THE RENTAL PROPERTY MARKET FOR COMMERCE AND SERVICES IN HISTORIC CENTERS IN BRAZIL: THE IMPLICATIONS OF INNOVATIVE CONSERVATION AND ANNILIHATING DESTRUCTION ON THE PRICES OF HERITAGE ASSETS

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Abstract

In view of the importance of the rental real estate property sector intended for tertiary activities in historic centers in Brazil, the intention of this article to draw an interpretative schema of the manner in which this market functions, based on the historic center of Recife, in the state of Pernambuco. This has been undertaken through an investigation into the conduct of its agents, who, at times, acted as though driven to preserve the historical values of heritage assets (innovative conservation), while at others, to destroy them and, thus, annihilate the values contained within them (annihilating destruction). For this, a need was perceived to analyze the relevance of land rent; the characteristics of the goods traded regarding heterogeneity and the prospects for increasing supply; the profile and level of information held by the agents, and their conduct in relation to these real assets and the rent prices offered on the market.

Keywords
Historic center; Real estate market; Commercial and service activities.

O MERCADO DE ALUGUEL DE IMÓVEIS COMERCIAIS E DE SERVIÇOS EM CENTROS HISTÓRICOS BRASILEIROS: IMPLICAÇÕES DA CONSERVAÇÃO INOVADORA E DA DESTRUIÇÃO ANIQUILADORA NOS PREÇOS DOS BENS PATRIMONIAIS

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Resumo

Diante da importância do parque imobiliário de locação destinado às atividades terciárias nos centros históricos brasileiros, este artigo pretende desenhar um esquema interpretativo do funcionamento desse mercado, tendo como fundamento o centro histórico recifense, em Pernambuco, com base na averiguação dos comportamentos dos seus agentes, os quais agem ora impulsionados a conservar os valores históricos dos bens patrimoniais (conservação inovadora), ora a destruí-los e, assim, aniquilar os valores neles presentes (destruição aniquiladora). Para isso, foi necessário analisar a relevância do rentismo imobiliário; as características dos bens transacionados quanto à heterogeneidade e às perspectivas de aumento da oferta; o perfil e o grau de informação dos agentes; suas condutas em face desses ativos reais e os preços de aluguéis ofertados no mercado.

Palavras-chave

Centro histórico; Mercado imobiliário; Atividades comerciais e de serviços.

THE RENTAL PROPERTY MARKET FOR COMMERCE AND SERVICES IN HISTORIC CENTERS IN BRAZIL: THE IMPLICATIONS OF INNOVATIVE CONSERVATION AND ANNILIHATING DESTRUCTION ON THE PRICES OF HERITAGE ASSETS[1]

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Opening the debate

From the 1980s, public incentive policies for rehabilitating Brazilian historic centers began to be implemented. The aim was to attract companies to settle in these areas. Since then, this theme - historic centers - has enlivened academic debates. Despite this, until recently, the impacts of such policies on the real estate market in these spaces has remained unclear. As from 2012 however, they started to become apparent, with the commencement of the research *Funcionamento do Mercado Imobiliário em Centros Históricos das Cidades Brasileiras* [How the Real Estate Market Functions in the Historic Centers of Brazilian Cities][2] (MICH)[3]. This research brought to light the importance of the real estate rental property sector for tertiary activities in the historic city centers of Recife (PE), São Luís (MA) and Belém (PA). This sector sits in the hands of property owners whose various patrimonial logics (abandoning, renovating, changing, and replacing the visual character of property ...), until now, have remained unknown. Many of these agents have to deal with tenants whose behavior is also unknown. Hence the imperative to investigate how the rental real estate market functions for tertiary activities, whose agents, despite having been disregarded, play a relevant role in the social and economic

3. The acronyms used throughout this article refer to the Brazilian Portuguese terms.

life of Brazilian cities. It is argued herein that these agents are guided by differen-tiated behaviors, at times motivated to preserve the historical values of real estate (*innovative conservation*), and at others to destroy them and, thus, annihilate the values contained within them (*annihilating destruction*).

Indeed, it was this lack of knowledge that instigated the configuration of the aims of this essay: to draw up an interpretive schema on how the rental property market functions for commerce and services, based on the historic center of Recife, in order to investigate the implications of innovative *conservation* and *annihilating destruction* on the prices in the market.
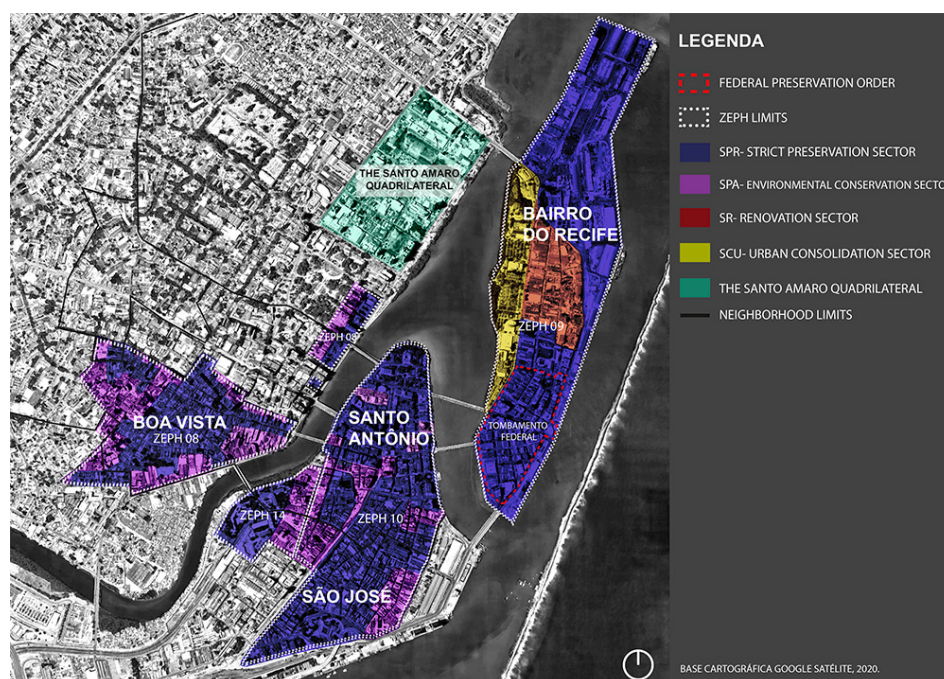

Figure 1. CHR: Strict Preservation Sectors.
Source: Municipal Law No. 16.176/1996.
Produced by Antônio Lacerda (Gemfi/UFPE, 2020)[4].

