

## Punishing landlords will cost us all



[The Department of Finance building on Merrion Row, Dublin 2: one of the buildings that could fall in value by 20 per cent to 30 per cent if the new government succeeds in scrapping existing leases.](#) Photograph: Cyril Byrne

**OPINION:** Ireland's reputation will suffer if all commercial tenants can have their rents reviewed this year, writes **BILL NOWLAN**

### FINE GAEL MANIFESTO

#### *5.6 Reducing Business Costs*

*We will pass legislation to give all tenants the right to have their commercial rents reviewed in 2011 irrespective of any upward-only or other review clauses.*

*Office rental costs have fallen by 42% since 2008 but many people have not got a reduction at all due to resistance from some institutional landlords.*

*Office space in Singapore remains cheaper than in Ireland. We realise that there are legal pitfalls to this policy and that constitutional issues may arise.*

*We are prepared to take that risk and take the challenge to the Supreme Court.*

What a spectacular own goal. If the proposal in Fine Gael's election manifesto outlined above is enacted in law, it will destroy the investment property market right when government ownership of property has never been greater. Now is the time that good news for property is badly needed, rather than more bad news.

Do Fine Gael and Labour understand property economics? It was the failure of former Taoiseach Bertie Ahern and his advisers to understand property economics that brought Ireland to its current sorry state. Bricks and mortar don't make wealth but they can and have destroyed the credit system of the country.

Now the opposition parties are about to do it again when they get into government. Pledging to change the terms of existing business contracts in favour of one side is woeful economics. Let me give you a genuine example: A 10,000 sq ft (929 sq m) office building now let to an insurance company in central Dublin at €40 per sq ft with 11 years to run will fall in value from €5 million to €3 million as fast as you can say Enda Kenny.

As I write, investors who are willing and able to take out Nama's debt to the European Central Bank by buying leased Irish properties will be abandoning the country. They can invest anywhere from Mexico to Moscow. So they won't invest in a banana republic that doesn't respect long-term contracts.

What this country needs from its politicians is clear, logical thinking rather than knee-jerk actions intended to catch votes. It reminds me of what Éamon de Valera did in 1932. In the run-up to the election he promised the farmers that land annuities, which were paid to the British government, would be abolished. This policy was easy to propose but disastrous to implement. The economic war with the UK that destroyed Ireland for many years following that election was the consequence. (Adding insult to injury, the farmers ended up paying the annuities despite the promises of abatement).

Once again, this country can expect to be at the mercy of a government that does not understand the wider consequences of its economic actions at home. So what are the underlying issues of the current proposals?

- 1** The value of investment property depends on the investors having confidence that the tenants will pay their contracted rents and that the legal system will enforce the landlords' rights to receive those rents. Undermining the legal structure undermines confidence and, thereby, values. Investment property values will show significant falls as a result of this proposal, probably by 20-30 per cent (I have asked the Investment Property Databank to calculate the precise fall and, when it has done so, I am sure The Irish Times will publish the figure).
- 2** The fall in values will push even more loans into default and make the banks more insolvent. This probably does not worry too many people until they remember that the taxpayer will have to fork out more money to recapitalise the same banks.
- 3** The value of Nama's assets depends on rental income being received in accordance with lease contracts.

Nama has bought about €10 billion of its Irish loan book based on projected contracted rental income.

If that income is not receivable in full, values will fall and Nama will not be able to get back the prices it has paid for those loans. Once again, taxpayers will have to make up the difference by capitalising Nama – probably by another €2-4 billion.

**4** Ireland's indigenous investors have little or no capital left. This country is relying on overseas investors for support. We need them to buy our investments and to lend us money. My overseas clients and other similar investors are currently prepared to buy Irish rental income in the expectation that tenants will pay their rent in accordance with their contract terms.

If this proposed legislation causes them to doubt that payment will be made in future, their interest in Irish property will evaporate instantly.

**5** The proposal probably is unconstitutional, though this would take several years to go through the courts. The damage is already being done because investors won't hang around in the hope that the courts will force the legislature to see sense.

**6** Should the new government move to change the terms of existing leases, they will leave themselves (or, in other words, taxpayers) open to big claims for compensation from existing investors of the amount of the fall in values.

**7** Ireland will become the laughing stock of the world. No other advanced country has ever introduced retrospective legislation to reduce contracted rents. This is Zimbabwean stuff. It undermines the very basis of equity and people will legitimately say, "If they can do this to property, what next?"

This is not to deny that some tenants are suffering greatly and it would be a very foolish landlord who would let a tenant go under in the current climate. It can be argued that if a tenant can demonstrate a genuine predicament then the law should allow some leeway without having to rely on the whim of a landlord. A broad-brush approach, such as that outlined by the politicians, is not the way to deal with the problem. An elderly widow whose sole income comes from a single property let to a multinational won't thank anybody for it. Perhaps the issue should be dealt with under proposed revisions to our insolvency laws.

The change to upward and downward reviews in new leases has brought us in line with European though not UK laws, but changes have been overshadowed by the general economic malaise. Current rental values are artificially low due to oversupply and the recession. Investors know they will strengthen when economic conditions improve as they are now below replacement cost.

The core problem in Ireland is that the sales culture took over at management and boardroom level in the Irish banks in 2003. The banks then handed out mad loans based on mad property projects. Good banking practices and basic economic principles were forgotten in the dash for short-term profit and bonuses. Are we now seeing the populist sales approach of two major political parties vandalising our economic infrastructure for votes?

Significant world investors will draw a pencil line through Ireland as a place to buy assets. This is like changing the 12.5 per cent corporation tax retrospectively.

I would like to say to Enda Kenny and Eamon Gilmore, please exert your authority and revoke this De Valera-type vote-catching destructive economic policy – even though taking such steps could make you popular in the short term. Can you please understand property economics, even if your handlers don't? What expert advice have you got? Will you share it with the industry before any promises are made or action is taken? The investment world is watching and expecting leadership. This is where the rubber meets the road.

PS: Please EU/ECB/IMF take note and add a codicil to your memorandum of understanding to halt this economic vandalism. If you don't, you will be waiting even longer for your loans to be repaid.

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