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# Spain’s Boom-Era Building Gear Sold as Developers Cut Off

By Neil Callanan and Sharon Smyth - Sep 27, 2012

Angel Fernandez used to travel to the Netherlands to buy equipment for Spanish homebuilders when they were powering Europe’s third-biggest construction market. Now he watches as buyers come to take diggers, excavators and trucks to countries where they won’t just gather dust.

Standing in a sunburned field in Ocana, a 90-minute drive south of Madrid, 41-year-old Fernandez looks on as never-used construction equipment is sold at discounts of as much as 20 percent through Ritchie Bros. Auctioneers Inc. Business is brisk for the world’s largest industrial-equipment auctioneer, a sign that time has run out for Spanish builders that were propped up by banks for years after the machines fell silent.

“My business is being made obsolete,” said Fernandez, who bids for equipment on behalf of Spanish construction companies.“When the crisis began in 2008, we all thought that it would be over in two or three years, but we got to 2011 and realized we were in worse shape.”

Almost half of Spain’s 67,000 developers are insolvent but not bankrupt after getting additional financing from banks, according to R.R. de Acuna & Asociados, a property consulting firm. Extending the lives of companies is becoming harder for banks after Prime Minister Mariano Rajoy’s government demanded they set more money aside to cover losses on real estate loans.

## Overseas Buyers

Fernandez points out unused gear made in 2009 on sale at the Sept. 13-14 auction. He said it had remained unsold after distributors ordered stock for sales that never materialized. He was authorized to bid as much as 70,000 euros ($90,000) for a tractor and went home empty-handed after another buyer offered 82,500 euros. Seven out of 10 lots sold at the auction were purchased by overseas buyers.

“Construction in Spain ground to a halt four years ago, but banks chose to refinance initially, which is a slow death,”Jeroen Rijk, senior vice president of European sales for Ritchie Bros. (RBA), said at the auction. “They aren’t doing that anymore, which is why there is so much product on the market now. Spain definitely ranks top of the class for overdoing it.”

Spain’s construction and real estate industry, which represented 18 percent of gross domestic product before the financial crisis, now accounts for 11 percent and building permits plummeted 87 percent last year from the 2004 peak, according to data compiled by the Ministry of Public Works. The industry is now Europe’s fifth-biggest after placing third before the crash, real estate adviser Davis Langdon said.

## Austerity Protests

Spain’s economic crisis prompted protesters to march for a second night in Madrid yesterday, calling on Rajoy to reverse austerity measures as his nine-month-old government prepares a fifth package of budget cuts.

Spanish 10-year yields dropped four basis points to 6.03 percent, after rising above 6 percent yesterday for the first time since Sept. 18. Benchmark rates jumped 32 basis points yesterday, the biggest increase since Aug. 2.

Home prices have fallen 32 percent from a high point in 2007, Tasaciones Inmobiliarias, Spain’s largest home value appraiser, estimates. There’s no sign of the decline abating, with construction output down 16 percent in July compared with a year earlier, according to Eurostat, the European Union’s statistics agency.

The end to Spain’s decade-long property boom left more than 30,000 developers technically insolvent with combined debt of 180 billion euros, Acuna & Asociados estimated in May. That will lead to 104 billion euros of losses for Spanish banks that haven’t been fully balanced by provisions, according to the company.

## Higher Provisions

The government in February ordered banks to increase provisions to 80 percent of the value of land on their books from 31 percent and set aside 65 percent for unfinished developments from 27 percent previously. That contributed to 53.8 billion euros of charges and capital ordered that month. In May, lenders were told they must set aside about 30 billion euros more to cover potential losses on 123 billion euros of real estate-linked lending that is still performing.

Spain created a so-called bad bank in August to clear soured real estate assets from the books of struggling banks so they could resume lending. Rajoy, who initially resisted the idea, agreed to create the institution because it is among the conditions for the country’s banks to receive 100 billion euros in aid authorized by the European Union in July.

## Price Pressure

As the bad bank disposes of its assets, completed projects are probably the first things it will sell, Alvaro Serrano and Sara Minelli, analysts at Morgan Stanley, said in a September report. That could push down the value of similar properties an additional 10 percent to 20 percent, they said. Spanish banks may require 7 billion euros to 14 billion euros of additional provisions for bad debts, “which would wipe out domestic earnings for 2013,” they said in a Sept. 12 report.

Loans to real estate developers account for 20 percent ofBanco Popular Espanol SA (POP)’s balance sheet, London-based Serrano and Minelli wrote. The bank hasn’t yet made adequate provisions for potential losses on those loans, and unpaid arrears from troubled developers will contribute to a loss of 847 million euros at the bank this year, the analysts estimated.

“The bank is still in the process of provisioning, but we have already provisioned what is required of us and more,” a spokesman for the bank said. He declined to be identified, citing company policy.

The Bankia group set aside 6.8 billion euros in the first half to provision for bad loans and real estate, and a further 6.9 billion euros of charges are expected this year, according to the bank. Bankinter SA had 275.2 million euros in provisions in the first half to recognize real estate losses.

## Builders Hit

The country's large publicly traded construction companies have been hit hard by the downturn. Spanish revenue atActividades de Construccion y Servicios SA fell about 38 percent from 2008 through 2011 and Ferrovial SA (FER) saw a sales decline of 30 percent, according to data compiled by Bloomberg. Sacyr Vallehermoso SA (SYV), which develops and rents out real estate, had a sales drop of about 50 percent. The IBEX 35 Index of Spain's most liquid stocks fell 45 percent in the same period.

Work started on fewer than 4,500 houses in February this year, a 94 percent decline from the October 2006 peak, according to data compiled by the Ministry of Public Works.

Ibrahim Arrejehi, a buyer for Saudi Arabia's Arabian Contractor Co., was at the Ocana auction to bid for equipment to sell in his home country as well as Pakistan, Afghanistan andIndia.

## 20% Discount

"New machinery in Spain is selling at around a 20 percent discount from the peak and used items are going for around 40 percent lower," Arrejehi said. "Spain is unique; developers here bought an enormous amount of machines."

Spanish firms buy too much machinery instead of renting because they can include the expense with their other debts, reducing the overall cost of finance, according to a study by Madrid's Universidad Carlos III and Barcelona's Universitat Pompeu Fabra. The over-investment in construction gear reduces builders' profitability from projects, authors Marco Celentani, Miguel Garcia-Posada and Fernando Gomez wrote in a report published in February.

"There is huge excess capacity," Celentani said in a telephone interview. "Who wants to buy construction machinery in Spain right now?"

Fernandez and Arrejehi were among 1,370 bidders from 74 countries who bought 2,086 lots, according to figures compiled by Ritchie Bros., based in Burnaby, British Columbia.

Ritchie Bros. opened its 60-acre (24 hectare) Ocana location three years ago after a site in Moncofa, eastern Spain, reached full capacity a year after opening.

## Distressed Sellers

Globally, as much as 10 percent of the equipment sold by Ritchie Bros. comes from distressed sellers, said Valencia-based Rijk.

"That percentage is higher in Spain," he said. "There was too much of everything and there is still too much of everything."

Spain's construction industry won't pick up "even a little" before 2015, Fernandez predicted. "I need business here to come back because my future will be very bleak if it doesn't."

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