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Banning upward-only rent reviews

- Madam, – In his letter (February 28th), Ben Ward suggests that a "blatant bias" exists in this paper due to its consecutive publishing of Bill Nowlan's articles criticising the banning of upward only rent reviews. In fact, Mr Nowlan has correctly highlighted what is a fundamental lack of understanding of the real estate market by those pursuing policy change in rent review legislation.

  Mr Ward should note that the "bias" in this debate is very much on the side of retailers. The recent discussion on the issue of rent reviews has centred on the difficulties faced by the retail sector, with much of the populist blame being placed on the inclusion of upward-only-rent review (UORR) clauses in lease contracts. The proposed policy changes have gained popular support from the retail sector and with the general public who seem to blame all their failings on property developers and investors. However, as correctly highlighted by Mr Nowlan such policies may further damage the commercial property sector, and more worryingly may damage the future of investment in Irish property.

  The concern is quite clear. The introduction of a retrospective ban on upward-only-rent-reviews (or forced rent reviews) would have serious consequences on the future of property as a secure investment, and would massively dent the attractiveness of property as an asset.

  Commercial property currently displays much of the characteristics of bonds (the traditional secure assets) in terms of a secure, guaranteed cash flow (rent). The volatility and risk of this cash-flow is low and this is why property is attractive to pension funds and other low-yielding investments.

  The removal of a guarantee of cash-flow would seriously derogate the attractiveness of the asset, and would see further exodus of funds investing in it, thus severely hitting prices and subsequently pension funds, property funds, construction and development sector.

  Meanwhile, the Irish commercial property sector is in desperate need of new international investors; Irish banks and funds need cash, but the asset will only be attractive if the risk of the cash-flow is low. The incoming government should be proposing positive policies to stimulate the commercial investment sector and in particular to attract foreign investment. Yet, their proposals would further drag the market downwards and will have negative effects for all areas of the industry – including occupiers. We must remember that these further falls in the property market will only result in the Exchequer picking up the bill (through Nama).

Our politicians need to realise that such reckless policies will severely damage the commercial sector, to such an extent that it may never recover.

For the sake of encouraging foreign investment, moving these assets off Irish balance sheets and trying to inject cash-flow in the domestic market, it is crucial that such policies are not enforced. Is the incoming government really intent on reducing property values that much? The effects of increasing risk in the commercial property sector caused by such a policy would have serious consequences. With the chances of Nama failing greatly increased, the destruction that would bring to the wider economy is unthinkable. – Yours, etc,

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