

INFRASTRUCTURE  
CONSTRUCTION

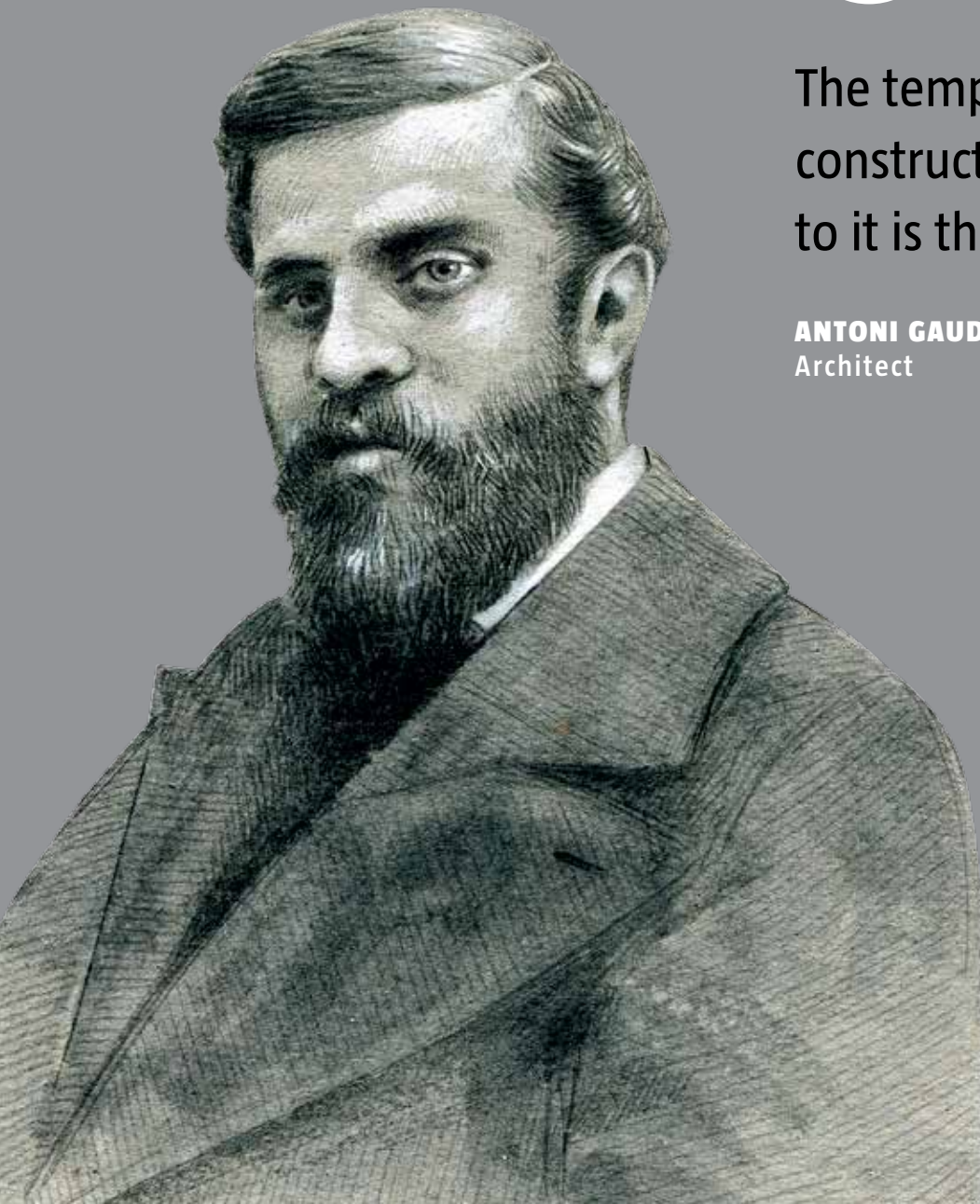
08

LESS PROPERTY,  
MORE TRANSPORT



The temple is the ultimate construction, and second to it is the home only

**ANTONI GAUDÍ (1852–1926)**  
Architect



The long economic crisis in Spain is partly due to the property bubble. But construction and infrastructure must continue to have a role in our future, albeit in a more modest form.



Basilica of the Sagrada Familia, designed by Antoni Gaudí. Its structure is due to be completed by 2026 (left)

Lindín-Carreira section of the Cantabrian Highway, improving communications on the European route E70 (right)

## A change of model for an economic driving force

Spain cannot move forward with confidence without the dual driving forces of public works and the property market. The country's competitiveness depends to a large extent on the efficiency of its logistics. Railway connections between ports and the nodes of the distribution network are a new focus that requires attention.



