *State Mortgage Institution*

The institution to organise and regulate the mortgage system was established only in 2004. And only by 2007 it started balancing the mortgage market with the mortgages in UAH. Anyway its influence was very weak: by 2007 only around 3 000 borrowers took mortgages provided by them constituting just 1,1 billion of UAH (Sas & Vityuk 2008). Also SMI started the securitisation mechanism, but the amount of the mortgage bonds issued and put on the market was really small: 200 and 50 millions of UAH respectively, which equaled approximately 40 and 10 millions of USD.

With rising revenues from international trade and an expanding potential to borrow on the international financial markets, Ukrainian banks became interested in providing mortgages. But the actors responsible for the legal framework - Parliament and National Bank - were late in regulating this process. The belated adoption of the legal framework and slow creation of the institutions regulating the financialisation of housing had several important consequences. First, such a complicated mechanism as securitisation never had time to be fully implemented, so it is unclear if it was possible to reach liquidity using this mechanism. Secondly, while the traditional tools of financialisation and securitisation were not there, banks used the opportunities they had and were getting liquidity through increasing revenues from international trade and international borrowing. Thirdly, the 'under-financialisation' in the pre-2004 period magnified the subsequent boom, which has immediately attracted a wide range of actors, including foreign banks.

#### **4.4.3 Developers**

The number of the developers expanded during the boom period, but almost the absolute majority of them were domestic. Despite the declarations of an openness towards the international business, not a single large foreign developer was able to enter the market; the possibilities for smaller actors, like cooperatives, were even more limited. This was a result of how Kyiv developers managed to (1) parasitise on remnants of Soviet construction industry, (2) establish strong networks with the governors and decision-makers, and (3) overcome the complicated bureaucratic mechanisms of land use and development permissions through informal mechanisms. Social networks and informal arrangements between urban and national administration and developers, used as a tool in the competition for the housing market, were thus an important component of the urban regime.

#### *New companies, old means of production*

Many companies which became active during the boom emerged from the fragmentation of KMB. They used the infrastructures captured by the 'red directors' in early 1990s, often they were privatised completely illegally. In the previous part I have shown the example of Bank Arkada which was privatised by the top-managers of KMB. But it was not the only case, a similar trajectory was taken by the company DBK 4, which was part of KMB. DBK is an abbreviation from 'Domobudivnyĭ Kombinat', which means 'Housing Development Combinat'.

Even the name of the enterprise points to its Soviet origin. The head of KMB in 2006-2009, Petro Shyliuk, managed to take over the DBK 4 by issuing additional shares. Another part of KMB, KMB 3, was taken over by Mykola Olefir, another top-manager of the corporation (Dienkov 2010). Such a process of privatisation of public assets by their managers or people from their circles got even a special slang word in Ukrainian and Russian languages - *deryban*. It comes from prison slang, in which it means sharing of the output of criminal activity between members of the criminal group. In everyday language it clearly has a negative marking and is used to describe the fragmented privatisation of public enterprises, land or budgets.

#### *Public-private merge and power concentration*

The 2000s were the period of privatisation, but this process was not followed by a weakening of the public authorities or anything similar, rather the opposite. The private actors strongly needed the state support in order to develop their business. There were two main ways of this merge to occur. Firstly, the developers were putting *their* people in the Kyiv council and the city administration; secondly, the politicians and bureaucrats were establishing connections with the developers (I10, I13).

Another very widespread mechanism of the merge of the public and the private is the ‘corruption rent’ collected when the development is done by private company. One of my informants evaluated situation in following way:

“Public sector is tied to large development business. This means that all the officials are *de facto* businessmen, who sit on the corruption rent giving the permissions to the developers in corrupt way.. At the same time the officials themselves are often the large capital, because through the rent. So most of the conflicts emerge, because the municipality does represent the interests of developers, but not the citizens” (I28).

Another interview partner explained how it is organized on the example of the State Inspectorate of Architecture and Construction (SIAC), “The most corrupt organisation if SIAC... there is a structure of officials that is seen, but there is also another structure which is in the shadow. It is created out of small organisations, which provide services of ‘making a deal’. Sometimes the officials themselves give you the contacts of the law or architects firm and say that they can solve your problem. Of course, these are ‘their’ people” (I10).

One of the cases of such network merging public and private was investigated by journalists of anti-corruption initiative Nashi Groshi. Since the early 2000s the Development office of Kyiv City State Administration was run by Mykhailo Golytsia; besides this position, he used to be the member of City Council and in 2010 became head of KMB. During 14 years of his active involvement in Kyiv housing development, a network of people, private companies and public enterprises grew around him. This network was used for various purposes. Firstly, such network enables the channeling of the public money by awarding urban development public procurement contracts to private companies which belong to the management of the public bodies. Under Golytsia, millions of UAH from Kyiv budget were channeled to the development company



Fundament, shares of which ended up under the ownership of KMB and Zhitloinvestbud top managers. Secondly, the network functions around the deryban of SOEs described previously. Thirdly, such a network enables bribe flows, as the money for the ‘right’ decisions of the policy-makers could be ‘paid’ through the enterprises attached to them (Nashi Groshi 2014).

So private and public actors of the housing sector are intertwined in multiple ways. These interconnections have roots both in the Soviet system and in early post-Soviet mechanisms of privatisation. And new ways of public-private cooperation emerge over time. As one of my informants explained, such concentration of capital and power sabotages any democratic decision-making:

“Post-Soviet developers, as well as post-Soviet officials, they constitute a closed cast, there is no dialogue in their communication with people. The information we get comes with journalist investigations or when people try to find out something by themselves. So people sometimes do not even know that the space near their house is bought... people get to know about it when the development already starts” (I17).

So the growth coalition is undemocratic to the level that the dwellers are not even being informed about the transformation of the space around them. Apart from the concentration of power there is another rationale in such a merge, namely protectionism from the international companies which could take over the Ukrainian market.

#### *Bureaucratic chaos and private interest*

To complete a housing project according to all the legal regulations, a developer had to go through a long range of bureaucratic procedures: the lease of the land, the approval of the project in SIAC, etc. A journalist investigating corruption explained how this regulation enables the officials to profit: “From the point of view of the legal system the time which the official can spend on approving a construction is unlimited... apart from that, there are numerous contradictions in the legal system itself, so the developer cannot built without breaking the rules... so in 2013 according to our estimations 30% of price of the real estate was the corruption rent. Now it's probably a bit lower but it is a significant part of the price” (I15). So at the first glance the development seems to be highly regulated and opposing the neoliberal logic of the urban development. But the rationale of this bureaucratic chaos is far away from the state regulation of the private actors, actually quite the opposite - the coalitions of public and private actors used the overcomplicated legal framework to protect their positions on the market. Making the legal procedures clear and transparent would give chance to the foreign companies to start operating in Ukraine, as it did happen with financial institutions, so there was no interest in doing so.

#### **4.4.4 New mayor and his ‘young team’**

Until 2006 the power vertical established by Omelchenko in the previous period kept functioning and supporting the growth. It managed to survive through dramatic change of government on the national level in 2004. But as Kyiv grew, the stakes for other actors trying to

gain political influence in the city were rising as well. The crucial point were the 2006 municipal elections, when the city got a new mayor - Leonid Chernovetsky - and the City Council got new members who formed a majority supporting the mayor (Liga Dosi'e 2015b).

During the electoral campaign Chernovetsky presented himself as a young and progressive alternative to corrupt and old-fashioned Omelchenko. He managed to absorb the political aspirations of at least some part of the middle class. This social layer grew more prominent thanks to higher salaries offered by international companies and to consumption loans. But it was not numerous at all, politicians needed electoral support from the poor. Chernovetsky managed to get it through personalised welfare distribution, as well as through promises of a social welfare redistribution on the city level. He was literally bribing the voters with food kits. Such groups as pensioners were so marginalized and politically frustrated that it was easy to speculate on their needs. Another group which supported him was not numerous, but active. These were the new religious movements, as he was an active member of one of the Christian charismatic churches. Nevertheless there was a structural factor which determined his victory: during this elections there was no second round of elections. If there had been one, there would have been a chance for Vitali Klitschko to win, as the gap was only 8%. A combination of luck and sophisticated and cynical strategy gave Kyiv a new mayor. So who was this person who managed to present himself as a successful leader for middle class, a protector of the poor and a pious Christian?

Together with his wife, in early 1990s he started several small businesses: a currency exchange office, an antique store, a broker office, an electronic appliances shop, as well as a legal aid bureau. At that time such products and services were in high demand. Also the couple started a bank called Praveks, which by the early 2000s became one of the leaders of the financial sector. The starting capital of the business came from the Chernovetsky's wife, Alina Ayvazova, whose father was a wealthy Georgian businessman (Segodnia 2011).

As I have shown before, his bank was one of the leaders in providing consumption loans in the period of the boom. Such a success in the finance sector gave Chernovetsky a chance to enter politics, first it happened on the national level. From 1996 until 2006 he was three times elected to the Parliament of Ukraine from different parties. Between 1997 and 2001 he was a supernumerary adviser President Kuchma, but with the beginning of Orange Revolution he supported Viktor Yushchenko and became his advisor too. In his political life he was usually consulting and lobbying in the economy and finance state institutions and councils.

Chernovetsky managed not only to get the post of the mayor, but also to get his party Bloc of Leonid Chernovetsky a significant number of seats in the Kyiv Council. This party became the core of the pro-mayor majority in the council, this enables Chernovetsky to create a strong power vertical and replace the structures created during the time of Omelchenko. By the end of 2000s there was a system of 'communal business' functioning in Kyiv (see above). People from the mayor's intimate circle were the managers of the main communal enterprises including KMB. What Chernovetsky did was to replace Omelchenko's people at these positions by 'his' people, including his son-in-law and his son (I15). Next, various mechanisms were used to privatise

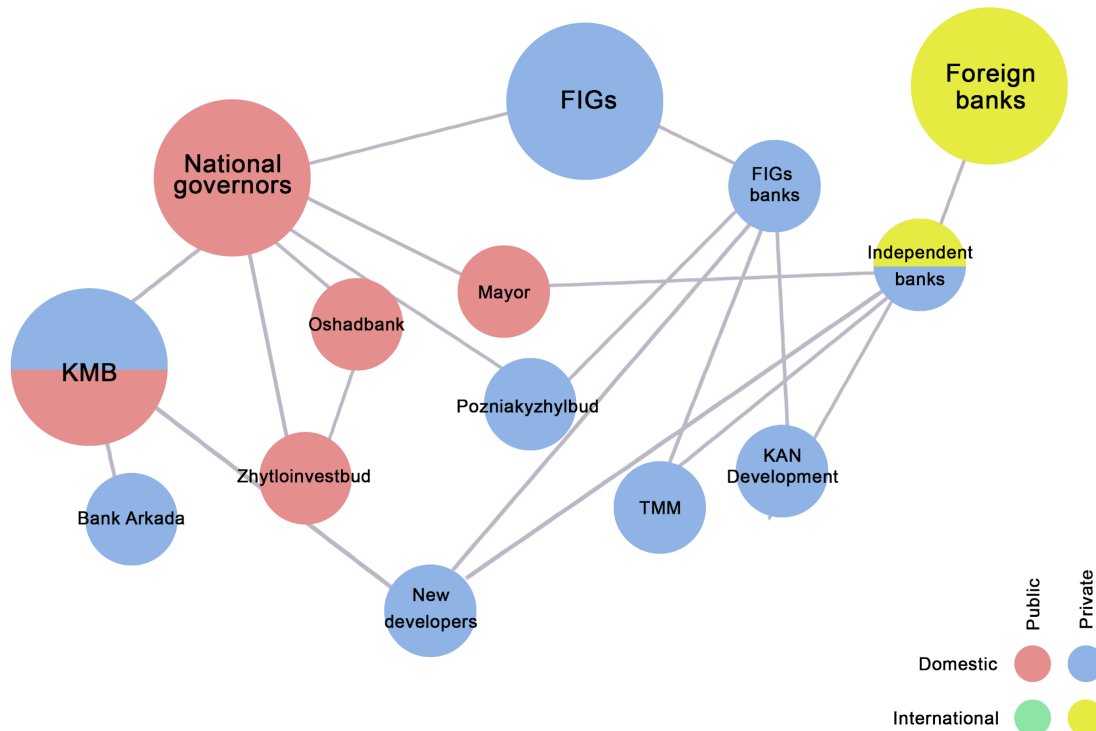
those enterprises. One of such mechanisms was creating a private company and transferring to it shares of a communal enterprise. The opacity of these mechanisms was often criticised. But another aspect which is often neglected, is that their rationale reflected the logic of neoliberal transformations.

Another sphere in which neoliberal processes flourished in the Chernovetsky era was the privatisation of the land. In one of the journalistic interviews he claimed: “There is still so much real estate and land in Kyiv that a right privatisation of them will feed the city budget for decades with dozens of billions of USD” (Korrespondent 2011). The city keeps following this agenda until nowadays. According to the legal framework, most of the land is owned by the city. But it is possible to lease it out for up to 100 years or to privatise it for the purposes of social welfare: construction of private housing, small farming, etc. These loopholes were used to unveil the biggest in the city’s post-Soviet history actual privatisation of land. The decisions taken during that time still strongly influence the city landscape, as the land which was privatised or leased stayed under private actors’ control even after the resignation of the mayor (I17).

#### **4.4.5 Conclusions: the boom and its drivers**

The composition of the urban growth coalition, its goals and strategies changed strongly when the international financial capital arrived in the 2000s. Governing bodies on the national level - Parliament and National Bank - created a legal framework and produced fiscal policies needed for this influx to happen. However, this was done when foreign capital was already operating. As a consequence, after regulations supporting the mortgage market were adopted, in 2003-2004, the boom intensified. At this moment the market was mostly dominated by domestic banks, but as they started intensively growing, foreign banks’ interest in Ukrainian financial sector has risen. So those domestic banks which were not connected to any FIG, were sold for a very high price (Finance.ua 2007). The urban growth has raised the interest for political power on the city level. After intensive competition the position of mayor and majority in the City Council were taken by a banker who had multiplied his capital during the boom and had an opportunity to invest it in his political campaign, which strongly relied on the personalised welfare distribution. Kyiv developers kept having very strong connections with the public sector in order to keep foreign companies out of the local housing market (Figure 9). This period has shown the complexity of the interplay between domestic and international clusters of capital: Ukrainian capitalists were not strong enough to drive the financialisation of the economy, so they supported the influx of foreign capital in the financial sector; at the same time foreign banks entering Ukrainian economy only on the level of finance were not taking too much risk, as they could leave at any moment. But the real estate sector remained under control of domestic bourgeoisie which supported its position through a deep interconnection with the public sector. In such a way interests of international and domestic capital, of governors on the national and local levels, came together and resulted in a financialised housing boom.

Figure 9. Actors of housing growth in the boom period



Source: Source: Author’s visualisation

In 2008, Sas and Vityiuk wrote: “According to the present level of the prices, the total cost of housing in Ukraine equals 300 billions USD min (100 of them - in Kyiv). It is 400% of Ukrainian GDP... So the total cost of housing in USA, where the market is considered to be “overheated”, equals only 160% of GDP. Even the most ‘bubbly’ Australian real estate is 337% of GDP”. The ‘bubble’ had to explode. And it did.

## 4.5 The crisis

### 4.5.1 The banking sector

The consequences of the 2008 global financial crisis arrived to Ukraine through the industrial sector, when the prices for steel and other exported goods fell on the global market. Soon it affected banking and real estate sector. And banks sought help from the state. Since 2008, several dozens of private banks were recapitalised, declared bankruptcy or were nationalised, including one of the leaders of the banking sector since 1990s - Privatbank. Moreover, borrowers took foreign currency-denominated loans when the national currency exchange rate was kept at high levels; they became unable to repay their FX loans, as the USD-denominated payments have doubled or tripled when counted in UAH, which is the currency in which borrowers receive their

income. According to a report of National Bank of Ukraine, in 2017 around 60% of consumer loans were non-performing. So the consequences of the 2008 crash caused numerous problems for different actors of the banking sector, also it brought new public and private players to the housing sector. In this part I show what was the reaction of the banks after 2008.

The first ones to react were foreign banks. The problems in their home countries pushed them to withdraw the capital from the peripheral countries. At the same time it was difficult to get any returns from the Ukrainian market, because the population was growing ever less able to repay consumer loans. Some foreign corporations sold the banks they bought in 2000s, of course, for lower prices. Some kept them as a burden because of the lack of demand. One way or another, Ukrainian branches of foreign banks were in a more stable position than Ukrainian domestic banks, because Ukrainian branches were banked by large international financial groups, while domestic banks relied on domestic industrial economy, which also was in decline. This led to the collapse of the system of housing finance, at least of its dollarised part. There were no alternative mechanisms, apart from very limited state subsidies for housing purchase, so the only way to finance housing production was to restart the mortgage system. This time it happened with the help of foreign capital, but not private financial one. Despite this, the housing finance mostly shifted to UAH. Since 2008 foreign financial capital, as well as foreign banks are not leading actors of the housing growth.

