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Nama must refuse to sell below given value range

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The pendulum of property values has now swung back and is still moving in the wrong direction. What can be done to restore (or put a floor under) the Irish property market?

This problem is not unique to Ireland – it is just that the crash has been bigger here. You cannot sell a house or property across Europe, the USA or elsewhere, save for prime trophy buildings in London or Paris.

The lack of confidence is now global (with the exception of the Far East), and the results of the global financial crisis mean banks and governments are bust.

Thus, the first step to the restoration of a normal Irish property market is international calm and stability. This may be many months away and is outside the control of our Government. Until that stability arrives, we are engineless but when that happens – and it will – the second stage must be the creation of credit lines to business and private borrowers.

But before that happens, the banks in Ireland will need to start lending to each other again – this must happen before they will lend to customers. If there are no lines of credit, the property market cannot operate. Some deals are being done with equity but this market is limited by its nature. The proposal by the National Asset Management Agency (Nama) to provide staple finance for some of its disposals is welcome but will apply to only a small section of the market.

After the banks start lending to each other and lines of credit become available, the next stage will be to create some momentum in the investment and housing markets. Investors and homebuyers will not buy property until they see some restoration in the availability of mortgage finance together with stability in values, rentals and personal incomes or until they have a secure job.

Property is not independent of the economy and by fixing the economy, the Government will ultimately fix the property market. Some smart money will try to anticipate the recovery of the market but the reality is these bottom feeders will only buy the choice assets and leave the rest.

But there is a real fear in the industry that a huge block of properties will shortly be put on the market by receivers acting for Nama and the other banks, effectively making a bad situation worse. Attempting to sell into a market with no, or few buyers will not be good. Question: can a further slide in values be halted in an insolvent country? The answer is that doing nothing will certainly result in the slide continuing. A continuing slide in values will further undermine not only the banks balance sheets but also the balance sheets of the whole community. This may be inevitable but the Government does have some weapons in its arsenal to stabilise values but they need to be used carefully and courageously – helping the property industry will not bring short-term popularity.

What are those weapons available to the Government?

The first must be Nama, which has a credit line with the ECB at hugely concessionary interest rates and who could (and should, in my view) refuse to sell any of their Irish assets or allow their borrowers to sell below a given value range – say, values prevailing in January of this year. A stable finance initiative may be a first step in this process. There is no point being the semi-monopoly national asset manager and not using the powers of that position. However, holding of sales to maintain values would delay the liquidation of Nama's assets and drag out the holding time more than in the current business plan. This is probably directly in conflict with the current mandate to the board of Nama and would need clearance from the ECB and IMF. Making such a policy statement would be a good start to halting the value slide but it will need more.

When international financial markets settle, the Government should negotiate a revolving fund package with the IMF or ECB to be made available through the banks and aimed at getting our property industry moving. This would be a pump priming exercise and the funds would return to the ECB or IMF in, say, five years. It would be aimed at unblocking transaction illiquidity and facilitating transactions.

Such a fund should be justifiable to the IMF or ECB as it would help protect the banks' balance sheets from further erosion of their security and prevent there being a need for further capital injection.

The third weapon is the Government's ability to offer incentives including stamp duty holidays for early movers – say, no stamp duty on buying or selling for investors who acquire in the next 12 to 24 months. Selected VAT and levy holidays might also work if carefully focused. There is currently little or no tax revenue from this source.

The fourth and probably the most important is leadership – showing a concern and willingness to act to stop the downward spiral. A clear statement by Government that it intends to stabilize the market would do wonders to confidence. In this regard, the introduction of legislation enabling REITs in the next budget would be very helpful to the property and investment industry.

The first consequence of a bottoming of property values will be the arrival of the large amount of overseas capital now hovering to participate in the expected value recovery. These funds know that there will be a recovery but they will stay hovering until they think the property value bottom has arrived, and the uncertainty of the rent review situation is now contributing to the continuing hovering (and also the fall in values).

The second consequence will be a momentum by potential buyers to get onto the property ladder with a knock-on effect on the now dormant house-building industry. The reappearance of sales chains for second-hand houses, a key feature of house mobility, would re-establish the demand for new houses. This may be limited at first but would grow over time. This should also get some new house building started in Dublin where there is no major oversupply.

Helping the property industry might not be popular now but when the property market starts moving again, even slowly, the knock-on effect on jobs – both in the building industry and the associated professions – plus the general sigh of relief throughout the country, and the release of locked up VAT and other taxes in frozen property will pay handsome dividends in terms of jobs, tax revenue and popularity.

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