

## Country-Specific Legislation and Practice

### Country Chapter



### Ireland

#### Introduction

One of the guiding principles of TEGoVA is to promote consistency of standard definitions of value and approaches to valuation trans-Europe. The publication of European Valuation Standards (EVS) provides the state, investors, the financial industry, valuers and their clients with a common benchmark which can be consistently applied, irrespective of the location of a real estate asset.

Whereas harmonisation of valuation standards enable recognised bases of valuation to be reported, the preparation and publication of a valuation must also respect client need, national legislation and custom. Customary differences, particularly in respect of valuation methodology, may result from the requirements of statute or regulation.

This Country Chapter illustrates differences that currently exist across Europe and. The Country Chapters are not intended to provide definitive advice. The text that follows has been provided by TEGoVA Member Associations (TMAs) to outline country-specific legislation and practice.

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## Ireland

**Professional body represented on TEGoVA:**

**INSTITUTE OF PROFESSIONAL AUCTIONEERS AND VALUERS (IPAV)**

### Real Estate Market Ireland

#### 1.1 The Real Estate Market in its aggregate/macroeconomic context

The Real Estate Market in Ireland (The Republic of Ireland) is relatively new compared to older established economies given that Ireland only achieved independent sovereign status within the last 100 years. As a result Ireland's property market, its ownership and title status was and is still broadly based on the English Common Law model. Since independence the legal status of property and its ownership has evolved and has become broadly in line with International Standards and this change has been mostly achieved in the last 30 years.

The ownership of property in Ireland is protected by the Irish Constitution which ensures the free right of anyone to own, occupy and enjoy the freedom of ownership of property within the state. The Irish history prior to independence of property occupation was as tenants and this together with freedom of property ownership enshrined in the Irish Constitution drove the desire to be an owner occupier of property in Ireland resulting in Ireland having one of Europe's highest home owner occupier status.

Throughout Ireland's history both as tenants to Landlords and subsequently as owner occupiers the ownership of land has been paramount to the family and to the income of the state. Land was the mainstay of Ireland's economy when it was primarily an agricultural based economy and food producer. As the economy stabilised independently and grew together with the growth in population land became the mainstay, this time as a resource for property development and housing provision. This overtook agriculture as the main use of land driving the economy but importantly driving the tax returns from such use culminating in the most recent 'Celtic Tiger' phase of Irelands economic history in tax returns in one year at peak of excess €7,000,000,000 to the Irish Revenue.

Importantly throughout Irelands development since independence the property market has despite many downturns (the most recent of which has been the most severe, internationally also) survived and recovered and in recent times Ireland is seeing a stabilisation in certain locations and property sectors. The development in the sector over

the years has seen Ireland provide property that is suitable to International occupiers (commercial), International home and holiday home owners (residential) and to Financial Institutions (the IFSC) who avail of Ireland's European membership and proximity to Europe, its standards of education and its English speaking workforce.

Ireland became and is still a target location for International occupiers of all property sectors and this is a fundamental stable basis for yet further growth in the sector in the future.

## **1.2 Structures of the real estate market and its participants**

Ireland has a free open property market with no meaningful restrictions on ownership beyond financial capacity. The market is divided broadly into the following three categories - residential, commercial and agricultural land. The commercial category includes development land, retail, office, industrial and leisure.

The residential market is varied across the country. In more recent times following the reduction in employment in the agricultural sector and the increase in urban employment over a number of years the emphasis on residential property became more focussed on the cities and main towns. Local planning management varied from county to county and together with the political structure resulted in diverse and wrong planning decisions no more obvious than in the recent property bubble where villages without services were over developed.

The commercial market, as Ireland as a destination for international occupiers grew developed more consciously. It was also driven by the desires of the occupier and the employment they brought. This resulted in a weighted provision of commercial property around the capital city, Dublin. Its infrastructure and housing provision was far more attractive to the international occupier than other regional locations. This evolved over the years as Government intervention and increased regional infrastructural development and investment took place enhancing the attractiveness of other regional cities such as Limerick, Galway, Cork and Waterford. As a result of the recent recession the commercial property market regionally in Ireland has been damaged significantly and as such any commercial property activity as a result has been focussed on Dublin.

Agricultural land has maintained an independent position over the other two sectors primarily because of its historical generational familial ownership. Land for the most part has remained in the family that farms it the exception being the most recent property boom where land values overtook the desire to remain in and indeed the return from farming! This on the other hand benefitted farming where out-farms were sold and the rewards reinvested into the main farm. Agriculture today is again a leading industry for Ireland and

land prices in the sector have seen an increase over the last two years in line with proposed reforms in the Common Agricultural Policy (CAP) where the proposed abolition of milk quotas from 2015, for example, has been a major influence.

The methodology used in the Irish Real Estate Market for the management and sale of property is akin to International methods applying three standards – Private Treaty, Auction and Tender when selling property and standard Lease arrangements for tenant occupation.

Private Treaty refers to where a property (commercial or residential) is placed on the open market, advertised at a stated price and when offers are received they are negotiated on between the parties by the appointed agent to a successful agreement between the vendor and (usually) the highest bidder. The agreement is subject to contract subsequently and until such contract (unconditionally) is executed by the parties no contract exists.

Auction is the same the world over and considered by many to be the most transparent method. In Ireland certain best practice guidelines exist for registered/licensed agents specifically to the auction of property where a price guide must be within a defined percentage of the stated minimum value at the initial valuation. The documentation supporting this can be required to be made available to the parties in the event of a dispute and whilst such guidelines exist they have to date not been tested. On the fall of the gavel at an auction a contract is immediately binding on the parties.

