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Don't Try to Inflate House Prices for the Benefit of the Banks

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The time to act on flooding is overdue

LINDA DALY
MARKET WATCH



AS RESIDENTS along parts of the Shannon were forced to leave their homes last week, and many more braced themselves for further flooding, questions have been asked about Ireland's planning process.

In 1990, an expert committee on climate change warned the Fianna Fail/Progressive Democrats government about the dangers of allowing development in low-lying areas. Those warnings were ignored. Numerous housing schemes have sprung up on flood plains, and their residents, along with many farm owners, are suffering the consequences.

The last time communities on the Shannon experienced severe flooding was in 2009, and since then relief schemes have been put in place. We can see the benefits in some areas, but elsewhere work has been delayed as a result of legal wrangling and tardy action by the government. Objections to a tender for relief works in Bandon have delayed work there for the past two years. Others, in places such as Skibbereen, Foynes and Claregalway, will start next year, but for many residents it may be just too late.

With flooding becoming more frequent, others will be wondering if moving back to their flood-prone homes makes sense. It will become increasingly difficult to get home insurance, for instance.

Last week, the government approved a €5m emergency fund, most of which will go to businesses unable to get insurance. It is a welcome move, but it is likely to fall far short of what is required.

Last week Fianna Fail leader Micheál Martin called for Ireland to copy the British government, which has set out plans for a not-for-profit scheme, allowing for flood insurance to remain affordable and available. Enda Kenny accused him of political point scoring, but, regardless of Martin's intentions, something needs to be done – sooner rather than later.

Price watch: Co Wexford

Bridgemeadow Enniscorthy
2-bed terraced

2012 €65,000

2015 €65,000



No change

Southbeach New Ross
3-bed detached

2012 €145,000

2015 €152,000



Up 5%

Clonattin Village Gorey
4-bed detached

2012 €140,000

2015 €170,000



Up 21%

South Bay Rosslare
2-bed apartment

2012 €92,000

2015 €105,000



Up 14%

Source: propertypriceregister.ie



Lofty ambitions
The state is tempting owner-occupiers back into Dublin city centre through tax incentives

BRIGHT LIGHTS, BRILLIANT PAD

Upmarket city centre apartments are proving increasingly popular with renters and buyers, but there is a shortage of suitable properties. **By Grainne Rothery**

Unlike most of our European counterparts, Ireland has been slow to embrace the concept of apartment and city living, particularly where families are concerned. For many of us a semi-detached house in the suburbs has tended to be the realistic option when considering our long-term homes.

However, urban living is considered to be more sustainable than continuing to build out in the suburbs. And there appears to be a growing appetite for being in the city centre, above shops, pubs and restaurants, particularly in upmarket properties. The supply of such homes is limited, however.

One that fits the bill in terms of centrality is No 66/67 South Great George's Street in Dublin, a two-bedroom apartment that came on the market two weeks ago. Hunters Estate Agent is quoting €350,000 for the 1,100 sq ft, first-floor property, which has a dual aspect and a balcony at the back. The apartment, which is above Brasserie Sixty6 and opposite the Fade Street junction, has a double-height ceiling and a mezzanine level.

According to Bobby Geraghty, branch manager at Hunters' city centre office, there has been a great deal of interest in the home from a range of people, including potential owner-occupiers, parents looking for accommodation for children in college, and investors.

"We've been pleasantly surprised with the level of interest," he says.

Meanwhile, over on Grafton Street, Marcon Real Estate Services is seeking €4,000 a month for a two-bedroom, fully furnished penthouse with a living room facing onto the grounds of Trinity College. It has been on the market for five months, so is proving to be a slow sell. "It's quite a high price and there are only a certain amount of people out there with that kind of budget," says Mark O'Connor, Marcon's managing director.

Being at the bottom of one of the country's busiest streets is not putting off potential tenants, he says. "The windows are triple glazed so it's soundproofed. You're in the middle of it but it's very quiet and comfortable up there."