Ukrainian state could not afford such expensive policies as recapitalisation of the failing banks on its own. The solution was found in asking for loans from international financial institutions, which led to the growth of the government debt. Writing about the post-crisis period and the state indebtedness, Kravchuk shows: “The crediting by IMF was renewed through the «Stand-by» program, through which Ukraine got 14,4 billion of USD during 2008-2010. In 2008 it received an urgent credit from the World Bank for budget deficit reduction which amounted to 0,8 billion of USD. These payments, just as before, were were channeled not to development goals, but to ongoing spendings” (Kravchuk 2015). One of these ongoing spendings was the state program of recapitalisation of the banks. An international institution got the power to influence this fiscal policy and as a consequence the real estate sector. The IMF introduced strict criteria for the banks which were to be recapitalised. This was supposed to make the process transparent and objective. And it did to certain level, but still the ‘local flavour’ stayed. Most of the dominant banks got the state support, but stayed in private property. By 2014 the banks which got the largest amount of the funds from the state were - Oshadbank, Privatbank, Delta Bank, Bank Nadra, Ukreximbank, Financial Initiative, Ukrgasbank, Finansy i Kredit, Imexbank, Rodovid Bank.

#### *Saving a public bank first*

Oshadbank was the one to get the biggest support from the state. By mid-2014 this bank got 21,6 billion of UAH, which amounted to almost 0,9 billion USD at that time and around 0,65% of the country’s GDP in 2014. This case represents the way financialisation of economy, including housing sector, happened even without official privatisation of the public enterprises. This kind of scenario is rather similar to the mechanisms of influx of finance in real estate

experienced in Russia. However, Oshadbank is rather an exception, as all other banks were private. Thanks to the financial injection from the state, the bank was one of the first to start recovering of the housing finance system. One of the strategies of this recovery was keeping close relations with developers. For example, Oshad had a contract with TMM for providing mortgages for their biggest project (Association of Ukrainian Banks 2018a).

### *Saving private banks*

The banks which used to dominate the mortgage sector, like Privatbank, Bank Nadra or Finansy i Kredyt, were among those which needed the most state intervention. Privatbank has got almost the same amount of state funds as the public Oshadbank: by mid-2014 it got 20,2 billion UAH (0,82 billion USD), which amounted to 0,61% of Ukrainian GDP in 2014. Among the three Nadra had the most serious problems. Mechanisms dealing with the crisis even included barter - non-monetary exchange: the bank offered the clients to whom it could not return the deposit to settle the deal with apartments and other property (Delo 2009). After the bank was pumped up with public funds, it was bought by Dmytro Firtash Group - a FIG of oligarch Dmytro Firtash (UBR 2018).

### *Nationalise or not to nationalise?*

The recapitalisation of the banks was supposed to lead to nationalisation, but most of the owners did not want to lose their property and demanded from the state to rescue them without nothing in return. So the recapitalisation became a tool in the political game. For example, one of the banks dominant on the mortgage market, Finansy i Kredit, was supposed to be re-capitalized in the first months after the crush, but it never happened. It might be explained by the fact that its owner, Zhevago, was a member of the Bloc of Yulia Tymoshenko, and a personal associate of the bloc's leader, who at that point occupied the position of prime-minister. The three commercial banks which were recapitalized immediately after the crush - Kyiv, Rodovid Bank and Ukrgasbank - were neither leaders of the mortgage market, nor leaders of the financial sector. They could be placed rather among medium and small banks, but still attached to certain oligarchic structures.

To sum up, the process of 'bank saving' in Ukraine became the main mechanism of dealing with consequences of the 2008 crisis and financialisation, and it happened with a number of peculiarities. Firstly, in some cases recapitalisation *de facto* equaled nationalisation. The state bought the banks from the owners, who might be not even interested in this transaction or in the conditions of the transaction. Secondly, the IMF was a crucial player in this process. Thirdly, despite the IMF's attempts to control the process, Ukrainian ruling elite managed to collect the rent out of these liquidity flows, and the future of some banks depended purely on the political motivation and even personal conflicts and connections, meaning the banks of the oligarchs opposing the current government could be pushed for nationalisation on very unpleasant conditions for the owners, whereas the conditions could be different for owners who were close to the government. The recapitalisation of the banks is still going on, representing the dependent and conflictual interrelation between international financial institutions like the IMF, which are pushing their own agenda, and domestic capital divided into several competing FIGs, each

having their own interest. The strategies of the state backed by FIGs and international institutions are discussed in the next part.

#### **4.5.2 State actors and international institutions**

Just after the first symptoms of the crisis Ukrainian government, as many other governments on the periphery of Europe, requested financial help from the IMF in order to deal with the consequences of the withdrawal of Western capital from their economies. Such strategy often led to the intensification of neoliberal reforms. However, in this section I explore another aspect of such capital flow, namely the state takeover of the financial sector, which contributed to the strengthening of the power vertical, domestically and internationally.

##### *International political dependency*

When approving \$16.4 bn Stand-By Arrangement for Ukraine, one of the IMF's recommendations was the recapitalisation of banks. Murilo Portugal, Deputy Managing Director and Acting Chair of the IMF Executive Board, stated the following:

“A pre-emptive bank recapitalisation will alleviate a potential credit crunch that could prolong and deepen the downturn in economic activity. Decisive measures that have been taken to allocate public funds to recapitalize banks and to facilitate bank resolution processes will ensure that problems can be dealt with promptly. Increased oversight, more targeted on- and off-site inspections, and improved cross-border supervisory cooperation will help to strengthen the financial system. A proactive strategy to resolve corporate and household debt problems will also be essential to reduce banking sector vulnerabilities” (IMF 2008).

The lender's recommendations, which in fact were requirements, were followed through and the recapitalisation of the first three banks started just after the arrival of the first instalment from the IMF in May 2009. It took around half of the instalment. The same happened with the next instalment (Finance.ua 2009). However, this was just the beginning of establishing the dependency of Ukrainian monetary policies on the foreign financial institutions, the process is on the way until nowadays (I32).

##### *Domestic power vertical*

Since 2008 there is a trend towards centralisation of power not only on the international, but also on the national level. As shown in the previous section, domestic private banks and FIGs were in need of capital influx after the crisis, and the state budgets became a 'pillow' for them. This shift has been contributing to the centralisation of power in the country for the last 10 years. In period before 2014, this concentration was established around Yanukovich's 'family', and after the change of the government the same process is led by Poroshenko. And even if the coming 2019 elections are to change the ruling block, there are few preconditions for a democratisation of the power structures, as the national economy is in need of a state backing.

However, since a significant source of the state support of the economy are the international loans, the state became highly indebted. Taking into account the level of interconnection between

the administration and FIGs, there is really small chance that the debt will be repaid at the expense of big capital, even though theoretically this can be done by dealing with such issues as offshorisation of economy (Antonyuk et al 2018). So the strategy of the government is to push for even harder neoliberal reforms and consequently repay the state debt at the population's expense.

*State stimulation of housing market through subsidised housing program*

The national elite, which was oriented towards stimulating the mortgage system in UAH to keep the developers afloat, kept the program of state support of housing development for the youth. The offered mechanisms were mortgages with relatively low interest rates, state subsidies for housing purchase, as well as state subsidies for repaying the mortgages to a private bank (Derzhavniï Fond Spriyannia Molodizhnomu Zhytlovomu Budivnitstvu 2018). Especially the last mechanism highlights that the program did not challenge the market-oriented approach towards the housing finance; rather the opposite, the state acted in the interest of developers and banks. Oschadbank became an important actor in this mechanism, being involved in most housing finance schemes and having contracts with developers who also take part in the programs, like KMB (Association of Ukrainian Banks 2010, 2018b).

The aim of the program, namely to subsidise housing purchase, but not to create publicly or communally owned housing stock and use it for social rent, is impotent to address housing needs of many, even if generously funded. Nevertheless until now it is considered to be the most progressive social policy in the housing, as there were no other housing policies oriented towards housing of the poor or youth. It might be that the importance of the program lies not so much in its material results, as they were minuscule, but in a more symbolic aspect: it has shown that public institutions can address housing needs of population and can be in charge of housing finance, production and distribution, and that the rule of the market is not absolute.

### **4.5.3 Developers**

From 2009 onwards a lot of housing construction has stopped, some housing complexes were finished eventually and some were not. Kyivans call them *nedobud*, the word literally means 'an unfinished construction' and refers to an abandoned construction site. Ten years after the crisis the city is full of them. Among the most famous are five towers on the Left Bank, constructed for National Security Service.



Photo 3. *Nedobuds* on the Left Bank of Kyiv



Source: Lev Shevchenko

The main reason for this is the funding model, when every project was funded by the investments into a next project. The abrupt halt of investments inflow made it impossible to complete the projects in which apartments had already been bought. Some of the 2009 *nedobuds* were actually finalized later, like the one on the Photo 3. This happened because the developer or/and the ‘investors’ found the funds to cover the gap. As the ‘investors’ had already paid a lot, they were ready to wait and pay even more only to get the apartment. Another possible scenario to deal with the *nedobuds* was to sell it to another developer. But such a step only helped the first developer to shift the burden onto the next one, who was not guaranteed to be able to finish the project either. This is the case of the housing complex on the campus of the Kyiv Polytechnic Institute. A resident of the student dormitory placed next to the construction project told me that “They started building this new dormitory long time ago and the developer went bankrupt, another one bought it and also went bankrupt, now there is a new one and he promises to finish it, but we still live in horrible conditions” (I16). Unlike issues of the banks, these problems only get weak attention from the state, even when the public institutions are a part of the project.

The *nedobuds* are the indicators of what occurred to many developers with the crisis. Some of them had to leave the business completely and some were severely weakened. After the crisis KMB is no more the largest developer of Kyiv. The new leader is a company called Ukrbud. Just like KMB, it calls itself public and just like KMB it is not. The website of the developer says: “Ukrainian state development corporation Ukrbud was created by the directive of the Cabinet of Ministers in 1991 as the successor to the Ministry of Construction of the Ukrainian SSR” (Ukrbud 2018). Though it exists since early 1990s, it became an important player of the

housing market just recently, in 2010. The entrance to the real estate market is directly connected with the appointment of the new president of the corporation, Maksym Mykytas'. As many other successor companies of Soviet SOEs, Ukrbud is a corporation which includes both private and public organisations. The corporation includes a public joint-stock company 'Development company Ukrbud' with its 12 subsidiary companies, as well as more than 20 architecture and engineering bureaux, factories and construction companies, and about 150 associate members, both public and private (Forbes 2016). An interview partner explained the advantages of such scheme for the developer:

"Ukrbud has multiple offshore accounts, so it is neither public, nor even Ukrainian; but thanks to Mykytas' connections, they keep being called 'public', and people keep thinking that when they buy Ukrbud apartments their rights will be somehow protected. So there is no difference between private and public developers, both are ready to violate the rights of the community in order to profit and use administrative resources to suppress the opposition" (I17).

The company managed to get a strong position on the market during the period of recovery from the crisis. Mykytas' is often told to have good connections with Oleksandr Yanukovych, son of the former President and businessman Serhiy Lyovochkin, head of the Administration of the President. But even when this political elite was replaced, Ukrbud continued growing. Mykytas' denies these accusations. But he openly talks about the company strategy. "Companies of Ukrbud work in Chernobyl since 2005. This is the best place to get the experience of completing the project in short terms with optimal spendings, but high quality. The thing is that, now works at CNPS [Chernobyl Nuclear Power Station] are financed and controlled by EBRD. So the management of the project is organized according to international standards... Of course, we did not work at CNPS for free. In 2009 enterprises, that are part of Ukrbud were getting their incomes in [foreign] currency. Apart from Chernobyl, we also worked in Iran for two years" (Forbes 2016).

While most developers were suffering from the consequences of the crisis, trying to deal with the debts, Ukrbud did not, because before it used to work in the industrial sphere, doing business abroad or working for international institutions in Ukraine. This gave them a chance to accumulate capital in USD and not to become indebted with the crisis. Eventually they quickly took over the niche of housing. Most of the housing which they produce is of so called 'economy class', it is often extremely high, badly designed and low quality. Among Kyivans this type of housing got a special name - *murashnyk*, meaning anthill. Apart from being a developer itself, Ukrbud also works as a subcontractor for other developers, as they own construction infrastructure captured in the 1990s.

There are other companies which have successfully entered or expanded their influence on the market after 2009. For example, Bank Arkada is also building the *murashnyks* - 25 and more stories high rises with small apartments for lower middle class. Another niche - the one of upper middle class housing is taken by other developers. For example, one of the players of this niche is Stolitsa Group, a relatively international developer for Ukrainian context. The structure of

ownership of the company has changed several times since it was founded in 2003. It emerged as a consequence of dereliction of KMB - officially the corporation emerged from two joint-stock companies Kyivmiskbud-1 and Trest Kyivmiskbud-1. With the crisis in 2009 the business group which had it as a part of their assets sank rapidly and had to sell it to a Lithuanian businessman, Raimondas Tumenas, who had used to own a very successful agriculture business but sold his juice factory to Pepsico and channelled these funds into the real estate, first commercial (a supermarket chain Novus) and later into the housing developer Stolitsa Group (Kyiv Vlast' 2018). The connection with the international capital resulted in different trends in the design and management. According to one interview, "they usually reach an understanding with the locals... usually the practice we have here is that the developer comes into your yard and occupies the space, the protests unroll, the community is trying to engage media and officials, and only after this the developer starts bargaining with the local community offering a primitive renovation" (I17). Apart from this, initially followed the trend of low-rise housing; however, in the context of land scarcity and high levels of social inequality these progressive trends result in high density and gated communities. Later they also changed to high-rise development, as it brings higher profits (I17).

#### **4.5.4 The mayor**

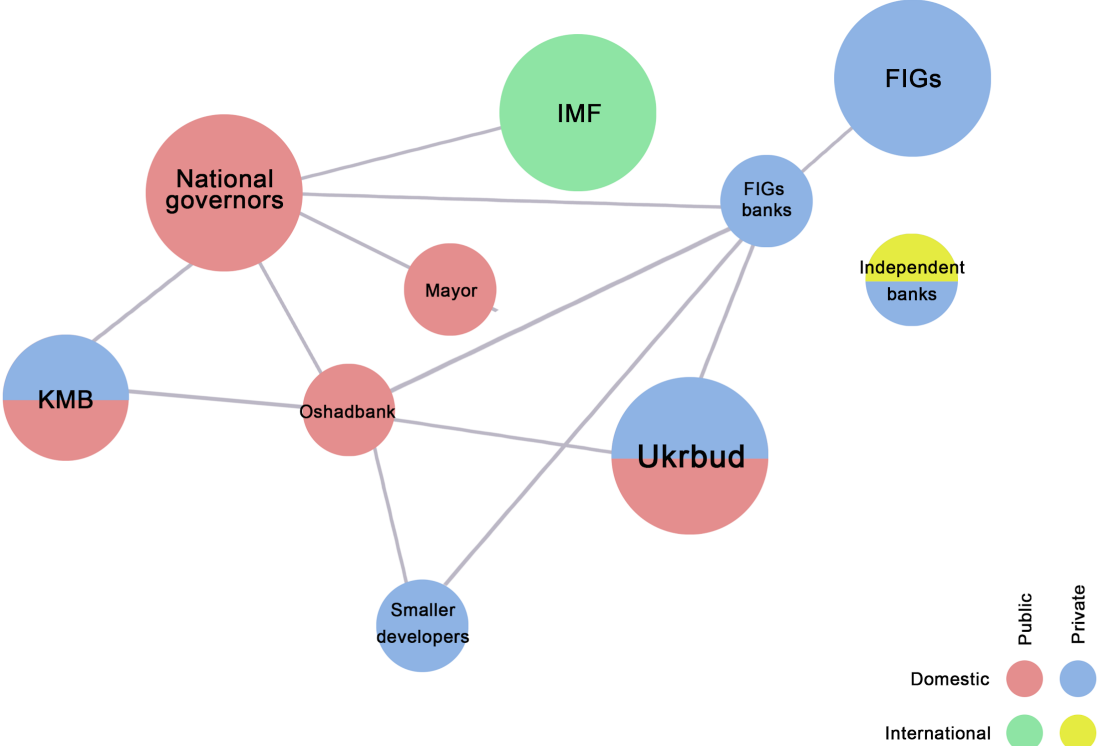
In the beginning of 2009 mayor Chernovetsky was criticised both by social movements and by the national government. In 2010 he was *de facto* fired from the position of Head of City Council by Yanukovych, however there was no legal way to do it officially. The person on this position unlike the one on the position of the Head of Kyiv City State Administration is to be democratically elected. So for next years until the next elections this position was not occupied. Chernovetsky moved abroad and since that time is not involved in Ukrainian politics. The position of the Head of Kyiv City State Administration could be easily filled by the Presidential assignment. The political bloc representing the Donetsk FIG, which seized power after the presidential elections in 2010, did not wait long to place 'their' person. It was Alexander Popov who had by that time made a brilliant career in the urban politics. Since 1994 he was elected as the mayor of Komsomolsk (Horishni Plavni) four times. This city was important for Ukrainian economy, hosting an important metallurgical factory. Till now it is one of the richest cities in the country, boasting lower unemployment, bigger social welfare provision, etc. Popov was playing a crucial role in the redistribution processes in the city. But for him this was just the base for getting onto a higher level of politics. In 2007 he got a government position created for him by the then prime-minister Yanukovych - a Minister of Housing and of Communal Economy. Later in 2010, he becomes Kyiv's deputy mayor, and when Chernovetsky left the scene, it was the time of Popov (Liga Dosi'e 2014). Unlike Chernovetsky or Omelchenko, he was never a political leader himself, rather a manager (I3).