Tender is a similar method to Auction the difference being that a specific date for receipt of sealed bids is set and the bidder can only provide one unqualified bid. The documentation supporting the Tender when completed and submitted if accepted becomes binding on the bidder. The bidder must also (in most tender cases) provide a deposit of 10% of their bid.

Standard Lease arrangements for tenant and landlord relationships are now in line with International standards but in Ireland based on the general and original Lease Documents as devised by The Incorporated Law Society of Ireland. Lease agreements have evolved over the years as the occupier type and origin has developed incorporating International companies who seek to liken or standardise their international lease agreements. For example global retailers can seek turnover rental agreements etc.

The participants in the property market are as with other economies varied and international and furthermore vary with the economic climate. In a stable and normally functioning market the fundamental participants are the same the world over – buyer and seller; tenant and landlord. These parties are then supported / serviced by financial institutions and professionals including valuers, surveyors and lawyers.

In distressed property markets these participants are joined by receivers (in the form of accountancy firms mainly and more recently in Ireland Real Estate Agents), liquidators (similar to receivers but at present exclusively accountancy firms), Government agencies through intervention on social grounds (central bank intervention on repossession protocol etc) and Special Purpose Vehicles initiated by Government to stabilise a market (in Ireland the National Asset Management Agency – NAMA).

### **1.3 Relevant Legislation and Regulatory Requirements**

The freedom and right to own property in Ireland is enshrined in the Irish Constitution. With this as the backdrop legislation has evolved both from Government through formal legislative process and from the Law Courts through case precedent subsequently coming into legislation.

The relationship between buyer and seller is governed by the Law of Contract based on the original English Common Law and modernised to suit Irish circumstance but only moderately. The Law of Contract is the most difficult to overturn when entered into under the correct circumstance they being offer, acceptance and consideration together now in writing between the parties.

The relationship between a tenant and landlord (lessee and lessor) is governed by the Landlord and Tenant Acts in Ireland. These have evolved more aggressively over the years to accommodate change in the former English Common Law structures such as ground rents, short and renewable leases etc.

From a regulatory perspective the entry level for agent participation in the Irish property market has also evolved from the historic local Livestock and Property Auctioneer to the academically qualified (IPAV, SCSi and IAVI – IAVI and SCSi now merged) and licenced (through the Courts and Government Revenue Division) agent and valuer to the now Property Services Regulatory Authority – a Legislative body responsible for the licensing of agents in Ireland and the governance of their professional standards and behaviour.

Ireland has now established the Residential Property Price Register and the National Commercial Lease Register ([www.propertyregister.ie](http://www.propertyregister.ie)) both are managed by the Property Services Regulatory Authority. Initially it records the address, price and date of sale of all residential property transactions, and terms of the lease.

#### **1.4 Market for Residential Property**

The residential property market in Ireland has been highlighted internationally for its stellar performance gradually up to 2004 and aggressively between 2004 and 2007 and even more so for its stellar decline since 2007 where values have declined from peak to present by between 60% and 70% and in one off specific cases by even more. Prices have reverted to 2001 levels and whilst currently a major economic calamity to manage and deal with 2001 price levels were good at that time. The difference is that the property owner is distressed now beyond their means where leverage on value alone has created unmanageable debt levels.

However since 2006/07 the rate of decline in residential property values eased considerably and in Dublin in 2012 property in certain locations has seen a small percentage increase reflected in pent up demand from first time buyers, continued low interest rates but more importantly a growing belief that the price bottom has been reached in the capital city for the most part. Mortgage Interest Relief has also had an effect and was extended in the past years and will run out in December 2012.

The criteria for recovery in the residential market are there – low interest rates, severe price correction (could be considered an overcorrection when compared to property busts in other states where the percentage decline in values has been far lower than that suffered in Ireland), pent up demand, no development, potential housing shortage (Ireland will continue to require up to an average 35,000 housing units per annum over the coming decade), a young and growing population with approximately 800,000 under the age of 25 (Ireland has the highest population growth statistics in Europe through natural circumstances – childbirth in 2011 was in excess 75,000), a declining housing stock etc.

So why is the market still in recessive mode? Confidence, Finance and Government policy are at the forefront. Buyers of property are now more conscious and educated than ever before and are exercising caution. The financial institutions are in repair mode and lending is not a priority even where borrowers now are the most efficient and qualified clients to have. Government policy is driven now by Europe and the measures required containing Ireland's debt position. Budget 2013 has also imposed a Property Tax and this may have an effect on buyer decisions in 2013 and beyond. The tax applied will be 0.18% on residential property valued up to €1m (on entire) and 0.25% on the excess above €1m. There will be certain exemptions applied and allowed for.

The main urban centres are seeing a market and activity levels in 2012 have increased. The counties in Ireland that are in most distress and who will elude recovery for some time to come are those who overdeveloped in secondary locations with incorrect product and who currently have a stock of property for sale in excess of 5% of the overall housing stock in the county.

In 2010, 20,769 residential sales closed.

In 2011, 17,982 residential sales closed.

To the 19<sup>th</sup> December 2012, 20,729 sales closed.

## **1.5 Market for Commercial Property**

**Offices** – the office market in Ireland in 2012 is mainly related to Dublin where the majority of occupiers both Irish and International are based and continue to seek space. Activity levels in take up have not varied greatly between 2011 and the expected outturn for 2012 that being approximately 140,000 square meters.