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Nothing will ever be the same again in Spain's construction sector following the devastating effects of the crisis. This has become the creed of entrepreneurs, analysts, and politicians in their attempts to map the road to recovery, and it finds an echo in a society sick and tired of the excesses of the past. But it is just as accurate to point out that Spain will not be able to make a recovery without the two driving forces that have generated its wealth (and, unfortunately, speculation) in the past: public works and real estate, which at one time accounted for almost 12 percent of GDP.

According to Euroconstruct, a research network representing institutions from nineteen European countries, the most recent production slump in the Spanish construction sector in 2014 (-2.4 percent) will be the definitive and final downswing of its kind, with increases of 1.8 percent expected for 2015, an upward trend

that is expected to gather strength in 2016 (3.6 percent) and 2017 (5 percent). Behind us is the long winter of the recession in a country that constructed a veritable transformation thanks to the European funding of infrastructure which provided this country with a social and economic backbone. Later, it was the affinity for investment in central government and the Autonomous Regions that drove growth in construction. But suddenly the party was over. While €44.2 billion in civil engineering and construction projects were put up for tender in 2006 (in the main, public works contracts offered by the Ministry of Public Works and Transport and the governments of the Autonomous Regions), this figure had plummeted to €21.6 billion in 2010 and reached an all-time low in 2012 when the value of state tenders totalled just €5.9 billion. The last official figures set total public tenders at €9.2 billion.

According to the calculations of Seopan, the association bringing

together the biggest Spanish construction companies, the dry period suffered by the sector between 2008 and 2014 has dragged economic growth down by 9.9 percentage points, or approximately €100 billion. The construction industry has been making a negative contribution to GDP for the last seven years, although the trend for 2015 is positive and it is expected that the sector will contribute 0.3 percent to the economy's growth this year.

The savings resulting from the fiscal consolidation program, with cuts in public spending of €58 billion (5.8 percent of GDP) have been achieved by means of a 55.2 percent reduction in public investment, a 34.5 percent adjustment to current spending, and other cutbacks. This unprecedented squeeze on the market has coincided with the decimation of private investment and the bursting of the property bubble. At one point, Spain built as many houses as Germany, France, and Italy put together: 735,000 res-



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idential properties in 2006. This historic peak is unlikely to repeat itself: in 2013, the number of new houses built barely rose above thirty-one thousand.

The direct effects of the sector's collapse—which was entirely unbridled despite efforts to stabilize the situation with the Plan E (Plan for Economic Stimulus and Employment)—were significant losses in tax revenue, devastating destruction of employment, and the closure of thousands of enterprises. In 2008 and 2009 alone, sixty-three thousand construction companies shut down, while employment in the sector plummeted during the crisis from 2.7 million to less than 1 million workers. In Spain, job losses in the construction sector account for 55 percent of the total. The side effects—no less important—include slumps in related sectors, the incipient deterioration of existing infrastructure, a brain drain of talent to other countries, and precariousness in the creation of a large number of unemployed.

### A new, more modest cycle

With the sector in ruins, also tainted by widely reported cases of corruption, enterprises and the government have predicted a potential new

business cycle that would be more modest than before. This is supported by a slight rise in the consumption of cement to 2.55 million tons. With demand in freefall until last year, reaching a low of ten million tons, the Spanish association of cement manufacturers, Oficemen, estimates that Spain's needs over the medium term will stabilize at annual orders amounting to twenty-five to thirty million tons, in comparison to the industry peak in 2007 of fifty-six million tons.

Along with the small upswing in tenders offered during the final furlong of the parliamentary term, there are signs of a gradual upturn in the property market. Property transactions carried out before notary were up 21.6 percent in 2014 to 365,594. Despite the significant weight of the second-hand housing market, experts believe that stabilizing the housing trade should create a market for the promotion of new works, with the construction of some two hundred thousand new builds per year. A stock of almost six hundred thousand unsold properties goes against this forecast.

It is logical that Spain might be tempted to seek an economic boost with some dynamic solutions, but based

on past events it is to be hoped that such measures would be sustainable. Spain's National Construction Confederation (Confederación Nacional de la Construcción, CNC) along with Seopan has urged additional public investment and offers the support of the private sector for projects such as building renovation, motorway maintenance, the construction of railway lines for goods transport, and the refurbishment of infrastructure in the water management cycle to meet the standards set by the EU. The new €300 billion investment plan proposed by Jean-Claude Juncker in his role as President of the European Commission is the new manna due to fall from the heavens of Brussels, although it will take the form of private finance in the main.