Drawing this sketch required following an argumentative trajectory, as described below. First, we reviewed the presence of land rent in Brazilian cities from the colonial period, emphasizing its recent dynamics in the historic center of Recife (CHR), highlighting the importance of real estate rental transactions on properties for tertiary activities in comparison with buying and selling. Second, the characteristics of the real estate market in the CHR are presented, based on

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4. Study Group on the Real Estate and Land Markets of the Federal University of Pernambuco.

its subdivision into submarkets. Third, it is revealed how these assets function as real assets and the manner in which their holders behave in the quest to maximize their profits and optimize real estate rents, which has implications in relation to their conduct towards to the heritage asset. Fourth, we analyze the prices offered and the operating model of each of the real estate submarkets. This trajectory has provided the necessary elements to outline an interpretative model of the market in historic centers.

It should be noted that the CHR (Figure 1) has not been institutionally established. For the purposes of the aforementioned investigation, it is formed by the Strict Preservation Sectors (SPRs) of the Special Preservation Zones of Cultural and Historic Heritage (ZEPHs), located in the neighborhoods of Santo Antônio, São José and Boa Vista, and by the Controlled Intervention Sector (SIC), located in the neighborhood known as Bairro do Recife, also with strict preservation.

1. Land rent: strengthening a centuries-old tradition

Brazilian society, since its origin, has venerated land rent. The composition of colonial fortunes was based not only on agricultural property or establishments for breeding animals, but also on investments in housing and real estate for commercial and administrative purposes. These investments created the opportunity for land and real estate gains that were achieved, mainly, through rents (LACERDA, 1993). The opportunity for these gains was reinforced in the twentieth century, when, according to Piketty (2014), the development of a "patrimonial middle class" emerged, whose economic and symbolic identity is a notably real-estate patrimony.

This is probably why rental transactions, in the case of Recife's historic centrality, have overlapped those of buying and selling. According to the National Register of Addresses for Statistical Purposes (CNEFE/IBGE[5], 2010), in 2010, the set of census tracts that encloses the CHR accounted for 11,498 addresses. Based on a field survey conducted using a statistical sample (327 addresses), it was observed that almost half (49.85%) had been negotiated during the period from 2008 to 2013, which indicates the strong dynamics of the real estate market in this particular center. Discarding four relinquished addresses and 49 unoccupied, a total of 274 addresses were arrived at. Of these, 154 (56.2%) were rented and 120 (43.8%) were privately owned. Amongst those that were rented, 65.6% were being used for commercial or service purposes. Therefore, the predominant form of access to real estate in this centrality is letting. The outstanding dynamism is due to national sectoral and local policies.

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5. The Brazilian Institute of Geography and Statistics.

In 1991, the new Informatics Law was enacted (Law No. 8,248). Unlike the previous law (1984), it revoked any differential treatment for companies with national capital, removed restrictions on imports and focused on fiscal stimulus by reducing the tax on industrialized products (IPI) to companies that manufacture products from the computer industry (hardware). In return, they are expected to apply the equivalent of, at least, 5% of their gross sales (after deducting the trade-related taxes of the products) into research & development (R&D) in Brazil. The new law established that 0.8% of the resources destined to R&D should be directed towards research institutions located in the Brazilian Midwest, North and Northeastern regions (RAMALHO; FERNANDES, 2009).

Within this context, the Bairro do Recife was chosen in 2000 by the State Government of Pernambuco, in partnership with the Municipality of Recife, to implement the Porto Digital Project (PPD). Resulting from action involving members of the Universidade Federal de Pernambuco (UFPE), businessmen and governments, the PPD aimed to stimulate the information and communication technology (ICT) sector and, at the same time, revitalize the neighborhood. To leverage the project, strong investments in infrastructure were implemented, especially in the southern part, and area of strict preservation.

Currently, the PPD comprises 315 companies - under the coordination of the Porto Digital Management Center (NGPD), a non-profit social organization -, nine thousand jobs generated and a turnover of around R$2 billion (Brazilian Real[6]) achieved in 2018 (LACERDA; FERNANDES, 2019). Since the promulgation of Law No. 17,244 (RECIFE, 2006), companies based in the Bairro de Recife have enjoyed a reduction in service tax (ISS) from 5% to 2%, which, it should be stated, is not an insignificant factor towards the attractiveness of this location. Of the 151 exempt companies, 129 are based in this location. The reduction began functioning as a positive locational externality. Consequently, rental prices, as will be observed below, are higher than in other CHR neighborhoods. In addition, legislation operated as a territorial delimiting factor, by discouraging the movement of ICT companies beyond the area (which is in fact an island) until 2013. With Law No. 17,942 (RECIFE, 2013), a quadrilateral section in the neighborhood of Santo Amaro was included in the coverage area of the partial tax exemption (Figure 1)[7]. It was also similarly established that the partial exemption would include creative economy (EC) activities. Thus, the first steps were taken for the PPD to move away from its original

6. At the time of writing, the Brazilian Real was equivalent to US$5.39.

7. This quadrilateral is limited within the following perimeter: Avenida Mário Melo, Rua da Aurora, Avenida Norte and Avenida Cruz Cabugá.

objective of recuperating properties in the Bairro do Recife through the installation of ICT companies (ALBUQUERQUE; LACERDA, 2017). In 2015, through Law No. 18,168 (RECIFE, 2015), the scope of the PPD was extended once again, by incorporating the entire Santo Antônio neighborhood and part of the São José neighborhood (without bringing together the area corresponding to the traditional retail and wholesale trade) and also by inserting any education activities. This expansion, according to the local newspaper *Jornal de Commercio* (2015), was due to the lack of built space in the Bairro do Recife.

Still in the 2000s, another economic dynamic resulted from a federal policy, which was aimed at higher education, and which highlighted the actions of the University for All Program (Prouni) and the Student Financing Fund (Fies). With these stimuli, the private sector, with emphasis on university activities, rediscovered the CHR, most notably around Guararapes Avenue (in the neighborhood of Santo Antônio), which was distinguished, until the 2000s, by the marked presence of partially empty buildings. This dynamic was reinforced by the tax reduction established by Law No. 18,168 (RECIFE, 2015), which included this neighborhood and educational activities within its scope.

To these two processes – the technological enterprises and education activities – one more was added: those resulting from the social policies of the first decade of the twenty-first century. These had increased the consumption capacity of the middle and lower classes, bringing implications for the neighborhood of São José and parts of Santo Antônio and Boa Vista.

The economic dynamics revealed here impacted the real estate market in the CHR, by changing its Economic and Social Division of Space (DESE), a concept underlined by Lipietz (1974). In order for the DESE to reproduce, regulatory mechanisms, *land taxes* (ground rents), translated into the market prices of real estate are necessary. These have shaped this historic centrality in different submarkets.

2. The characteristics of the rental real estate market

The functioning mechanisms of a real estate market should be observed by analyzing (i) the *heterogeneity of the assets and their location*, (ii) the *supply potential of the built-up area*, (iii) how these assets function as *real assets*, and (iv) the *conduct of the agents* in relation to real estate.

