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What has happened in Spain? The real estate bubble, corruption and housing development: A view from the local level

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ABSTRACT

How have the recent real estate, mortgage and financial crises affected different countries, territories and cities? How have the different public and private stakeholders behaved and how accountable have they been for the origin and development thereof? What links are there among the local, national and global contexts in the crises? Recent geographic research ought to attempt to answer these questions, but there have, however, been few in-depth studies on the link between urbanisation, financial markets and the global crisis. The present paper analyses one of the principal causes of Spain's recent evolution: urbanisation of the territory, the start and consequences of housing bubble; our study emphasises the differential elements in relation to the crisis in other countries. We study in greater depth the municipality of Torrelodones, which constitutes a reference due to the appearance of a residents' movement opposed to the development process and which is a perfect example of the dynamics that led to the economic and social crisis. We describe in detail the lack of any strategic vision, participation or transparency in town planning decision-making, the processes by which reports and inspections were doctored, and the mechanisms of corruption of public decision-making in town planning. Finally, we analyse the concrete manner in which huge losses in mortgage markets occurred, with the collapse of the real estate bubble and the financial markets, which subsequently forced a State bailout.

1. Introduction

Economic growth is seen as one of the fundamental objectives of any economic policy programme, regardless of ideologies or theoretical models, except for the defenders of the so-called stationary state. The progress that has been made in the levels of per-capita income of the population, along with the increase in employment, indicates that growth is a universal and inalienable paradigm. Nonetheless, periods of growth also have negative effects and cause imbalances, especially in relation to intense growth. This is the case of economic bubbles, in which the price of an asset is not based on 'fundamental' factors but rather on expectations of revaluation (Stiglitz, 1990: 13).

The fact that the origin of bubbles and the consequences thereof are not exclusively associated with financial and economic aspects is the reason for the increasing interest among authors to analyse these situations. Thus, for instance, there is an important body of research by geographers, sociologists, political scientists, urban planners and even heterodox economists regarding the territorial dimension of the imbalances and asymmetries generated by capital flows. The dissipation of the boundaries of each discipline enables a more holistic approach to the multiple dimensions of reality, and serves to verify the interdependences that exist among an accelerated urbanisation process, a huge real estate bubble, a generalised environment of speculation, an institutional framework that was lax at the least, or which tended to generate corruption, the guarantees of the mortgage market, the financial crisis that occurred after the bubble burst, and the serious economic, territorial and social consequences. This multidisciplinary approach is particularly useful for addressing what occurred in Spain in the last 20 years, based on what occurred in a small municipality.

The recent economic crisis has highlighted the existence of real estate bubbles within the international context. The co-existence in time of these bubbles enables coincident, even interdependent, situations to be identified with regard both to their origin and to their consequences. Economic globalisation, in particular that of the financial markets, very much accounts for these common elements. Nonetheless, the presence of differential elements in different countries can be highlighted, even within the EU (Aalbers, 2012b). The present paper attempts to study in depth some of the undesirable effects of the intense growth in Spain in the 2002–2007 period, one of whose origins was precisely the real estate bubble, looking at some of the aspects

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indicated by Romero et al. (2012). The paper delves into the economic, financial, social and territorial aspects, thus characterising the origin of the real estate bubble in Spain and its consequences thereof and emphasising both the common and the differential elements in relation to the international context.

The first scope within which we focus our study is urban development. Shortcomings in land planning prevent appropriate orientation of this growth, with no control of the negative consequences of transforming land uses. This gave rise to some of the environmental impacts typical of this type of activity, such as the destruction of habitats and natural areas, increased pressure upon fauna, alteration of the landscape, and greater stress on water resources.

The second scope deals with the failure of the real estate and financial markets. Starting with the real estate markets, some authors highlighted some of the inefficiencies or failures of the market for single-family homes (Case and Shiller, 1989; Gallin, 2006; Koetter and Poghosyan, 2010).

Finally, the paper emphasises the third element that favoured the bubble: corruption (Romero et al., 2012; Cárdenas, 2013, p. 15). Insufficient controls and even connivance by the public authorities, based on vested interests, favoured not only the development of the bubble by means of reclassification of land and conceding licences (Villoria and Jiménez, 2012) but also the appearance of some very negative effects on the territory and on the very health of the financial system.

2. Theoretical and empirical framework

Since the classical studies by Harvey (1985) and Sassen (1991), renovated by the more recent analyses by Aalbers (2008, 2009), Dymski (2009) and Wyly et al. (2004, 2009), there has been great interest, albeit inconsistent, over time on territorial effects of mortgage markets and secondary circuits of capital. Focusing on the most recent crisis, different authors have provided a framework to explain its urban origin and the role played by the mortgage markets in generating it; this analysis is furthered by means of territorial and social factors.