### Conservative forecasts

Spain is, nevertheless, a mature market. Since work began on the Madrid to Seville high-speed railway line, the government has invested over €50 billion in the high-speed network, which will expand in 2015 with one thousand km of new lines and links with cities such as Murcia, Castellón, Cádiz, Badajoz, A Coruña, Palencia, Zamora, Burgos, and León. Spain has also fulfilled its duty



FOMENTO

Constitution of 1812 Bridge, Cádiz

in terms of airport infrastructure, following €17 billion of extra investment in the Aena network, while the country's ports have surplus capacity and it boasts a modern motorway network. Indeed, European Commission forecasts for public investment between 2014 and 2016, which were updated in January 2015, allocate a total of €68 billion to Spain: this is substantially less than the €105 billion to be invested by Italy, the €189 billion forecast in the case of the United Kingdom, an estimated €202 billion in Germany and €239 billion in France.

This situation does not sit well with the private sector, intent on ensuring that infrastructure still features high on the government's list of priorities. With interest on Treasury debt currently at a minimum, the tide favors exports and expected economic growth, and construction companies are keen to emphasize the existence of a favorable environment for a revival in public works. Spain's National Association of Independent Construction Companies (Asociación Nacional de Constructores Independientes, ANCI) has requested an extraordinary loan of €5 billion to complement its budget from the Ministry of Public

Works and Transport, while Seopan has already proposed extraordinary additional public and private investment of more than €65.8 billion for the parliamentary term 2016-2019. It is estimated that the latter of these programs will generate some €30.7 billion in tax revenue and create one million jobs.

Government and industry do agree that Spain's competitiveness depends to a large extent on the efficiency of its logistics. Railway connections between ports and the nodes of the distribution network are a new focus that requires attention. The Mediterranean corridor is another major project being developed at the same time. And the plan to adapt various railway links on the conventional network for exclusive use for goods transport has been in the pipeline for many years.

During the next parliamentary term, if the economic upturn continues it is probable that debate will begin about whether to implement a system of low-cost toll roads on high-capacity motorways, which would provide the state with funds that it could use both to maintain infrastructures and restructure the transport sector. While they have examined this

method of collecting funds, the last two governments have avoided implementing such a system due to the high political and social costs in a context of crisis, as well as to protect a transport sector that has suffered greatly from shrinking consumption. Another field of work where the go-ahead has been given by the European Commission in the case of similar experiences in France is to allow private work on toll roads in exchange for extended concession periods. This proposal has been put forward by the companies operating Spain's motorways, which would place more than €1.3 billion on the table for improvements to road safety, environmental projects, or service quality. Once again, the initiative is opposed by consumers and goes against the state's intention to generate revenue with new motorway concessions once the current operating periods have expired.

### Public-private collaboration

The private sector has also highlighted opportunities for public-private collaboration in updating education and health infrastructure, motorway maintenance or improvements to access routes to Spanish cities, with required funding totaling around €15.3 billion. The renovation of housing to ensure compliance with technical building codes is another bone of contention. In its 2014 report "Estrategia para la rehabilitación: Claves para transformar el sector de la edificación en España" (Strategy for Buildings Renovation: Keys to Transform Spain's Building Sector), the Working Group on Building Renovation (Grupo de Trabajo sobre Rehabilitación, GTR), coordinated by the Green Building Council Spain and Fundación Conama, calculated investment requirements of €260 billion by 2050. The study, which looked at ten million buildings, also estimated potential energy savings of €390 billion for the same period. There are plenty of plans capable of sustaining a GDP and employment



FOMENTO

Construction of the viaduct over the River Ulla on the Atlantic High Speed Railway Line

generator such as the construction sector. While some plans are discarded and others come to life, the rules of the game have also changed for enterprises due to the need for cuts in public spending. Apart from the reprogramming of civil engineering projects to be completed over longer periods of time, the general rule for the price adjustments applied to raw materials during the period of execution of construction works is due to be replaced, which leaves construction companies facing greater levels of risk. Adjustments to contract award prices are also limited to 10 percent, compared to the 20 percent maximum that existed before the crisis. And the government is putting legislation in place to reduce state liability in the event of early rescindment of concessions. Another de facto standard that has been gradually gaining ground is the privileging of economic factors over technical specifications in bidding processes for engineering and construction projects, which effectively turns them into reverse auctions.

### Abroad

Faced with all of these circumstances, construction companies and

enterprises working on large infrastructure projects have taken their trade abroad. The Ministry of Public Works and Transport, which has acted as a vehicle for the participation of Spanish public enterprises in important international tenders—such as Saudi Arabia's high-speed rail network—calculates that Spain's portfolio of international works was worth some €74 billion in 2014, up 17 percent from the previous year. Apart from establishing themselves throughout the American continent, companies such as ACS, Ferrovial, Acciona, OHL, FCC, and Sacyr compete in Australia and the Middle East. They are also advancing from Eastern to Northern Europe. Along with their French competitors and Chinese state rivals, these are some of the biggest firms in the world boasting a vast experience gained to a large extent in Spain.

