Cuadernos de Turismo, nº 43, (2019); pp. 621-624 Universidad de Murcia
ISSN: 1139-7861
eISSN: 1989-4635

EXTENDED ABSTRACT

URBAN SPECULATION AND THE REAL ESTATE BUBBLE IN COASTAL AREAS: FACTORS DRIVING THE THIRD TOURISM BOOM IN THE CANARIES[1]

Moisés Simancas Cruz
Department of Geography and History. University of La Laguna
ReinvenTUR research group: Tourism Renewal Observatory. University of La Laguna
CajaCanarias-Ashotel Professor of Tourism of the University of La Laguna
msimancas@ull.es

The development of land for tourism in the Canary Islands (Spain) has occurred following economic cycles involving growth and contraction that we can refer to as *tourism booms*. The third boom (1997-2001) was characterized by extraordinary commercial expectations to build new tourist accommodations in the short term (when bed places whose opening permits were pending entered the market), medium term (bed places whose prior authorizations were being processed) and long term (bed places that had not yet been executed because they were located on undeveloped land, although scheduled to be zoned for tourist development by urban planning regulations). Therefore, starting with the 354,435 legal bed places already in existence as of 31 December 2000, there was a risk that the number would grow to 450,892, taking into consideration the bed places that already had opening permits pending and those with prior authorizations pending (with building permits), increasing to 596,368 over the following three years and to an alarming 1,109,720 when adding accommodations projected to be built on land zoned for tourism in general and partial urbanization plans that had been presented to the competent public administrations.

However, these expectations did not correspond to a genuine demand. On the contrary, they were the result of urban speculation derived from public incentives to invest, as well as the predominant tendency to deregulate, privatize and liberalize the market. The main objective of this work is to analyse the factors related to urban planning and speculation that explain the genesis and development of this third tourism boom in the Canary Islands:

1 This research is one of the results of the 'Analysis of urban sustainability as a regeneration strategy for public space in coastal tourism areas' project, financed by the CajaCanarias Foundation and managed by the Vice-Rectorate of Research of the University of La Laguna. It is also registered in the 'Crisis and restructuring of tourist areas on the Spanish coast' (CSO2015-64468-P) project of the Ministry of Economy and Competitiveness (MINECO).

the prominent role of municipal governments in generating these exorbitant expectations and the extraordinary availability of capital from private and public sources.

Municipal authorities could have played a key role in recovering urban rights and ensuring that the growth of tourist accommodations was not predetermined, as well as responding to cases of non-compliance with the urban planning system, however, they reacted in exactly the opposite way. Instead of adapting development plans in accordance with the legislation or enforcing the norms, applying mechanisms to execute their competences, declaring the expiration of urban rights when obligations or time limits were not fulfilled or fighting against accommodation fraud (illegal bed spaces), the municipal governments chose to take a *laissez faire*, *laissez passer approach*. This attitude was favoured by deregulation in urban planning, which allowed new tourist developments to grow, while unblocking development projects that had been paralyzed in urban plans.

In this context, the municipal governments contributed to maximizing the volume of production (the tourist accommodations) through a flexible or à la carte 'project-based urbanism' (Rullán, 2014). In a similar fashion they also favoured developing land for tourism based on 'real estate production' projects, more than on 'tourism exploitation' projects. In addition, private agents arranged for changes in urban planning thorough bilateral negotiation and information asymmetries, generating local pro-growth networks that were often corrupt and based on clientelism.

Furthermore, the limited financial capacity of the municipal governments, especially after natural persons were exempted from the Tax on Economic Activities by Law 51/2002, which reformed Law 39/1988, 28 December, *regulating local tax authorities*, led them to use, at least partially, tourism planning as an instrument to maximize their tax revenues, which were directly proportional to their competences in this area. In this sense, tourism became the main source of revenue for local governments.

This situation led to an unconstrained process in which new land was zoned for tourist development, with hardly any control by the supra-municipal public administration, resulting in a flood of new tourism land that had nothing to do with genuine demand, but rather was based purely on speculation, short-term thinking and immediate returns. This explains why the majority of local governments with the possibility of developing tourism on their coastal areas operated independently in this area, competing with other municipalities to attract tourism projects. It also explains the origin of new tourism developments that were more in line with the current preferences of tourists and better suited to exploit the tourism market, with the consequent increase in tourist accommodations and land consumption in areas some distance from pre-existing tourist centres, which had never been developed for tourism, or which had only started to be developed, leading to those areas being definitively incorporated into the tourism market.