The main activity centres on the Central Business District – Dublin 2 and 4. With no construction of new space being undertaken in these locations yet a stable demand this will result in a shortage in the coming years. Vacancy in the prime areas is at approximately 5% which is a positive position however that is not reflected in the suburban locations where space is available and in some cases deteriorating due to being vacant. The availability of space in prime locations is also providing opportunities for occupiers to move to better and more modern space and this enhances the take up positions.

Shortages in prime locations will inevitably push rents higher and this will enhance yields and resultant investor activity and improved capital values. The office market will track the Irish economy however there is evidence that it has turned a corner in 2012. The downsizing by firms in the financial sector appears to have reached an end and the professional services firms are again looking more confidently into the future with improved business activity. Larger firms have taken vacant space in their buildings off the market and high profile companies such as Google and Paddy Power continue to expand.

Regionally the office market in the larger urban locations are mainly related to local demand only and these will lag the market for some time to come.

**Investment** – To date in 2012 approximately €460,000,000 worth of investment sales have been transacted or already signed. This compares to approximately €190,000,000 in 2011. This improved activity year on year signifies a return to a more stable, viable and normal market. The investment sales mainly again relate to Dublin and the level of activity now provides valuers with considered views backed by a reasonable level of transactional activity.

In 2012 there was an expectation of a greater number of investment opportunities (distressed or otherwise) being released by the institutions into the market? This did not

occur until the second half of the year and when it did the market saw up to €10 chasing €1 for sale reflected in the State Street building sale at a price of €108,000,000 to Kennedy Wilson.

Other substantial sales include One Warrington Place at €27,000,000 reflecting an initial yield of 7.53%; Edward Square in Galway City at €27,000,000 reflecting an initial yield of 8.62% (Galway City is an attractive investment location outside Dublin given its demographics, location and infrastructure). On the larger residential investment sector transactions the sale of Sandford Hall and the Alliance Building in Dublin to Kennedy Wilson again shows confidence at yields on average of 8%.

Many of the large residential apartment developments were sold as individual units to new investors with little experience and who are now locked into negative equity. Tenants are positive to these new professional landlords and happy to deal with them improving the sector. In Budget 2013 the Government has initiated the process to legislate for the introduction of **REITs** and this is again a positive progression for the investment sector.

**Industrial** – The industrial sector lags the other sectors of the commercial market due in the main to an oversupply of space. The exception again may be the Dublin market where in 2012 activity stabilised over and above the regional locations. 2012 is set to reach transaction levels of approximately 180,000 square meters an increase on 2011's 150,000 square meters. With this improvement and coupled with the growth in the economy and especially the export sector activity levels should be favourable again in 2013.

In 2012 the market was dominated by logistic companies and in particular third party logistic providers possibly as a result of the fallout from the Target Express liquidation leading to an increase in activity for its competitors. Pharma companies also dominated demand however with a lack of quality space meeting their needs there is an expectation that these companies may veer towards design build opportunities instead. This is reflected by Amgens decision to extend its Dun Laoghaire, Dublin facility to approximately 11,700 square meters.

In general prime headline rents for Grade A space are running at between €55 and €60 per square meter and there appears to be tentative upward pressure on these levels in some locations. Given capital values at present there is also a move by some companies to owner occupy good quality space. That said manufacturing facilities with lower eaves heights are achieving lower rents in the region of €22 to €25 per square meter. Overall supply levels at the end of September 2012 stood at 1,015,000 square meters and despite this level availability is expected to stabilise in the medium term.



**Retail** – A major issue for this sector has been rents and existing leases with upward only rent reviews. Following the Government clarifying the position on these rents the market stabilised at least based on certainty on the issue. However it also created an ‘us and them’ position where an existing occupier on an existing upwards only lease has a greater cost in its business than a start-up who can obtain a lease next door at market value and better terms etc.

The fall in rents coupled with a choice of locations has reflected an increase in activity for retail occupiers in 2012. Units that have been fitted out and coming back to the market under new market lease terms with flexibility are providing new opportunities for businesses and this should continue into 2013 in the main urban centres.

On the larger scale a number of international firms took advantage of better terms to open new premises in 2012. Boots opened a new branch in Blanchardstown in West Dublin as well as a number of others throughout the city. The international restaurant chain Nandos founded in South Africa is currently fitting out a new unit in the same location. US investors Gordon Brothers acquired Cleary’s department store in Dublin. Dublin also attracted the international brand Abercrombie and Fitch. Clearly these transactions reflect positive national and international interest in Ireland and they recognise an opportunity to take advantage of positive occupier terms and conditions.

**Leisure** – This sector relates mainly to the Hotel industry. Over the past years the Government as part of its drive to greater tourism in Ireland provided generous incentives to the hotel sector and this drove development throughout the country increasing the availability of hotel beds considerably. Before the global recession took hold the industry was enjoying occupancy rates in excess of 80% and higher in the cities. The fall-off in trade resulted quite quickly in hotel receiverships and closures due to high leveraging and a sharp fall in sales and price per room.

This trend continued up to 2011 especially regionally with Dublin less affected. However in 2012 hotel acquisition picked up reflected in the sale of the Burlington Hotel in Dublin to the US investment firm Blackstone for a price in the region of €70,000,000. This property was bought in 2007 for €288,000,000 as a property development opportunity and this again reflects the fall in commercial values yet now reflecting an opportunity for investors to step in. Also in Dublin the Morrison Hotel sold to a Russian investor for €22,000,000. In Kerry the Parknasilla Hotel sold to a European buyer for €10,000,000 and in Cork Fota Island Resort sold in the region of €20,000,000.