Their local construction business has been reduced by a fifth, but following difficult cutbacks in staff and debts (the six largest construction companies on the stock market have managed to reduce their debts from €62 billion in 2009 to €33 billion) they have been able to

establish strong foundations in active markets. This kind of venture is not feasible for everyone. Following the internationalization of these giants, Spain still has a good number of crane and tunneling firms that have yet to move into the international markets.

The European Commission is watching like a hawk. Following two decades of dizzying construction activity, the EU body has criticized an "oversized" network that has caused "a large proportion of the liability in public finances," according to the response to the National Reforms program proposed for Spain in 2014. Among other measures, it recommends the urgent creation of an independent observatory to audit future projects, along with more strategic planning.

Construction and property are back, but they will not be permitted to repeat their mistakes. Apart from private partnerships, Spain needs to have at its disposal the clearest regulations possible while reining in speculation, eradicating corruption, and adding a good dose of common sense in planning—which should be kept separate from political interests.



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## Anna Matas

Professor of Economics at the Autonomous University of Barcelona and the Barcelona Economics Institute (IEB)

## POINT

### Being more selective

The appropriate message for infrastructure policy is no longer a simple “what we need is investment.” An emphasis should be placed on where and how such investment should be made.

As of the mid-1980s, investment in transport infrastructure in Spain embarked on a long period of growth, which intensified between 1997 and 2009 and provided the country with a stock similar or superior to that of the most advanced European nations. It is worth pointing out that this investment has been of most benefit to the most advanced infrastructure, such as motorways and high-speed railway. Leaving to one side the fact that the Spanish high-speed network is the second biggest in the world behind China, we might also note that the number of kilometers traveled by motorway per inhabitant is double the EU average, far above countries like France, Germany, or Denmark.

This investment process has not been free from criticism, with a high level of consensus on the view that a lack of social profitability criteria in decision making has paved the way for a clear overcapacity in a large number of projects. Meanwhile, it is clear that many investments offering potential social profit are still pending. These include the scant attention received by railway goods transport (domestic traffic is around 4 percent); insufficient public transport services in certain metropolitan areas; and persistent accident black spots on our motorways.

The key to infrastructure policy in the future lies in knowing the rhythm of investment required to achieve a capital stock that will allow the sector to maintain sustainable economic growth. The message can no longer be a simple “what we need is investment”: we also need to identify where and how such investment should be made. As a useful starting point, we should highlight that infrastructure plays a key role in the country’s competitiveness. So even when substantial capital stock has

been created, is it necessary to keep making new investments. In general terms, the most advanced economies will need to deal with two types of need. First, international forecasts predict that the demand for transport will continue to grow in the coming years, above all in the case of air transport (passengers and goods) and sea transport (goods). Thus, Spain needs to make new investments to guarantee that the country’s infrastructure can absorb this demand without generating high congestion costs. Second, the pace of investment must be in line with accumulated capital stock. The greater the stock, the bigger the efforts required to maintain it. Evidence from academic studies points to a positive relationship between infrastructure stocks and economic growth. Nevertheless, we should not conclude from this that any investment in infrastructure will have a positive effect on our capacity for growth. This will only be the case if such infrastructure offers new advantages impacting our other production activities. That is why it is essential that Spain develops an objective mechanism for the economic appraisal of projects, allowing an efficient selection of the right projects. This evaluation must be carried out on a project-by-project basis, and not in aggregate. Such an evaluation mechanism must assess all the social benefits and costs associated with any particular project. Moreover, it is essential that the evaluation process is not dressed up to include supposed benefits deriving from the mere act of constructing an infrastructure—for example, the jobs generated during the construction project—which have little to do with its social profitability.

Third, while it is true that infrastructure policy must guarantee accessibility to all areas of the country, this does

not mean that such infrastructure should be designed without taking into account the potential demand and level of development in the region in question. Faced with a dilemma of efficiency and fairness, transport policy in the future must give greater weight to efficiency. There have been clear examples of overinvestment in Spain that have contributed nothing to the growth of a particular region while generating excessive economic costs, absorbing resources that could have been put to better use in other, more productive sectors.

A fourth problem is that transport policy can no longer ignore Spain’s peripheral location in Europe, which places the country at a disadvantage in comparison to other countries enjoying a more central location. In order to reduce the impact of this factor, we need to promote actions to improve cross-border links. A second strategic sphere is investment in metropolitan areas. Decent transport infrastructure empowers agglomeration economies in cities, boosting the performance of the labor market.