The second factor behind the third tourism boom was the exceptional financing conditions that backed growth in this area, available from both private and public sources. Indeed, starting in the middle of the 1990s a profusion of cheap money was available to promoters.

First of all, these conditions were associated with the liberalization of the credit market, which gave rise to a relatively low 'own resources-outside resources' relation. Second, expectations of profitability derived from the intense growth in demand in the second half of the 90s and the low returns from other assets that could attract business savings were decisive. In addition, an extraordinary amount of capital was channelled into the real estate market, specifically into the construction of new tourist accommodations. Another decisive factor was the fact that the tourist market that was so strong that hotel chains and tour operators paid the companies who built the tourist accommodations with the expected profits in advance, in exchange for preferential conditions in contracting during a guaranteed period. This made it possible for them to pre-finance the construction of accommodations, since they had greater capacity to obtain loans and absorb losses on some of them, since profits from others could maintain the business as a whole. On top of everything else, the majority of the investments in building tourist accommodation establishments, in particular hotels, could be amortized in a relatively short time, some in four or five years; this was favoured by the fact that the amortization occurred throughout the year.

Public financing was derived from various incentives. Through them the public administration's stimulation of tourism (OCDE, 1989) substituted, even supplanted, the role of private initiative in this area. A large part of that public capital came from three sources.

The first was Royal Decree 569/1988, 3 June, *delimiting the area of economic promotion of the Canary Islands* (in force until 1 January 2007). In accordance with article 7.1 of Royal Decree 1535/1987, approving regulations pertaining to Law 50/1985, 27 December, *on regional incentives to correct inter-territorial economic imbalances*, practically all the non-repayable subsidies given in the Canaries between 1996 and 2002 were directed at the construction of hotels, as they covered up to 50% of the approved investment.

The second source of public financing came from European Structural Funds and the Cohesion Fund, money that was received by the Canaries as an Objective 1 region. According to Armesto (2008), the Canaries received 6,110,700,000 euros of European funds between 1986 and 2006. Much of this money was applied to the tourism sector, especially between 1998 and 2002, when they subsidized up to 25% of the total investment in hotel construction.

The third source involved the tax incentives contemplated in Law 19/1994, which modified the economic and tax regime of the Canaries, specifically, the region's Investment Reserve. This became a source of patrimonial financing for tourism activity, as it was understood as a form of materialization related to the acquisition of fixed assets. This was because its materialization in tourism land, built up or not, in the form of construction of new tourist accommodations '*fit like a glove*' (Villar, 2003: 593), given the discretion afforded by its limited and vague regulatory development, its tax (saving) profitability, as well as the possibility that it could be applied to the acquisition of fixed or received assets in the Canaries.

This gave rise to the predominance of quantitative growth in tourism, 'artificially' distorting the natural dynamics (trends) of tourist accommodation capacity in the archipelago, as well as the sensible balance between supply and demand. This was promoted, above all, by land that had been 'liberated' from the protections against urbanization provided by laws prior to 1998 in order to meet the aspirations and capacity of private interests operating in the tourism real estate sector. Therefore, tourism production was closely tied to the immediacy of the real estate business and land speculation, favouring improvisation and '*developmentism*' over 'development'. The final result was the 'triumph of the tourism real estate sector over the tourism sector *stricto sensu*'.

This attracted commercial entities mainly linked to the construction and real estate promotion lobby, which considered the tourism sector an extremely attractive investment, either using their own resources or public subsidies and tax incentives. Thus, the third tourism boom was largely led by urban promoters, in detriment to those who invested in the tourism sector in the long term; this explains why the agents who 'produced' the supply of tourist accommodations became more important than those who managed them. Their main motivation was to earn the largest profits in the shortest time possible, leaving behind a fallout of the market distortions and negotiations that are closely tied to speculation in the urban-real estate phenomenon. Thus, although the sustainability thresholds of the insular territory of the archipelago required a slowdown in the growth of tourist accommodation capacity and a focus on renovating already existing accommodations, the collective optimism generated by the financial and tax framework at that time and 'liberal urbanism' led to an unprecedented expansion in land dedicated to tourism. The need to bring this disproportionate supply of tourist accommodations in line with the real demand for accommodations and, above all, to manage the uncertainty generated by its exponential growth, led the Government of the Canary Islands to regulate tourist accommodations and land zoned for tourism through the 'Canary Islands tourism moratorium' in 2001.