Generally the trend would indicate that hotels in Dublin are being chased and bought by institutional type investors whereas regional hotels are being bought by opportunistic

buyers who see good value for the offering. Given the distress in the sector and the fact that many hotels were part of a property developer's portfolio many hotels in Ireland have ended up in NAMA or receivership ownership. They continue to operate however at much lower rates per bedroom and at some point many will have to be sold. This has the potential to flood the market however it is likely that the current owners will act more responsibly and continue to seek specialist investors privately for the most part.

**Development Land** – This sector has seen the most devastation from the market peak resulting in zoned development land and speculative development land collapsing in value.

There is no tangible building industry in Ireland at present and the resultant appetite for development land is negligible at best. Land at the peak in regional locations was achieving values in the hundreds of thousands per acre that now is being carried at values between €7,000 and €10,000 per acre depending on region and location.

There is some level of activity in in-fill sites in the cities but again they require purchasers without finance needs and in some small number of cases where finance is available to a buyer it is at levels of 50% to 70% LTV only. This sector of the commercial property market will remain dependent on the performance of the Irish economy and a return to confidence and stable more normal funding levels being available. Demand is there for new homes confirmed in Dublin for example where in 2012 over 300,000 residential tenancies are in place – this compared to less than 100,000 previously. This reflects a pent up demand and a willingness of potential buyers to continue to take a wait and see approach for now.

**1.6 Agricultural Land and Country Homes** - The Country Homes and Agricultural Land property markets have been and are becoming again relevant sectors that have seen great change over the past years.

Historically in Ireland the main buyers of large country homes and estates came from outside the country – notably the UK, France and Germany. The traditional owners of the large estates were English in the main and were handed down from generation to generation and maintained generally from income from family trusts etc. In many cases the incomes fell short of the cost of upkeep and this forced the families in occupation for more than a generation to sell the estate.

In more recent years and with the wealth created from the property explosion in Ireland the buyers for these estates were Irish outbidding their international rivals. Some of the country homes were restored and kept as second homes or utilised as sporting estates – others became commercial projects where the house or castle was restored and converted into a country house hotel and the lands were transformed into a golf course with golf lodges sprinkled along the fairways – all this to meet the worldwide demand for golf.

The global recession hit such ventures hard and many now in Ireland languish with high debt levels and no demand for the lodges which were to fund the overall project. One recent example being Humewood Castle on 440 acres in County Wicklow bought at the peak of the market for approximately €24,000,000 and sold in late 2012 for allegedly close to €8,000,000 to a European buyer. Overall the country homes and estate market has benefitted from the property explosion through the level of restoration employed returning these old homes to previous glory – however the real benefit will accrue to the buyers who now will purchase for a fraction of the original investment.

Agricultural Land is perhaps the jewel in the crown in 2012 in the property market. Up until 2008 no single data base existed to monitor the level of land sales in Ireland. Then in 2008 the Farmers Journal, Irelands leading farming newspaper collated an annual Agricultural Land Price Report and this has become the standard data base for this market.

**The following data shows the trend for land prices since 2008**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Average Price:	€15,867/acre	€10,222/acre	€8,741/acre
Price Range:	€4,000 - €41,500	€2,353 - €27,600	€2,500 - €24,375
Land Offered:	71,864 acres	44,747 acres	41,339 acres
No. of Farms offered:	1,654	875	885
Biggest Farm:	450 acres	1,540 acres	600
Weighted Average:	€16,610	€9,245/acre	€8,647/acre

**2011**

Average Price:	€8,708/acre
Price Range:	€2,485 - €23,600
Land Offered:	48,509 acres
No. of Farms offered:	1,054
Biggest Farm:	1,263 acres
Weighted Average:	€8,869

As this data shows from 2009 onwards the agricultural land market stabilised. Early indications for 2012 are that the amount of land that came to the market (publicly advertised) was up by potentially 50% on 2011 levels. Even allowing for a percentage that did not sell successfully this would indicate that land sales in Ireland improved considerably on the 2011 levels. The source of this increase in land coming for sale is likely from NAMA and receivers/liquidators disposing of land banks within distressed mixed portfolios. Further indications are that price per acre levels will be in line if not exceed 2011 levels and we await that data due in early 2013.

## **1.7 Main Customer Groups requesting Valuation Services**

**Corporates** - this client sector has grown substantially in Ireland over the past 20 years. Their requirements are on-going from start to finish where their property needs/existing property holdings continue to require to be re-evaluated for internal carrying purposes, company transfers, shareholders ownership structures, property moves, property development/re-development, taxation purposes and funding purposes. This client sector is important and given the varied requirements they need of the valuer profession they will continue to be.

**Auditors** – this client sector reflects the above similarly and now in the global distressed markets they require valuation services retrospectively in some cases, present day disposal values, distressed sale values, values for taxation, value after refurbishment of the asset is being retained, lease evaluations, surrender valuations etc. Given the volume of property in distress, receivership and NAMA in Ireland this client sector will remain a continued user of valuer services on an on-going basis.

**Financial Services Industry** – again this client sector will be as the above and to date has been a major user of valuer services most especially up to November 2009 – the relevant date for property being taken into NAMA. That date now being historic these institutions now require and will continue to require on-going valuer services to update existing carrying valuations and to provide new valuations into the future.