2.1 Heterogeneity of the assets and the locations

The heterogeneity of the assets offered (construction material, built-up area, location, etc.) in the real estate market is visible. Differentiation, according to market theory, is an obstacle to perfect competition. Heterogeneity is even more evident

when it comes to properties in historic areas, due to the distinctions in terms of functionality, age, building type, state of preservation, qualities of public space, amongst others. A further obstacle to perfect competitive modeling derives from the spatial immobility of the offered product, which encumbers the supply and demand flows between real estate submarkets. Thus, a location is either bought or rented. This, as recalled by Granelle (1998), refers to two scales: a macrolocation, from the viewpoint of the property's relations with the rest of the city (accessibility to the main center, social image); and a microlocation, from the viewpoint of the environment surrounding the property (commercial, educational, technological, etc.).

Figure 2. The CHR: real estate submarkets
Source: Gemfi/UFPE, 2020.
Produced by Antônio Lacerda and Andresa Santana.

It should be noted that the above-mentioned MICH research had identified four real estate submarkets in the CHR. This was a first approximation. However, it was recognized that the limits of each one did not coincide with the boundaries of the neighborhoods. The first step, therefore, was to map the occupancy patterns and to identify the predominant uses. Each occupancy pattern was identified based on a synthesis between the sizes/formats of the plots of land and the predominant building typologies. The result of the analysis demonstrated a close relationship between occupancy pattern and use, thereby resulting in six submarkets (Figure 2), as follows: Bairro do Recife, Santo Antônio-Guararapes, Santo Antônio-Diario, São José, Imperatriz-Rua Nova and Boa Vista. The area defined as institutional - although containing commercial and service establishments - was excluded from

the analysis due to the extensive presence of public bodies (the State Governor's Palace, the Court of Justice, the Santa Isabel Theatre, the former Central Station of Recife).

In the Bairro do Recife, the occupancy pattern is characterized by elongated rectangular plots, of between 150 m² and 600 m², which encompasses townhouses and eclectic buildings of up to four floors, many of them restored to receive ICT and creative economy (EC) companies. Public spaces (bridges, squares, etc.), infrastructure and urban services are of good quality, as a result of interventions by local authorities. In view of the concentration of these activities across this location, it is unsurprising that, in 2018, 36.1% of properties were geared solely towards general service activities (Table 1), the highest percentage in comparison with the other CHR submarkets. There was also an outstanding volume of vacant buildings (32.5%), which indicates the occurrence of speculative retention, and not a lack of built space, as reported in 2015 by the *Jornal do Commercio*.

USES	Bairro do Recife	Sto. Antônio-Guararapes	Sto. Antônio-Diario	São José	Imperatriz-Rua Nova	Boa Vista	TOTAL Properties	
	%	%	%	%	%	%	V. Abs.	%
Commercial	1,0	5,7	**51,1**	**58,9**	**49,8**	4,4	1.171,0	39,4
General services	36,1	17,1	19,8	8,7	9,5	9,3	366,0	12,3
Educational services	0,7	17,1	0,0	0,1	1,3	0,5	18,0	0,6
Institutional/Cultural	13,9	8,6	6,1	1,2	1,1	4,2	101,0	3,4
Comercial+Serviços	2,0	17,1	1,5	2,9	6,5	2,1	99,0	3,3
Commercial+Services+ Residential	1,3	5,7	1,5	2,3	9,5	10,3	148,0	5,0
Residential	0,7	0,0	0,0	3,1	2,4	42,2	316,0	10,6
Parking lot	9,3	0,0	3,1	3,6	1,7	1,3	100,0	3,4
Terrain	0,0	0,0	0,0	0,2	0,2	0,2	5,0	0,2
Vacant	32,5	25,7	10,7	10,2	14,2	18,6	447,0	15,0
Others	2,6	2,9	6,1	8,7	3,9	6,9	202,0	6,8
TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	2.973,0	100,0

Table 1. The CHR: the uses of property in the real estate submarket (2018).
Source: Recife City Hall, Department for the Preservation of Cultural Heritage, 2018.
Produced by Gemfi/UFPE, 2020.

Santo Antônio-Guararapes is characterized by plots of between 800 m² and 1,600 m², fully occupied, containing buildings of between six and twelve floors, all with covered shopping areas on the ground floor that give way to bus stops.

Many of the abandoned buildings have recently been refurbished to accommodate education services. Due to its building characteristics and high level of centrality (macrolocation enhanced with the installation of a Bus Rapid Transit [BRT] station), nine of 21 buildings (43%) located on Avenida Guararapes and in its immediate surroundings are occupied with educational equipment (LUCENA, 2015), which is why there is a high proportion of educational properties (17.1%), which, in addition to the use of general services (17.1%), totals 34.2%. Over the past 30 years, there has been just one major intervention: a BRT station.

The occupancy pattern of Santo Antônio-Diario, is similar to that of the southern part of Bairro do Recife, previously described. There is still a predominance of commercial use (51.1%), a reality that tends to be modified as it is the area closest to Bairro do Recife, in addition, as registered above, to being inserted into the partial ISS exemption area. As in the case of Santo Antônio-Guararapes, no major urban improvements have taken place over the last thirty years, except for a BRT station.

In São José, the plots are mostly between 50 m² and 200 m²; are elongated and very narrow, with adjoining buildings of up to four floors. This produces a series of openings, facing onto the roads, which enable passersby to view numerous establishments, favoring commercial activity (SILVA, 2018) by creating a microlocation (commonly known as *vuco-vuco*) that meets a regional demand (macrolocation), whose access is favored by the proximity of the Central Station of Recife (subway), the Cais de Santa Rita Terminal (bus) and the parking facilities at the Museum of the City of Recife. The public space is of poor quality, whereby the sidewalks are too narrow for the busy pedestrian flows, in addition to visual pollution. Unlike Bairro do Recife, Santo Antônio-Guararapes and Santo Antônio-Diario, São José is not covered by tax reduction regulations. Furthermore, over the past thirty years, it has not been the object of any significant requalification projects. In 2018, 58.9% of the properties were exclusively commercial, the highest rate when compared to the other CHR submarkets. As with the three other submarkets mentioned, the residential dwellings have all but disappeared.

Imperatriz-Rua Nova contains plots of between 200 m² to 800 m², with three to four-storey townhouses used mainly for commercial activities (49.8%) for the intermediary and popular segments. Boa Vista is characterized by the presence of elongated plots (between 70 m² and 250 m²), with a significant number of buildings with up to two floors intended solely for residential purposes (42.2%). As with São José, these two submarkets have not been the object of any major requalification projects.

It may therefore be understood that the CHR has different occupancy patterns, revealing a functional hierarchy that, in turn, establishes a hierarchy of submarkets, with different levels of externalities, as may be observed in Table 2, below.