Measures should be approved that aim to improve the institutional framework and legislation to ensure the efficient functioning of infrastructure. But the mere introduction of legislation is no guarantee that liberalization will have positive effects; rather, it is necessary to implement measures that promote competition within the sector. A clear example of this is the liberalization of the rail freight transport sector, where there are still barriers to entry that prevent competition from thriving. Another aspect often overlooked by transport policy is its financing. The side-by-side existence of policies that differ both between types of infrastructure—airports versus railway—and across the nation—toll versus free motorways—gives rise to inefficient distortions in traffic that also generate additional costs. In this respect, it is worth gradually placing more of the cost burden on the user under the principle “he who uses pays” in the

case of high-capacity infrastructure. Nevertheless, this system must be standardized across all modes of transport and regions. User financing also makes it possible to incentivize the entry of private capital, with a greater availability of funds and greater efficiency in construction and the use of infrastructure. Nevertheless, these benefits can only be achieved to the extent to which there is good design in public-private collaboration. An essential element of this is the fair division of cost risks and revenue between the public and private sectors. There are a good number of examples in Spain that demonstrate how the participation of private capital has not managed to sidestep the creation of investments offering zero profitability.

In order to avoid the effects on the pace of public investment of restrictive fiscal policies applied during times of crisis, it is desirable for all programs with a stable budget to be treated separately from public investments relying on current expenditure. The key lies in separating public savings from the public deficit and establishing clear criteria governing the allocation of expenditures to one category or another. It is worth highlighting that some types of spending, although they are categorized as current expenditures, have economic impacts that require differentiated treatment and their inclusion in the category of investment expenditures. The task is complex and not free from controversy, but making progress in this direction would be advisable in the interests of encouraging rational decision-making.

Finally, Spain’s future strategy must not pass over the environmental aspect of transport. The EU has ambitious plans to reduce greenhouse gas emissions by 20 percent, along with 20 percent improvements to energy efficiency. The measures to be taken to this end must be subject to a process of assessing costs and benefits, with a view to ensuring that we make a sufficient contribution to the reduction of environmental impacts.

## COUNTERPOINT

# More infrastructure and more engineering

Engineering is the cornerstone of development, technological innovation, and exports, as well as a springboard for international penetration and responsible, sustainable development. It is essential to the transformation of the Spanish economic model.

Engineering constitutes a key sector of knowledge for economic development and social welfare since it is the cornerstone of development, technological innovation, and exports. It is also a springboard for international penetration and responsible, sustainable development. It is, therefore, essential to the transformation of the Spanish economic model.

In order to understand what has happened to the profitability of investments in infrastructure over recent years and why, it is also essential that we understand what engineering is and why engineering and construction are complementary activities. Construction always follows project design and planning, and is supported by technical assistance in works management and quality control. But in principle, the skills and knowledge required in the two sectors of activity are not interchangeable. There are synergies based on good logic that are essential to both sides, in the same way as there are synergies between other sectors, but construction and engineering are not the same kind of activity.

Currently, Spanish public budgets do not detail spending on engineering, meaning that this country does not know a priori exactly what public money is spent on preliminary studies, plans, or other activities linked to the creative process, designed and directed by a technician. In the interests of transparency, it is essential to recognize that budget allocations dedicated to engineering and consultancy work must be separated off from those dedicated to construction, guaranteeing some minimums and specifying the funding to be as-

signed to studies, drafts and projects, technical assistance for works management, and quality control.

In the case of Spain, and with regard to the total cost of infrastructure, the budget allocations currently set aside for engineering are way below those of other countries in our economic context (around 3 percent of total investment as compared to the 8 percent to 10 percent common in other nations).

While in the majority of countries in Europe and America there is the conviction that intellectual services cannot be hired based on economic criteria, in our country the financial aspects of a bid are consistently placed above quality criteria in the award of projects. In other countries in Europe—and in the European Commission itself—such services are awarded using formulas that assess technical and economic factors, placing a greater weight on the technical quality of the bid (around 80 percent) than on economic considerations.

Therefore, reduced investment in engineering means a cut of approximately 3 percent on total spending on infrastructure: this is a false economy leading to a high risk of increased costs in the form of adjustments made during the execution and maintenance of the work subsequently carried out.

During recent years, Spain has constructed a great deal, but that does not mean that it has made sufficient investment in engineering.

The sector has reached a high level of quality and competitiveness over more than twenty years, creating infrastructure that has completely changed Spain.

## Juan Lema

President of Tecniberia



Meanwhile, large-scale international projects have also been developed: bridges in Hong Kong and in Vietnam, refineries in Siberia, the new Panama Canal, the Metro in Bogotá, and so on. All of this means that Spanish engineering is in good form. The proof of this lies in the fact that our motorways, high-speed railways, airports, and underground systems boast some of the highest levels of quality in the world.

Future plans for architecture and engineering in Spain must place an emphasis on strategic support for foreign trade, taking advantage of the prestige that many of our enterprises enjoy.