### **1.7.1 Real Estate Finance/Mortgage Lending**

The main finance and mortgage providers in Ireland have been the Irish banks, Building Societies and latterly foreign banks who seized the opportunity to reside in Ireland and lend into a growing property market. The growth in the Irish market led to a generation of indigenous wealth by property developers who subsequently sought finance to acquire property outside Ireland and those foreign banks resident here were in a prime position to act for such clients.

Lending for property purchase in the residential sector remained quite regulated and stringent for quite some time and into the earlier part of the new millennium. The global

availability of finance began then to impact Ireland as it did globally making funding easily available and with it a hunger for Financial Institutions to find a home for the funding they wanted to sell. These conditions led to a relaxing of the terms attached to lending, a relaxation of the income multiples normally applied, a relaxation of the income type required and the stability of that income, the ability to repay in the long term etc. This in turn led to 100% mortgages becoming available initially led by a foreign institution to gain market share and subsequently followed by specialist lenders or sub-prime lenders.

### **1.7.2 Volume of Real Estate Finance**

At the peak of the market real estate finance in Ireland exceeded €40,000,000,000. In 2012 lending was less than €2,400,000,000. In a steady, normally functioning economy and property market the average mortgage/funding into it should be approximately €8 billion with a stock turnover of between 3 and 4% (of the total housing stock in the country) per annum. In 2012 the estimated turnover will likely come out at 1% of total stock. This all points to 2013 being a bottoming out year and the anticipation is that the Banks intend to increase lending also - the first market to benefit will be Dublin as it already did in 2012.

Total residential mortgage drawdown's excluding re-mortgage/top-up mortgages in ten months to end of October 2012 is 10,147. Given sales of 17,880 in the same period this indicates that mortgage drawdown's account for 57% of sales with 43% accounted for by cash purchases.

### **1.7.3 Supplier of Real Estate Finance**

Following the global recession led by the fall of Lehman's initially the financial services sector in Ireland has contracted and come under increased regulation and these factors have curtailed and reduced the number of funding providers in Ireland.

The Government intervention and banking guarantee saw it become the virtual owner of AIB and a shareholder of Bank of Ireland. Other smaller institutions active in the funding sector have been subsumed into these Pillar Banks seeing the virtual disappearance from the market of a range of building societies, life companies and specialist lenders. Most significantly in 2012 the international finance company Pepper Can Do purchased the entire residential loan book and support structure of GE Capital in Ireland at a percentage in the euro and this may be a reflection of what is to come in dealing with the distressed mortgage books held in the remaining Irish institutions.

Foreign institutions in Ireland are taking their direction from their higher authorities and whilst remaining in Ireland for now are taking steps aggressively to reduce their positions most notably Bank of Scotland who surrendered their banking licence and transformed itself

in Ireland into a portfolio management company (Certus) with specific instructions to exit all positions over a period of time.

Anglo Irish Bank now the Irish Bank Resolution Corporation (IBRC) is following a similar path to maintain existing 'good clients' but aggressively reducing its position with distressed clients and corporates.

The result for the property market is a reduced collective of funding suppliers in the market place and a resultant lack of competitive lending. Where lending is available the qualification tests and LTV's are sometimes unworkable and these factors are impacting a swifter recovery in the property sector. From a valuers perspective their activities even at these reduced levels still require valuer services on an on-going basis.

#### **1.7.4 Types of Real Estate Finance**

Given the contraction in the market place and the Government and Central Bank intervention in lending protocols and regulations lending criteria is now very strict as is the type and level of finance available.

In residential it is now primarily against the property the subject of the mortgage, it excludes for the most part cross securing, it only relates to primary income and for the most part ignores other income sources such as rental income. It takes account of savings and spending trends of the individual over a period of years before the application is made. Evidence of gambling for example can result in a refusal of the application.

On the commercial front funding is again restricted similarly but based on the viability of the project and its location. Development of commercial property in Dublin in sectors seeing demand will be considered for funding but again the maximum may be between 50% and 70% only and dependant on the applicant circumstances, end user in place etc.

The Government Budget 2013 has introduced a long awaited intention to legislate for **REITs** in Ireland and this will allow a broader investor based funding opportunity and initiative for property ownership and property development.

Finally where purchasers are transacting with NAMA, NAMA itself is in certain circumstances providing a level of purchaser funding especially against prime assets both in Ireland and the UK.

### **1.7.5 Capital Markets/Mortgage Funding**

As indicated above foreign investors such as Pepper Can Do and others are encouraged by the potential value becoming available to them as a result of existing institutions reducing their exposure and positions against Irish property assets.

The acquisition of mortgage books at a percentage in the euro affords the new mortgagor and mortgagee in distress the opportunity to enter into a sustainable relationship avoiding repossession. This is a route that is considered to become more relevant in Ireland and will involve a high level of valuer involvement in the process.

## **2 Real Estate Valuation**

### **2.1 Terms of/for Value**

#### **2.1.1 Market Value/Rental Value (MV/RV)**

Credit Institutions on all Commercial Real Estate (CRE) are required to ensure the terms of engagement with the valuer are compliant with the Capital Requirements Directive (CRD). The Irish Central bank have taken the (CRD) very seriously and have compiled and issued a final paper in December 2012 called "Valuation Processes in the Banking Crisis - Lessons Learned - Guiding the Future"

The following are excerpts from this paper and while it has the status of guidelines the Central bank considers that the guidelines and recommendations contained in the paper represent appropriate process and procedures for credit institutions in considering security valuations. As such, the Central bank would consider material deviations from the guidelines as contrary to good practice, and would intend to scrutinise the applications of the guidelines as part of its on-going supervision.

