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# THE HIDDEN BUBBLE

Isabel Concheiro

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## BUBBLES AND BURSTS

Real-estate bubbles are a worldwide phenomenon across different geographic and socio-economic contexts, ranging from historical building booms (for example Los Angeles 1887) to contemporary examples in Ireland, China, Angola or Spain.<sup>1</sup> The relationship between financial and real-estate booms, and consequently between financial and real-estate crises, has been strengthened with the advent of neoliberal politics since the 1990s and has increasingly been influencing the contemporary urbanisation. Spain's speculative landscapes constitute a paradigmatic case of an architectural and urban production that is founded on the speculative value both of the buildings and the land. Since Spain has largely specialized its economy in tourism and real estate development, the crisis in the construction sector has affected the overall economy and society at its root. The scale and the repercussions of its failure, not only economic but also urban and social (an unemployment rate of about 25%, a lack of liquidity caused by the huge bank debt hindering economic recovery and a serious problem of housing access by household indebtedness), make the Spanish case a particularly relevant case study on the underlying relationship between architecture and speculation.

The real-estate bubble that took place from 1998 to 2007 was characterized by its

intensity and change of scale, by an increase in housing as an investment rather than for real use and by a progressive loss of public interest in favour of private interests in the development of the territory. In this context, the construction sector experienced an unprecedented growth: about four million houses were built between the mentioned years (out of a total of twenty five million housing)<sup>2</sup> and the average number of housing units completed per year was 565.000,<sup>3</sup> more than double the rate for the previous decade. This is equivalent to the construction of twelve dwellings per thousand inhabitants, far in excess of the European average of five per thousand. Moreover, during the heyday of the housing bubble and once the land provisions of the former municipal plans had been exhausted, large tracts of former rural land were reclassified in relation to profit expectations rather than to real housing needs.<sup>4</sup>

After the ten years of the housing boom, a stroll through the country shows a mosaic of scattered, unrelated developments, empty housing stock, interrupted building sites and large tracts of reclassified land waiting for future development. The bubble burst in 2007 has suddenly stopped both the construction of housing and the urbanization of land. The number of housing units completed per year fell to 80.000 in 2012,<sup>5</sup> there is a housing stock of around 700.000 units<sup>6</sup> and nearly 400.000 unfinished units in the interrupted building sites.<sup>7</sup> In addition



*Interrupted foundations,  
PAU El Quiñón, Seseña, Toledo.  
Photography: Isabel Concheiro, 2014.*

to this visible stock, there are about 250.000 ha of land stock<sup>8</sup> corresponding to the estimated amount of land that could potentially be developed. The seven and a half million housing units that could be built on this land would theoretically cover the Spanish housing needs for the next twenty years.<sup>9</sup> But given its location, mainly in specific areas of the Mediterranean coast and in peripheral inland areas, it is very likely that most of this land stock will not help to reduce the still existing primary residence deficit but to increase the already high number of second and vacant homes (160 housing units/1.000 inhabitants vs. EU 70)<sup>10</sup>. Even if the demand for housing grows it will not be necessary to urbanize this large amount of land in places with no real demand.

#### LAND LIBERALIZATION DYNAMICS

How could this reclassification of land at a large scale take place? The main factors that explain this phenomenon are the following: a real state model, established in the 1950s and not redefined since then, based on reclassification of land and new construction; a legislative shift in the late 1990s aimed to liberalizing land management; and an urban policy defined from a purely local perspective. Moreover, these factors were developed under extraordinary financing conditions. Besides the inexpensive and abundant liquidity of the international financial bubble that was invested in

real estate because of its high short-term benefits, the accession of Spain to the euro in 2002 implied, besides money laundering in the construction sector, unlimited possibilities of indebtedness because of the inability to devalue the own currency.<sup>11</sup>