With severe cutbacks in investment in public works, we run the risk of undoing everything we have achieved over the last twenty years by starving innovation in public works, along with experience and the training of the engineers that have been involved in these projects, achieving excellence in project management and creating formulas to guarantee environmentally and economically sustainable designs.

Drastic and unplanned deadlocking of the works in progress has removed any guarantees that the planned economic objectives can be achieved, with an attendant loss of thousands of jobs and hundreds of enterprises.

Investing more in engineering and in knowledge is the way of achieving maximum profitability from the set of investments made in infrastructure over recent years, as well as incentivizing the development of Spanish engineering firms in their international dealings.

There is still infrastructure that needs developing in order to provide a backbone for the country and strengthen the necessary logistical development required to

integrate plans handed down from Europe. The White Paper published by the European Commission in 2011, "Roadmap to a Single European Transport Area—Toward a competitive and resource efficient transport system," pays special attention to its key relationship with transport systems and trade on a national and international level.

The Spanish Ministry of Public Works and Transport in its Logistics Strategy for Spain shows itself to be of the same mind:

The implementation and development of logistics activities represent an opportunity to increase economic activity. The location of areas of such activity in a particular part of the country can therefore be seen as an opportunity to attract activity, an element that can boost economic growth, and, in general, a key factor for increasing competitiveness and employment.

Spain must consolidate its position on the European and global scale in the area of logistics, taking advantage of its geographical location and the development of its transport system to perform a key role in the traffic connecting the world's largest producers with consumer markets, generating value added when handling products depending on their destination market. This is the only way that we can improve our competitiveness with an efficient transport and logistics system in the global sphere.

If we want the set of investments and infrastructure still needed in our country to be efficient and sustainable, they should be created with a view toward ensuring their quality as a priority criterion. And a greater contribution from the engineering sector must be encouraged from the very start.

TALK ABOUT  
THE FUTURE

Josep Piqué  
CEO of OHL



“We need to have competitive ports. This action is fundamental to our industrial policy as a whole. But we have some years of restricted spending on infrastructure ahead”

**Do we need more construction, less construction, or simply to be more modest?**

When we talk about construction, we tend to identify it with a certain bad behavior in the so-called “bricks and mortar” economy. It is clear that there was a bubble associated with excesses of all kinds, which, when it burst, generated an extraordinary crisis. Now it seems that residential construction is recovering to a certain extent, since the enormous stock of uninhabited homes already built has been gradually absorbed during the seven and a half years that the crisis has lasted. We hope that we won’t trip over the same stone twice and that we can deal with things better than we did before, having learned some lessons from the past.

Another issue is infrastructure. In the case of OHL, we have focused on transport and one-off buildings for years. It is true that in recent decades—basically since the 1980s—Spain has made some very significant investments in this area. The “Barómetro de los Círculos” is an excellent barometer for making comparisons. It is an indicator measuring Spain’s competitive capacity in different spheres, created on the initiative of a set of business associations: the Círculo de Empresarios de Madrid, Círculo de Economía de Barcelona, and Círculo de Empresarios Vascos. When we talk about the provision of infrastructure it is clear that, in contrast to spheres such as education, Spain is above average, with a good network of main roads and motorways, high-speed rail links, and airports. However, there is still much to be done, above all in the area of freight rail transport, the famous corridors that are a basic element of competitiveness for exports and imports. We also probably need to seriously consider expanding our port capacity. Ships are increasing in size, and the immense majority of international goods traffic is moved by sea, meaning that we need to have competitive ports. This action is fundamental to our industrial policy as a whole.

So what is the future for Spain in the sphere of infrastructure, given these deficiencies? The construction of one-off infrastructure and buildings has a close correlation with budgetary resources, but despite the economic recovery we have some years of restricted spending ahead.

**What role does Spanish engineering play in a company like yours?**

It is the frontispiece of our strategic plan. All companies are a sum of their people, and the talent that they are capable of accumulating. In a company like ours, where value added comes from our capacity to compete with other companies that are also very talented, engineering is absolutely vital. And that’s where we have the advantage. Within the relatively poor situation of the education sector, there are a few exceptions worth highlighting. One of those is business schools. The other is the quality of our engineers. We have some excellent engineers, and so what is required is the generation of policies to attract and retain talent. We also have to be able to distribute this talent all over the world. Our main challenge is to be local in countries where we have a significant presence, while simultaneously situating our best human resources where they are really needed. And we have to achieve this in a country like Spain, where we have historically been reluctant traveler.