Indeed, the analysis by Aalbers (2012a) synthesises some of the principal contributions from outside the orthodox economy to the study of mortgage markets and provides an explanation of the elements that gave rise to the crisis, of how it was transferred to other markets and how it brought about subprime cities in the USA and elsewhere. According to this author, twin crises (subprime and financial) are inherently an urban crisis because it is not possible to understand or explain them only in financial terms. Both their origin and consequences have a clear territorial and urban dimension.

According to Aalbers (2012a), the origin of twin crises involves a combination of interrelated causes as follows: (1) deregulation and reregulation of financial and mortgage markets to develop subrprime and predatory lending and to implement secondary mortgage markets and securitisation (emission of residential mortgage-backed securities or RMBS to provide liquidity to lenders); (2) financialisation and globalisation of these markets, especially the secondary market, favoured by credit scoring and (3) bubbles and poor credit ratings. The bubble responds to a feedback process by which demand led to a rise in housing prices; this meant bigger loans, which in turn were encouraged by a high degree of liquidity of the financial markets, which simultaneously provided access to loads, whilst these became increasingly bigger as prices went up (Aalbers, 2012b). Thus, the rise in prices generated a virtuous circle in which buyers and lenders felt like winners, because the assets possessed by the former and the collateral held by the latter became increasingly valuable. The price rise even eliminated the risk involved in a loan for 100% of the value of the dwelling. Furthermore, for investors, possessing an actual asset, albeit broken up, meant an advantage '*in a period of extreme speculation when asset-based securities had become rare in the high-finance circuit*' (Sassen, 2012, p. 79).

In the next two sections, the paper presents a global view of the origin and effects of the real estate bubble in Spain from the perspective of the transformation of the territory and the financial sector. Following this general contextualisation, our study looks in greater depth at the real estate bubble in the municipality of Torrelodones (Madrid). This municipality was chosen because it constitutes a reference, even at international level, because of its opposition to one of the characteristic urban development projects of the bubble: the binomial urbanisation-golf course. Although we are unable to show generalisable situations on applying the methodology of the case study, the interest thereof lies in incorporating into the scientific literature precise details of urbanisation processes, the institutional networks and the actors within the local context, the insolvency of the collateral assets of the loans, and other elements of the real estate bubble in Spain.

3. Accelerated urban development of Spain's territory and the bubble

In the last 25 years, there has been an intense and rapid process of development of Spain's territory the scope of which is unequalled in history, because cities have consumed more land for urban use in this period than ever before. This process has a profound impact and far-reaching consequences for Spain's economic and territorial model which, besides, has transformed the landscape throughout much of the country.

Analysis of changes in land uses from 1987 to 2005 based on comparison of satellite images (European project Corine Land Cover) reveals the magnitude of the process. In 1987, Spain had 669,222 ha of artificial land, which represented 1.3% of its total area; in 2006, artificial land exceeded one million hectares (1,017,356); thus, in less than 20 years, there has been an increase of 350,000 ha, i.e. 52%. The primary and principal cause of this development is undoubtedly the rapid growth of housing; from 1991 to 2011, housing increased by 8 million units, i.e. a 46% increase, totalling 25.2 million units, 71.7% of which are first homes and 14.6% are holiday homes. This noteworthy process of construction of new housing in Spain has been atypical in relation to what has occurred in recent years in the real estate markets in the more populated nations of the European Union. Indeed, even before reaching the maximums, Spain's residential production greatly exceeded the total number of dwellings built in France and Germany, whose combined populations are three times greater than Spain's (142 million compared with less than 47 million in Spain).

The increase in residential construction was exponential between the end of the 1990s and 2006, a period in which the number of dwellings initiated exceeded the previous year's record. Thus, compared with less than 203,000 dwellings started in 1990 or 286,000 in 1996, in 2006, the number of newly approved dwellings reached a maximum of 911,568, of which most were single-family units.

In the Spanish economy, the property boom went hand in hand with a high degree of specialisation in construction, which reached its maximum in 2007 when this sector accounted for 13.3% of total employment, well over Germany's 6.7% or the United Kingdom's 8.5%. In terms of gross aggregate value, construction accounted for 11.9% in 2008 and 10.5% of the GDP, which is also well over the average of Europe's main economies.

This increase in residential construction was paralleled by sharp increases in house prices, seen in annual increases of over 18% for several years. From 1998 to 2005, house prices increased by 159.5%, whilst in just less than 3 years (2002–2004), there was a 53% increase. Many authors described the evolution of the activity of house prices between 1997 and 2007 as a real estate financial bubble of characteristics analogous to what occurred in Florida a few years ago. This bubble led to the overpricing of real estate assets (particularly residential property) that increased to 191% (Arellano and Bentolila, 2009), although this figure cannot be accurately calculated until prices stabilize, because they have dropped by 50% since their 2007 maximum.

Several factors account for this real estate boom. The Economic and