In 1959, the launch of the so called National Stabilization Plan implied a period of late industrialization and openness of the autarkic Spanish economy to the free market. The urban growth associated with this economic development generated a first construction boom at the early 1970s, reaching a peak of 500.000 housing units in 1973. Two key elements of the current housing model were consolidated during this time: the privatization of the construction sector, which was encouraged by the government to face an estimated demand of one million and a half dwellings, and the shift to a home ownership system (currently only 10% is rental housing compared to 50% in 1950).<sup>12</sup> In the mid-1980s a second boom took place, which was characterized by an investment in infrastructure rather than in housing and by a decline in public housing policies, which represents today only 10% of the market. After the Spanish entry into the EU in 1986, the capital coming from the EU Structural and Cohesion Funds and also from the reorientation of Spanish industrial capital by the introduction of foreign investors in Spanish companies, was basically invested in the construction sector.<sup>13</sup> This became a key sector of the Spanish economy and generated a cli-

mate of trust by the government, companies and citizens. Therefore, the third and more intense boom that began in the late 1990s is not an isolated phenomenon as it is based both on historical precedents as well as on unprecedented conditions of urban and financial deregulation.

In 1998 the government approved a new, markedly liberal Land Act: «The present Act aims to facilitate the rise in land supply, meaning that all land which has not yet been incorporated into the urban process, in which there are no reasons for preservation, can be considered suitable of being urbanized.»<sup>14</sup> Two years later, a Royal Decree with the unambiguous title «Urgent Measures for the Deregulation of the Property and Transport Sector» was passed: «The positive development of the Spanish economy is necessary to move forward towards the liberalization process to keep pace with economic growth. Regarding the real estate, the reform will increase land supply by eliminating those current regulatory provisions that due to its lack of flexibility may limit it, and will end up transferring this positive effect to the final real estate price.»<sup>15</sup> The main purpose of this legal framework was to increase the land supply and streamline its management in order to reduce housing prices. But the desired improvement to housing access did not come to fruition, as housing prices grew an average of 280% during the bubble.<sup>16</sup> Land speculation greatly influenced this figure, as 85% of the housing



Interrupted earth works,  
PAU El Quiñón, Seseña, Toledo.  
Photography: Isabel Concheiro, 2014.

price rise was due to the excessive land price increase averaging 750% at a national level.<sup>17</sup>

Moreover, the enormous urban growth was accelerated by local municipalities, which had full independence to reclassify land (make it developable) in the absence of supra-municipal or regional planning guidelines. Reclassifications and subsequent building permits issued by municipalities have proved to be the principal source of municipal (and sometimes also personal) revenue, giving rise to numerous cases of urban corruption (reclassifications allow capital gains up to 500 euros/m<sup>2</sup> because the land value is estimated by its sale value)<sup>18</sup>. As Eugenio Burriel explains, «The determination of developable residential land exclusively done by the local municipal urban planning had its logic while the demand of housing and activities was primarily at local level. This decision making framework is inadequate today for a demand that is largely supra-local.»<sup>19</sup>

Therefore, the housing bubble cannot be understood without the land bubble, and its effects, although less visible, could have tremendous impact in the future development of the territory.

#### VISIBLE AND INVISIBLE REMAINS

This bubble has not helped to improve the quality of urban areas. Actually, the Spanish

territory has increasingly been defined by real-estate sales operations (under the name of urbanizations, resorts, residential and others) which lack of the basic conditions of a city such as density, social mixing and the importance of civic realm. One of the most important features is the urban shift from a dense and compact model characteristic of Mediterranean cities to a low density and peripheral growth model based on oversized, scattered developments, uniform in terms of urban form, morphology and uses, bereft of symbolic content and de-territorialized. After the housing bubble burst many of these developments were interrupted at different building stages constituting today the most evident expression of the speculative thinking that laid behind their construction.

Besides the visible remains there are also the invisible ones. That is, the vast former rural territories which have been reclassified and which could potentially be developed either for housing or for industrial and leisure activities. This land could be classified in two categories based on their current state of completion. Firstly, land that has not yet been but could potentially be urbanized: the 'stand-by landscapes' which includes both productive and unproductive agricultural land (the former meaning that agriculture has been abandoned due to the potential capital gain expectations of the land from its urbanisation). And secondly, land that has already been urbanized: the



*Interrupted landscapes,  
South-east development, Parla, Madrid.  
Photography: Isabel Concheiro, 2014.*

‘ready-to-go landscapes’ which includes both land which has been interrupted in an early stage of its urbanisation process and land which has been totally urbanized (the former meaning land with complete urban infrastructure such as streets, water, electricity, etc. but with little or no housing).

