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REIT legislation could be start of new era in Irish property

"A REIT is a tax efficient way to enjoy the benefits of owning investment properties without the hassles of being a landlord" is the most succinct definition to emerge from the first REITs conference organised by the REITs Forum a week or so ago.

The capacity crowd of 487 was twice initial expectations and from the quality of the presentations and the level of interest, it was clear the property gene is alive and well not only in the Irish DNA but also in the 10 per cent overseas participants at the conference.

John Moran, secretary general of the Department of Finance, spoke about his ambitions to make Ireland a base for international REITs in much the same way as Dublin is now an international centre for aircraft leasing. John Mulcahy of Nama spoke about the potential role of the agency and its borrowers in providing a significant supply of quality property for REITs.

The CEO of EPRA (European Public Real Estate Association) Philip Charls described the various indices in place to benchmark investment performance of REITs against each other and also equities and bonds.

He pointed out that over the past five years REITs have significantly outperformed income yield on equities and bonds around the globe. He also noted the average market capitalisation of REITs in Europe was more than €1 billion with one of 14 billion (Unibail).

There was much focus on the minimum size of the first Irish REIT and the potential size of the Irish market. The conclusion from Alan Carter, specialist REIT analyst with Investec in London, was that it would be difficult to attract international interest at a level below €250 million.

According to EPRA, the potential in the Irish market could reach €5 billion within five years, supporting earlier estimates from NCB of a potential market in three to five years north of €2.5 billion.

So how do we get from here to there? The first thing is the legislation which should be enacted by early April in the Finance Act. Then there will be the work by the Stock Exchange in preparing listing rules. After that it is over to the market to make it all happen.

In Ireland, with the exception of Nama there are probably only one or two existing property businesses that could get to the minimum €250 million threshold, so the assembly of portfolios to reach this size will be the first challenge.

The second challenge will be in attracting international investors to Irish REITs. This will be the measure of success or failure in the long term. Ireland now has had virtually no long-term international investors in property. The property bubble was financed almost exclusively by Irish banking balance sheets with borrowings – national and international.

Property ownership is essentially an equity play and in the noughties we lost that plot. Before then and now again, Ireland has had to rely almost entirely on local equity in its property industry. Historically this mainly came from high net worth individuals or from the pension funds and financial institutions. This is unlike most European countries where international equity owns investment property – for example more than 50 per cent of the buildings in London City are owned by non-UK investors. In Dublin the factor would have been less than 1 per cent.

Hopefully this conference and the emerging REIT legislation will signal the start of a new era in Irish property that brings us into the world property investment scene. But we will have to play by international rules. Rating agencies such as EPRA will be reporting on the level of performance and quality of governance on a totally objective basis and not on the basis of local rules which were open to abuse.

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