Submarkets	Predominant activities	Positive externalities/public interventions
Bairro do Recife	Services (ICT & EC)	Reduction of 60% in ISS for ICT, EC compnaies and education, infrastructures, security
Sto. Antônio-Guararapes	Services (education)	Reduction of 60% in ISS for ICT, EC companies and education and BRT
Sto. Antônio-Diario	Services & commercial (intermediary/popular)	Reduction of 60% in ISS for ICT, EC companies and education and BRT
S. José	Commercial (popular)	Strong pedestrian flow (w/o significant interventions)
Imperatriz-Rua Nova	Commercial (intermediary/popular)	No significant public intervantions
Boa Vista	Residential	No significant public intervantions

Table 2. The CHR: real estate submarkets according to the predominant activities and externalities
Produced by the authors, 2020.

2.2 The supply potential of the built-up area

The rental market for tertiary activities in historic centers presents limitations for increasing the quantity of built-up area on offer. This is because the built-up sector is subject to strict preservation standards. Thus, the supply potential of the built-up area for such activities is considered to be the sum of the square meters of unused properties and residences – capable of harboring companies - with the square meters that may be built on empty land.

The ensemble of CHR submarkets occupies an area of 143.2 ha. The future offer may reach 226,612 m², i.e., 19.4% of the total of its built-up area (1,165,610 m²), a percentage well below the Santo Amaro Quadrilateral[8], the territory covered by the PPD, whose surface area of 29.8 ha may support an increase of 228% in its built-up area and reach 707,028 m², according to the Table 3.

Despite the interventions in the Bairro do Recife, its supply potential is relatively expressive (16.6%), mainly due to the presence of unused properties, which has not been an obstacle for forming monopoly prices, as will be observed below.

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8. This quadrilateral (control variable) has not proven attractive for ICT and EC companies. Only four companies located there have benefited from the partial exemption.

In Santo Antônio-Guararapes, the relatively low supply potential (8.1%) is due to the acquisition of several abandoned buildings for the installation of educational units. In Santo Antônio-Diario, the supply potential is even lower (7.6%), which indicates that the properties were not so abandoned as in the cases of Bairro do Recife and Santo Antônio-Guararapes. It also safeguards a commercial and service dynamism, threatened, as mentioned, by the probable advance of ICT and EC activities.

Submarkets	Properties						Terrain***		Supply potential	
	Quantity		Unused*		Residential**					
	ABV	M²	M²	%	M²	%	M²	%	M²	%
Bairro do Recife	302,0	258.673,0	42.581,9	16,5	417,1	0,2	0,0	0,0	42.999,0	16,6
Santo Antônio--Guararapes	35,0	113.418,7	9.132,7	8,1	0,0	0,0	0,0	0,0	9.132,7	8,1
Santo Antônio--Diario	131,0	102.182,0	7.799,6	7,6	0,0	0,0	0,0	0,0	7.799,6	7,6
São José	1.429,0	324.375,2	33.532,5	10,3	13.094,5	4,0	4.326,0	1,3	50.953,0	15,7
Imperatriz-Rua Nova	464,0	230.169,3	34.326,9	14,9	7.524,8	3,3	1.112,4	0,5	42.964,2	18,7
Boa Vista	612,0	136.791,8	21.496,4	15,7	49.160,2	35,9	2.107,0	1,5	72.763,6	53,2
Total	2.973,0	1.165.609,9	148.870,1	12,8	70.196,6	6,0	7.545,4	0,6	226.612,1	19,4
Quadrilátero em Santo Amaro	334,0	310.122,1	20.199,6	6,5	96.419,9	31,1	590.408,3	190,4	707.027,7	228,0

Table 3. The CHR: the supply potential of m² commercial and/or services by submarket (2018).
Sources: Recife City Hall/ Department for the Preservation of Cultural Heritage. 2018. & ESIG. 2015. Produced by Gemfi/UFPE, 2020.
*Total of properties or plots identified in the field.
**On all floors. Not considering properties only using the ground floor.
***May be used for parking.

In São José, the supply potential (15.7%) is high for an area with commercial dynamism. It is a fact that part of the unused properties (10.3%) is awaiting negotiation, in the event that the current joint situation involving weak economic growth with a toning down of social policies is overcome.

The supply potential in Imperatriz-Rua Nova (18.7%) is also due to unused properties (14.9%), many of which had to close for reasons explained above. The supply potential in Boa Vista is very high, 53.2%. In this case, it is mainly due to the strong participation of built-up residential square meters (35.9%) with the potential for encompassing commercial and service activities, in addition to many unused square meters (15.7%).

In view of these data, two extreme situations may be anticipated: in the Bairro do Recife, with a significant prospect of increasing the supply potential of square meters (16.6%), during the period from 2016 to 2018, the highest real estate prices were announced in comparison with the other CHR submarkets, as will be observed below. This situation leads to the conclusion that unused properties in the Bairro do Recife constitute a speculative reserve that, in conjunction with the strong demand, is responsible for pushing up prices. In Boa Vista, with a greater supply potential of square meters (53.2%), lower prices were offered, due to the relatively low demand for business facilities in that location, coupled with the country's economic situation.

3. Real assets and the conduct of the agents

The constraints, weighted by the agents, are revealed here when it comes to deciding whether to buy or rent, which requires discussion on real estate as real assets and the *conduct of agents*. This includes examining the profile of real estate owners (individuals and companies) and the degree of access that agents have to information, two aspects with strong implications for their behavior.

Real estate is a real asset, due to its long economic life. Like any other durable good, it is distinguished as a product (the good itself) and as an object of consumption. This signifies that two non-exclusive behaviors may occur: purchasing the property in order to install an activity (consumer goods) and/or purchasing the property as an investment, with a view to leasing. As consumption, the speed is of relevance when the goods or services offered by the company are realized. As an investment, real estate is a real asset of an individual (an individual citizen – known in Brazil as *pessoa física* [PF]) or a company (a legal entity, known as *pessoa jurídica* [PJ]). In the event that the latter is an owner, it is as if the corresponding monthly rent were reverted to itself, and the profitability should revolve around the income from financial investments. In the case of individuals, they buy only to invest, with the intention of leasing, including in the price the product itself and the consumption potential of their property. These two markets (consumption and investment) are directly associated, i.e.. the asset is valued due to the flows produced by the aforementioned activities[9]. The monthly consumption price would correspond to the rent or the amount of the cost of access to the property per period. However, another behavior motivated by the good as a real asset, leads the individual or the company to buy as a simple speculative reserve. If it is a building, it does not matter if it falls into ruin.

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9. Jean-Jacque Granelle (1988), when analyzing housing real estate, distinguishes them as consumer goods, what he calls "*service lodgement*" and "*bien d'investissement*".