These landscapes could be characterized as low performance territories. Two of their main features are, first, the big scale in relation to the existing settlements, and second, the fact of being completely urbanized at once without a phasing and evolutionary strategy related to a real housing demand. Additionally, these landscapes are characterized by their environmental and financial inefficiencies as well as with an imbalance in their location. On the one hand, to the intrinsic land consumption due to their scattered condition and low density (an average of 35 housing/ha), we have to add the current maintenance costs and low return (no inhabitants, no taxes) in relation to the investment costs (about 500.000 euros/ha)<sup>20</sup>. And on the other hand, the biggest amount of land stock is located in the Mediterranean region and in Madrid’s metropolitan areas where the housing bubble was more intense. These areas display the highest rates between developable land and consolidated urban land in comparison with other regions that implemented restricted measures in relation with land reclassification and low density developments (for example, the rate in Valencia is

90 housing/ha, which means that the potential urban land could nearly double the existing one).<sup>21</sup> Performance is also related with a shift in land ownership. Land, as an exchange resource, is rapidly changing hands between banks or corporations. This is leading to increase difficulties in the public intervention in land development due to the lack of established communication channels with the new agents of urbanisation. The role and interaction with the new interlocutors in land management is undoubtedly a key question in the future development of the territory.

## LAND AND WASTE

If the marking of the ground could be considered the first architectural gesture,<sup>22</sup> I argue that the reclassification of land could be considered the first speculative gesture preceding any other step in the urban speculative process. The reclassification of land has become one of the main ways of obtaining profit from this resource in Spain. The image of the greenhouses in El Ejido (Almeria), as an example of intensive agriculture, can be associated with those of the intensive residential monocultures which have redefined the Spanish landscape over the last ten years and that could potentially intensify its speculative portrait within a future financial boom scenario.

Urban speculation is one of the clearest expressions of the capitalism logic of accu-

mulation and rapid profitability and thus the analysis of the relationship between financial and urban transformations is essential to understand and visualize the contradictions and the limits of the system. In contemporary capitalism the idea of production of goods to the accumulation of monetary surplus,<sup>23</sup> which is in turn translated into the accumulation of housing and land stock in speculative urban contexts. In this sense, the idea of ‘accumulation by dispossession’<sup>24</sup> by Harvey as ‘the centralization of wealth and power in the hands of a few by dispossessing the public from their wealth or land’<sup>25</sup> is clearly applicable in this framework. In the Spanish case, considering housing and land as an investment, has led to a paradoxical oversupply of vacant housing and reclassified land in the hands of few investors, and thus can be directly linked to increased difficulties in access to primary housing for large sectors of the population. In addition, the clear political will of liberalization of land management has led to a progressive loss of the public interest in the development of the territory in favour of private interests. Recovering those spaces for the public realm is a major contemporary urban issue in order not to completely lose the idea of city and territory as a collective value rather than as private merchandise.

Moreover, this logic of accumulation of housing and land is intrinsically related with the accumulation of waste in the sense of



*Interrupted landscapes,  
Urbanización Montesión, Toledo.  
Photography: Isabel Concheiro, 2014.*

«useless, worthless, or in excess of what is required»<sup>26</sup> and could be in turn considered as what Berger has defined as «waste landscapes of transition, as they reveal the transitory nature of capital investment and real estate speculation»<sup>27</sup>. One of the main contemporary territorial and urban challenges is precisely how to reuse and redesign these waste landscapes taking advantage of their incomplete condition. A first necessary step in Spain would be to map out the country in order to identify the areas which could be interesting either to keep as natural or agricultural or to develop in relation to a real demand. In turn, this would lead on the one hand, to a necessary process of land declassification, and on the other, to the redefinition of the potential urban environments using the current infrastructure as a framework.

It is necessary to look for solutions in a broader rather than at a local scale. The logics which generated the problem were local. The solution will necessarily have to come from an overall perspective.

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