Examples of valuation standards consistent with the principle rules of International Valuation Standards and considered to be appropriate practice include; the Royal Institution of Chartered Surveyors (RICS) "Red Book", the European Group of Valuers Associations (TEGoVA) "European Valuation Standards Blue Book", and The International Valuation Standards Council's (IVSC) "International Valuation Standards White Book".

During the boom lending years certain weaknesses were identified in relation to best practice and they included inaccurate or inappropriate definition of valuation requirements by the Credit Institutions, inadequate valuation processes and standards or a disregard for such standards and a lack of appreciation of the significance of the valuation document as independent evidence of risk mitigation effectiveness. Many bankers did not fully regard

the valuation report as a key document underpinning the basis which they were acquiring the risk,

The basis of Market Value is an internationally recognised definition. It is defined as “*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*”. Any special assumptions made in arriving at the Market Value should be agreed between the lender/client and valuer prior to the valuation report being prepared. Market Valuations should be carried out in accordance with the above mentioned standards.

**Recommended practice going forward should include:**

- Standardisation of Valuation Processes
- Letters of Instruction clearly defining the requirements and assumptions etc
- Valuers should confirm their instructions in writing
- Conflicts of interest must be avoided – the valuer’s duty of care is to the Credit Institution/Client, Credit Institutions should require the valuer to disclose any material involvement, certain connected valuers should not be used (where the valuer has acquired the property for the borrower for example).
- Appointed valuers must hold sufficient qualifications and PI Insurance
- Valuers must not be appointed just because they are a customer of the bank
- Proper reviews of panel valuers by the Credit Institution
- Credit Institutions should report concerns in relation to non-ethical behaviour to the appropriate regulatory body
- Frequency of valuation reviews – Credit Institutions must follow the Property Valuation rules as per the CRD
- Frequency should be based on the risk profile of the exposure
- Credit Institutions should have clearly defined guidelines on frequency policy
- Where there has been a material change to the property a revised valuation should be sought
- For volume valuations (residential mortgages) an index is an appropriate method for review provided the index itself is assessed regularly.
- Informal Valuations – Credit Institutions should have appropriate processes to flag and review outdated valuations
- There should be appropriate audit trails
- Standard templates – should include at minimum details of the last three valuations (if applicable)



### **2.1.2 Non-Market Values (mortgage lending value, foreclosure value etc)**

Historically in Ireland mortgage values were arrived at on the basis of Market Value (as defined above), the valuer's local knowledge, comparable evidence and when known the agreed purchase price in relation to residential property (although this should only be for guidance). The valuation of commercial property was and remains more clinical relating to the type of valuation approach applied be it market value based on capitalised yield prevailing in the market, bank yields, bond yields etc and cash flows where applicable.

Foreclosure values for residential property are a recent phenomenon in Ireland and the approach being utilised is market value as above with qualifying opinions provided based of length of time to dispose supported by comparable evidence if available and prevailing trends on price. The new residential property price register is and will be an efficient tool going forward in relation to the availability of precise data on price and property type etc.

### **2.1.3 Other terms off/for values**

Valuation for Mortgage

Valuation for Taxation

Valuation for Transfer

Valuation for Probate

Valuation for Re-Mortgage

Valuation for Repossession

Valuation for Mortgage Acquisition

Drive-By Valuation

Desk- Top Valuation. Portfolio Valuation

## **2.2 Valuation Methodology**

### **2.2.1 Methods applied for the Calculation of Market value**

Residential property valuation is as defined above as Market Value - to arrive at market value based on the assumption of a willing buyer and seller, openly marketed, without duress and without account taken of a specialist purchaser. The valuer approach can initially be guided through the qualifying instructions and the initiators requirements and end use for the valuation. Special assumptions must be clearly stated and furthermore any such assumptions agreed between the initiator and the valuer before the report is prepared.

Generally the valuer will rely on local knowledge, comparable evidence (within the last six months), knowledge of the market, market trends and if known the agreed purchase price/rental agreed (as guidance only).

### **2.2.2 *Methods applied for the Calculation of Non Market Values***

These are as above however the valuer (again through the qualifying instructions) may provide a margin in percentage terms of differential to reflect certain factors that may affect value be that structural, locational etc or the valuer may advise a differential relating to a forced sale taking account of time to sell.

### **2.2.3 *Regulatory/Non-Regulatory Methods***

Not Applicable in Ireland at the moment.

## **3 Types of real estate valuers**

### **3.1 Organisations of the profession (organisations/associations of valuers)**

Ireland has a long and proud tradition of voluntary professional organisations which operated quite successfully for many decades through self-regulation. This came to an end for auctioneers and estate agents with the introduction of the Property Services (Regulation) Act 2011. This established the Property Services Regulatory Authority ([www.psr.ie](http://www.psr.ie)) which operates a comprehensive licensing system covering all providers of property services (PSP's) including sales, lettings and management. Other functions of the PSRA are:

- To set and enforce standards for the grant of licences and provision of services
- To establish a system of investigation and adjudication of complaints
- To promote increased consumer protection and public awareness
- To establish a Compensation Fund to compensate parties who lose money as a consequence of the dishonesty of a licensee.