O'Connor believes there will be an increasing demand for urban homes. "There's going to be a big shift in terms of people coming from high-end properties back into the middle of town, looking for upmarket apartments for city living. Unfortunately in Ireland, and in Dublin in particular, the stock is just not there at the moment. My opinion is that if that product was there, it would be highly sought after, but at the right price."

O'Connor says that because much of the demand is coming from people who are relocating from London and other European cities, the apartments have to be top class. "They're used to a very high standard of modern, fresh, top-quality apartments," he says.

A good example of the kind of development he has in mind is Clarendon Properties' College Green development, above the new H&M store on Dame Street. "In my opinion they're the best apartments in Dublin," he says.

Rents for the eight luxury apartments, which are housed in a mixture of converted and new spaces at the top of the former bank building, range from €3,000 to €4,500 a month, and all but one have already been let.

"If you're looking for city living, it is a great spot," says Julie Higgins, of Savills, the letting agent for the properties, adding that interest has been very good.

"There's a huge demand for living in the city," she says. "People like being in the hustle and bustle of it, and if anyone has done city living before, that's what they want. A lot of the people who have viewed the apartments have lived in New York or in different cities around Europe. The College Green apartments are New York loft-style apartments – they're cool and funky, and that's what people want."

A number of tax incentives have been introduced over the years to encourage more people into the cities, and to increase the amount of accommodation

available. The current scheme is the Living City Initiative, which was rolled out in May and applies to certain "special regeneration areas" in the centres of Dublin, Cork, Galway, Kilkenny, Limerick and Waterford.

The scheme provides tax incentives for refurbishment work on residential buildings built before 1915 and with a floor area of between 409 sq ft and 2,260 sq ft. The cost of work carried out can be claimed back against tax over a 10-year period.

Take-up of the scheme has been low so far. Answering a parliamentary question from Fianna Fail finance spokesman Michael McGrath, minister for finance Michael Noonan said there had been 18 applications to local authorities in the scheme's first six months.

According to McGrath, a number of the scheme's regulations need to be reviewed, including the fact that the residential element is restricted to owner-occupiers. "There is a clear argument that the rejuvenation of inner cities would be best served by giving incentives to families and owner-occupiers," he said. "However, for houses which are totally derelict it is likely that only landlords will be willing to make the relevant investment, and the scheme should be flexible enough to accommodate this."

He has also called for the provision of local authority loans to undertake the refurbishment. "A flat 25% refundable tax credit and a reduction in the length of time over which it is paid could also make the scheme more attractive."

Keith Lowe, chief executive of estate agent DNG, believes that the scheme is quite prescriptive, in that it applies only to buildings under 2,260 sq ft. "That rules out a lot of the bigger buildings on the squares in Dublin where it might have been useful," he says.

The scheme would be more successful if it were made available to landlords and investors, he says. "It's aimed at owner-occupiers in a situation where getting a

mortgage, when you have to spend a huge amount of money on refurbishment, is very difficult at the moment."

To encourage more city living, there also needs to be more of a reason for empty-nesters to downsize to apartments, including a heftier property tax, according to Roman Lyons, assistant professor of economics at Trinity College.

"We build semi-detached estates rather than building up," he says. "There's not the same pressure for building retirement or empty-nester apartments as there would be in other cities."

Tax is also a factor in the space above city-centre shops not being converted into residential accommodation, he says. "If you had a uniform property tax, based on the value and it didn't matter if it was residential or commercial, you would be a lot more likely to see the upper floors being used."

At present, commercial property owners are entitled to a tax rebate if a space is left vacant. "So there's very little incentive to get people in on the floors above and very little incentive to use land well. There isn't the same culture of flats above the shop as there would be in other cities."

Having more people living in the city would have many benefits, Lyons says.

"If you have a city of a million people that's much denser, you tend to get a lot more variety of services, and things like sporting and music events and choice of restaurants, because these businesses have a bigger customer base to choose from. When these things get spread out into lots and lots of suburbs, it becomes more difficult to sustain, so you tend to get generic restaurants, far fewer cultural amenities, and so on."