Julián Núñez  
President of Seopan



**What direction should the construction sector take?**

At the most critical time for our economy, during the period 2000–2007, the construction industry contributed around 30 to 35 percent to the Spanish economy, which was perhaps too high. Right now that contribution must be around 10 to 12 percent. We are moving toward the situation we should be in: ultimately, it’s a question of supply and demand. The worst of the crisis is over: we are on the path to economic recovery, and for the first time we’re seeing positive figures for our activity in particular—the building industry—which represents three-quarters of total national construction activity. This activity should not be the backbone of the economy as a whole, although it is clear that the construction sector makes a very positive contribution in all of the world’s largest countries, both in terms of jobs creation and fiscal returns. I don’t know what level of recovery we can expect, but taking into

**How can we resolve or compensate for the lack of public investment in infrastructure?**

We certainly need to complete the network of motorways and finish the high-speed rail network, but we have done our homework and we’ve achieved a superb level. Now we have to maintain and preserve this infrastructure. What we spend on preservation here is half the amount spent per kilometer in Germany or France, and the same can be said of

“The only solution that will allow Spain to continue investing in infrastructure (and there’s a deficit in education and health infrastructure) is public-private collaboration”

account that 1.75 million jobs have been lost in the construction sector over the last seven years, without a doubt it will be significant.

**What should Spain’s priorities be in the sphere of infrastructure?**

In some types of infrastructure we’ve done a very good job. But we have a deficit of education and health infrastructure. According to Eurostat data for 2013, while the ratio of euros/inhabitant of gross capital investment in education infrastructure stood at €30 in Spain, it was €136 in France, €163 in the United Kingdom, €124 in Germany, and €102 on average in the European Union as a whole. The media don’t discuss this enormous investment deficit. If we look at gross capital investment in health infrastructure, the average for the EU-28 for 2003 was €63/inhabitant, compared to €41 in Spain but €114 in France, €76 in Italy, and €94 in the United Kingdom.

railway construction. The general public is not aware of these deficiencies, and neither is the political class because they haven’t taken it into consideration. We need to finish what we’ve started, although we also need to focus on other important deficits we have in Spain: public amenities, logistics, water, energy, improvements to the energy efficiency of buildings, and energy infrastructure. How can we resolve these deficits in an economy that has to fulfill certain objectives related to the tremendous public deficit and public debt for 2018? It’s impossible. The only solution is public-private collaboration, and to this end we need to update and modernize the Spain’s regulatory framework. This doesn’t mean talking about privatizing any infrastructure services. The government itself has private or extra-budgetary financing formulas. When ADIF, Spain’s public railway infrastructure manager, issues debt, it is getting its financing from the markets as opposed to borrowing against the public budget. This is extra-budgetary financing.

## Javier de Oro-Pulido

Director of Real Estate Assets of Aliseda



**“In today’s property market, entities are very careful about who and what they finance”**

### How can the property market avoid repeating the errors of the past?

They are not going to be repeated over the short term. The big mistakes of the past were closely linked to financial entities. Today, these are very careful about who and what they finance. As long as financial entities do their job properly, carrying out proper risk analysis, it is very unlikely that these errors will be repeated.

### So corruption in urban development has been curtailed?

No. Since there’s little business right now, perhaps it is dormant. Urban development is very discretionary. In theory, it should also be perfectly well-regulated and, therefore, controlled. But it is terribly difficult to control honesty because that is something personal. A lot of money is involved, there are a great many interests, and it’s all absolutely discretionary. At the end of the day, people are people. And power, from a political point of view, is difficult to control.

### Is 200,000 to 250,000 new builds a year a normal level, and is the industry still an economic driving force?

Of course. What wasn’t normal was 650,000 new builds. At a level of 250,000, it is clear that the sector can once more be a very important one from the point of view of its capacity to contribute to Spain’s value or its GDP, and, moreover, generate many synergies. But the problem for foreign capital is that it has trouble finding expert operators. This is one avenue Aliseda is going to explore. We are going to try to exploit our

national structure and knowledge of the property sector to provide this reassurance for capital that wants to invest and cannot find anyone to manage this kind of business in Spain.

### What regulatory changes are required in the sector?

A more uniform set of regulations is needed. Unfortunately, in Spain every autonomous community has its own urban development laws. Each city council has its own speciality when it comes to construction and for someone who doesn’t know Spain very well or doesn’t live here but wishes to invest in property it’s a riddle. To an investor who wants to invest and doesn’t care whether they invest in the coast, in Madrid, in Barcelona, or in Galicia, you have to start explaining how things work here and that it is nothing like the system in their own country. And that’s difficult.

### Buy or rent?

Buy. Yes, it is a cultural thing and luckily we are more interested in purchasing our housing because it gives security. Spanish families seem to always associate housing with a kind of insurance for their future or their retirement. But it is true that this is changing in Spain, and there is an increasing percentage of rented housing, which has risen from 18.3 percent at the start of the crisis to the current level of 20 percent. Today, young couples wanting to buy their first property face many obstacles, even if they both work, because their salaries are often very low and financial entities are still going to regard their jobs as pretty unstable when considering them for a mortgage. What’s more, these people often don’t have the right percentage of money saved for the deposit. Perhaps in two generations’ time the rental market will reach similar proportions to those found in the rest of Europe. What we are seeing is that property has decreased by around 40 percent: housing can be bought at a good price and people are buying. The percentage of housing purchased without financing is significant: 30 to 35 percent among Spaniards and foreigners.

