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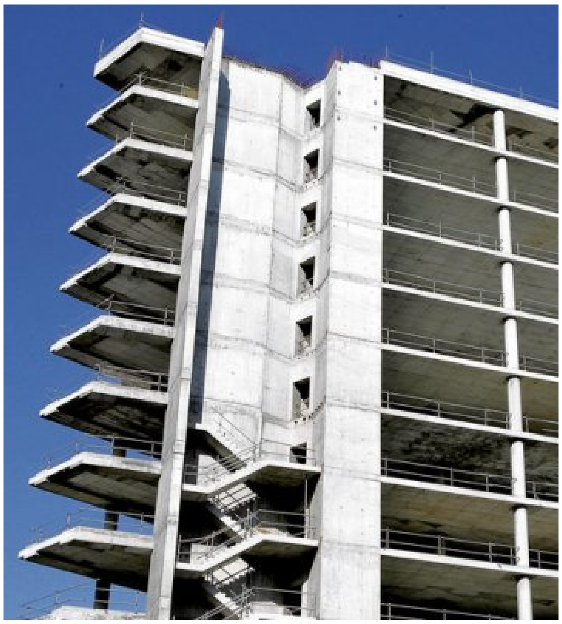
Six easy steps to fix the property market



Symbolic: Unfinished apartments and offices at The Boulevard near Beacon Square in Sandyford.

None of these measures are earth-shattering or complicated but, implemented together, they are game-changers and can take Ireland from property disaster to world class, writes **BILL NOWLAN**

What went so wrong in property in the noughties that the market succeeded in blowing up the entire economy?

The reality is that those who were supposed to be in control of the levers of power either did not receive the signals or they ignored them. From 2002, petrol was thrown on a roaring fire by government action, or lack of action.

But you cannot do away with the property market because it is wonderfully creative in providing homes, commercial premises and infrastructure at little or no cost to government and usually with significant tax spin-off to the Exchequer.

Basic government structures are required for any property market to exist: the rule of law; enforceable contracts; a land registration system. But in a modern urban society it goes further than basics because, in the interest of the common good, governments have to become involved in the way markets operate – and rightly so as markets are far from perfect.

Over the past 30 years, the degree of market intervention by Irish governments and in advanced societies has increased significantly. We have become a sophisticated society with sophisticated regulatory systems.

For example, our planning legislation exists to control and plan land use, we have construction regulations to impose quality control in new and existing buildings, and so on.

However, greater involvement in controlling anything – be it a car, airplane or an economy – requires the installing of feedback mechanisms and related response actions to give optimum performance. It requires informed and empowered people to interpret the information and fine-tune performance.

Such management systems in property were, are still are, missing in Ireland. The principal missing ingredient is, firstly, accurate and timely information systems and, secondly, structures to act on that information.

The reality is that no State department or agency has responsibility for the property industry and, even worse, no department has any real insight into what is happening on the strategic or month-to-month, or even year-to-year, basis in what is one of the biggest national employers and tax generators.

No State department employs a property economist or a property market researcher. There is only one part-time practising property economist in the ESRI. If one looks at the Department of Agriculture, which oversees a far smaller industry than property, it has a dedicated senior minister and nearly as many civil servants as full-time farmers.

There will always be property cycles and government must manage the economy having regard to these cycles. At the beginning of the cycle, usually coming out of a recession, it is acceptable (and often desirable) to pump-prime the market, both at the supply and at the demand side.

However, as the recovery progresses, the pump-priming incentives should be withdrawn and as supply starts to overtake demand, the brakes should be applied. This should all be done in a way that does not create scarcity or excessively drive up prices.

This would not be popular politically, but as the governor of the Central Bank Prof Patrick Honohan said recently: “Part of the role of government is to take away the punch bowl when the party begins to swing.”