#### **4.5.5 Dealing with the crisis: conclusion**

While the national and international financial groups were driving the housing boom after the crisis, the growth coalition expanded to include more public actors on different levels of governance. The state had to 'save' the banking system from the collapse, and it was done by raising the public debt level - mainly through borrowing from the IMF. Even though the IMF

tried to make sure that the recapitalisation goes transparently, the FIGs managed to bend the process to their interest. Some developers went bankrupt and did not finish the construction of housing complexes, so they had to sell their business. Others, who had been leading the market in the pre-crisis period, have been seriously weakened. Consequently, different niches of housing market were taken over by new players, several of them shifting from the productive economy to real estate. When the mortgage system was restarted, this time in UAH, the niche for new actors was free. And new developers did not take too long to enter the market. Some of them had a background in productive economy, so the crisis contributed to shifting from productive to non-productive economy. The mayor who had been actively pursuing privatisation and other neoliberal policies in the city, fled the country. His replacement was a better manager but strongly depended on the national elite.

Figure 10. Actors of housing growth after 2008 crisis



Source: Author’s visualisation

The crisis and the recovery from it led to a reshuffling of the growth coalition: international players (banks channeling FX loans) left, whereas new players, such as developers, a state bank and new governors, came in. Apart from this change of actors, the structure of power relations between them has changed significantly. State actors on the national level, such as National

Bank, were fueling the recovery backed by the loans of international financial institutions. However, this period was interrupted by a new dynamic on national and urban levels.

#### **4.6 Construction boom: from 2014 on**

##### **4.6.1 Financing housing production without mortgage system**

After the new wave of economic crisis the mortgage system nearly stopped working. The 2009 story repeated. A lot of banks were recapitalised with the support and advice of international institutions. But the mortgage system has been stuck and not moving from this point. This is due not only to the new economic slump after 2014, but also to the unstable political situation in the country.

As a response to the weakness of the mortgage system in this period, alternative ways to the housing production emerged. First, housing is financed with the flow of money from failing banks. As more banks started collapsing since 2014, people rushed to take their deposits from the banks. And the way to secure the money was to invest it in the real estate. Secondly, the mechanism which became quite popular is an instalment plan, although it can be offered for 4-5 years, so not a lot of people could really afford it. Thirdly, mortgages are still being offered by banks, but the first payments and the rates are really high; anyway, some people who feel economically secure go for the rates of 15-25%. Often banks and developers attract consumers by advertising very low rates - 1-5% - but in reality they are only available for the first year of a 20-year mortgage. Finally, the 'business class' housing is often bought by international consumers who are attracted by Ukrainian low prices.

Even though the state dominates the financial sector, it claims to have no funds to invest in fueling the mortgage market. However, financialisation mechanisms work in another sphere, housing refurbishment. With rising utility expenses, the state suggests that communities renovate their housing with the help of so-called 'warm loans' from Oshad and Privat, which are now both state banks (Privatbank 2018). While it is important to improve the quality of the housing stock, it is done through a risky mechanism.

##### **4.6.2 Developers: new approaches?**

Developers who managed to overcome the 2008 crisis and those who entered the market in the in 2010s continued to operate on the market and extend their influence. Like previously, the housing sector is divided in several niches according to the price and consequently the quality of housing. While KMB and Ukrbud are mostly producing housing for middle classes, there are companies which work for upper class. One of the prominent developers of the most expensive housing in Kyiv is SAGA Development. It entered the market after the 2014 and managed to impact the whole housing sector in the city. I analyse its strategy to depict the latest trends in the housing.

Saga Development was one of the first to introduce alternative to the existing design. It follows the global trends of low-rise, but dense housing. However, due to the lack of regulation

their projects are not that low-rise. Also, this developer has internalised the narrative about the need of public spaces, the use of green technologies, even participative planning. A part of ideas popular in the activist community ends up embodied in the projects of the developer. Compared to the ‘old’ developers, it has managed to build itself an image of a ‘good’ developer. They are being invited to activist conferences and workshops, they sponsor urban grass-root media. Unlike in the previous periods of boom, the developer is supposed to play the game of ‘openness to the public’ in order to legitimise the urban transformation she creates. But what is more important, other developers have also started to use this strategy and work with the activist scene and community (Saga Development Facebook 2018).

At the same time, the housing produced by Saga is only affordable for a very narrow category of people. Its customers are normally able to afford an apartment without any instalments, they just come and buy it. As told by an interview partner, “out of 220-250 apartments, only four are bought through instalment plans, most consumers pay the whole price immediately, 2-3 millions of UAH. So you understand what is the level of clients” (I18). Also there are many non-Ukrainian clients coming from Turkey, Israel, Japan, Azerbaijan and other destinations. Mostly they work through Ukrainian real estate agents, who rather play a role of financial advisors. There is also a category of clients called *optovyky*, meaning wholesale buyers. Clearly, a single person does not buy 5-10 apartments to reside in all of them. It is an investment made with a hope that Ukrainian real estate market will revive from the crisis and the prices will grow, or simple ‘money parking’ in order not to lose it (I18).

Though Saga tries to work as a socially responsible business, it is a profit-making company and needs to follow market rules, so it uses traditional tools of capital extraction, like workers’ overexploitation. The workers of the company live in a dormitory with very bad housing conditions, their salaries are low even for Kyiv standards. In the interview I was told that it amounts to 4-5 thousand UAH, i.e. around 150 euros. To keep salaries so low, the company usually employs older female migrant workers coming from the Kyiv metropolitan area (I18). At the same time, presentations of new projects for the clients take place in the most expensive Kyiv restaurants. The socioeconomic and gender inequality is reproduced under an umbrella of progressiveness. In the end of the day, the narrative of sustainability and inclusive design, as well as ‘flirting’ with grass-root initiatives, are not more than a strategic step towards developing the brand and heating up the demand.

Saga Development is not an exceptional case. Kyiv developers try to adapt to the contemporary trends of sustainable urban development and socially responsible business, but even if these were their real intentions, it would be impossible in the conditions of weak Ukrainian economy and highly competitive real estate market. As a consequence of their profit-making strategies, overexploitation of workers became normalised. An organiser of a trade-union of construction workers described the situation thus:

“Most of the workers are not from Kyiv, they come from the whole Ukraine, from Lugansk, from Ternopil. 80% are employed on the basis of a contract which does not guarantee any labour

rights and frees the employer from [the duty of paying] taxes... according to this type of contract in the case of a trauma the employer does not carry any responsibility. And the developers motivate construction workers to be employed illegally with higher salaries... Often workers are paid for the amount of work they do, so they have an illusion of freedom and ‘working for yourself’. They work for 10-12 hours a day. This is 300 hours [per month], while the norm is 160, according to the Labour Code. Also there is a collective memory that the construction can stop at any time, so they work as hard as they can... A ‘good salary’ is 18 000-20 000 [600-700 euro], but often salaries are lower. It means per hour they get 60-100 [2-3 USD]” (I19). Moreover this job is very dangerous: “People die on the daily basis. In 2016 at [RC] Parkovi Oзера a worker was smashed by plate, he died, and the developers said he had not been working for them and gave money to his family. At [RC] Yaskrivi during 4 years there were 8 serious traumas and 1 death... Also I was getting death threats from the security of the developer, because of our attempts to talk to workers next to a construction site” (I19).

However among the developers there are attempts to rebrand themselves as socially responsible and contemporary, the situation, especially with the labour rights of the builders, does not change much. Also apart from being the main actors of housing production, the developers also became main actors of the housing finance in the conditions of actual absence of the mortgage market.

#### **4.6.3 The boxer mayor**

As in previous periods, after the change of the national government Kyiv, too, got a new mayor. Vitali Klitschko took the position of the Head of City Council and was appointed by the President as the Head of Kyiv City State Administration in June 2014. And in the same way as it was done before, the crucial positions in the city’s governing bodies were taken over by new people. The victory of Klitschko was very much due to a political agreement between Udar, Klitschko’s party, and Solidarnist’, the party of president Petro Poroshenko (Radio Svoboda 2014).

Just after Klitschko won, Oleksandr Spasibko was appointed Deputy Head of Kyiv City State Administration taking care of the Department of Construction and Housing Provision. The longest part of his career - from 2003 till September 2014 - he spent on leading positions of the commercial real estate developer Yaroslaviv Val connected to the Donets’k FIG. The coalition of governors led by Spasibko largely follows the logic of land distribution established before them. The land use, as before, is underpinned by strong merge between the developers and the governors. An activist of anti-development initiative mentioned, that when their initiative tried to oppose the construction of new RC, they were told that “behind the development there are serious people” (I27). What is even more important that the developer of the RC is one of those which emerged out of fragmentation of KMB, so such networks function since 1990s at least.

From the legal point of view such model of urban governing is enabled by the impotence of the Kyiv General Plan to regulate the urban development. The Plan formally guaranties wide range of rights to Kyivans and controls the developers, but it is quite an abstract document. What

actually regulates the land use are the Detailed Plans of Territory, regulations that are supposed to detailise the general Plan. Constantly new ones are being passed enabling development where it was not allowed before (I10, I30).

The change which occurred in the governing coalition did not affect its composition - as before, the leading roles are taken by personalities representing the interests of developers. Though there was a step towards establishing a power vertical between urban and national levels of governing by uniting Poroshenko's and Klitschko's political groups, it failed in a way, because unlike Chernovetsky, Klitschko does not have a strong majority in the city council. Kyiv City Council was elected together with the mayor in 2015. It is composed of five parties and a number of independent candidates. As an architect working for the city administration explained in the interview, each party has its own interests and bargains actively to secure them (I10).

#### **4.6.4 Civil society**

Since 2014 the role of the civil society in the growth coalition became stronger. The activist circles are usually called *urbanists*, and the field of activism is called *urbanistyka*. It is rather focused on the technical and managerial solutions to the urban issues, while social processes structuring the urban development are out of focus. Lately more and more NGOs, civic initiatives and self-organised media are using this self-definition (I28). There are several factors that formed the movement. Firstly, the de-radicalisation, institutionalisation and NGO-isation of the anti-development social movement Save the Old Kyiv (SOK) which was active after 2008. As an activist told me in the interview, "If you take a look at the leaders of the urban initiatives and NGOs, many of them were involved in SOK" (I20). Secondly, the professional architectural and planning scene started paying attention to urban social issues, in this way the organisation *CANactions* emerged as a festival and later as a school of *urbanistyka*. Thirdly, the sheer amount of contradictions of the urban development has grown and started causing social discontent. Finally, the mass uprising of Maidan on one hand has brought number of people into activism, on the other became a way to legitimise further activities of people who participated in it.

I would emphasize the following characteristics of these networks, which show their impact on the urban development. Firstly, as in many other civic initiatives in contemporary Ukraine, there is a strong orientation towards the Western 'best practices'. The consequences vary from importing the ideas of a need for social housing programs as something completely new for Ukraine, to a simulation of the international experience. An interview partner gave the following example of such simulation: "It is now popular to use parklets as urban furniture, mimicking the American experience, but they are put in place where they do not bother the cars... So they took just the form, not even thinking about the meaning of the tool in urban design" (I21). Secondly, by pushing for a 'good' market-oriented development involving a dialogue with the community, transparency, and a 'European' urban design, civic initiatives, apart from indeed transforming Ukrainian neoliberal urbanism towards a more European model, also create cultural demand for 'investors' and justify the actions of developers. There is still no clear professionalisation of this process, as in many other cities where the third sector often plays a role of a mediator between the governors, developers, and local community, but it is a matter of time for it to appear. Finally,



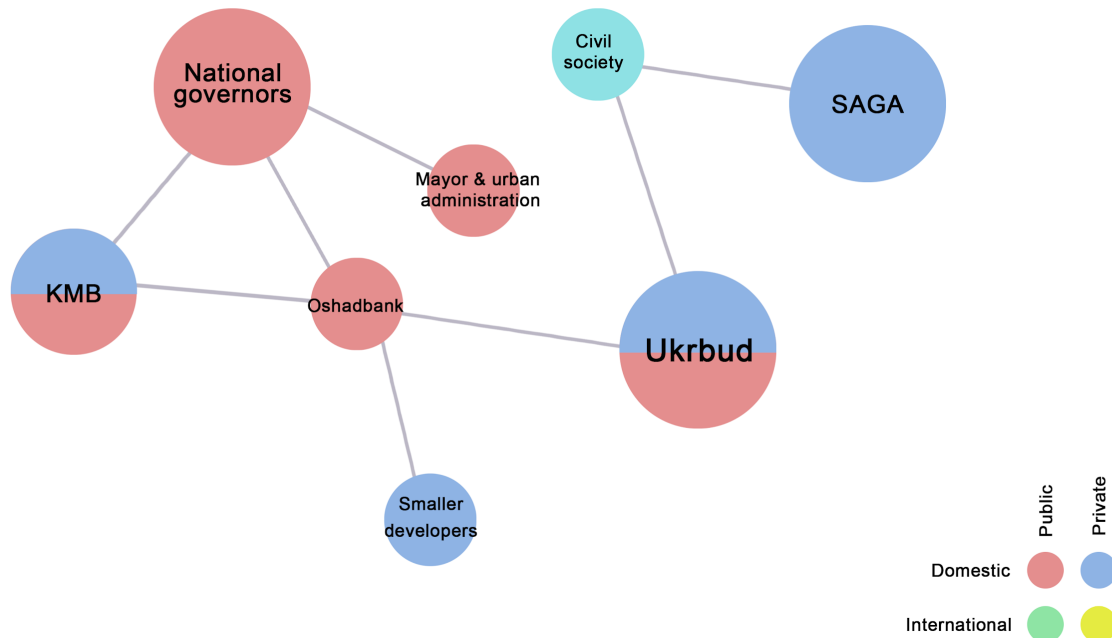
as was told by an informant, due to the “deep internalisation of the market rule” (I21) the housing inequalities are rarely questioned by such initiatives, as for many activists housing unaffordability is not a burning issue (I20). However, the urban civil society of Kyiv is quite fragmented, and political opinions might strongly differ even inside one group or NGO. Here I cover the part of it which supports the growth coalition. But, as I have found out from interviews and personal communication with activists, there is another side of the movement, which has potential to question such core issues as housing affordability, even though it has not yet coalesced into an initiative or a collective.

Such processes in urban civic society in Kyiv and their interaction with the public and private actors is another example of the appropriation of the protest by the market, as revealed by Heath and Potter (2004). But in the case of Kyiv these processes also take place under the ‘European’ label, which reflects the peripheral position of the society, not only economically, but politically and culturally.

#### **4.6.5 Conclusions and latest trends**

After 2008, and even more so after 2014, Kyiv urban regime has changed strongly. First, the economic crisis and political instability have weakened the banking system. There was a need to seek more credits from international financial institutions. This brought about an even stronger state indebtedness, increased the state’s international political dependency, and contributed to the centralisation of power inside the country. Still this influx of capital is not enough to revitalise the mortgage system and drive the housing growth through financialisation. However, the volume of housing production increases. With the decline of both productive and financial economy, the real estate is strengthening its positions as an asset creating sector. I would conceptualise this case as assetisation without financialisation.

Figure 11. Actors of housing growth after 2014



Source: Author's visualisation

The developers which have occupied vacant niches after the 2008 crisis, as well as those which have entered the market after 2014, are driving the growth with a minimal involvement of financial institutions. They use various marketing strategies to extract the savings and incomes of households. From branding themselves as responsible and socially-oriented to reducing the size of the apartments in order to make them affordable to the shrinking middle class. The city governors, as before, keep being strongly subordinated to the national level of governance and at the same time serving the interests of the developers. With a strengthening of the civil society there emerged new conflicts, as well as cooperation links between the activist scene and public and private actors. The national presidential and parliamentary elections, as well as municipal and mayoral elections on the urban level, all of which are coming in 2019, will most probably affect the governance on the urban level. Many people realise this, and so before it happens the privatisation of land plots and the legalisation of real estate projects intensifies. Some developers are already investing in the future by supporting the political campaigns of opposition politicians (14).