As identified, traders and/or service providers are the most representative consumers of the built space in the CHR. Their economic plans, mostly, do not coincide with the extended life span of a property. In order not to take greater risks, they choose to rent for shorter periods and/or not to immobilize capital, which may be reversed in their core activities. They know that each location determines the potential level of profit margins, margins directly taxed on the level of turnover of the respective capitals; mounting margins that must incorporate a surplus, capable of enabling them to pay a property rental. However, would-be tenants do not act individually. Ultimately, renting a property is to participate, together with the landlords, in a competitive process in relation to the different uses that are structured in the historical centralities. Therefore, the competition of uses, or rather, the level of surplus to be produced per unit of surface built-up area by use, will be the operator of the competition.

Submarkets	Individuals (PFS)		Legal entities (PJS)								TOTAL (PFs+ PJs)	
	Subtotal		Religious entities		Public bodies		Companies		Subtotal			
	ABV	%	ABV	%	ABV	%	ABV	%	ABV	%	ABV	%
Bairro do Recife	416,0	50,7	60	7,3	38	4,6	306	37,3	405	49,4	820	100
Santo Antônio--Guararapes	1.197,0	77,5	11	0,7	56	3,6	280	18,1	347	22,5	1.544	100
Santo Antônio--Diario	365,0	52,2	25	3,6	14	2,0	295	42,2	334	47,8	699	100
São José	1.591,0	74,4	164	7,7	39	1,8	344	16,1	547	25,6	2.138	100
Imperatriz-Rua Nova	1.039,0	73,5	53	3,8	7	0,5	323	22,9	383	27,1	1.413	100
Boa Vista	821,0	87,1	40	4,2	13	1,4	69	7,3	122	12,9	943	100
TOTAL	5.429,0	71,8	353	15,7	167	2,2	1.617	21,4	2.138	28,3	7.557	100

Table 4. The CHR: the legal status of the owners of addresses by real estate submarket (2000).
Source: Recife City Hall. Real Estate Registration, 2000.
Produced by Luanancy Lima Primavera and Andresa Santana, 2020.

The data in Tables 4 and 5, referring to the years 2000 and 2018, demonstrate that the number of PJs has evolved little between these years (from 28.3% to 29.9%), which indicates that the strong presence of PFs as owners of addresses has remained permanent. One change occurred in the Bairro do Recife, where PJs went from 49.4% in 2000 to 57.8% in 2018, to the detriment of PFs. This change was due to an increase in the participation of legal entities (PJs)/public bodies and legal entities (PJs)/religious entities. In 2000, public bodies owned 4.6% of addresses, rising to

5.3% in 2018. This was due to the acquisition of addresses by the State Government, made available to the NGPD (PJ), which, in turn, leases out to companies "on board" in the PPD. There was an increase of religious entities from 7.3% to 14.5%, due to the fragmentation of addresses, in order to respond to the demands of the real estate market. In 2018, these two legal entities - religious entities (14.5%) and public bodies (5.3%) - owned 19.8% of the addresses in the Bairro do Recife intended mainly for rental, which may not be considered an insignificant concentration of real estate properties – a subject to be resumed. The remaining significant number of PFs in 2018 (42.2%) demonstrates that part is formed by speculators (unused properties) and the other by rentiers, whose properties are used by companies. As a result, firms did not have to immobilize capital in acquiring real estate in the most valorized area of the CHR. In the case of those who benefited from the ISS reduction, the rentiers, who bought to invest, these are well positioned to appropriate real estate income.

Submarkets	Individuals (PFS)		Legal entities (PJS)										TOTAL (PFs+ PJs)	
	Subtotal		Religious entities		Public bodies		Companies		Subtotal					
	ABV	%	ABV	%	ABV	%	ABV	%	ABV	%			ABV	%
Bairro do Recife	400,0	42,2	137	14,5	50	5,3	361	38,1	548	57,8			948	100
Santo Antônio--Guararapes	1.161,0	74,4	0	0,0	32	2,0	368	23,6	400	25,6			1.561	100
Santo Antônio--Diario	349,0	54,8	34	5,3	16	2,5	238	37,4	288	45,2			637	100
São José	1.629,0	75,7	147	6,8	38	1,8	337	15,7	522	24,3			2.151	100
Imperatriz-Rua Nova	1.012,0	71,3	55	3,9	4	0,3	349	24,6	408	28,7			1.420	100
Boa Vista	809,0	87,3	37	4,0	13	1,4	68	7,3	118	12,7			927	100
TOTAL	5.360,0	70,1	410	14,7	153	2,0	1.721	22,5	2.284	29,9			7.644	100

Table 5. The CHR: the legal status of the owners of addresses by real estate submarket (2018).
Source: Recife City Hall. Real Estate Registration, 2018.
Produced by Luanancy Lima Primavera and Andresa Santana, 2020.

In Santo Antônio-Guararapes. there was no significant change in the PJs during the period in question (variation from 22.5% to 25.6%), as expected, due to the installation of education activities. This is because the ownership of at least eight of the buildings located there (previously under a variety of ownerships) had not been registered under the name of the company Ser Educacional, but under the name of its owner (PF). There was a variation of individual entities (PFs) in Santo

Antônio-Diario (from 52.2% to 54.8%), perhaps announcing the acquisition of properties for rental purposes to companies, including ICT and EC.

In São José, there is a strong hegemony of PFs both in 2000 (74.4%) and in 2018 (75.7%), which strengthens the idea that these people, many of whom are heirs and ex-residents of the neighborhood, were becoming rentiers and increased their assets with a view to leasing for commercial and service activities.

A slight change occurred in the Imperatriz-Rua Nova submarket. The representativeness of PJs fluctuated from 27.1% to 28.7% in the period considered, indicating a tendency for companies to acquire real estate. In Boa Vista, PFs are largely hegemonic, around 87%, in the two years assessed. This situation is due to residential use, a significant part of housing rental. According to the 2010 Demographic Census, approximately 46% of households located in this neighborhood were being rented.

At this point it is important to discuss the differentiated level of information held by the agents. In the case of Bairro do Recife, Santo Antônio-Guararapes and Santo Antônio-Diario, legal entities (companies) are better informed than landlords, usually individuals, with regard to knowing in advance which possible investments and public incentives should be made. The public authorities acted and have been acting in these submarkets as a real estate agent.

In the Bairro do Recife, sometimes tax benefits have been granted, at other times, improvements in infrastructure are made feasible, with or without the onerous assigning of physical spaces, and from time to time properties that may be negotiated have been identified. As companies are organized around the PPD, they hold information on the real estate market. All in all. "[...] the real estate component integrates the portfolios of Porto Digital in such a manner that, in national and international events held with the aim of attracting companies, the possible spaces are presented for interested companies to become installed" (LACERDA; FERNANDES. 2015. p. 349).