The then government’s response up to about 2001/2002 was exemplary, firstly with the IFSC-type incentives and, secondly, the two reports by Peter Bacon which were fine pieces of work of analysing an overheating market and recommending actions of cutting back tax allowances and investing in infrastructure. But after initially implementing the Bacon recommendations, which cooled the market, the then government abandoned all attempts to apply the breaks and made the matter worse by introducing further tax allowances and permitting 100 per cent mortgages.

Politicians and policymakers try to defend themselves by pointing out the mistakes of other countries such as Iceland. This is a cover-up because, firstly, no other country had such a big bubble as Ireland, with a top-to-bottom collapse in value of 60 per cent-plus and, secondly, many other countries have had only minor adjustment to the worldwide banking collapse. Those countries with proper monitoring and control systems were least affected.

If we want to learn from our mistakes and from other economies, this is my formula of six steps to take Ireland from property disaster to a world-class property system (see panel).

None of these steps is earth-shattering or complicated but, implemented together, they are game-changers – they can take Ireland from property disaster to world class.

Do we go back to the same old formula that got us into trouble in the first place? The choice is with the Government.

There are little or no cash costs involved – only vision and commitment.

Bill Nowlan is managing partner of property asset management company WK Nowlan Associates. This article is based on an address he will deliver today at the 13th National Construction Conference on "The Government's Role in the Property Market". See www.wkn.ie

BUILDING BLOCKS FOR A BETTER FUTURE HOW TO FINE-TUNE THE PROPERTY MARKET

1 PROPERTY COUNCIL

Set up a property council of practising property experts with a small permanent secretariat to act as the State's property advisory board reporting to government and key ministries, for example, the departments of environment and finance.

Appointments to the council would follow a model such as An Bord Pleanála. Its role would be to:

(a) oversee the compilation of an annual state of the property industry assessment

(b) commission expert peer-reviewed research from bodies such as the ESRI

(c) advise government about policy and implementation on matters affecting the property industry.

The remit should include planning strategy; property taxation strategy, proposed legislation impacting on the property industry and property users; and the efficient use of State property.

The Central Bank should have access to the council in the same way as the Bank of England taps into a panel of property experts.

2 PROPERTY RESEARCH AND DATA ANALYSIS

Establish a special well-funded section of the ESRI focusing on property economics and urban issues. The brief would include reporting on supply/demand, price trends and bottlenecks; preparing ad-hoc reports commissioned by the property council and other government bodies including the planning authorities.

3 PROPERTY SKILLS IN STATE DEPARTMENTS

Create property economic skill bases within the departments of the environment and finance to liaise with the property council and support the development of appropriate policy.

4 COMPREHENSIVE PROPERTY DATABASE

Develop a full national property database with wall-to-wall information on property ownership including recent deals and availability – much more comprehensive than that currently introduced by our Property Services Regulatory Authority. Its data is a big improvement but far more specifics are required.

The data should be similar to that in countries such as Singapore and the US.

The database should include planning and similar public sector information on a real-time basis.

This will move property decision-making to “evidence based” from “story based”.

5 DATABASE OF PROPERTY OWNED BY THE STATE

Progress the existing public sector reform plan commitment to develop a spatial (map-based) database of all State- and public sector-owned and leased property.

Then amend the public sector reform plan to require that once the database is in place, a regularly updated business plan (to a pre-specified format) be drawn up for every State asset, with an obligation on the owning authority to dispose of all assets not required for service delivery within, say, five or seven years.

6 PROACTIVE APPROACH TO PLANNING PROCESS

Shift the emphasis in the planning process from being predominantly a regulatory “policing” process to an asset management process involving all property in their areas.

Planning would have a proactive approach to the enhancement of the urban/rural environment, not only managing but influencing urban development and change. The mandate would include land acquisition ahead of new zoning and joint valuations with developers/landowners. There may also be a long-term role for Nama to morph into a national land authority with its huge land bank of development land.

Bill Nowlan is managing partner of property asset management company WK Nowlan Associates