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'All property markets are local'

Even small property deals can help keep local people busy – including the builder, the solicitor, the auctioneer and the architect.

An open letter from Bill Nowlan to Michael Noonan TD, Minister for Finance

Dear Mr Noonan,

We are moving on from emergency responses to national crises, to policies designed to get the economy moving again. A key part of any recovery for the economy must include the housing and the commercial property sectors – both of which are now in complete shutdown.

The potential to generate jobs quickly from an already present but unemployed skills base is real. Property and construction need to be restored to their normalised share of GNP – probably approaching 10 per cent – not the bloated level of 25 per cent of GNP in Celtic Tiger days.

Helping the property market might be politically difficult but not doing so, given its potential to generate jobs quickly, would be a huge opportunity missed.

The property system is currently dysfunctional. You cannot wave a magic wand and create an instant solution but there are significant steps that, if included in your forthcoming fiscal plans, would help move the industry towards a normalised contribution to GNP. Certainty, confidence and credit –

these are key ingredients – get property and construction into first gear and the momentum will build up. The actions required include:

1) Getting the banks to actually lend the €4bn that they committed to lend to house purchasers in 2011. Only about half this sum will actually be loaned out in 2011. The alleged reasons for the failure to lend range from overzealous loan approval procedures and regulation to hoarding of capital by the banks. Actual deals taking place and being reported would inject confidence into the market.

The Government should also ensure the banks commit to a similar amount of lending in 2012 plus the carryover of the un-lent €4bn commitments for this year. If €6bn was loaned in 2012 it would finance up to 4,000 house transactions – about three times the 2011 level.

2) At a policy level there needs to be a realisation that all property markets are local and that most property deals are small. These small deals can keep a large group of local people busy – the solicitor, the auctioneer, the architect, the small builder and then the building merchant followed by the curtain and flooring supplier. Take the case of, for example, a €500,000 extension to a supermarket involving a purchase of a neighbouring plot. At least half of the amount is translated into local revenue and local jobs.

Currently, this local property market process has stopped, partially due to credit restrictions and low confidence but also because transactions are not happening due to the decision-making processes around Nama and the State-owned banks. Someone trying to get a right of way or buy a neighbouring plot which requires approval has low priority on the radar of those mainly Dublin-based organisations.

Ask any local business owner, accountant, solicitor or estate agent about a small transaction involving the national credit institutions and they will raise their eyes in frustration. I don't blame Nama, who with their limited resources are trying to deal with a vast portfolio (largest in the world) and have to work from the top down. This is not an easy nut to crack. Small property deals are heavy on human resources (which Nama do not have) and often involve disappointed and potentially vocal rivals. The long-term answer is for the State to get out of this kitchen as soon as possible, perhaps by selling portfolios of such loans to investors geared to fine-grain asset management.

3) A key factor in buying and selling property is the associated transaction cost. Your idea of bringing commercial stamp duty down to 1 per cent has caught the attention of international investors. Reducing commercial transaction costs by 5 per cent is the equivalent to property investors of the 12.5 per cent corporation tax rate to industry.

Subject to my next point, this is probably the best action you could implement to get life back into the commercial property market. It will have but a small impact on the stamp duty take in 2012 but will boost confidence and deals.

4) The big issue on every international investor’s mind is the rent review one. Certainty is required to get the commercial property market moving. Investors can’t tolerate uncertainty. The value difference between a benign and radical new rent review structure is about 20 per cent. With current uncertainty an investor does not know whether to offer say €8m or €10m for a given property. If it’s to be €8m then so be it but please publish the legislation and then implement it fast so that this huge impediment is either removed or built into the numbers.

5) Buyers of houses need a “pump priming” incentive to buy new and second-hand homes. The incentive has to be equitable and tax cost neutral. I suggest that for those buying new homes in 2012 you give a long-term loan to the buyer equivalent to the VAT paid by the builder i.e. 13.5 per cent or €24K on a €200k home. This would be classified as equity but would be repaid over the same term as the primary mortgage or if/when the house is sold. This simple mechanism would recycle VAT tied up in completed house but then recovered on a deferred payment basis – at the same time providing an incentive for purchase. For the second-hand buyer, I would have no stamp duty and give a five-year holiday or abatement against property taxes and water charges. All these would apply only for 2012 – with no rights to extend the scheme. The objective would be to put a floor to the residential market and to give an incentive to many buyers now sitting on the fence.

6) Finally, you should bring forward the legislation promised in the Fine Gael manifesto to introduce REITS. We are the only country in Europe without this system which enables investors to put their money into legitimate rental property business which is quoted on the stock exchange and run by responsible and skilled managers. This would help Nama offload their holdings.

These six initiatives would result in the property and construction industry being ready to go into second or maybe third gear by this time next year and generate a lot of local jobs.

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