One of the structural factors defining the present composition of forces is the lack of capital inflow from abroad. Liquidity is brought in by the incomes of upper middle-class households,

often denominated in foreign currency. This resource is very limited, and the real estate will avoid the crisis only in the case of a better economic performance of the whole country.

#### **4.7 Conclusions: how did coalitions in Kyiv emerge and change?**

In this chapter I have shown that the transformation of housing is not only caused by the structural process of the influx and withdrawal of capital; it is also an actor-driven process organized around a coalition of private, public, financial and civil and other actors conflicting and cooperating between each other. During the last three decades of the history of housing in Kyiv, several combinations of actors acted as principal drivers. In the early 1990s, the housing production was still led by state institutions following the Soviet pattern of housing supply, but first steps towards the market were made, namely privatisation of housing stock and informal capture of land and state-owned construction enterprises by private actors. These transformations had consequences later, when around 1996 political structures stabilised on the national level and there emerged FIGs determining Ukrainian economy. This put in motion the second circuit of capital and helped establish the main actors of the housing - developers and the urban governor subordinated to the national level and representing the power vertical on the urban level. The formation of the urban growth coalition drove a moderate growth of commercial real estate and housing. When new actors - banks, both foreign and domestic - got involved in the growth coalition, the growth skyrocketed. After the 2008 crash, the involvement of the state and international financial institutions such as the World Bank and the IMF was needed. By financing Ukrainian economy and shifting the debt burden onto the public, they were able to restart the mortgage market, but this time through state-owned domestic banks. This recovery from the crisis was interrupted by a new wave of crisis, political and economic. On the one hand, the mass social uprising in 2013-2014 and the armed conflict in the East of Ukraine; on the other hand, the decline of global prices on commodities exported by Ukraine, decrease of exports to Russia knocked down Ukrainian economy. The national currency devalued dramatically, which made banks uninterested in crediting the housing growth, since it has become too risky. At the same time, as UAH fell, the consuming power of households saving and having incomes in USD (for example, IT sector) rose. This has strengthened developers, both as producers and as quasi-financial bodies, because now even more than before housing plays the role of a safety-deposit box. On the part of the urban governors, attempts to regulate the growth were quite rare. First, because developers are invested in political groups on urban and national level and put people representing their interests on the governing positions. Secondly, since a change of the state administration on the national level almost always (apart from mayor Omelchenko) led to a change of mayor and of governors in the public institutions and enterprises, every governor had a short-term agenda, which included privatisation of land, legalising development projects, profiting from the communal business. Thirdly, the weakening of trade unions, as well as the NGO-isation of social movements gave developers the opportunity to get along with the civil society on the urban level.

The case of Kyiv fits the latest research on housing finance, urban politics and urban socio-spatial transformations. The city experienced commodification and financialisation of housing, as well as consequences of 2008 global financial crisis - the processes studied by many

sociologists and geographers (Aalbers 2008, 2009, Agnello & Schuknecht 2011). Moreover, these processes are similar to those in CEE and FSU countries, especially from the point of view of the role played by international banks and financial institutions (Sokol 2017, Pósfai & Nagy 2018, Lewicki 2014). On the level of agency, Kyiv had market agenda in national and urban politics, similar to other places (Savitch, Kantor 2004, Peck, Theodore & Brenner 2009). Such social processes as socio-spatial exclusion, criminalisation, displacement, othering and other forms of violation of housing rights just keep growing in Kyiv similarly to other post-socialist cities (Czirfusz et al 2015, Ivancheva 2017). At the same time this research challenges the following aspects of these theories:

- (1) Relying on the empirics of the US and Western European cities, the analysis of housing financialisation especially emphasises the role of the mechanism of secondary mortgage market. Even though in many peripheral cases, including Ukraine, the securitisation mechanism was not well developed, this did not become an obstacle for an influx of foreign capital. So even the mechanisms of finance-led housing growth were different in Kyiv, even compared to other CEE and FSU countries. If the financialisation of housing is understood as a growth driven by an influx of finance, securitisation is not a necessary component of it, because in the case of Kyiv the sources of liquidity for the real estate boom of the 2000s were cross-border speculations on the difference in interest rates and high revenues from the international trade conditioned by the *de facto* USD peg.
- (2) Today, the growth of housing is still possible even in the absence of international finance capital flows, because due to the deflation of prices upper middle classes are not only able to afford the purchase, it is even more affordable to them than before. Besides, in the conditions of a highly unstable economy, the real estate is a way to secure savings. As a result, developers become quasi-financial institutions, and apartments become safety deposit boxes. This housing finance process I put under notion of assetisation, which occurs without financialisation.
- (3) Neoliberal urban development policies and land use regulations do not necessarily mean a shift from public to private mechanisms, as it used to be at the early stages of the neoliberal course in Western countries. Since the 1990s, various official and unofficial mechanisms of public-private partnership were enacted in turn, during the establishment of a market-oriented housing system in Kyiv.
- (4) As in many other cases, state institutions expanded their influence through the state support extended to the financial system after the 2008 crisis. Nevertheless, the Ukrainian state did not have its own funds to cover all the expenses. The IMF credits, which were attracted to cover the gaps in the state budget, reinforced the international power vertical between the core and periphery and indebted the state. Another power vertical, between the urban and national level, was created since the beginning of the democratic regime in Kyiv. This power vertical was usually formed through an unequal but still consensual arrangement between political groups on the urban and national levels of governance, as well as between the mayor, the city council and the city administration.

This chapter revealed the connection between the macro socio-economic transformation in housing finance and the conflicts and cooperation between domestic/international and public/private actors. A further investigation of these aspects of housing might be done through a study of the demand side of the processes, as well as of the population which is excluded from the housing distribution. Also, a comparative perspective on a range of peripheral cases could shed more light on the housing issues.

## **Chapter 5: Language of the developers in the post-crisis period**

### **5.1 Introduction**

History of post-socialist space shed more light in the debate on whether the market is created by certain actors or it is ‘natural’ and self-regulated. In 1990s the market economy of many countries was constructed from scratch often by importing policies from the Global North, and set the agenda for the future of the region (MacKenzie, Muniesa & Siu 2007). As research on housing in CEE and FSU countries, including this PhD thesis, shows housing was a core of these transformations (Bodnár 2001; Stanilov 2007). However, most of this analysis focuses on the political, economic or spatial aspects of these social transformations, as was done in previous chapters, and there is less attention paid to the study of how the discourse on housing and city is created and what role does it play in driving the growth.

My optics on housing finance, production and distribution prompts the analysis of the discourses on urban space, housing, inhabitants, etc. and their interrelation with the socio-economic and political process. The main theoretical tool employed to track these two processes is the performativity of economics (Callon 1998, Cochoy, Giraudeau, & McFall 2010, Langley 2010). I use it in order to understand the interconnection between the structure and the agency of housing and between the changes on the macroscale and the routine everyday life practices, as well as to explore in what ways discourse produced by developers influences the investment from the consumer. The last four years (2014-2018) of Kyiv housing finance situation is taken as the time period studied. This period is in the focus not by accident. Since 2014 Kyiv housing market functions under quite specific housing finance system. The prices calculated in USD decreased dramatically due to collapse of UAH exchange rate. While the same happened with the incomes of the majority of population, there is a cluster for which the housing purchase became more affordable, because their savings or income did not decrease as it was in foreign currency. And apart from other factors, interest of this social category in real estate drives the housing growth making it as intensive as in the period of the pre-crisis boom. So the housing finance runs not on mortgages, but on the investment of households. In other words, the flow of finance happens between the households and the developers, without any intermediaries like banks or state financial institutions, as in other cases (Buüdendender 2017; Pósfai 2018; Samec 2018). In such conditions, the discourse is straightforward, which makes it closer to ‘ideal type’.

In order to stimulate the demand, the advertising produces and reproduces identities, lifestyles, needs and aspirations of the consumers (Schroeder & Zwick 2007; Jaffe 1991), and I assume that the, perceptions of space and housing are no exception. To reveal how this kind of discourse helps to drive the housing growth, I analyse the messages developers bring to consumers in textual and visual advertising, as well the process of production of these discourses, through expert interviews with employees of advertising and marketing agencies. So to address these processes, I pose the following research question:

*How did the advertising of housing contribute to the performativity of housing finance in Kyiv after the 2014?*

To answer this question, I take several methodological steps. First, I conceptualise the developers' messages about space, community, housing, etc. Secondly, I show the process of production and spreading of the discourses by way of the expert interviews with people working in real estate marketing. Thirdly, I explain how the discourse interconnects with socio-economic relations in housing finance, production and distribution (Wodak & Meyer 2009), in other words make conclusions on performativity of these processes.

## **5.2 Main messages of the discourse**

In this section I describe the variety of messages brought by the textual and visual advertising on such topics as developers, space, community and housing. Also, showing the interconnection of these messages with the broader ideological constructs of individual success, nationalism and Euro-optimism common among Ukrainians in recent years (Ishchenko 2018; Lyubchenko 2017).

### **5.2.1 Developers**

#### *Security and reliability*

Since its establishment in the 1990s, the market-oriented housing finance system in Kyiv has been functioning according to the mechanisms that carry high risks for the consumers. After 2008 this led to a growing number of *nedobuds*, as shown in previous chapter. However, such abruptions happened not only in the years after global financial crisis, "In the beginning of 2018, according to the urban planning cadastre in Kyiv, there were 67 development projects which were officially considered problematic" (Hengistov 2018). The abandonment of a project is an extreme case, often the development just takes longer time than planned. The mechanism of housing finance is the reason for this situation: the developers often complete the actual project with investments in the next one. So in order to convince the potential consumer to purchase an apartment, there is a need to assure customers that the developer will finish the construction. What works well in solving the issue is to use the brand 'public'. In Kyiv, there are two big developers-corporations that include public companies - KMB and Ukrbud. Apart from using their public part to economize on the production cost, they also use it as a brand, and even merchandise it to no-name developers. This is done in order to rise the level of trust and feeling of security and reliability (I5, I17, I23). The idea that the public enterprise is more secure than private one has little to do with their real legal status. In any case, the 'investors' prefer public over private, with the former not being officially public, but just using the brand 'public'.

Thus, I consider the discourse of security as pure performativity of economics. While there are more complicated messages, as 'economic laws' which explain the agents of the market what to play and why to play, the idea of security directly tells the players: 'play, you will win with us, because we win'. Contradictory as it seems, such a strategy actually works, at least for some period of time. The establishment of a brand as secure in the common sense of the consumers helps to attract investment and pursue the housing growth.

### *'Old-school' vs. contemporary approach to urban development*

Another message that is often presented by the developers about themselves concerns the difference between them and other developers, which are somehow worse than others. Usually they present themselves in opposition to the 'old-school' developers.

This kind of discourse reflects the actual changes in the growth coalition. After the crisis, the dominance of developers leading the sector during the boom was challenged by the new actors, such as Ukrbud and Saga Development among others. Many of them did change the approach to development in terms of design and even the communication with the community of the space where they started the development (I17). Here is an example of such self-positioning: "We are doing everything to make the urban environment more elaborated and comfortable. Together with us the opportunities of dwellers of our housing and potential of the cities grow, as we invest our energy in their development" (Saga Development 2019). However, they never changed their aim: profit-making, although now performed in a more 'European' way. The strategies of cooperation with the urban authorities have not changed either (I46). As a consequence, the problems that bother the consumers, such as delay with the construction, also could not be solved only with the adoption of the new discourse which rejects the 'old' way of urban development.

This type of messages influence the growth by stimulating the demand, and not only the demand for housing produced by a particular developer, but also the demand in the whole housing sector. I found that this occurs through horizontal and vertical migration of discourses. The messages from the developers of expensive housing, which they invested in by buying the services of advertising and creative agencies, were used by the others both working in the same and lower price niches. The best example of such migration is the success of RC Comfort Town and the attempts to replicate its success in projects such as RC Svitlo Park and RC Faina Town. Almost ten years ago, the developer KAN took the risk of introducing block and 'low rise' housing as an alternative to highrises which were mainstream in 2000s, and as the idea turned out well and attracted consumers, it was appropriated by others (I24). Some developers applied the material part and started building in blocks and some just appropriated the discourse and began describing the highrises they develop as 'European', 'for life', 'eco', etc.

What is of particular interest in enhancing the housing growth through discourses on security and contemporaneity is the cumulative effect the messages have when meet the social reality. While every particular developer aims at presenting himself as the only one to be invested in, the discourses accepted by consumers stimulate the demand and drive the whole housing sector.

### **5.2.2 Space**

Another topic touched upon in the discourse on housing is space. The messages of this space-related discourse reflect the patterns of socio-spatial segregation, stigmatisation of certain areas, as well as self-orientalisation in mimicking the 'European' style of living. This discourse reproduces the uneven development inside the city and on the global scale. In the remainder of this sections, I discuss several of the most common messages on space in the housing advertising.



*Contrasting the unpleasant city with the cozy green housing complex*

Nearly every advertising of a residential complex opposes itself to the city. Some offer to combine the big busy city with a cozy and calm environment of the housing complex. “Meet the nature in the megapolis,” says the webpage of RC Parkove Misto; the RC Central Park is marketed as a “cozy corner privately hidden from the transport highways and main pedestrian flows of the district. Being here it is difficult to imagine, that capital business seethes around, just near beats the heart of megapolis” (Parkove misto 2018, Central Park 2018). Others show Kyiv as hectic and unpleasant, promising a shelter in the gated community: however, this is more often demonstrated visually, rather than said explicitly but (Lipinka 2018).

Such stigmatisation refers not only to the city, but also to the ‘other’ people. One of the RCs, which positions itself as a place for the young and smart, promises to protect its inhabitants from those who are not that smart: “Ideal place for secure life. There are no strangers here. There is nothing more important in housing than comfort and security, especially for families with children. Low rise housing with low density will allow to know all the neighbors personally. And the 24/7 security service will always limit the presence of strangers on the territory of the complex...” (Faina Town 2018). Gates and guards have recently become a ‘must have’ in any new RC. Even when the developer does not plan to gate the RC, the inhabitants demand it (I26). An activist of an anti-development initiative narrated his experience of conflict between the community of an old Soviet houses and the community of a newly developed RC:

“I read the forum of this new RC. The dudes start this thing, they say that in this *raïon* there are alcoholics and drug addicts living, anti-social elements, we need a fence. And I am completely shocked, because they bought an apartment in our neighborhood, the developer did not provide any infrastructure, and now there are no places in the local school. And they say that they will put the fence. And for me this is important: previously I could reach the avenue, where all the transport runs, through the alley, but now people have to bypass their fence” (I27).

Photo 4. A gated community and a Soviet *mikroraion*



Source: Author, Sergiy Chekmarev.

The messages assuring potential consumers they can escape from the unpleasant city and the ‘others’ and hunker down in a space created just for them and people like them as they are ‘special’ legitimise the growing housing inequalities. As I have shown in previous chapters, the low affordability of housing has a number of historical socio-economic and political reasons. At the same time the discourse which separates spaces and their inhabitants supports the actual situation making it difficult to alter it for the oppressed, similarly to many other cities around the world (Wacquant 1993; Gruner 2010; Mingione 1996), however almost without the ethnic component in the segregation. Consequently, it helps the housing finance, production and distribution mechanisms to drive the growth for the few and keep the voices about the housing rights silent.

#### *Exploitation of the peripheral position*

The adjectives like ‘European’, ‘American’, ‘Western’ are synonyms of ‘good’ in many peripheral countries. The post-socialist context adds another layer to this orientalistik myth: the contrast between the ‘European’, ‘American’, ‘Western’ and the ‘Soviet’. Such an idea finds its interpretation in housing even more overtly than it does in other spheres.

Firstly, there is a widespread reference to ‘European’ urban planning and lifestyle. What does it consist of? ‘Low-rise’, dense blocks as an alternative to high rises in the *mikroraion* planning, green spaces, restaurants, cafes and other amenities, pedestrian zones, green spaces, and bike lanes. The Jan Gehl (2011) kind of urban planning, but only for the chosen ones, inside a gated space. Moreover, the housing labeled as ‘low-rise’ in Ukrainian cities might reach over 9 stories.

Phrases like “Your small Europe inside the Kyiv megapolis” or “Contemporary - fresh - stylish - calm - mikroraion based on the best architectural experience of Europe” are common, and the reality of what they are describing does not ultimately matter (Comfort Town 2018, Stolitsa Group 2018). Both of them have different styles, however both are considered to be European. Thus, the whole concept of the ‘European neighbourhood’ is quite vague.

Secondly, the developers’ discourse exploits the idea of the ‘old Europe’, often embodied in France. More than in the previous case, this is an attempt to show how special the life of residents in the housing complex is going to be through faking the nobleness of the space and buildings. This approach goes so far as to fake the Eiffel Tower, as in Photo 5.

