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The Irish Times - Wednesday, April 13, 2011

Property experts can help to rebuild the economy

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ANALYSIS: Ireland's economy depends largely on property which is why we desperately need property experts to help get us out of the recession. So why isn't the Government using them?

The wealthof the Irish nation was/is based on property values and the entire banking system was/is a leveraged play on property values: when property fell by a half the banks collapsed because they were more than 10 times leveraged.

The current recession, then, has impacted Ireland dramatically because of the significant drop in property values. The recent €25 billion banking bailout and the €45 billion bailout in 2009/2010 were primarily necessitated by falls in property value.

The risk now is that values will fall further, requiring more billions. Is anything being done to stop values falling? Can anything be done?

Sometimes, when you are very close to the problem, you cannot craft a solution because you are overwhelmed by the problem and so are not thinking about the way to solve it.

Do our policy makers really know anything about property values and their drivers? Is this the economic equivalent of the plague, with no one looking at fleas on the rats, or the potato famine, with no one looking for the bluestone spray?

Has this Government access to an appropriate skill base that can halt and reverse the downward trend?

The answer is a resounding "No." It is relying on general economists and not urban economists or property experts, who frequent the property industry, and academia.

Apart from a limited number of taxation-focused valuation specialists in the Valuations Office and OPW (and some fully occupied investment managers in Nama), the Government has no high-level property skills professionals at its disposal – none in the Department of Finance; none in the Central Bank; and none in the Department of Environment.

Imagine running an airline without skilled pilots, engine technicians or navigators. Running an economy, now firmly proven to be grounded on property values, without these skills is surely unwise.

Policy decision after policy decision is being made with little understanding of its effect on the intricate drivers of the Irish property industry and resultant effect on property values.

The few economists that there are in Government are not qualified specialists in urban economists who are familiar with the detail of the property industry. While they may comment on high-level issues within the economy, they know little about the detailed workings of the property industry or the players or drivers of the property investment industry.

The past Government incorrectly thought this “knowledge” came from their friends in the Galway tent – few of whom were Masters or PhD level urban economists.

A bricklayer or carpenter turned developer might be a shrewd businessman – and he might be lucky – but he probably has no qualified understanding of property economics.

In an economy that is “flying” normally, perhaps this can be tolerated, but when the going gets as tough – as it now has in Ireland – you need the equivalent of pilots, engine technicians and navigators to help prevent a crash landing.

We have already had two such property-based “crash landings” in Ireland and still no one is looking at the fundamentals of why property values have collapsed and what can be done to halt or reverse the slide.

Instead of seeking ways in which to understand the property industry and its macro and micro drivers, we get policy decision after policy decision that makes the situation even worse.

Here are four examples:

* The 80 per cent land value windfall tax destroyed the value of much development land and, by reducing the buy-in value to Nama, raised the cost of the banking bailout:

* The Core Strategy policy of the 2010 Planning Act, by reducing the amount of zoned land, will add to the downward valuation of 50,000 hectares of former development land and will further undermine the banks and Nama’s asset base.

* The upward/downward rent review policy proposals of the current government will knock about 20 per cent off the value of most property portfolios, further exasperating the banking problems. This has not been factored into the recent banking stress-test exercise.

* The proposal to introduce rates on residential properties will further impact on house values.

These may all be good policies in a normal economic environment but in what is the equivalent of a raging battlefield, they are like the troops smelling the roses or making daisy chains with the shells flying overhead.

Is it any wonder that the international investment community won't touch our Irish bonds or lend us money when thy can clearly see this madness.

They understand urban economics even if we do not. When in a hole one should stop digging,

Other industries have ministerial advisory groups so why not in the area of property? In overseas economies such as the UK and the US there are well-honed property advisory procedures in place.

In the UK, the Property Industry Alliance submits regular updates to Government on issues affecting commercial property. Its most recent publication, of January 28th, gives a most detailed update on property debt risk relating to future trends in property values.

In the US, the Urban Land Institute is probably the best property related think-tank in the world and gives direct advice to both the White House and the leaders of America's property and financial services industries.

The Government urgently needs to set up a high-level property advisory group, from national and international sources, from academia and the property industry.

It needs to ask it to come up with strategies to halt and reverse the downward trend in property values and be given the mandate to look at the big picture as well as the fine tuning.

It should be required to issue a preliminary report within three months of establishment.

Every householder, investor, banker, and borrower would like to see some serious skills being applied to halting the downslide in values.

The way to begin this is to assemble the brainpower that understands the industry and ask them to develop appropriate policies.

Unfortunately, the old belief still prevails in Merrion Street and Dame Street – that simply because you own a house and built a kitchen extension, you understand the complexities of urban economics and property economics.

What we are doing at present is equivalent to the 17th century practice of drawing blood from a sick patient.

The skills are there – just mobilise the experts now and listen to their advice, please – for all our sakes.

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