Under the legislation, the Authority is required to publish and maintain a Public Register of licensees which it advertises on its website.

However, there is no specific statutory regulation, licensing or registration of property valuers. While anyone may be instructed to value, skilled valuers for all, except some very specialist, assets will almost always be professionally qualified with one or more of the relevant professional associations which have their own qualifications and regulatory structures.

### **3.2 Certified Valuers (ISO 17024)**

For real estate valuations these are:

- The **Institute of Professional Auctioneers & Valuers (IPAV)** – many members specialise in property sales and lettings and / or land and property valuations. Full Associate Members are designated by the letters MIPAV.
- The **Society of Chartered Surveyors Ireland (SCSI)** – qualified membership is designated by the letters FRICS or SCSI and valuer members are members of its Valuer Register.

While some valuers may be members of an accredited organisation, including IPAV and the SCSI mentioned above, there is no legal requirement for valuers to be members of a professional body, to be licensed by any statutory scheme, or to carry PI Insurance.

### **3.3 Publicly Appointed Valuers**

These can be appointed from the private sector through a public procurement process. The Government Department (Board of Works) employs valuers directly and they operate to cross check valuations where tax may be assessed as a result of the valuation etc,

### **3.4 National Specificities – Public Expert Committees**

The Government in 2004 initiated a review body of the Real Estate Profession through the appointment of a committee selected from various interested sectors including real estate, accountancy, public service, farming, business, banking etc. This resulted in the PSRA as described above.

Following the global recession and the setting up of NAMA the Government imposed a requirement on the Irish Banks to value their entire commercial property portfolios and the selection of valuers was by public procurement following a submission process. Valuers were appointed to the National and Regional panels following those submissions and interview, market presence and capacity etc to deliver together with qualification and surveyor employee numbers.

### **3.5 Further groups of valuers**

As above.

## **4 Outlook**

### **An Overview of the Macro Economy**

2011 proved to be somewhat of a turning point for the Irish economy with growth of 1.4% recorded for GDP, notably the first positive growth figure in four years. That said, GNP, which is recognised as a better indicator of Ireland's indigenous economic performance recorded a negative figure of -2.5% in the twelve month period. Unemployment remained

stubbornly high throughout the year and not surprisingly consumer spending continued to decline by 2.4%.

Despite this somewhat encouraging performance in 2011, both measures of economic performance, GNP and GDP recorded negative returns for the first quarter of the year. Following this somewhat disappointing start to the year, the economy was stagnant during the second quarter of 2012. Preliminary figures from the Quarterly National Accounts (QNA) reveal that there was no change in the volume of GDP compared to the opening quarter of the year. GNP on the other hand expanded by 4.3% during the three month period, reflecting a significant fall in net factor income, largely as a result of volatility in the repatriation of multi-national profits.

On an annual basis, the Irish economy contracted by 1.1% in real GDP terms, reflecting the weakest annual level of performance since the second quarter of 2010. GNP rose by 2.9% during the twelve month period.

Growth prospects for the Irish economy remain modest as global growth continues to cool, thereby impacting export demand. The volume of exports fell by 0.5% during the second quarter; this was the first quarterly decline in exports recorded since the final quarter of 2010. The Minister for Finance, Michael Noonan, has forecast the economy will expand by 0.7% this year, followed by an average increase of 2.7% per annum in the period 2013 to 2015. The ESRI have forecast GDP to grow by 1.8% in 2012, rising to 2.1% in 2013. GNP forecasts are less optimistic as the ESRI estimate a contraction of -0.2% in 2012 and a growth of 0.7% in 2013.

Personal consumption, which accounts for approximately two thirds of domestic demand, remains under pressure. Consumer spending continued to decline during the second quarter, falling by 0.4% during the three month period; this compares to a 1.9% decline recorded in the opening quarter. The ESRI forecast that consumption will fall by 2.3% in 2012 and a further 2.0% in 2013.

Investment spending witnessed a sharp contraction during the second quarter, declining by 29.4% during the three month period. The reduction largely reflects the continued decline in construction. The ESRI forecast that investment will fall by 5.4% in 2012 and a further 4.1% in 2013.

The seasonally adjusted unemployment rate remains stubbornly high at 14.7%. The latest Quarterly National Household Survey (QNHS) figures, published by the Central Statistics Office, reveal an annual reduction of 1.8% in employment. Furthermore, on a seasonally adjusted basis, a decrease of 0.8% was in employment was recorded in the second quarter of the year. Moreover, the total number of persons in the labour force now stands at

2,096,400; representing a decrease of 29,500 (-1.4%) compared with the same period in 2011.

Unemployment increased by 1.3% in the year to quarter two. The total number of persons unemployed now stands at 308,500 compared to 304,500 persons during the corresponding quarter of 2011. Furthermore, the long-term unemployment rate rose from 7.7% to 8.8% over the year to quarter two. The total amount of people out of work for more than a year continues to increase, remaining a key concern. This cohort now accounts for 59.9% of the total unemployed.