Photo 5. RC Frantsuzskii Kvartal with replication of Eiffel Tower



Source: Author, Sergiy Chekmarev.

Thirdly, American cities are being replicated, with Manhattan being one of the most favorite references. There are RCs called Manhattan City and Central Park, both referring to Manhattan in New York. Apart from just fancy words, the appeal to the American cities is a way to justify the highrises.

### *Glory to Ukraine!*

After the rise of the patriotic sentiments in society, it was a matter of time until the developers would start using it. And they did: “The name Patriotika carries in itself the idea of the nationhood and devotion to Homeland, and also symbolize the desire of Ukrainians to live in a united country” (Arkada 2018). Nevertheless, this ‘patriotism for sale’ is not that widespread in the marketing of housing compared to other spheres.

As the above discussion shows, the discourse on space plays an important role in performativity of the housing growth. Referring to space as ‘for successful people’, ‘European’, ‘patriotic’, etc. is to stimulate one or another category of potential consumers to purchase the apartment. At the same time, it normalises such processes as socio-spatial segregation on the urban level, which in the Kyiv context often takes form of gated communities, and on the cultural level approves peripheral position of Ukraine on European and global scales. Perception of both of the inequalities - global and urban - as natural ideologically support the market-oriented development.

### **5.3.3 Social identities**

Next step is to discuss the performativity of the consumers, which is reproduced through the identity formation. After 2014, due to another wave of the economic crisis, housing affordability decreased. Among the consumers of housing in Kyiv, one can distinguish such clusters of consumers as workers of IT, financial sector, top managers of export-oriented industries, as well as state officials. Housing purchase can also be affordable for some of the Ukrainians working abroad, however it is mostly true for smaller cities in Western Ukraine where the migrants are coming from (I26).

For the IT and financial sectors as well as for the export-oriented industries (steel, agriculture), the main reason is that their income is tied to Euro or USD, which significantly elevated their socio-economic position after the UAH had dropped in value. The same, even more systematically, applies to the Ukrainians working abroad: what could be considered a low salary in the EU countries, 800-900 Euros, is 3-4 times higher than the average Ukrainian salary. And with growing migration trends (Liasheva 2016; Koshulko 2015), this group just becomes more significant.

The situation with state officials is different. For many middle level officials, the main source of income is the corruption rent. As one informant explained me, bribes are not a stable source of income, so it could not be invested in the productive economy as productive economy needs constant financial supply. At the same time, real estate is a good option for saving money (I15). However, this works mostly with those whose income is not very high. An interlocutor explained it in the following way,

“For the officials profiting from the corruption rent it is often the case that they save the money in housing. Apartments as a way of saving money works for the people who do not have that much money, because when you freeze 60-70 thousand of USD that means that for you this sum is important, but if you have more money you invest in something which brings more profit. Also it means that the source of the income can stop at any moment those who have half a million they find other ways to enlarge their savings” (I15).

These groups of Kyivans are the core audience of the advertising I discussed above. On the one hand, there are socio-economic reasons which make them the consumers, like the availability of funds and the desire to save in the conditions of financial instability. Nevertheless,

there are also discourses which underpin the process of investment in housing from the households. In the next sections I analyse the messages in the advertising, which speculate on the identities of consumers.

*You can do it!*

Like with many other commodities, housing is often being sold through the discourse of success. This often correlates with the ideas about the gated space. If you are clever, rational, manage time efficiently, take care of your family, and know what you want, you will buy the apartment in this housing complex, because people like this do it: “A house for the clever ones. This house is not similar to others. We create it for those who are used to live their life wisely. For those who are eager to use the benefits of the future already now. Namely for these people have we gathered under one roof contemporary technology for comfort and smart life” (Einstein Concept House 2018). Individualism as an ideology contributes strongly to the justification of the precarious economic conditions with competition being the central part of it (Beck & Beck-Gernsheim 2001). This is a global trend, but in the post-Soviet region it became widespread as a reaction against the Soviet past, and is a part of the anti-left narrative. One of the main consequences of this agenda is that the affordability of housing is viewed through the prism of individual failure (Ryabchuk 2014). The performativity of this ‘successful identities’ normalises the social and housing inequalities.

*Family, friends and the like-minded people*

Despite the rise of the individualistic discourse, it cannot replace the ‘eternal’ - family. Happiness is still associated with ‘traditional’ family and homeownership. An advertising for one of the RCs boasts: “More than 5000 happy families reside in Comfort Town”. Of course, these families are nuclear, heterosexual, with children; any other option can not even be discussed publicly (Comfort Town 2018). Messages like this look particularly discrepant with the notion of ‘Europeanness’. Due to the conservative mainstream, an advertising with a homosexual couple might cost the developer their reputation (I23).

So family plays the central role in creating an image of the residents. Parallel to it, there is also an image of the housing being the family nest where not only you, but your children will build their lives. That is why you need to have it in your private property Faina Town (2018). Perception of housing as security and stability for the future is a consequence of the attempt to fight individually the precarity and risks the failing Ukrainian socio-economic situation imposes. The developers encourage this perception. But there is another very important vision on housing

At the same time, two men could be sometimes seen together on the advertising of housing, but they depict a friendship or a business partnership. This is also what the consumption of an apartment could bring according to another advertising: “Live among like-minded people. Entirely new contemporary environment, similar worldviews among the inhabitants, open comfort atmosphere, in which neighbors become friends and even partners who embody new ideas” (Svitlo Park 2018). Often this accompanies messages about smart, eco-friendly, and human-oriented environment behind the gates.

### *Men's club*

The visual images communicated in the advertising often depict consumers as males. Women appear as mothers, rarely as sexual objects. This is difficult to explain with something specific to the real estate sector. I would suggest that the reason is the general tradition of the advertising in Ukraine (Kis & Bureychak 2015). Moreover, this contradicts the actual situation: among both the 'elite' and the 'comfort', housing consumers, there are a lot of women according to the information I got from the interviews (I5, I18).

The discourse of housing advertising often reproduces the identity of successful people, the 'traditional' family, like-minded people or the 'real' men. These are the pre-existing values which are tied to the idea that these social values could not be reached without buying a house. A person who has certain social identities and belongs to certain social group is convinced to consume housing and certain lifestyle. At the same time, this approach, apart from stimulating the demand, strengthens the stereotypes.

## **5.2.4 What is housing?**

### *Investment*

Housing is broadly represented as an object of investment and a way to secure money. Starting from calling the consumers 'investors' to such phrases in the ads as "Ideal place for investment in your future" or "Choosing the apartment in RC Nyvky-Park you invest in healthy and comfort future!" (Faina Town 2018, Park Nyvky 2018). Another RC convinces the potential consumer with next arguments: "RC Smart House offers you a profitable investment decision: completely ready for the rent out renovated and furnished apartments! Your apartment will bring profits starting from today! Benefits of investment in apartments in RC Smart House: 1. The payback period is 6.5 years, the profitability is 15.2% per annum. 2. The growth of capitalization of apartments is more than 50% per year", later after presenting more numbers without any references it says: "In the residential complex there is a service company Smart Service, which can take on all the concerns associated with the renting out and maintenance of the object, providing the investor a stable and regular profitability" (Smart House 2019). It is rather the lower strata of the market which promotes housing this way, with the higher strata appealing to experiences and emotions (I26). Nevertheless, positioning of the housing purchase as an investment contributes to buy-to-rent model, which imposes stronger housing inequalities, however allows the housing growth to continue. Moreover housing becomes purely an object of investment and developer - a quasi-financial institution by offering services which mainly aim at securing and multiplying capital.

## **5.4 Conclusions: performativity of housing finance, production and distribution**

Housing finance mechanisms are often analysed as a macroeconomic or as an actor driven processes. Such approach gives a historical perspective and enables the understanding of housing in its connection to global changes. At the same time these processes could never occur, had there been no 'common sense' driving them. In this chapter I looked at housing finance,

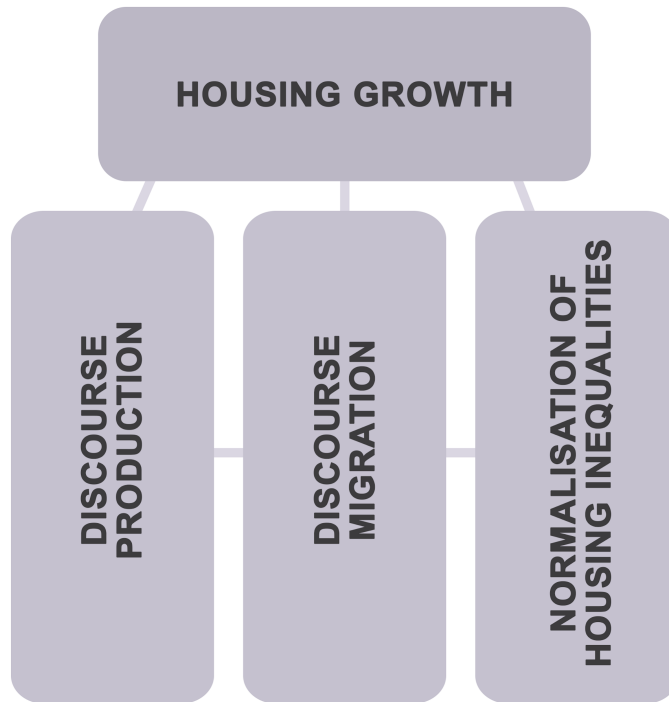
production and distribution from the perspective of performativity of the investment in housing mechanism. Through the analysis of the advertising of Kyiv developers, I have shown what messages stimulate the demand and consequently drive the growth. I distinguished four topics through which the developers address the consumers: (1) the developer, (2) space, (3) social identity of the consumer and (4) housing. Addressing these and other topics, the advertising does not only convince the potential consumers to purchase housing, but also normalises a number of other ideas that are not directly connected to the investment in housing, although they underpin the system of socio-economic relations in the city.

How does this discursive mechanism function? Firstly, it is produced by the specialists in marketing, public relations, design, etc. Here I call them advertisers. Almost every developer has a marketing department. Part of the advertising process is done by the department and part is outsourced to the advertising agencies. As my interlocutor explained, the formulation of the messages is a combination of three factors: the vision of the developer, the vision of the advertiser, and the results of research. However, the last factor might play a minor role or be entirely absent. Developers working for the higher sector of the demand side invest in creating a 'legend' which often consists of impressions and emotions; the lower sector of the demand more often uses 'practical arguments', such as proximity to the metro and price, and presents housing as an object of investment, which does not require marketing research or 'creative work' (I23).

Secondly, when the 'legend' works, it gets appropriated by other developers, either horizontally, between developers which work in the same niche, or vertically, from higher to lower stratum, sometimes without actually changing the material part. This is very important aspect of the performativity. Because every particular developer produces an advertising to convince the potential consumer to buy her apartment, however as the messages migrate, the discourse gets spread on the whole market (I23, I26).

Thirdly, some of them become widespread and normalise certain social processes, as I have shown in the section on space. Almost every contemporary RC is gated, and this is communicated as an advantage. On the one hand, such advertising stimulates the growth, and, on the other, ideologically supports the socio-spatial segregation. Thus, such messages in housing advertising are the discourse that enhances the model of socio-spatial relations based on social inequality and exclusion. Such normalisation indirectly contributes to housing growth oriented on the wealthier part of Kyivans and enables profit making. In a similar way the presentation of housing as an object for investment contributes to housing growth by promising the profits to the consumers, who can afford such an investment. Through such legitimisation of the market-oriented housing system the voices of those who face the housing unaffordability on the daily basis are being silenced and devalued, enabling the existing economic model to alter. So the political economic process of housing growth is performative through the discourse, the mechanism of this performativity I distinguished is summarised on Figure 12.

Figure 12. Performativity of housing growth



This analysis tackles the case of Kyiv, although it is very probable that similar processes occur in other cities. The next step in understanding the role of the discourse in housing finance would be a comparative study of the cities where housing is financed differently. It is quite safe to assume that in places where the mortgage is an important mechanism of housing finance the discourse is different. Another possible development of such kind of analysis is a closer integration of mechanisms of performativity with the political-economic processes. This could be achieved through a historical study of the performativity of housing growth and relation between the changes in housing finance, production and distribution and changes of the discourse. Although there is room for the further development of performativity of economics perspective on the housing finance, this chapter has shown that the market-oriented discourse produced by the developers reproduces the justification of oppression, social inequalities and marginalisation.



## **Chapter 6: Housing finance in Ukraine, Russia, Hungary before and after the crisis: a comparative political economy analysis**

### **6.1 Introduction**

All over the Central Eastern European and Former Soviet Union region financialisation of housing became a prominent trend; however, it took various forms from one country and city to another. Levels of dependency on foreign capital, legal mechanisms, as well as the strategies of state interventions after the crisis and groups targeted varied from a case to a case. Significant part of these variations could be explained through number of the local factors, such as strategies of governors in a city, mode of land-use or level of development of social movements. However the varieties in the mechanisms of financialisation of housing also are interconnected with macro political economy factors. In this chapter I draw the connections between mechanisms of financialisation of housing and (1) integration models of the post-socialist economies in the global and European economy, as well as (2) political regimes, especially after the 2008 crisis, in three post-socialist countries - Ukraine, Russia and Hungary, where the three processes differed significantly.

The main argument of this comparative analysis is that the models of integration into the global market, along with the governing regimes which produced specific legislations and policies, contributed to the way financialisation of housing unfolded there. In order to support this argument I pose the following question:

*How did the models of integration into the global market, along with the governing regimes, contributed to the mechanism of financialisation of housing in Ukraine, Hungary and Russia?*

And next research sub-questions:

- (1) How did the legal framework influence the attraction of foreign capital into real estate?*
- (2) How were integration models and mechanisms of financialisation of housing connected?*
- (3) What was the relation between the mechanisms of financialisation of housing and outcomes of the crisis? What shaped the reactions of the states to the crisis?*
- (4) Which political-economy tendencies could be retrieved from the commonalities and variations between the three cases?*

I employ analytical comparison as the main method based on two dissertations completed by my colleagues Mirjam Büdenbender and Zsuzsanna Pósfai, which in detail analyse the financialisation of housing in Russia, Poland and Hungary, as well as on my own research on Ukraine. Apart from that, I ground this research on the comparative studies of CEE and FSU, as well as political economy research on Hungary, Ukraine and Russia.

The starting point is to reveal the role of legal frameworks and show what role their use and misuse played in attraction of financial capital to real-estate in (semi-)peripheral context.

However the variations of financialisation of housing could not be reduced to the differences in legislations around it, as the legislations themselves are product of broader political economy processes. So the next steps are to find the causations between the influx of finance in real estate and socio-economic positions of the countries in the global system, as well as political regimes in the countries. Through such analysis the chapter contributes to the conceptualisation of (semi-)peripheral post-socialist financialisation of housing through an historical comparative analysis of housing finance in three countries in the CEE/FSU region - Ukraine, Russia and Hungary - by framing the in- and outflows of capital in a broader context of economic fluctuations and political transformations. Such kind of analysis contributes to understanding of mutual interdependence of the process of financialisation of real estate and the broader processes of peripheral capitalism development in the CEE and FSU countries. Moreover it depicts a different to the Western-like pre-crisis boom and post-crisis crash and recovery story, emphasizing the uneven development on the global spatial scale.

## **6.2 Do legal frameworks matter?**

Since the early 1990s all over the post-socialist and post-Soviet space, apart from rapid privatisation, economic restructuring and reconfiguration of trade networks, significant changes occurred in the legal regulation and policy making. Numerous international institutions, such as USAID and EBRD, started introducing CEE and FSU governments to the legislative structures and institutions which were supposed to guide the ‘transition’ and sustain the economic, political and social development of the independent countries. Finance-real estate complex was one of the foci of this process. There were two competing models of the legal framework for the finance-real estate complex offered to the post-socialist countries: American and German (Büdenbender & Lagna 2017, Pósfai 2018). The first one is based on the mortgages backed by securities, which are supposed to be tradable worldwide, the second one - on the mortgages backed by the balance of the *Bausparkassen* coming from the households’ savings (European Office German Bausparkassen 2016). It was claimed that establishing of one of them or a mix as the legal basis for the market will attract investment and stimulate economic development. Decades after the end of socialist regimes, most of the countries, apart from few CEE exceptions, do not show expected growth. This became especially apparent after the 2008 global financial crisis. Understanding of the role of regulatory systems in housing finance requires comparative analysis. So through a historical comparison between the periods of establishing and reshaping of the legal framework and the periods of actual influx of capital in the real estate I show the complexity and ambiguity of the interrelation between the creation of conditions for attraction of investment and *de facto* investment, at least in the CEE and FSU context.