Encouraging people to live in the centre, whether it is above a shop or in purpose-built blocks, would be great for Ireland. "We'd have a city that has the breadth of cultural services that we probably would like to have but don't fully have yet," Lyons says.

THERE'S A HUGE DEMAND FOR LIVING IN THE CITY. PEOPLE LIKE BEING IN THE HUSTLE AND BUSTLE OF IT

Don't try to inflate house prices for the benefit of the banks

When it comes to housing, the constant comparisons with the "peak prices" of 2007 make me wonder whether we're about to lose the plot again. Perpetual benchmarking against an irrational peak suggests those destructive prices are a target we should aim to achieve, whereas nothing could be further from the truth.

House price rises are described with positive words such as "recovery" and "increased strongly" that aim to reflect an economy on the up once more. They don't, however: house prices that don't keep track with wages reflect a market where there isn't enough housing supply to meet demand.

In other words, there's dysfunction in the system.

The most successful economy in Europe, according to Forbes, is the one in which house prices fall, achieved by the state

"interfering" in the market and releasing land for housing development as and when needed.

Yes, the German state gets involved in the market – that cardinal sin of the free-market faithful everywhere – to protect its citizens from homelessness and over-indebtedness, and it works.

Taking charge like that is also known as political leadership. It's arguably harder to do than implement populist, half-baked, half-remembered, first-year business degree theories so frequently expounded on the airwaves, on Twitter and indeed in Leinster House.

Taking difficult decisions is a function of being a politician. That, and making sure your constituency gets more than the average share of public spoils, of course.

Just last year, finance minister Michael Noonan told a business evening "we need to get property prices up another bit". When the

Central Bank's lending caps were first announced, his department wanted the new caps eased. You don't need to be an economist to understand that fuelling demand merely increases existing house prices.

Now, why would an otherwise smart man want to see rising house prices, given all the negative effects

they bring in their wake? Who benefits from rising house prices?

First, as economist David McWilliams has pointed out, in Ireland as house prices rise so, perversely, does consumer confidence. For Noonan, bringing in populist measures such as reducing VAT on construction costs (which will go to feed rising

land prices), or easing up Central Bank lending caps, is going to resonate well with the electorate, despite the havoc we've experienced from easy credit.

However, simplistic solutions are not the way to deal with complex, messy issues like housing. Populist responses also make debates binary and hard to resolve.

Second, from the government's perspective, which isn't the same as the ordinary punter's, the more house prices rise out of reach, the better the banks' balance sheets look. If the properties on which they have lent lose value, then their balance sheets begin to look out of kilter and passing those pesky European Central Bank stress tests becomes difficult. Financial institutions also regard mortgages as assets, so higher house prices mean more people will be knocking on the banks' doors looking

for ever-increasing mortgages, which is bad news for society for so many reasons, but good news for the banks.

Rising house prices, especially with investment properties, also provide free money that many rely on in retirement. This, however, is a structural issue with our social insurance system.

After that, it's quite difficult to come up with winners from rising house prices. Sure, if your house rises in value and you use it as collateral to borrow against, then you may win, but only if you consider getting into further debt as winning.

House sellers may see a gain in the price they achieve for their house compared with what they paid for it but, in most instances, they still have to buy somewhere new to live, and will then be the victim of those rising prices. Those who inherit property have most to gain. Sure, you have to pay taxes,



Rising house prices are not the sign of a successful society but the opposite

but isn't it good to have something to pay taxes on? The policy of the government is, it seems, to support the banks at the expense of the people by not being prepared to take measures that support price suppression. The current hands-off approach smacks of 1980s small-state

Thatcherism, when instead the government needs to ensure the supply of housing is sufficient to meet demand. Our housing crisis is a product of politics. House prices that rise on a different trajectory from wages or inflation should not be seen as a measure of success of a country – quite the opposite.

LORCAN SIRR ON THE HOME FRONT

