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Straight Talking, Bill Nowlan - The only game in town scarred the land and hurt the taxpayer, but not all developers were the same

We must separate the honest builders from the latecomers, the schemers and those who should have known better


Construction boom: it should have come to a close in 2003-4

Not all developers should be tarred with the same brush. Some behaved like kids in a sweetshop when granny was paying, but others took a responsible attitude. So developers need to be separated into different categories. Such a differentiation became apparent to me in 2003 when I had conversations with two developers – the first was a grey-haired veteran of three property cycles, the second was a carpenter recently turned developer.

The experienced developer told me then that all the evidence was that the market was getting overheated, overpriced and oversupplied, and that he was "taking most of his cash off the table". The second developer had just built and sold his first speculative house, making him a lot of money. He was then buying 30 sites. His view was that making money out of property development was like falling off a log. You simply buy the land, build the houses and walk away with big profits. The issues of oversupply or market overpricing were brushed off as scaremongering. He pointed out that the bank providing his funding was happy with his project plan and had offered to finance further projects. Today, the first guy has seen his property assets halve in value, but is not in Nama and will survive. The second guy has an abandoned ghost estate, his loan is in Nama and he has emigrated to work as a carpenter in Australia.

The past 15 years in property development have been unique. This property cycle was twice the length of previous ones and this was the main reason for the size of the eventual crash. The cycle started quietly in 1996, but with the sudden growth in the economy at the turn of the century a real demand emerged which caused a scarcity of all classes of property. Prices doubled over the next two years and this attracted the attention of nouveau developers or enticed small developers to take on bigger projects. The cycle should have been coming to an end in 2003-4 but instead of slowing down, the price of property continued to be driven up by the arrival of the euro, and with it cheap and plentiful money. A further new wave of developers, many without any real experience, decided to join in the business. It was at this point that the warning bells were ringing but were ignored, and it is against this background that I want to review the three other categories of developers apart from the two simple cases referred to above.

The third is the experienced developer who has been in the business for many years building about 100 homes (or commercial equivalent) each year to a very high standard and giving value for money to his clients. In 2003 he saw land prices rising and did what he had always done, which was to plough his profits back into replacing his land bank as well as swelling his output of homes – all supported by bank borrowing. He was steady. We need this type of developer, even though his banking loans have brought him into Nama. The fall in property values and the banking debacle has destroyed his life's work.

The fourth is the competent building contractor who saw the big money being made by his developer clients and decided to take part in the action. He then built apartments, industrial estates and offices but their locations might not have been well researched. He succeeded up to 2006, but came to believe he could walk on water. When the market stopped in 2007 he was left with unsold stock and big bank borrowings. Now, apart from being bust and in Nama, he and others like him have left behind them a swathe of unpaid suppliers and subcontractors with collateral damage right across the business community.

The fifth category of developers is the allied professionals – accountants, solicitors, insurance brokers and auctioneers – who saw the big money being made by the developers and decided they wanted a bit of the action themselves. They found a local wheeler-dealer who was prepared to lead the 'consortium' and buy a site, organise the design team and procure construction. On this group rests a huge responsibility for the badly built, crazily located schemes that we see around the country today. These are now Nama's, the banks' and the taxpayers' biggest headaches.

So these are the developers. Some are licking their wounds but will survive, many are bust. In their defence, few developers are experienced economists, bankers or planners. In other words, few were big-picture men. They knew, or thought they knew, the local markets and they left the big-picture stuff to bankers, planners and politicians. Little did they know, or even care, that these big-picture guys were not looking at the warning-radar screen themselves. The reality is all business is driven by profit motivation and it is nonsense to try to separate the greed or profit motivation of the Ryanairs or Intels from the same profit incentive which drove all the property developers.

We have to realise that one of the consequences of our development splurge was that many of our brightest and most energetic entrepreneurs joined the property game, and thus got diverted from providing tradable goods and services internationally. The late Tony Ryan made this point to me forcefully at the opening of his Ryan Entrepreneurs Academy. He complained that most of the skilled people who should have been queuing up to join his courses were involved in the property business because "there was no other business in Ireland that could match it for profit" – little did he know. By changing our bankruptcy laws, we should make it practicable for such entrepreneurs to re-emerge and put their energy into earning real wealth for the country. I am glad to see that early reforming of our bankruptcy law is a requirement of our loan from the IMF.

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