### IN RECOVERY

“The construction sector has been demonized in recent years,” says **Jorge Estévez, COO of thyssenkrupp Elevator for Europe and Africa**. “Nevertheless, it is of primary importance – and not just to Spain but also worldwide. It pulls a great many other sectors along with it. What changes have to be made? The sector needs to undergo a profound restructuring, which should begin by disassociating the sector from power and political decision. Meanwhile, we must examine what opportunities exist for developing a more competitive model offering more value added and a greater balance between new build and renovation, which has great potential and would vastly improve mobility and accessibility.

The sector is recovering. From the exceptional vantage point provided by the portal **idealista.com**, **Jesús Encinar**, the business’s president and author of *La burbuja inmobiliaria* (The Property Bubble), written back in 2004 when almost no one discussed the problem, observes: “People are regaining their confidence. Banks have improved their mortgage terms and conditions and sales are beginning to improve. The year 2014 was good and 2015 has been even better. Prices are starting to rise and things are going to recover. People think that construction will take a long time to get back on its feet because there is a vast stock of existing housing. But this stock isn’t located in areas where people really want to live. There are few buildings available in the country’s major cities or on the coast. What could be sold has been sold. This means that new build is once again becoming a profitable and attractive option for plots located in interesting areas of major Spanish cities. Cranes have begun to reappear in Madrid and Barcelona, something that hasn’t been seen over the last eight years.” Will there be another bubble? “No, because banks are being more cautious now and interest

rates won’t get any lower. We are not suffering from that great wave of immigration any more, either. At the time, there were various factors that emerged together.”

For his company (and this is significant), “things have changed a great deal. The Spain of 2015 has nothing to do with the Spain of 2007 and 2008. Back then, there were more than thirty thousand estate agents and now there are fifteen thousand, although some new entities are being created. This has had a huge impact on us. We advertise offers on new builds but we also operate in the second-hand market. We’ve been growing month-to-month in the second-hand market thanks to our penetration in the estate agent sector. During the crisis we had around three thousand clients and today we have more than nine thousand. However, when it comes to the sale of new builds, which represented 50 percent of our revenue in 2007, the market has experienced a dramatic slump, and it is now the banks that manage this sector to a large extent.”

According to **Javier Targhetta, CEO of Atlantic Copper**, “perhaps the sector that could be recovered is what the Americans call commercial construction—facilities, department stores, and so on—because it is directly related to the economy and, therefore, potentially offers further growth.” But, he continues, “it is practically impossible for construction and subsidiary industries to regain the full weight they once had within the economy, and so it’s a complex challenge we have to deal with.”

### LIMITED INFRASTRUCTURE

In relation to infrastructure, “in recent years, Spain has invested a lot in it, and although the right priorities weren’t set in the area of logistics, perhaps, we do have very good infrastructure,” affirms **Miguel Borrás, Director-General of DHL Express Iberia**.

“Spain has to continue improving in order to become the logistical hub of southern Europe. And there is a fundamental development that has not been undertaken because it requires very significant investment: the creation of more efficient rail links with Europe.” Nevertheless, various businesspeople state that they are not expecting a new boom in infrastructure. **Javier Targhetta** is of the reasonably widespread view that, in this sphere, “strict budgetary discipline is going to prevent substantial state investment for some years to come.”

“As long as it is studied at length and carried out in an intelligent way, one of the challenges that the state could tackle is developing intermodal transport along the Atlantic and Mediterranean corridors, converting the peninsula into a logistics platform,” says **Asier Atutxa, President of Bilbao Port Authority**. “In this respect, we have to improve our railway network and its links with ports. This task will be difficult to achieve without ministerial support. For example, the port-rail link between Aljiciras and Bilbao is essential to establishing rail links extending north and toward America.” He adds, “ports need to be much more flexible and much more efficient.”

There is another dimension to this, and that is the interest of foreign investors in our infrastructure, as highlighted by **Ricardo Martínez Rico, Executive President of Equipo Económico**. “UK and U.S. pension funds, which are private and have a great deal of liquidity, need to guarantee investments over fifteen or twenty years that yield adequate returns for their pensioners. So rather than purchasing government bonds, which offer an interest rate of 0.8 percent, what they do is buy infrastructure, which gives returns of around 4.5 to 5.5 percent. And where can you find very good infrastructure with potential for growth in ports, airports and motorways? In Spain.”