It should be remembered that in Recife, the Bairro do Recife is where the maximum stratification may be observed of urbanization practices and, therefore, of cultural meanings; for this reason, within this area, differentiated times remain visible. This territorial portion - so forgotten, so abandoned in the 1970s and 1980s - is an urban structure conditioned by the historical heritage that is projected in time. The neighborhood - the birthplace of the city of Recife - has undergone transformations, but its essence has been there since the beginning. In this case. "[...] the history is no longer nostalgia, but a point of support. The future is not unknown, but constructible [...]. There is no need to look for an essence, a nature where history plays this role to the full" (OSTROWETSKY. 1983. p. 165). Not without reason,

in this real estate submarket, variables with more symbolic features rather than material, influence the content of the economic variables that define the real estate prices. Its microlocation, from the viewpoint of an innovative environment, found by its users to be a safe space when compared to other areas of the city, has been a contribution towards the *imaginal vision* guiding its future. The effort to create new meanings, supported by the old, may be measured by the low rate of changes (3.6%) and by replacement (10.3%) to the visual character of the buildings in collation with the other submarkets (Table 6). It may be noted here that the recovery of properties in the southern part of the island has been taking place, since 1998, under the watchful eyes of the National Historical and Artistic Heritage Institute (Iphan), which are stricter than those of the Recife City Hall.

Submarkets	Changed visual character		Replaced		Changed+ Replaced		TOTAL	
	ABV	%	ABV	%	ABV	%	ABV	%
Bairro do Recife	11	3,6	31	10,3	42	**13,9**	302	100
Santo Antônio-Guararapes	1	2,9	4	11,4	5	14,3	35	100
Santo Antônio-Diario	1	0,8	16	12,2	17	13,0	131	100
São José	201	14,1	812	56,8	1.013	**70,9**	1.429	100
Imperatriz-Rua Nova	40	8,6	199	42,9	239	**51,5**	464	100
Boa Vista	68	11,1	162	26,5	230	37,6	612	100
TOTAL	**322**	**10,8**	**1.224**	**41,2**	**1.546**	**52,0**	**2.973**	**100**

Table 6. The CHR: properties that have changed and replaced the visual character by submarket.
Sources: Recife City Hall/ Department for the Preservation of Cultural Heritage, 2018.
Produced by Gemfi/UFPE, 2020.

In Santo Antônio-Guararapes, a section of the properties has been recovered, as previously mentioned, by education institutions possessing a high level of information in terms of public policies for providing incentives for education. This knowledge, as it occurred in the Bairro do Recife, enabled them to glean the future, to anticipate, by purchasing buildings at low prices, and then adapting them to the new use, without needing to make changes to the architectural styles. This explains the low frequency of changes to (2.9%) and replacing (11.4%) the visual character. The spatiality has been recreated, based on history, in a future not unknown, "but constructible" (*imaginal vision*). Its macrolocation is one of the important factors triggering the interest of these companies. With regards to Santo Antônio-Diario, the PPD announced (2015) the installation of ICT and EC activities in the old buildings of the newspaper *Diario de Pernambuco* and the Institute of Financial Administration for Social Security and Assistance (Iapas). The future of this submarket has been announced, the uncertainty that has hung over this territorial portion is fading.

These three submarkets reveal the "coordinating" role of the State in relation to the area covered by the PPD, which has reverberated in the DESE of the CHR. In general terms, owners and tenants have been driven by the *innovative conservation of heritage assets*, a term proposed by Lacerda (2018), inspired by Schumpeter. This signifies that these agents have been restoring properties without changing their visual character, extolling its historical values and thus responding to the demands of modern activities.

The situations of the other submarkets are somewhat different. In São José, the owners, generally individuals (PFs) (75.7%. in 2018), and tenants maintain almost the same level of information. They consult specialized websites or seek information on the price history across the locality where their properties are on offer. In some cases, this task is handed over to a real estate broker. Since a considerable part of the residential sector in this submarket has shifted over to tertiary activities, the visual character of 70.9% of the properties has been changed (14.1%) and replaced (56.8%). These data reveal that the conduct generally assumed by the owners and/or tenants is that of *annihilating destruction of the heritage asset*. In other words: these agents are positioned at a distance from *innovative conservation*. They are not motivated by local government, whose performance is weak in terms of inspection. It is, thus, symbolic resistance - popular wholesalers and retailers - insofar as they reproduce the pre-existing spatialities, cling to the past, with no vision of the future and avert the risk. This is why coordinating this submarket is undertaken through the mimetic conduct of its agents.

In Imperatriz-Rua Nova, the visual character of more than half (51.5%) the buildings has either been changed (8.6%) or replaced (42.9%). Many of the residential properties have been transformed in order to accommodate tertiary activities. The other half, corresponding to 48.5%, has maintained the respective historical values. A significant portion of the owners, even in the absence of an expressive rehabilitation policy, has been driven, sometimes towards *innovative conservation*, at others towards *annihilating destruction of the heritage asset*, revealing that the transition in this area is extremely uncertain. Under these circumstances, landlords and tenants make decisions in an environment of urban uncertainty (ABRAMO. 1998). In Boa Vista there is a significant representation of properties where the visual characters have been changed or replaced (37.6%), less than in Imperatriz-Rua Nova due to the strong presence of residential use, which, according to Menezes (2016), tends to preserve more than the commercial sector. However, residential properties are able to be transformed into tertiary establishments. This situation includes the Boa Vista submarket in a position of urban uncertainty, reinforced by the fact that it has the highest supply potential of built-up area in collation with the other CHR submarkets (Table 3). In order to provide a more comprehensive

grasp on the coordination of each of the submarkets and the respective conducts in relation to the heritage asset, Table 7 is presented below.

Neighorhoods/submarkets	Submarket coordination	Agent strategies
Bairro do Recife	State/City Hall through the NGPD	Innovative conservation
Sto. Antônio-Guararapes	Private education sector and the State/City Hall through the NGPD	Innovative conservation
Sto. Antônio-Diario	State/City Hall through the NGPD	Innovative conservation
S. José	Mimetism by the agents (inertia)	Annihilating destruction
Imperatriz-Rua Nova	Urban uncertainty	Innovative conservation and annihilating destruction
Boa Vista	Urban uncertainty	Innovative conservation and annihilating destruction

Table 7. The CHR: coordination and strategies of the agents according to the submarkets.
Produced by the authors, 2020.

4. Prices offered and submarket operation models

The mean prices per square meter of rent were obtained during the period from 2016 to 2019 (Table 8) through the Zap Imóveis portal and by contacting the telephone numbers made available on the advertising signs, which resulted in collecting information on 240 properties. Although these are offer prices, not used on the market, this factor does not invalidate the analysis, since it is an examination of the confrontation between the CHR submarkets and other centralities in Recife.