In Hungary, the legal framework for financialisation and securitisation of housing was established in the late 1990s as a result of a merge of American and German models. The mortgage bank of Hungary, the Land Credit and Mortgage Bank (FHB) became the crucial part of the framework. But it functioned differently from how it had been intended to. During 1990s it was used for the agricultural sector and privatisation of land. And even when in the early 2000s FHB started serving the growing mortgage market it did not follow the Western scenario: “FHB was established as the main institution of the mortgage-type housing finance model, however it

was never involved in US-type securitisation, and started issuing covered bonds (and not securities) for refinancing mortgages” (Pósfai 2018). The liquidity to the housing finance market, as in other CEE cases, was mainly brought by the international banks offering FX mortgages.

In Russia, the expectations and reality were even more dissimilar. Under Yeltsin administration American model was adopted. As Büdenbender (2017) puts it: “U.S.-based actors succeeded in informing legislative changes, shaping the creation of a secondary mortgage market and the establishment of the Agency for Housing Mortgage Lending (AHML) in 1997. This government-sponsored enterprise was modelled after the U.S. Federal National Mortgage Association, commonly known as Fannie Mae”. But what brought capital into Russian housing finance was not the establishment of legal system according to Western standards, but rather the rising natural gas and oil prices. And even when the inflow happened, AHML played a completely different role - that of “policy tool of Putin’s power vertical” (Büdenbender 2017). AHML was stimulating mortgage provision by private banks by buying mortgages from them; this became a strong source of liquidity for the real estate boom. These mortgages were transformed into assets by creation of mortgage-backed securities and covered bonds, which eventually never reached the global financial market and were traded between state actors (Büdenbender 2017). Despite the expectations that the U.S.-style legal framework would enable a U.S.-style securitisation, the similarities between the real mechanism of capital circulation and the American model were purely formal.

Ukrainian case differs from both Russian and Hungarian ones. The establishment of the legal framework for financialisation and securitisation happened way later than in Russia or Hungary - in 2003-2004 for financialisation and in 2005-2006 for securitisation. Before that, mortgage-like operations were regulated by the Law ‘On Pledge’ (Verhovna Rada Ukraïny 1992). Only in 2003-2004 Ukrainian Parliament adopted new Civil and Economic Codes (Verhovna Rada Ukraïny 2018e, 2018f), the Laws ‘On Mortgage’ (Verhovna Rada Ukraïny 2018g) and ‘On State Registration of Property on Real Estate’ (Verhovna Rada Ukraïny 2018i), which legalised already functioning mortgage market. At the same time in 2004 State Mortgage Institution was established by Cabinet of Ministers (Derzhavna Ipotechna Ustanova 2018). The Law ‘On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage Certificates’ and ‘On Mortgage Bonds’ (Verhovna Rada Ukraïny 2018h, 2018g) completed the creation of legal base for establishment of secondary mortgage market and developing of securitisation mechanism. This framework similarly to Russian was following the American model, which as shown by Büdenbender (2017) in conditions of “undeveloped banking system, the absence of institutional investors and the lack of personal credit histories” typical for most of the post-Soviet countries, was inadequate to the real processes. But unlike in Russian case in Ukraine this mechanism did not get into use, even in roundabout way. There are several reasons for that. Firstly, the first securitisation deal was done in Ukraine in 2007, so there literally was no time for the the secondary mortgage market to grow. Secondary, there was no institutional investors, like pension funds or insurance companies. Thirdly, the state aimed at creating a market denominated in the national currency, while the whole finance-real estate complex was already functioning in dollars, so the legal mechanism of securitisation was useless. Finally, since early 2000s the

liquidity of the mortgage market was coming from a another source - foreign bank's credits to domestic banks (I22). What legally supported the influx of capital was among other legislations the Law 'On Banks and Banking' introduced in 2001 (Verhovna Rada Ukraïny 2018d); it enabled the aforementioned international borrowing, which is discussed later. So while the legal framework in Ukraine is rather similar to Russian one, the mechanism of financialisation was alike with Hungarian.

Given that the three countries' legal frameworks emerged in different periods and followed different models, but the influx of capital in the real estate happened more or less in the same period and did not abide by the prescribed rules, the legislation cannot be counted as a crucial factor of investment and growth. What was really critical is the availability of foreign capital since the early 2000s. As these cases show, in (semi-)peripheral countries legislations 'copied and pasted' from the West can be either completely ignored (like securitisation in Ukraine and Hungary) or used in a twisted way to serve different purposes (like securitisation in Russia). This does not mean that the role of legislation and policy making is not important when the foreign capital arrives. It is rather the opposite: (semi-)peripheral regulators have to reinvent forms of legislation, reshape those borrowed from the Western countries according to the local conditions. So legal frameworks do matter, but often not the ones imposed by international advisors beforehand, but those created by the domestic bourgeoisie and bureaucrats amidst the capital inflow. To understand the process of capital arrival, it is more important to look at the economic performance of a country and strategies of the national elite. So in the following sections I explain how capital rushed in and then out of the real estate, connecting it to the models of integration into the global market and political regimes.

### **6.3 Models of CEE/FSU integration into the global market and mechanisms of the capital influx into the real estate**

Approaches like dependency theory and world-system analysis often lump together CEE/FSU in one cluster of semi-periphery, which makes sense if one analyses long-term capitalist development or conceptualises peripheral capitalism (Vliegenthart 2010). But one has to be more sensitive to details when employing this perspective in order to capture less long-term processes (Stark & Bruszt 1998), such as the influx and withdrawal of finance in and from the real estate market. In order to show the structural differences between the three countries, I employ an approach developed by Myant and Drahekoupil (2012) in which they identify "forms of integration into the international economy, with distinctions between different export structures and dependence on other sources of foreign-currency earnings" (Myant & Drahekoupil 2012). Hungary, Russia and Ukraine, all followed different models since 1990s and as a consequence experienced the global financial crisis differently.

#### **6.3.1 Models of integration**

Hungary was put in the group of Central and East European countries together with Czech Republic, Poland, Slovak Republic and Slovenia. The criteria for grouping this countries were "relatively high levels of per capita GDP and high exports of complex products" (Myant & Drahekoupil 2012). The Hungary's integration into the global economy was the strongest among

the three cases, which had both up and downsides. According to Fabry (2011), firstly, even compared to other CEE countries Hungary experienced generous inflow of Foreign Direct Investment (FDI). They consequenced in development of complex production sectors like car production and decline of low-technology industries. Secondly, as it was supposed to happen when the investments were made, the country's economy became highly dependent on the international trade: "proportion of trade in total GDP amounted to 161.4 per cent in 2008 (the highest in the EU-10) and 70 percent of this trade went to advanced economies" (Farby 2011). Thirdly, another consequence of FDI was the sharp change in the direction of trade: "Between 1989 and 1991 the share of Hungarian exports going to Soviet bloc markets decreased from 41 per cent in 1989 to 19 per cent, while the share of total exports going to OECD countries rose to 70 per cent" (Farby 2011). This was way faster than in Ukraine, which I discuss later.

Russia fits in the grouping "made up of oil and gas exporters", but it is outstanding in this group, because it has more diversified and less export-oriented economy than such countries as Azerbaijan or Kazakhstan (Myant & Drahokoupil 2012). Russia is highly dependent on Western countries, but it is not the typical core-periphery dependency between the regions exporting raw materials and those producing high value-added products, because thanks to what remains of the Soviet production chains, Russia still plays the role of the regional core among FSU countries. Moreover the base of Russian economy and consequently trade is gas and oil industry, which on the one hand make the country an important player on the global level, and on the other, influenced formation of quite particular electoral authoritarian regime, in which private capital and state actors have complicated interrelation (Labban 2008). Between 1998, when Russian economy experienced a severe crisis, and mid-2000 there was a course taken towards liberalisation, which favoured big capital and at the same time enabled growth driven by investment in real economy to replace accumulation by FIGs through rent-seeking. Situation changes in 2003-2004, when according to Matveev (2018) *dirigiste* turn was taken by Russian state. It consisted of state expansion in the oil and gas sector, as well as in high-value added sectors of economy, like mechanical engineering or aerospace building. Together with elevation of taxes on oil and gas export such changes brought significant part of the windfall oil profits to the state before the 2008. Still the power of large private business, which is globally integrated and has structural and instrumental influence on the state administration, could not be neglected (Matveev 2018).

Ukraine's model is one of the most specific ones in the region. Following the same criteria and comparing it to Hungary and Russia, in 2007, just before the crisis, Ukraine's GDP per capita was twice lower than in Russia and almost three times lower than in Hungary (Myant & Drahokoupil 2012). Such low GDP was caused by the way the economy had been restructured after the end of Soviet Union. A part of the Soviet trade networks continued functioning, connecting Ukraine to Russia and other FSU countries; mostly Ukraine was importing gas and oil and exporting both low and high value-added products, including complex machinery (Kravchuk 2016b). The nature of these exports to Western countries, mostly EU, was different, most of them being low value-added - steel, mineral and agricultural products. The shares of export to the two trade partners was changing over time: "CIS [Commonwealth of Independent

States] and EU were indeed the two most important regions in Ukraine's trade. And if before the 2008 crisis the volume of trade with both of them grew with the same pace, after 2009 the cooperation with partners from post-Soviet space strengthened... But at the moment of signing the [EU] Association Agreement the trade turnover with EU and CIS became almost equivalent. Already in 2013 deterioration of the economic relationship with Russia becomes apparent... [By 2015] the decline in cooperation with CIS countries was so sharp, that its volume became almost the same as with Asia" (Kravchuk 2016b). So Ukraine indeed is different from other models in its dependency links both with Russia and EU. With FSU and especially Russia, the dependency was based on the remnants of the Soviet economy, and with the EU on the quite unequal exchange of raw materials for high value-added products. Nevertheless, there were attempts to reach a more dominant position in the relations with the global periphery. For example, Ukraine throughout 2013-2017 Ukraine takes 11th position in top-25 arms exporters globally, Russia, China and Thailand being the main clients (Wezeman et al 2018). Another example of such relatively successful attempt to become an 'adult economy' is the development of aerospace industry, which consequenced in Antonov mega-airplanes exported abroad.

### **6.3.2 Financialisation of economy**

Another indicator used by Myant and Drahokoupil (2012) is the financialisation of economy of 2000s, as it was another method of integration into the global market. All the three countries I analyse did experience a rapid development of the financial sector going along with the influx of foreign capital, but the mechanisms were different. Researchers identify three types of financial flows according to recipients which were credited: the state, households and private business (Myant & Drahokoupil 2012).

Hungary experienced intensive financing of state budget deficit. In 2007 the country had the highest state debt/GDP level - 66,1 - among the 29 CEE/FSU countries analysed. Myant and Drahokoupil (2012) explain this processes as by the nature of "party competition which involved promises of higher public spending from parties of both the left and the right". Ukraine went through a similar process, but less intensively, however it also had a lot to do with the debt-driven expansion of social welfare. For example, Viktor Yushchenko in his electoral campaign promised to rise the payment at birth by 10 times, which eventually was done not to the promised levels, but to one of the highest in Europe, while other social payments remained almost on the same level as before (Ukrains'ka Pravda 2004). Such spendings required significant budget funds. Apart from financialisation of state, in both countries household consumer loans became widely diffused, which I go into in the next sections.

In Russia the financialisation channel was different: it happened through lending to large businesses. Myant and Drahokoupil (2012) describe it in next way: "It was an essential part of the form of international integration for oligarchic capitalism. It depended on healthy earnings from raw material exports, which led to increasing share prices, which in turn enabled businesses to borrow directly from foreign banks, even while often taking their own money to tax havens outside Russia. Credits enabled continued acquisition of other Russian businesses as the conglomerates controlled by oligarchs expanded into domestically oriented production, real

estate and construction”. Such model of international economic relations only strengthened the ability of Russian capitalist class to hijack the democratic institutes (Gel'man 2015).

To conclude, in order to reveal the connection between the model of integration, including the dominant type of financialisation in the country, and the financialisation of housing, I analyse the mechanisms of the capital influx into real estate in the three cases. There were two major mechanisms - forex loans and revenues from the international trade. I argue that dominance of one or other kind of mechanism, firstly, is connected to the model of integration developed in the pre-2008 crisis period, and secondly, to the outcomes of the crisis, which in turn determined variety of post-crisis transformations in the countries.

### **6.3.3 Forex loans mechanism and its consequences**

Private investment from households became the main housing finance model for most of the post-socialist countries, although for several decades before the boom of 2000s housing production had been predominantly state-led. Moreover, for many of them the expansion of this model was going hand in hand with the financialisation and dollarisation of the economies. In Ukraine and Hungary FX loans became very attractive for households as the rates were lower than in domestic currency; however, they were still higher than in Western countries. Pósfai (2018) argues that “the forex mortgage boom was a very clear articulation of the dependent nature of housing financialisation in Central and Eastern Europe”.

In the competition between domestic and foreign capital in Hungary and Ukraine, the former was losing on the mortgage market. It was unable to access finance on the same level as foreign financial institutions, some of which, originating from Western countries, were specifically oriented towards Eastern Europe. One of the peculiar manifestations of this situation is the fate of Hungarian OTP Bank, which was pushed out of Hungarian housing market but entered Ukraine and did well there in the pre-crisis period - it was one of the 10-top Ukrainian banks providing mortgages (Sas & Vityuk 2008). At the same time prominent Ukrainian bank Privat between 2001 and 2007 was buying stakes of Latvian Paritate Bank until took over it. Apart from its main purpose - money laundering - Privatbank Latvia did mortgage lending (Yanitskii & Stack 2018). This example shows that core-periphery links can multiply and interact in a complex way, where one economy's periphery becomes another economy's core. Taking into account that some of the banks that had entered CEE markets boasted there a larger volume of operations than in their home countries, we can track an international domino-effect chain. Nevertheless, the actors of FX loans expansions were different: whereas Hungarian market was dominated by foreign banks, Ukrainian market was largely controlled by domestic banks up until 2006-2008. Since this difference affected post-crisis developments, it is important to take a closer look at it.

In Hungary, branches of foreign (Austrian, Italian and Belgian) banks were the crucial actors, “Since locally issued mortgages were very expensive, foreign banks which had access to cheaper capital from their mother banks could have a significant market advantage compared to domestic banks, and could rapidly expand their client base. This market expansion was supported by the

systematically higher interest rates that could be realised in these countries than in core economies, and by policy initiatives in the region particularly oriented towards increasing attractiveness for foreign investors” (Pósfai 2018). The government was in favour of this process as it strongly contributed to the middle class expansion, which was promising political returns.

In Ukraine, domestic banks were the main actors until mid-2000s, when half of the top banks were bought by foreign companies. After the crisis of 1998, in order to establish convenient conditions for international trade, National bank of Ukraine introduced *de facto* dollar peg through buying and selling currency (Åslund 2009). This resulted not only in high revenues for exporters, but also in a growing inflation and dollarised financialisation, as currency exchange risks were stable. Ukrainian banks having low deposit volumes started borrowing on the international market and fueling domestic market with consumer loans. The pace of the market development attracted foreign financial groups such as UniCredit and BNP Paribas. Several big banks were sold to international actors, even though FIGs kept their own banks needed to finance the business of the domestic bourgeoisie.

In all the cases the financialisation of housing in 2000s was accompanied with inflation (Trading Economics 2019), which could not allow the banks to provide mortgages at rates as low as in the Western economies. As a consequence, the mortgages were affordable for narrower share of population.

The consequences of the FX loans boom were dramatic for economies of both countries, when national currencies started devaluating. Pósfai (2018) says, “With the depreciation of the forint and banks translating their increasing losses to hiking interest rates, forex mortgage debtors’ monthly instalments increased by 75% on average between 2009 and 2013”. This brought about large volume of non-performing mortgages, which are still a serious burden for Hungarian economy, “Non-performing mortgages still account for one fourth of the total mortgage portfolio, the majority of which are FX mortgages” (Pósfai, Gál & Nagy 2018).

In Ukraine, the burst of the bubble was even more dramatic. When the price of dollar has risen first in 2009 by 60% and later in 2015 by 400% compared to 2007, the volume of non-performing consumer loans soared. In 2016-2017, the amount of non-performing consumer loans fluctuated around 60%, most of which are FX mortgages (Natsionalniï Bank Ukraïny 2017). Such a ‘dead-end’ situation is partially caused by the legal constraints on evictions, which may relax soon, because National Bank among other actors actively lobbies for policies which might enable the full-scale withdraw of property from debtors.

Compared to Ukraine and Hungary, in Russia FX loan mechanism was not that widespread. Bűdenbender (2017) writes, “Banks also issued a small number of mortgages as FX, mostly dollar denominated, loans in the period of 2006/7. Yet, making up only around 1 per cent of the entire mortgage stock, FX loans remained negligible and exposed only a very small number of mortgagors to dynamics of exchange rate volatilities”. If not through FX mortgages, then how was the real estate boom driven in Russia?



