IRISHTIMES.com
The Irish Times - Wednesday, December 8, 2010

Nama, the IMF key to recovery

Buying properties requires an act of faith in the future – and the IMF should restore confidence says **Bill Nowlan**

LAST December I predicted that 2010 would be the year of Nama and the Nama man. I was right. Next year will not be much different although I would add the words receiver and IMF to make it a foursome. Virtually all parties in the commercial property business will be interacting with these players in 2011.

Professionals will be carrying out valuations and other instructions on their behalf and property owners will be trying to implement business plans in a shrinking and credit-restricted economy. Tenants will be in survival mode trying to cut costs, including rent and floor space. New investors will be trying to pick the low-hanging fruit provided they have the confidence to part with their cash for Irish assets. This is where the IMF matters. The question on all lips will be the valuation floor – are we at the bottom or are values still falling? Will the IMF help to rebuild overseas investor confidence in Ireland – the only big source of funds?

The key decider on valuations will be supply and demand. Commercial values have more or less held over the past year – there has been a small value slippage of 7.9 per cent reported by IPD in Q3 2010 but in comparison with the 50 per cent collapse in 2008/2009, this is minor. The current valuation floor springs partially from the confidence given to the market by Nama settling its valuation date for buying in its loan book at November 2009 and partially because of the very limited number of deals linked to a lot of overseas cash chasing quality investments in the likes of Grafton Street and the IFSC.

In 2011 the big unknown for values will be the supply of investment and other property. Will it match or exceed demand? Secondly, will Nama authorise the sale of properties below its buy-in valuations. If it does, then apart from undermining its own balance sheet it will frighten off prospective buyers – in the same way that homebuyers are currently on a purchasers' strike– afraid to catch a falling knife.

The demand for property in Ireland is directly related to the availability of credit and to confidence. Buying properties requires an act of faith in the future. Confidence in Ireland is currently at a low ebb but I believe that the IMF will restore that confidence in 2011.

The level of supply relative to demand is critical. In the recessionary year of 2002 (little then did we know about bad!) our total property turnover was about €2 billion but by 2006 it was over €9 billion – we don't have the figure for last year but my guess is it will be well under € 1 billion.

To get Irish property off Nama's balance sheet will require an active market in 2011 and this is where the IMF really matters. It has the capacity to build confidence and also get bank credit rolling again but it may have priorities other than the property market.

Nama is almost the monopoly supplier to the Irish market and the big challenge for 2011 is how it uses that power. Will it simply force its debtors to dump assets on the market in a dash for cash (that may not be there) or will it do what the long-term asset managers like Irish Life and other institutions did back in the 1980s and 1990s when they controlled the investment market – by looking at the big picture and acting accordingly.

The Nama board will have a hard call and this is where the receivers of the non-Nama banks come in to muddy the water. Whilst Nama has a big supply of cheap and patient cash from the ECB, the receivers appointed by the non-Nama bank and for loans below €20 million will be under pressure to get cash by selling asap. If everyone dashes for the same limited supply of cash then the current valuation floor will not hold.

So against this background I see 2011 as a decisive year for the commercial property industry. If there is a dash for cash and there is no cash or confidence in the marketplace, then values will fall significantly.

But given a limited flow of property to the market (whether artificially limited directly by Nama or by its influence on receivers) then values will more or less hold. I have never been more uncertain about the course of a market in the short term.

But property investment is not about the short term – my mantra is and has always been property is a five to 10-year play. The Irish economy will eventually recover and so will the property market. With this perspective, 2011 will be the year of opportunity for those wise enough and with cash to think about 2016 and beyond. Experience shows that good purchases are made slightly before the bottom and good sales slightly ahead of its top – as one can never predict precisely the top or the bottom – except with hindsight.

I personally would still buy quality properties let to strong covenants in Dublin and other CBDs in 2011. Yields are attractive at 7 per cent plus and most properties can be bought at less than their replacement cost. But this requires investors to take a long-term bet on Ireland Inc.

I have full confidence that the Irish phoenix will rise from the ashes in the medium/long term. Just look at the fundamentals of what we have in Ireland. We are the ninth best place to do business in the world: our exports are booming, we are still getting big FDI, our entrepreneurs are sought after and respected worldwide and we have the 12.5 per cent tax rate plus a flexible and educated workforce halfway between Boston and Berlin.

We are becoming a low cost country and we are English speaking, educated and welcomed world wide. These are the building blocks for prosperity which I am fully confident will return within the next five years. Personally, this is my fifth recession and I have learned that recessions do end and get forgotten and that that the best property buys are made during recessions. Property is about building stable cash flow. I and my clients will be buyers in 2011.

Property professionals face uncertainty for the next 12 months – more uncertainty than I perceived last December. The year 2011 will be another year for simple survival just like the two previous ones. When I sit down to write the next year-end piece, we will have had an interesting 12 months!

Bill Nowlan is a chartered surveyor and town planner and managing partner of property asset management company WK Nowlan Associates