Location	Mean	Standard Deviation	Variation Coefficient (%)	Minimum	Maximum	Sample
Historic Center of Recife	**31,23**	**31,42**	**100,60**	**4,43**	**367,8**	**175**
Bairro do Recife	38,09	43,97	115,44	8,93	367,8	75
Santo Antônio-Guararapes	19,53	10,54	54,00	7,4	35,07	15
Santo Antônio-Diario	30,5	19,56	64,13	10,62	56,13	13
São José	23,29	14,33	61,50	6,44	62,28	30
Imperatriz-Rua Nova	34,95	21,77	62,28	17,39	95,28	35
Boa Vista	12,8	6,59	51,48	4,43	20,61	7
Other centralities in Recife	**40**	**18,11**	**45,28**	**8,28**	**76,62**	**65**
Encruzilhada	28,3	18,53	65,47	8,28	70,85	21
Boa Viagem	45,44	15,21	33,40	17,77	76,62	44

Table 8. the CHR and other centralities in Recife: the offering price of m² for leasing properties for commercial and services use (2019)*.
* Prices updated for December 30,2019 by the General Market Price Index (IGPM).
Source: http://www.zapimoveis.com.br from October 2016 to December 2019 and telephone contact with owners and real estate brokers from advertising signs.
Produced by Diêgo Maciel.

The price variation coefficients indicate degrees of variability. In the Bairro de Recife, where the mean price per square meter is R $ 38.09, the level of variability (115.4%) is much higher than in the other CHR submarkets and in the two centralities investigated (Boa Viagem and Encruzilhada). This is because unused properties, probably in a deplorable state of conservation, tend to be priced lower, reaching R$ 8.93. In contrast, the value of the restored properties, along its main avenues, tends to be much higher: R$ 367.80. In this neighborhood, ICT and EC companies currently occupy a considerable constructed area, of which a significant part belongs to the State Government (15,327 m²), with management, as previously stated, granted to the NGPD, which owns 7,448 m², also located in this neighborhood (ALBUQUERQUE; LACERDA. 2015). Therefore, on of the attributes of the NGPD is to manage an area of 22,775 m². In this location, the Santa Casa de Misericórdia do Recife (SCMR)[10] owns 24,693 m² (PRIMAVERA; LACERDA; VASCONCELOS, 2019). As observed, in 2018, religious entities and public bodies owned 19.8% of the addresses in the Bairro do Recife submarket. Together, the NGPD and the SCMR hold 47,468 m², which is equivalent to 18.4% of the built-up area of this neighborhood (258,673 m² - Table 3), a significant concentration of real estate. The high prices offered for rent are due to the fact that this submarket operates in a situation of *imperfect competition*, with *oligopolistic* bias, as well as speculative retention. Only the Boa Viagem submarket exceeds the mean value for the Bairro do Recife (R$ 45.34). However. the maximum price found in the latter only manages to reach R$ 76.62.

Santo Antônio-Guararapes presents a low price (R $ 19.53), although, as mentioned, it possesses a low supply potential of built-up square meters. This is because the addresses offered are located in abandoned buildings, belonging to several owners. With the crisis of the Brazilian economy and the recent pulling back of educational policies, the educational sector has not expanded, and rentiers have no condition, individually, to recuperate buildings of six to twelve floors. There is a strong concentration of real estate. According to Lucena (2015), the owner of Ser Educacional owns eight buildings (35,458 m²), equivalent to 31.2% of the total built-up area (113,419 m² - Table 3) of this submarket. Moreover, he remains in a privileged position to buy at low prices, when the economy resumes. A situation of *imperfect competition* is thus expressed, with a *monopolistic* bias. Santo Antônio-Diario boasts the third highest price (R$ 30.50). It is plausible to assume that incentives for ICT, EC and educational activities stimulated the increase in rental prices. The State Government initiated a process of assigning the former

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10. Santa Casa de Misericórdia do Recife is a private and philanthropic religious entity, inaugurated in 1860.

headquarters of Diario de Pernambuco (4,910 m²) and the Iapas building (3,800 m²) over to this nucleus. Together, these buildings represent 8.7% of the built-up area (102,182 m² - Table 3) of this submarket, which leads to a situation of *imperfect competition* situation, with *oligopolistic* bias.

São José is the fourth most valorized. The mean square meter of built-up area for rent was R $ 23.29. A study by Silva (2018) demonstrated that, in the streets that present the most intense pedestrian flows, there are practically no commercial units offered for lease. Its micro and macrolocation are sufficient to guarantee profit margins for countless tenants and to allocate surplus (rents) to real estate owners, mostly individuals. The spread of real estate property enables us to affirm that this market operates based on an *imperfect competition* model, with bias of *monopolistic competition.* It is important to note that the first economist to admit the situation of monopolistic competition was Edward Chamberlin (1933). The basic principles of this model are the heterogeneity of the products, the inability to replace each of them, in addition to the actions of many sellers and buyers.

Imperatriz-Rua Nova has the second highest mean price (R$ 34.95), due to its remaining vigorous intermediary/popular trade, displacing that of Encruzilhada (R$ 28.30), which presents the same commercial profile. Part of this submarket, specifically that around Rua Nova, the PPD coverage area, should face unfair competition in the mid-term with ICT and EC activities. Mid-term is spoken of because the privileged area for the expansion of the PPD is Santo Antônio-Diario, whose occupation pattern is similar to that of Bairro do Recife. Boa Vista presents the lowest price (R$ 12.80) due to the high potential of offering a square meter of built-up area for tertiary activities, the absence of tax benefits and significant urban interventions, for being excluded from any urban requalification policy. Similar to what has occurred in São José, real estate property is widespread, which enables this submarket to be placed within the scope of *monopolistic competition.*

5. Interpretative schema of the real estate rental market for tertiary activities[11]

In this section, a schema is designed of how the real estate rental market for tertiary activities functions (Figure 3). The most important endogenous variable is the *price per square meter* of the rental of a property, resulting from the link between *supply* and *demand.* The most important exogenous variables refer to *public policies* at both national or local levels. Although they vary according to the political and economic situation, they promote adjustments between the supply and demand for real estate.

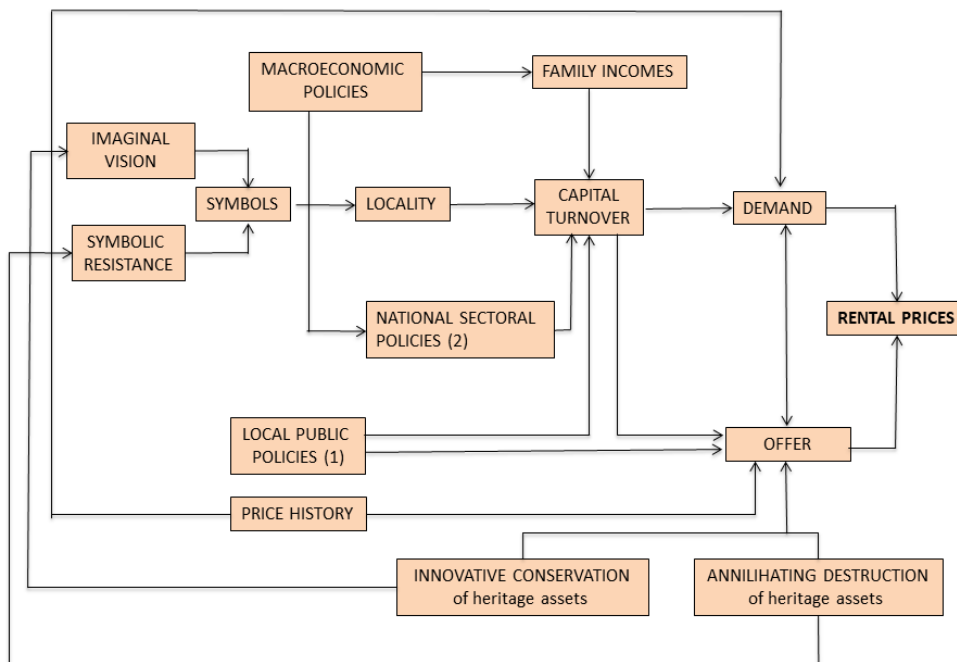11. The schema presented here results from the development/enhancement of that proposed by Lacerda (2018).