#### **6.3.4 Revenues from international trade**

Research of Büdenbender (2017) shows that the main source of housing finance in Russia were the revenues from the oil trade largely organized through state institutions, “Besides bank’s foreign borrowing, the windfall of revenues from oil exports was the most crucial factor that influenced the mortgage market”. This capital was distributed to domestic banks through AHML, as described in the previous section. Another mechanism of capital influx into real estate was mortgage lending by state banks. Here, capital also originated from international trade revenues. This model of housing finance did not include speculation on the currency exchange rate. As a consequence, the number of non-performing mortgages was lower. This does not mean that the consequences of crisis were less harsh, but the crisis happened primarily in the sphere of commercial real estate (Büdenbender 2017). The dependency of the whole country’s economy on a single source of growth made it highly sensitive to the changing demand on the gas and oil markets, which in turn affected the socio-economic positions of developers and consumers.

In the beginning of the boom, Ukrainian mortgage market was also driven by revenues from international trade; the FIG-owned banks used this mechanisms. The revenues from metallurgical and chemical industries, as well as agriculture, were channeled to the financial sector, including mortgage market. But in the case of Ukraine these revenues were not so high as to fuel a full-scale financialisation of real estate, so FX loan mechanism was used in addition to that. Moreover, since Ukraine never had such a strong political power vertical as there was in Russia, oligarchs were able to avoid the state control and channel their revenues abroad or into their FIGs through off-shores (Kravchuk 2015). Another strategy for Ukrainian banks was borrowing on the international financial market. In last years of the boom the foreign banks fueled the market, as in Hungarian scenario. These three strategies were bringing the liquidity to the market, so there was no need for complicated financial mechanisms and strong involvement of the state, as in Russia. Most of the finance flows were happening among domestic and international private actors.

#### **6.3.5 Export structures, power verticals and housing finance**

The structure of economy, model of integration and political verticals of each country were connected with the different mechanisms of housing finance in the boom period. For Russia as an oil and gas exporting country, the enormous revenues from international trade caused by the growing prices on the global market provided the needed volume and liquidity of capital. With a strong power vertical, it was easy to use these funds to support a rapid growth of both commercial real estate and housing. The crisis affected commercial real estate stronger than housing, as the mortgage products offered during the boom had not carried high risks for the consumers. Hungarian economy, organised around the export of complex products with higher value-added than that of Russian products, potentially could follow a similar scenario as in 2000s the revenues from the international trade grew. However the domestic financial institutions were less competitive than foreign ones. Favoured by the government, foreign banks pushed out domestic competitors by offering better rates and conditions. Consequently, the mortgage market was dominated by FX loans carrying high risks. With the crisis unlike in Russia the small-scale

consumers were strongly affected, when the rate of HUF decreased, they were not able to repay the FX loans, which among other resulted in evictions. Similarly to Russia the boom was partially fuelled by trade revenues. Still these funds could not fill the whole the niche and borrowing on the international financial market was a better source of liquidity. When Ukrainian financial sector started mushrooming it attracted attention of foreign players. Several biggest banks were not sold to foreign owners, as they were needed to serve the business of the FIGS. Nevertheless banks which were not part of the FIGs, did not resist the influx of foreign financial capital. When the crisis arrived the foreign financial capital left Ukrainian market, as well as domestic capital suffered decreases as the export could not bring revenues as high as before. The burst of the ‘bubble’ led to indebtedness of the housing consumers, unfinished development and numerous court-cases, and later to decay of mortgage based housing finance. So the mechanisms of financialisation of housing differed from country to a country. This variation is interconnected with the model of core-periphery relations developed by the country in the post-socialist transformation. Consequently, the outcomes of the finance-led development varied, well as their management after the crisis. What did not vary it is the dependant position and deepening of the unevenness on the national and international levels.

#### **6.4 After the 2008 crisis**

With unfolding of the crisis the state budget deficit in Hungary revealed itself, in Ukraine it started with fall of metal products prices. Similarly to Ukraine, when the gas and oil prices dropped globally, Russian economy was shaken. In every case very soon other economic sectors, such as real estate, became affected. When the crisis unfolded, it was the state and international institutions who had to deal with it. In this section I analyse the reactions of the state in each country and connect it to the political structures on national and international levels.

##### **6.4.1 IMF, domestic banking and subsidised housing**

In order to cover the enormous gap of the state budget deficit and recapitalize the banks Hungary sought IMF and World Bank loans (Smith & Swain 2010). As in many other cases, this help was conditioned by social cuts and other strengthening of neoliberal regime. Another reaction was the ‘Hungarisation’ of the economy. Number of legislative restrictions on forex mortgages were made in order to *de facto* limit this type of loans. Also banking sector was ‘nationalised’ - “both directly, with state acquisitions, and through supporting the market expansion of domestic banks” (Pósfai 2018). Describing the results she writes: “Foreign ownership radically declined in the Hungarian banking sector from around 85% before the crisis to about 45% by 2015” (Pósfai 2018). How did these monetary policies affect the housing finance in Hungary? The initial scheme did not change, the household are the small-scale investor of the housing production. And they are to afford such an investment only through mortgages. What has changed is the source of the finance: now these are predominantly deposits of domestic banks, which are replenished with public subsidies for construction or buying family housing. This mechanism is oriented towards certain category of households (middle class and often childbearing), thus reproducing inequalities. Another serious concern about this regime is that domestic deposits are a highly unstable source of housing finance, since individual savings and state subsidies have their limits (Pósfai 2018). Also such an economic policy which

combines international borrowing and the centralisation and closing up of national economy goes hand in hand with the ideological neoliberal conservative vector of the ruling party Fidez (Buzogány & Varga 2019).

Similarly to Hungary Ukraine was one of the first countries in CEE and FSU to experience the consequences of the global financial crisis and also get support from the IMF (Smith & Swain 2010). The outlined strategy of dealing with crisis was similar to the Hungarian one, however, the political and economic crisis of 2014 drastically changed the situation. Since 2008 a number of private domestic banks were recapitalised or declared bankruptcy, the pinnacle of this process was reached with the nationalisation of one of the biggest banks belonging to the Privat FIG - Privatbank in 2016 (Yanitskii & Stack 2018). Apart from this kind of state intervention, in 2009-2014 there was also a policy to stimulate the real estate market similar to the Hungarian one, but it did not become widespread. Only several hundreds of young families got a mortgage from public funds on relatively loyal conditions. Still mostly due to the weighty state intervention into the monetary system, the mortgage market slightly revived and stimulated the real estate. Later, as the country experienced another crash, the situation changed rapidly. With this new wave of crisis caused by political instability and another decrease of steel prices in 2015, the FIGs suffered losses, their banks started drowning along with them. The government kept bailing out banks, indebting itself with the IMF credits. However this time this policy did not bring a significant recovery effect. Direct public stimulation of real estate also has stopped, apart from distribution of welfare to ATO veterans, which still is very limited. Often it comes in form of letting the veterans to privatise small suburban land plots. Since 2014 there is almost no financialised or state-pushed housing finance; nevertheless, the sector booms. With the rapid UAH devaluation, the housing prices have declined, and the individual savings of the middle class (often kept in cash) as well as their income denominated in USD or Euros became the main source of liquidity for the market. In other words, contemporary Ukrainian housing finance is the extreme case of what happens in other (semi-)peripheral countries, which ones were privatised and since 2008 make attempts to stimulate growth without foreign financial capital. Moreover it shows that the criticism of finance-led development has to offer some sort of alternatives, as just dejecting of the financial capital and freezing of the mortgage market leads to even riskier housing finance system.

#### **6.4.2 'Financial vertical', sanctions and political logic over economic**

In Russia, the consequences of the crisis took a different form compared to Hungary and Ukraine just after the 2008, as the state institutions largely subsumed the consequences, however centralising the power in the country even stronger and making the private actors even more dependant on the administration than before. The active participation in the conflict in the East of Ukraine, also caused a new wave of crisis. Since 2008, the mortgage market experienced fast recovery due to the interference of the state which possessed considerable resources accumulated during the boom. Even another shock for Russian economy in 2014 the same model keeps stimulating the growth, "the government subsidized the interest rate on mortgage lending, which allowed not only to stabilize its volumes after the financial crisis of 2014, but also to ensure growth" (Alexandrova, Zakharova & Matveevskii 2018).

Another factor that enabled this was the solid power vertical. As Büdenbender (2017) explains, “Housing finance in Russia became fully dependent on the Russian state through the dynamics of the so-called ‘financial vertical’, an infrastructure of state-owned institutions through which the government promoted its political and developmental objectives”. The recovery would have continued, if not the geopolitical activities of Russian political elite. When Russia annexed Crimea and started backing separatist forces in the armed conflict in Donbass, Western governments imposed a number of sanctions upon it. Real estate was affected along with other economic sectors. And yet the sanctions did not make the Putin’s regime step back. This peculiar situation of political logic prevailing over economic interest is new to Russia, for since the 1990s political elites have been favouring big business. Matveev (2018) brings up several arguments on why the government’s decisions contradict the interest of big capital. Firstly, as the sanctions are also politically inspired, they depended on the decisions of political leaders of Western states, and it was difficult to predict their strength and volume. Secondly, Kremlin’s geopolitical steps are not only aimed outwards, catering the regime’s imperialist ambitions, but also inwards, legitimising the regime. The latter function became especially important in the light of 2018 elections. Thirdly, even globally integrated business seeks state support, especially after the shrinking of credit on the international market. Finally, the alternatives to the current regime, such as the leader of the opposition Alexei Navalny, might be way worse for the large business, because political changes would lead to a pressure on the oligarchs. So it is the case of both Russia and Ukraine that the ongoing armed conflict reduces the chances of the mortgage market to boom, as it requires significant inflow of foreign capital, particularly for Ukraine, which is very unlikely to happen in the conditions of high political instability.

#### **6.4.3 Post-crisis state interventions, power consolidation and war**

In all three cases the crisis became a point of intensive state intervention with the monetary and housing policies. In the first years after the crisis, Ukraine and Hungary followed similar scenarios of recovery, as the mechanisms of financialisation were quite similar. Public resources of both states were channeled to the banks’ bailout. But as the public savings were insufficient to cover the gaps, both states sought the IMF credits. This resulted in a new type of dependency of these (semi-)peripheral economies. The political subordination to the international institutions consequences in imposing of social welfare cuts and financial policies oriented towards stimulation of another finance-led development in order to repay the credit. But at the same time this enabled the state power to consolidate domestically, as the foreign private actors left the scene and the domestic private were weak. In this way Hungarian housing market managed to perform some sort of stability in last years; however, as the sources of recovery - deposits in domestic banks and state subsidies - have their limits, this stability is very contradictory. Such a recovery was interrupted for Ukraine by the political and economic crisis of 2014. Since that time the mortgage market, as well as state support of housing finance are *de facto* absent. This situation led to the channeling of household savings into the real estate, mainly housing, which caused a short boom in urban development. However, already by 2018 developers have begun experiencing difficulties in attracting investments since individual savings and incomes in

foreign currency can hardly be a reliable source of financing for a long-term projects. In Russia in the post-crisis period the state also took over, but differently from Ukraine and Hungary. State funds were enough to cover the debts of banks, but it led to a reconfiguration of the financial institutions and even stronger power consolidation than before. The situation changed with the sanctions imposed on Russia after the annexation of Crimea and engagement in the armed conflict in the East of Ukraine. Even though big business, including real estate, experiences losses from it, political elite is not changing the track. The consequences of 2008 and 2014 crises for the housing finance mechanisms in the three countries have highlighted the interconnection of the housing with global economic fluctuations, (semi-)peripheral positions of the countries, on the one hand, and, on the other, with strategies of both domestic and international political apparatuses and geopolitical conflicts.

### **6.5 Conclusions**

The historical comparative analysis of housing finance mechanisms and sources in Hungary, Ukraine and Russia in context of global economic trends of last decades and different domestic political regimes shows that, indeed, the functioning of economy, integration into global market along with political regimes lacking strong democratic institutions and civil society control shaped a different trajectory of the financialisation of housing in post-socialist countries. What could be conceptualised as commonalities between the three cases? Firstly, the economic dependency, either on the level of the international trade affecting the housing finance (as in Russia), or direct influence of Western banks (as in Hungary). Secondly, abandonment of the outcomes on the housing crisis, including non-performing mortgages, housing shortages, bankruptcy of real estate companies, to the domestic elites, which in all of the three cases meant strengthening of right-wing tendencies, including rise of nationalism. Thirdly, shift of indebtedness to the upper level of the society. The most saying indicator of this process is that there is a direct connection of banks' recapitalisation and IMF credits in Ukraine and Hungary, which consequenced in imposing stronger neoliberal policies. In Russia this shift has shown itself in growing indebtedness of large business to the authoritarian state, which later among other factors gave Kremlin political power to ignore interest of Russian private capital in the conditions of sanctions. This kind of shifts contribute to verticalisation of the global political subordination. However apart from such commonalities there are varieties of financialisation of housing in post-socialist countries which related the economic and political developments of each country. Summary of the different pathways of each case are presented in tables 7 and 8.

Table 7. Interconnection between models of economic integration, political regimes and mechanism of financialisation in the pre-crisis period

Pre-crisis period	Hungary	Ukraine	Russia
Model of integration	High level of integration with EU through trade of complex products (production established through FDI)	Integration both with EU (growing) and CIS through trade of raw materials, low-added value products (steel) and various products respectively	Oil and gas trade, as well as steel and some high-added value products (aerospace engineering)
Financialisation of economy	High levels of state budget crediting, domestic consumer loans; <i>de facto</i> dollar peg	State budget crediting, but lower than in Hungary, domestic consumer loans; official euro peg	Crediting of large business, low levels of other types of crediting
Political structures	Competition of centre-right and centre-left parties trying to enlarge consumption and welfare	FIGs related political parties apart from consumption and welfare speculating on 'political vector'	Strong power vertical which in early 2000s favoured large business and in 2004-2005 made a <i>dirigiste</i> turn
Mechanism of financialisation of housing	Dollarised (in Swiss francs) mortgage market developed shifting risks on the households through foreign banks with minimal securitisation	Dollarised (in USD) mortgage market developed shifting risks on the households through domestic banks almost without securitisation	Narrow mortgage market, but strong crediting of domestic banks by the state financial institutions, acquiring funds from oil and gas industry profits; securitisation

Table 8. Interconnection between models of economic integration, political regimes and mechanism of financialisation in the post-crisis period

Post-crisis period	Hungary	Ukraine	Russia
Economic consequences of the crisis (financial)	Reveal of state budget lack, foreign banks leave the country, high rates of non-performing loans, decreasing with time	High rates of non-performing loans, foreign capital leaves the country, mortgage loans in foreign currency, dead-end to mortgage market	Drop of revenues from international trade, weakening and indebtedness of large business and domestic banks
Reaction of the state	State takes significant IMF and World Bank credits, 'Hungarisation' of economy, including financial, investment in domestic banks	State takes significant IMF and World Bank credits, recapitalisation of domestic banks	State 'saves' businesses and banks in exchange of establishing even stronger power vertical, supported by financial vertical
Mechanism of housing finance	Public subsidies to middle class households; unsustainable mortgage system dependent on domestic banks deposits	Slow recovery of mortgage market in UAH interrupted by economic and political instability in 2014. After the housing is financed from the household savings and incomes, without mortgage system	Mortgage market based on domestic and state banks deposits, decline in finance-real estate sector with sanctions after annexation of Crimea and backing separatists in East of Ukraine, nevertheless Kremlin goes against interest of large private business

The differences among the three cases point to conclusions. Firstly, imposing of legislative frameworks from the Western societies onto the CEE and FSU societies in housing finance did not bring to growth, but when the growth started due to expansion of capital in real estate globally these frameworks were either used not in the way intended, or new ones, more suitable the (semi-)peripheral position of the country were established.

Secondly, the models of integration of CEE and FSU countries in the global market influenced the mechanisms of housing finance in the period of boom. Hungary and Ukraine economic subordination, but at the same time positive reputation in front of the Western partners,

were factors, which enabled a strong influx of foreign financial capital in the real estate of the two economies. The Russian model of integration into the global economy shaped the influx of finance into real estate in a way that it all was manipulated by the state. As in 2004-2005 state strengthened itself in the oil and gas industry. Bringing the skyrocketing export revenues it was able to channel the state funds in rising of the banks' liquidity.

Thirdly, the political regimes in each country contributed strongly to development of housing finance. In Ukraine and Hungary competing political parties were building the 'middle class expansion' narrative. This required speculating on increase of consumption based on broadening of household consumption loans. One of the main monetary policies to enable it was foreign currency peg. Still electoral, but more authoritarian Russian regime also employed the 'middle class expansion' logic, but unlike in two other cases, it also had power to directly stimulate the banking and real estate sphere.