**T.1: Persons aged over 15 and classified by NUTS3 regions and ILO Economic Status, Apr – June 2012**

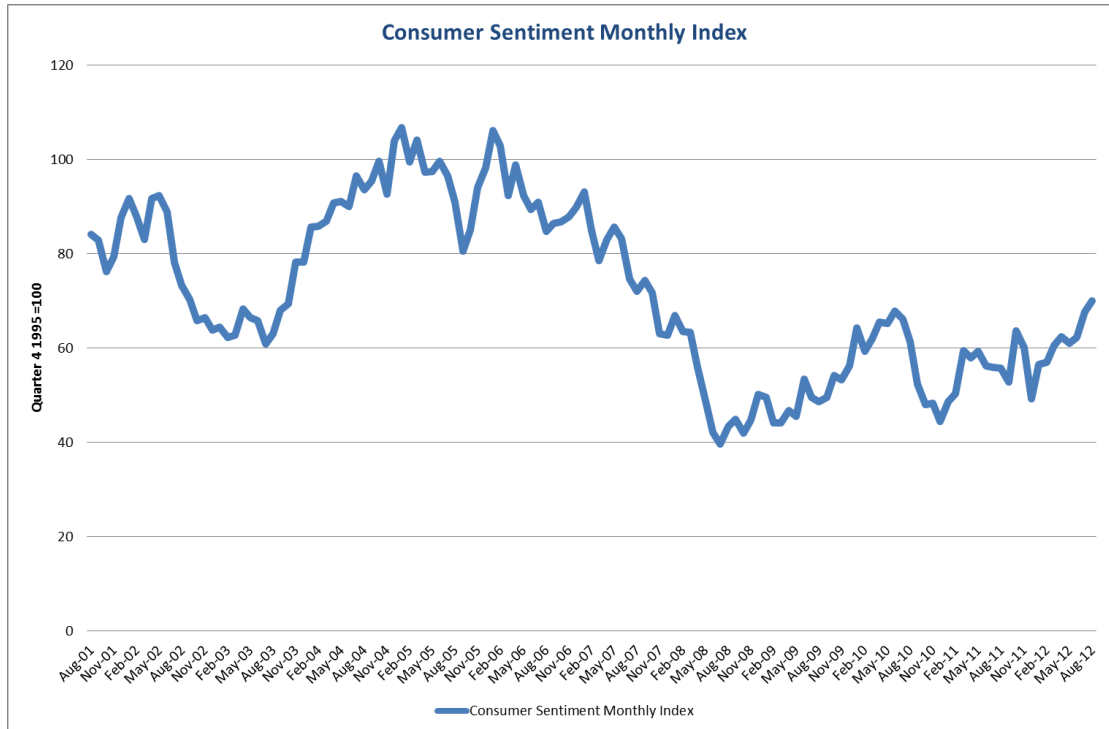
Location	Unemployment rate	Participation rate
Border	16.3%	53.4%
Midland	17.9%	58.4%
West	15.8%	62.9%
Dublin	12.1%	61.3%
Mid-East	13.6%	64.3%
Mid-West	15.8%	60.4%
South-East	18.7%	58.6%
South-West	13.8%	59.6%
State	14.7%	60.1%

Source: CSO

The performance of the labour market is not homogenous with a significant regional disparity in both labour force participation and unemployment rates as illustrated in table 1. The latest available data from the CSO is for the period April to June 2012 which reveals that the highest level of unemployment was recorded in the South-East region while the lowest was in Dublin.

Irish consumer sentiment improved in 2012 reaching its highest level in almost five years. The latest KBC/ESRI Consumer Sentiment Index showed a third consecutive increase, with

the Index reaching 70.0 in August from 67.7 in July. This compares to a reading in August of 2011 of 55.8. The 3-month moving average also increased, up to 66.7 from 63.7 in July.



Source: KBC/ESRI

The fiscal insecurity across Europe will continue to influence the property market in Ireland. The recent agreements reached for Greece and Spain are a positive however, the reticence of the relevant foreign ministers to acknowledge Ireland’s special position and apply measures to lessen the debt burden continue to take their toll on the economic outlook and the confidence of the people and businesses to move forward. Such a debt deal is considered to be essential to a sustained and manageable recovery for Ireland.

There have been signs of recovery in certain sectors and locations however there is still volatility across the markets with the exception of agricultural land where CAP Reform proposals have had an impact. The CAP Budget has however, been postponed until early 2013 and this may have a dampening effect.

In the Residential Sector access to finance is paramount to recovery to normal market activity. Recent evidence suggests that prices are stabilising especially in Dublin with some locations seeing a price improvement in the region of 1% in 2012.

The outlook for the Commercial Sector remains slow but stabilising with 2012 seeing some marked improvement in the offices and retail sector for the reasons alluded above.

The National Spatial Strategy (NSS) 2002 – 2020 is the national strategic planning framework to achieve a better balance of social, economic and physical development across the country supported by more effective planning. This strategy can have a positive effect on the economy however its success is related to the availability of Government funding and with the current emphasis on spending cuts at the centre the NSS may have difficulty in the short term achieving its goal.

The valuation profession has avoided legal regulation to date. It is nevertheless facing increased demands for standardisation and compliance amongst Central Banks and major purchasers of professional services. The economic recession has seen an increase in consolidation activity in the industry and in the development of partnerships among smaller firms. Of significance was the recent merger of the SCS and the IAVI into the SCSi who use the (RICS) Red Book as their valuation standards.

IPAV are members of the European Group of Valuers Associations (TEGoVA) and The International Valuation Standards Council's (IVSC).

From 2013, IPAV'S International Valuation Standards will be the TEGoVA "European Valuation Standards Blue Book". IPAV will become an awarding body of TEGoVA and its valuers will have the opportunity to upgrade to Recognised European Valuers Status (REV), and Member firms to Member Firm (REV), providing they reach the Minimum Education Requirements (MER) laid down by TEGoVA.

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