Figure 3. Interpretative schema of the real estate rental market for tertiary activities.
Source: produced by the authors. Inspired by the schema developed by Lacerda (2018).
(1) Infrastructure provision/renovation; tax exemption; assignment of built spaces and plots of land.
(2) Tax exemption on computer products, education credits; credit conditions; salary policies.

The national sectoral policies are characterized by three levels of determination: (i) incentives for certain economic sectors, such as the new Informatics Law; (ii) the *financial availability* to enable credits, such as Fies; (iii) the *conditions of these credits*. The first influences the level of demand (firms and individual investors who rent real estate). The second determines the amount of financial resources available. The third fixes the financial costs that will be incurred on credit operations, which will stimulate – to a certain degree - *demand*. These three instances of determination are closely subordinate to macroeconomic policy, which defines the monetary policy - responsible for the interest rates of credits granted to the target activities - and establishes the general guidelines of the other national policies. Its repercussion falls on the levels of demand, which, in its turn, pressures the offer of real estate property.

State and municipal policies may be characterized by three levels of determination: (i) provision and/or renovation of urban infrastructure and services; (ii) tax exemption and/or granting credit incentives; and (iii) assignment and/or lease of land and built spaces. Such policies have influenced an increase in demand for

heritage assets, due to the aforementioned exemptions, assignments and leases, and of the offer of these assets, driven by real estate valorization.

Thus, the ensemble of public policies – national, state and municipal - influences the purchasing power of companies, allowing them to purchase or rent properties with *appropriate infrastructure and services. In this case, through creative processes of innovative conservation of heritage assets*, these assets are adapted by the owner or tenant to meet the new functions (ICT, educational...). Thus, these policies have enabled "another use of existing goods" (SCHUMPETER, 2012, p. 217), although, in this case, without destroying them. Possessing an imaginal vision, anchored onto what a certain location had been in the past – a *symbol* - and what it will be in the future, these entrepreneurs search for real estate assets, placing pressure on the *offer*. Initially. as has been indicated, prices have tended to be relatively low due to the fact of generally dealing with buildings in deterioration.

In contrast, we are witnessing processes that are changing the visual character of historic properties - *annihilating destruction of heritage assets* - by owners or tenants, to fulfill their duties as rentiers and/or traders. Holders of *symbolic resistance* - the result of persistent historical and cultural survivals, and with no government incentives, do not envision a future different from the past. Even so, in areas of strong economic dynamism, they put pressure on *supply.*

The growth in *demand*, in relation to a supply of little elasticity, also due to speculative retention, favors the formation of locational monopolistic prices. Nevertheless, the actions of private agents in certain areas of a historic center, encouraged by public policies, result in the recreation of spatialities. In the absence of these policies, what may be observed is the practice of low real estate prices and, by extension, the reproduction of pre-existing spatialities.

It is also necessary to consider the price history, resulting from the functioning of the interpretation model presented herein. However, so that real estate actually occurs on the market, it is imperative that their owners consider the solvency level of demand, formed by firms and individual investors. For these, what matters is the *capital turnover* (the volume of business) provided by the location and its symbols (*symbolic resistance* or *imaginal vision*). *Capital turnover* is influenced by the *macroeconomic policies* that impact, amongst other things, the level of demands for business services (ICT, education, etc.) and, also by *family incomes*. Such income can encourage household consumption, favoring, for example, retail trade in central areas and, by extension, influencing the demand for commercial spaces and services.

Lastly, as the historic centers are generally formed by several real estate submarkets, there is price differentiation. It would be because of a market whose

prices fluctuate from a very low level to a very high level. These prices provide information on two simultaneous movements: (i) the *reproduction of existing spatialities*, characterized by the mimetic actions of the agents and (ii) the *recreation of others*, through the innovative actions of public and private agents.

Final considerations

The article has highlighted the colonial roots of land rent and has drawn attention to its relevance in the CHR real estate market, formed by different submarkets. Each exhibit distinct occupancy patterns, use, externalities that results in a hierarchy of submarkets, marked by the different behavior of their agents in relation to real estate.

In Recife Antigo, Santo Antônio-Guararapes and Santo Antônio-Diario, thanks to public policy incentives, investors (individuals – PFs, and companies - PJs) purchased real estate, as real assets, as in the cases of the NGPD and the owner of the Ser Educacional. The purchase strategy has been driven by the positive correlation between real estate valuation and public incentives. The first submarket reveals a situation with an *oligopolistic* bias due to the concentration of square meters being held by just a few property owners. The second imprints a position with *monopoly* features through the concentration of property being held by a single person. The third is moving towards a situation of *oligopoly*. The State has been closely coordinating these three submarkets. In that context. the conduct of the owners in these locations is driven by an *imaginal vision*, which encourages them to recreate such spatialities, thereby turning them into the protagonists of an *innovative conservation* of heritage assets.

In São José, there is a strong preference for the demand for leasing, especially that formed by small and intermediary entrepreneurs. For these, buying a property represents an immobilization of capital, which could mean lower investments in its core activities. For landlords, holders of a "possessory mentality", it represents the opportunity to maintain their real estate assets and even expand them, with a view to creating real estate income. This submarket operates based on a *monopolistic competition* model. The agents, guided by mimetic behaviors, are protagonists of an *annihilating destruction of the heritage asset*. Rental prices express, in essence, *symbolic* resistance.

Imperatriz-Rua Nova and Boa Vista reproduce their respective spatialities. However, at the same time, they recreate it, since its agents oscillate between *annihilating destruction* and *innovative conservation of heritage assets*.

Lastly, analysis of the process that has taken place in the CHR has enabled the creation of an interpretative schema of the manner in which the rental real estate

market for tertiary activities functions in historic centers. A broader study would reveal that the example of Recife is not an isolated case. This schema may serve as a tool for future work and constitute a model of analysis applicable in other Brazilian historic centers.

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