Fourthly, however similar Hungary and Ukraine might look, there is a number of significant differences between the two stories, especially visible after the crisis. While on the actor level Hungary was one of the most foreign bank operated country in Europe, Ukrainian financialisation was in the beginning pushed by domestic banks borrowing abroad, and only in the second part of 2000s by foreign banks. So after the crisis the outflow of the banks in Ukraine was lower. Also compared to Ukraine Hungary better performed economically and in last years had more stable political situation which enabled relative recovery of state-led mortgage system and public housing subsidy.

Finally, the annexation of Crimea and armed conflict in East of Ukraine reveals number of trends related to housing finance. The political instability in Ukraine and sanctions imposed on Russia keep bringing losses to financial and real estate business in both countries. In Ukraine this instability keeps the mortgage market in dead-end and creates condition for real estate developers to extract the decreasing savings from the households. In Russia the situation opened up the conflict between the administration and the large private business, in which the first actor got the final word.

In every country the current situation is leading to growing discontent in the society. The violation of the housing rights and housing inequalities in the three cases, as well as in many others countries in the CEE and FSU region, have similar roots, such as economic and political dependency of the post-socialist societies, indebtedness of the states, waging the armed conflict in by the political elites, centralisation of political power, as well as strengthening of nationalist ideology. Therefore the forces opposing these tendencies can learn from each other.



## Conclusions

The idea to carry out research into housing in Kyiv emerged as a reaction against the growing unaffordability of housing, the decrease in quality of living conditions and the chaotic urban development that is violating right to the city. As an introduction to the field of study I analysed existing literature and discovered that topics related to housing in Kyiv and Ukraine are addressed very poorly. The existing academic analysis, government and NGO reports and the media are fairly fragmented and often focuses on short periods of time. Thus, the main aim of this thesis was to fill in this gap by narrating the social history of housing development in the context of post-Soviet transformations in Ukraine. However, from the very beginning it was clear to me that, following Sassen (2000), the social problems found in Kyiv are simply localised forms of global processes, and any study of Kyiv must contribute to understanding of these global trends. My focus narrowed to the financialisation of housing, a trend that has taken on a global scale (Epstein 2005). More than 10 years after the crisis in Kyiv, there are still many households in debt, a lot of construction remains unfinished, and many banks are being recapitalised. These were signals that what took place was significant not just for Kyivans, but also for understanding how the same process of financial influx into real estate has different mechanisms and outcomes in different contexts. Moreover, when looking at how macro socio-economic fluctuations are interrelated with real estate, I realised that it would be very useful for critical post-socialist studies to show the role that housing development played in post-socialist transformations, and how different types of these transformations are reflected in the housing. Later, as I developed my research, it became apparent that the micro-level of these processes has barely been discovered in a post-socialist context. I decided to focus on the ideological aspect in order to show how the mechanisms of reproducing housing finance models that are studied in a Western context (Haiven 2014) perform in a non-Western context. A result of three years' research, this thesis contributes to several fields of study. Among the most important are research into real-estate finance, post-socialist studies and everyday financialisation. In this conclusion, I show how the arguments developed in the thesis contribute to these research fields and discuss possible further development of the study.

### *The 'parallel' story of the financialisation of housing*

This research theoretically and empirically supports the argument developed in works by sociologists and geographers (Aalbers 2016; Sokol 2013, 2017; Halbert & Attuyer 2016) about the growing interconnection and interdependence between real estate and finance, which in the pre-crisis period led to 'housing bubbles' and, since 2008, has contributed to rising debt, evictions and an increase in housing inequality in many cities. The first chapter of the thesis showed how this concept is connected to concepts such as expansion of capital, uneven development, urban growth coalitions, city bargaining and others, and that this theoretical framework can be applied to a post-socialist context. The case study of Kyiv in chapters 3 and 4 reveals how, in a non-Western context, the global trend of the financialisation of housing performs in a different way and has different outcomes. Probably the most telling difference is that most of the capital which has been invested in Ukrainian real estate was of foreign origin; it entered the country's economy via revenues from international trade, borrowing on the

international market by domestic banks or the direct entrance of banks such as Raiffeisen or UniCredit into the Ukrainian market. When the crisis occurred, most of this capital was withdrawn, leaving the Ukrainian economy to deal with the consequences on its own and deepening the uneven development between Western and Eastern Europe. In addition to the direction of capital flows, there were many more elements which the financialisation of housing in Kyiv lacked in comparison with Western cities, such as a mechanism of securitisation. However, these differences do not preclude the conceptualisation of changes in housing finance. On the contrary, they diversify our understanding of the process and allow us to explore how the financialisation of housing contributes to uneven development between the core and the periphery of Europe in the form of (semi-)peripheral financialisation. It is necessary to see financialisation as a process that performs differently in different contexts, but nevertheless one that is part of change on a global scale. This makes it possible to understanding the trend in all its complexity.

All the same, there is a long way to go with regard to exploring the housing finance mechanism in Ukraine and other non-Western cases. What might be useful is to conduct research not only on larger cities, but also on cities which shrunk while larger cities were booming. This will allow us to discover trends of uneven development on a national level. Other useful case studies could include places where alternative ways of capital landing were developed, for example, cities and towns which are growing thanks to income from migrant labour abroad - in Western Ukraine this has been a trend for many years. Such studies would show the whole picture, not just the case of the 'winner' city that constantly attracts investments, even during periods of crisis. Another possibility would be to investigate the city and track how and why different neighbourhoods were affected by this process. Such studies would show whether the influx of finance in housing caused uneven development on a national and urban level, bring attention to those spaces which did not experience growth, and diversify our understanding of the social consequences of capitalist urban growth.

#### *Housing as part of post-socialist transformations*

The thesis explores post-socialist transformations and shows the role that housing development played in this process. From the early 1990s, changes in the housing were connected to dramatic social transformations in the region, such as the formation of a capitalist class, the restructuring of the economy, mass social uprisings, and armed conflicts. These social changes in a Ukrainian context have been addressed in the literature, which includes analysis of the role of finance and real estate (Yurchenko 2017; Kravchuk 2016; Zon 2000). However, housing finance was never the main focus in these works. This thesis, especially in chapters 3 and 4, develops critical studies of post-socialist transformations by showing the role that housing played in this process. From the very beginning of the establishment of the capitalist system in Ukraine, housing stock, construction companies, land and other goods were either privatised or captured by those with political power. This strongly contributed to the emergence of class inequalities, social exclusion, displacement and, later, to uneven development between bigger cities such as Kyiv and the rest of the country. The developers who emerged from this process continue to influence political decisions on an urban and national level, in order to create better

conditions for their businesses. Another capitalist group - bankers - profited from the consumer loans boom in the 2000s, when mortgage made up a significant part of incoming finance. After the crisis, the Ukrainian state sank deep into debt in order to recapitalise the banks, which were important players in the housing boom. These and other events depict the story of post-Soviet Ukraine through housing. Apart from this, comparative analysis in chapter 6 reveals the differences between three post-socialist countries - Russia, Hungary, and Ukraine - and argues that the model of integration of a post-socialist country into the global economy is interrelated with the mechanism of the financialisation of housing, which was dominant in the pre-crisis period, and with outcomes in the post-crisis period.

Further, detailed empirical research on the connection between post-socialist transformations and the real-estate finance sector could be carried out concerning places which have not received significant attention, such as Belarus or Moldova. Furthermore, a question that has been touched upon but not developed in this work – the impact of armed conflicts and post-disaster housing development – would reveal new aspects of the process. Theoretically, there is a need for further conceptualisation of the (semi-)peripheral financialisation of housing. To this end, it might be useful to aggregate research done on Central Eastern Europe and the former Soviet Union and compare it with cases of other (semi-)peripheral regions such as Latin America. This would also destabilise the idea that the financialisation of housing is a purely Western phenomenon.

*Actors, social networks and discourse reproducing the housing finance model*

This thesis discusses housing finance, production and distribution in less abstract terms than macroeconomic analysis and shows how the main actors in the processes - developers, banks, urban and national governors - built coalitions in order to attract capital to the city. I have shown that, during the five periods of housing development in Kyiv in the post-socialist period, the origin of the capital invested in the built environment changed, and the actors who drove growth entered and left the sector and created coalitions of differing composition. Looking at housing finance, production and distribution from this angle revealed the significant differences between the theoretical understanding of urban politics in urban regime theories and the empirical evidence in Ukraine. I suggest that however it is too early to conceptualise something like post-socialist urban growth coalition, because of lack of research and also because of different trajectories, but there are number of important characteristics found in Kyiv case, which are similar to the ones in other post-socialist cities. The actors driving the growth emerged from the Soviet ones inheriting the social networks that often go through the public institutions. In this way the housing might still seem to be controlled by the public actors, but they rather play a role of facade covering profit making and catering the private interest when needed. This is what, in my opinion, Peck, Theodore and Brenner (2009) call creative neoliberalism. Indeed neoliberal regime successfully managed to parasitise on the Soviet institutions and networks. Moreover these networks function not only on the urban level, they go all the way to the national one, that is why nation-state institutions still play a highly important role in urban politics. Combined with weakness and depolitisation of social movement and public control such regime consequences in catastrophic urban problems. What is more, communication strategies with housing consumers were revealed, which depicted how housing is being transformed into a commodity and an object

for investment, not only on the level of private and public institutions, but also on the level of everyday life. Focus on these discourses offers an explanation for why the system is reproduced. They legitimise social inequalities and socio-spatial segregation, justifies the high levels of unaffordability of housing and the violation of housing rights, and moreover normalises the transfer of economic risks connected to modes of housing finance onto the consumer.

As with the study of macroeconomic dynamics, the cities and regions which did not manage to attract capital or developed alternative strategies would be useful empirical examples to help us understand how actors performed and why they did not manage to stimulate growth. Moreover, it would be important to compare the social consequences, since, while growing cities were attracting increasing populations, others were losing human capital, which may have affected them differently. Given that narratives of housing finance in post-socialist cities are not widely addressed in the literature and in part due to time constraints, chapter 5 outlines the general situation in Ukrainian cities. In order to reveal in detail the mechanism of the social reproduction of the ideological background of housing finance systems in post-socialist societies, there is a need for research on housing consumers and urban dwellers who cannot afford housing. A comparison of different countries would similarly be fruitful. For example, a comparison of Ukrainian cities which are growing without a strong mortgage market with Czech cities where the mortgage market has boomed for the last few years could show variations in ideological arguments and how they relate to mechanisms of housing finance.

Besides its contribution to these three veins of research, this work may be relevant for developing a critical vision of urban problems and conflicts among the general public. While carrying out this research, I wrote several journalistic articles, took part in a series of video interviews and presented the research at three public events. Often, the idea that housing is not necessarily a commodity, at least to some extent, was new for the audience and provoked debate. This indicated that there is a lack of alternative visions of housing development. Furthermore, the literature analysed in this thesis became the basis for a course in urban sociology, which I have begun to teach at the Ukrainian Catholic University. As Urban Sociology is a fairly underdeveloped field of study in the Ukrainian social sciences, this is one of the first university courses in the country that introduces students to critical urban studies. Therefore, this research contributes not only to the production of academic knowledge, but also to the stimulation of public discussion of housing rights and to education on urban and housing issues.

One of the most straightforward yet most important findings of this research is that the housing in Kyiv is highly dynamic, and that contradictions embedded in these dynamics are connected to transformations on both a national and global level. At the present moment, actors interested in pulling the housing sector out of economic crisis are lobbying for their own interests. For example, the Confederation of Developers of Ukraine has not given up on convincing the state to invest in real estate directly: “Unfortunately, since 2008, the crisis in the banking sector has not been overcome. Today, the refinancing debts owed by banks to the NBU amount to 50 billion UAH. The state has been forced to take on banks’ obligations by nationalising them and the economy has not received credit resources, because 20-30% of annual

income is not workable for any business. High interest rates on loans hinder development and mortgage lending: to date, mortgages have accounted for less than 2% of transactions. This will not change in the near future: the NBU has increased the bank rate for the last 9 months, elections are forthcoming, and the future of external borrowing is uncertain. Roosevelt was able to overcome the Great Depression in the United States by relying not on the banking system, but on the state's direct financial stimulation of the real sector of the economy – first and foremost, the construction industry” (Confederation of Developers of Ukraine Facebook 2018). Such attempts to restart finance-led housing growth are a reason to expect changes in the near future, which will most probably exacerbate inequalities, exclusion and debt. Debates and demands for the right to housing could ensue.

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### Appendix 1: List of Interviews

Interview	Date	Informant
I1	10 July, 2017	Head of real estate agency, works in the sector for 25 years
I2	03 September, 2017	Architect, worked for Kyiv Proekt and one of the largest private Ukrainian developers
I3	16 July, 2018	Former employee of KCSA
I4	14 July, 2018	Head of the construction site at a developer
I5	04 June, 2018	Rantier
I6	5 May, 2017	Resident of Troieshchyna
I7	16 December, 2017	Resident of Troieshchyna
I8	10 January, 2017	Resident of student dormitory in Troieshchyna
I9	1 August, 2017	Resident of student dormitory in Troieshchyna
I10	10 August, 2017	Architect, member of Public Council at KCSA
I11	30 January, 2017	Head of a real estate agency
I12	17 May, 2018	Economist specialising on real estate
I13	19 July, 2017	Former Deputy at Kyiv City Council, worked in Land Commission
I14	30 January, 2017	Employee of a real estate agency
I15	14 August, 2017	Investigative journalist
I16	3 September, 2017	Resident of a student dormitory
I17	27 March, 2017	Leader of an anti-development initiative, journalist working on urban issues
I18	16 May, 2018	Employee of one of the largest developers
I19	15 August, 2018	Construction workers trade-union organiser
I20	26 June, 2018	Urban activist
I21	22 June, 2018	Head of an NGO working on urban issues
I22	3 September, 2018	Employee of banking sector
I23	9 July 2018	Marketologist specialising on housing

I24	11 July, 2018	Architect, worked for one of the largest developers
I25	25 July, 2018	Lawyer specialising on land and real estate
I26	21 August, 2018	Marketologist, worked for one of the largest developers
I27	19 May, 2017	Activist of anti-development initiative
I28	22 December, 2016	Journalist of urban media
I29	21 December, 2016	Architecture historian
I30	19 July, 2017	Architect at City State Administration
I31	19 July, 2017	Head of an investment company
I32	4 July, 2017	Employee of Independent Association of Banks of Ukraine
I33	28 July, 2017	Researcher at a think tank working on urban issues
I34	12 July, 2017	Journalist, works for a TV show about housing development
I35	17 July, 2017	Researcher, educator, works in the field of Urban Studies
I36	4 September, 2016	Lawyer specialising on land and housing rights
I37	15 March, 2017	Leading activist of SOK
I38	18 July, 2017	Architect, works for CANactions
I39	6 September, 2016	Lawyer specialising on land and real estate
I40	28 January, 2017	Activist of anti-development initiative
I41	21 July, 2017	Activist of anti-development initiative
I42	18 March, 2018	Architect, works at a private buro
I43	10 July, 2017	Former Deputy Director of Department of Urban Planning and Architecture at KCSA
I44	6 April, 2018	Resident of Podil
I45	25 March, 2017	Architecture Historian
I46	21 April, 2018	Employee of one of the largest developers
I47	19 August, 2016	Activist of SOK

## Appendix 2: List of Personalities

Mayors of Kyiv and other important figures	
Leonid Kosakivskii	1993-1996
Oleksadr Omelchenko	1996-2006
Leonid Chernovetsky	2006-2012
Alexander Popov	2010-2013
Vitali Klitschko	2014-now
Oleksandr Spasibko	Deputy Head of Kyiv City State Administration taking care of the Department of Construction and Housing Provision
Mykhailo Golytsia	
Presidents of Ukraine	
Leonid Kravchuk	1991-1994
Leonid Kuchma	1994-2005
Viktor Yushchenko	Head of national Bank of Ukraine, 1993-2000, President of Ukraine, 2005-2010
Viktor Yanukovych	2010-2014
Petro Poroshenko	2014-now
Kyiv developers	
Volodymyr Poliachenko	Head of KyivMiskBud, one of the biggest Kyiv developers, 1992-2006
Mykola Tolmachev	Head of TMM, one of the biggest Kyiv developers, since 1992
Igor Nikonov	Head of KAN Development, one of the biggest Kyiv developers, since 2001
Maksym Mykytas'	Head of Ukrbud, one of the biggest Kyiv developers, 2010-now
Raimondas Tumenas	Head of Stolitsa Group, one of the biggest Kyiv developers, 2010-now

Big business owners	
Konstantin Zhevago	One of the richest businessman in Ukraine holding shares of financial, metallurgical and oil businesses, member of Ukrainian Parliament
Igor Kolomoisky	One of the richest businessman in Ukraine holding shares of financial and oil businesses
Dmytro Firtash	One of the richest businessman in Ukraine holding shares of financial, mineral and agricultural businesses
Oleksandr Yanukovych, Serhiy Lyovochkin	Member of Viktor Yanukovych closest business and political circles