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# Property Review of the Decade 2000 – 2009

**In their review of the Cork Market for the decade 2000-2009 Irish & European reported on a market that went from being overly buoyant and overheated from 2000-2006 to a total collapse over the last two years and particularly during 2009.**

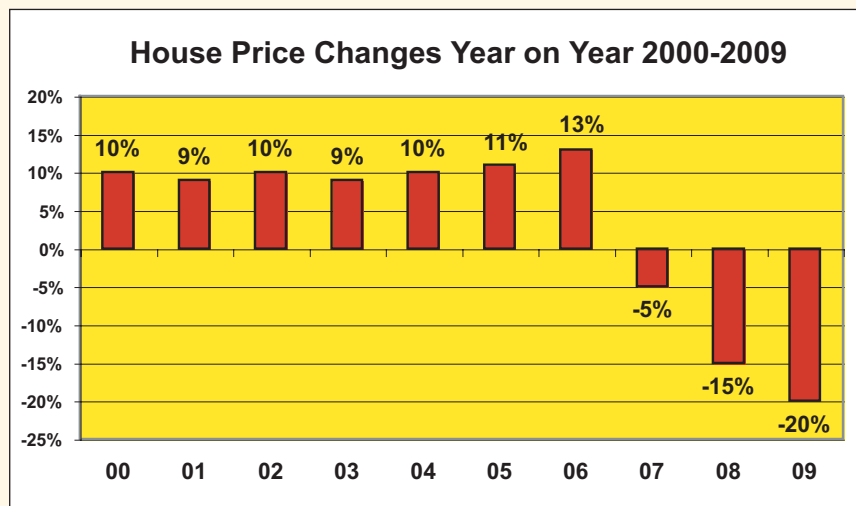
2009 will go down in Cork as the year of the flood where land and property from the Inniscarra Dam to the Grand Parade, a stretch of about 12 km, became a sea of water and devastation. Not only land but private houses, businesses, public and private properties were damaged to the tune of tens of millions of euro. Good riddance to 2009 has been the comment of many.

During 2009 the country was not only in deep recession but was also perceived to be hovering on the brink of bankruptcy, an observation borne out by the basis point spread between the cost of Irish and German government borrowing on the international financial markets. With insolvent banks and a dysfunctional banking system, the country was in social, financial and political crisis. Job losses, falling incomes, business closures, tax increases, expenditure cuts, huge personal and household debt, rising public debt levels, and a return to emigration became the order of the day. The past year has certainly witnessed a marked change in the state of the Irish economy reflecting the speed and depth of the general slow down in economic activity and tighter credit conditions.

There is no doubt that 2009 was a watershed year for the property industry. Property has been one of the worst hit sectors during the credit crunch not only in Ireland but also in some other countries such as Spain and the USA. It has been hit by a significant scaling back in demand and a dramatic shift in prices with a peak to trough particularly in the residential market averaging 40% and with other markets such as Commercial, Industrial, Retail and Building Land showing a drop of 50-60%

For those of us in the property business 2009 was the worst experienced in almost 40 years. Activity levels stagnated across all sectors of the property market with substantial decreases in capital values. Survival became the name of the game and will be for the next 2-3 years. Volume and activity in terms of sales for most of 2009 was virtually non-existent.

The next 2 to 3 years will certainly be a challenging time for the Irish economy. Unemployment is rising, consumer spending and confidence is at an all time low, house prices are down and house building activity is practically at a standstill.



## Open Economies

Compared to a peer group of six other small open, EU member states, with economies of broadly comparable levels of development to Ireland, namely – Austria, Belgium, Denmark, Finland, the Netherlands and Sweden one can gauge the extent of our home grown add-on to the wider international recession. All seven economies, Ireland included, in our peer group are small

open economies. Ireland is the most open and globalised of the seven. We have experienced the worst economic collapse of the seven in 2009 and will see recession last longer into 2010 than all the other peer group states. It is our homegrown property collapse with its associated banking and financial crisis and not our openness as an economy that explains our comparatively more acute economic crisis. Our 2009 government borrowing requirement as a percentage of GDP was more than double the next worst case and will remain the worst of the seven again in 2010. The same is true for our level of unemployment which is the only one of the seven above the EU average and the only one predicted to remain so in 2010.

## Competitiveness

We must not lose sight of our competitiveness. Our global competitiveness is not only under pressure but also under severe scrutiny from industrialists and the foreign investment community worldwide. The World Economic Forum (WEF) publishes an annual Global Competitiveness Report. In its latest edition Ireland is the worst of seven among our EU peer group. We are 25th in the world, Austria is 17th and Belgium is 18th, both are in the top 20 globally. Denmark, Finland, Sweden and the Netherlands are in the top 10 in terms of Global competitiveness. A decade ago we were among the best. Since then we blew it. Whether it is the private or the public sector our cost base needs adjusting. Our costs, wages and salaries will have to reflect the times we are living in and the global competitive realities we face. Value for money will be the mantra of employers both in the private and public sector and for industrial or service sector investors contemplating relocating here. In 1993 the unemployment rate had reached a peak of 16%. Over the years that fell to 4%. Now it is back over 12% at 450,000 on the unemployment register and rising. If our employment rates are to come back to manageable levels our competitiveness will have to be to the forefront in doing so.

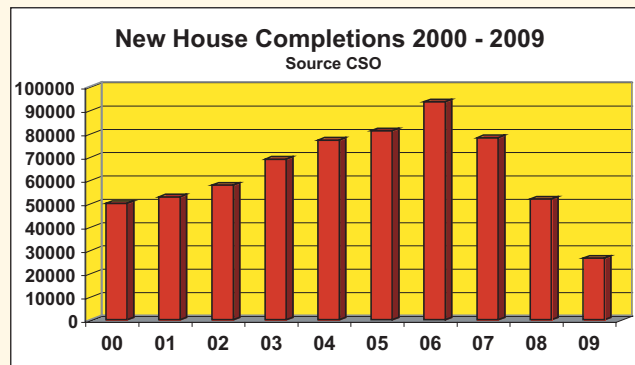
## NAMA:

NAMA, a new Irish word, was added to the English language. In effect it became an insolvency vehicle to manage possibly the largest ever portfolio of properties in the world. NAMA and its success or otherwise will determine the future of our economy, banking industry, some of our major builders/developers and allied trades and professions. The success of NAMA will depend on the quality of its assets linked to a fair and reasonable buy in price with a reasonable time frame allowed for builders/developers to trade through the difficult times.

Lest we forget, whilst it is easy to point the finger at bankers and builders, we all benefited from the good times and whether we be accountants, solicitors, estate agents, builders suppliers and allied trades or workers. A

whole range of people from the exchequer to the unskilled labourer on the building site were all beneficiaries of the boom times.

Public and private pay increases were made on the strength of revenue generated from the building boom. No one benefited more than the Exchequer who took in billions of euro in property taxes in the form of capital gains, stamp duty, v.a.t. etc, House prices may have escalated during the boom years but 37% of the price of each new house sold went to state coffers in the form of one tax or another.



## Upturn:

The prospects for a sustainable upturn in the global economy remain conjectural. The combined extent of the unprecedented fiscal and monetary stimulus delivered by the authorities has so far avoided the recession turning into a depression but sooner or later the stimulus packages will have to be wound down. The timing and extent of the exit strategies will determine the extent of the recovery in the coming period. As a small open economy, Ireland has to hope that the green shoots increasingly referred to in media commentary will take root as one of our roads to recovery through export led growth.

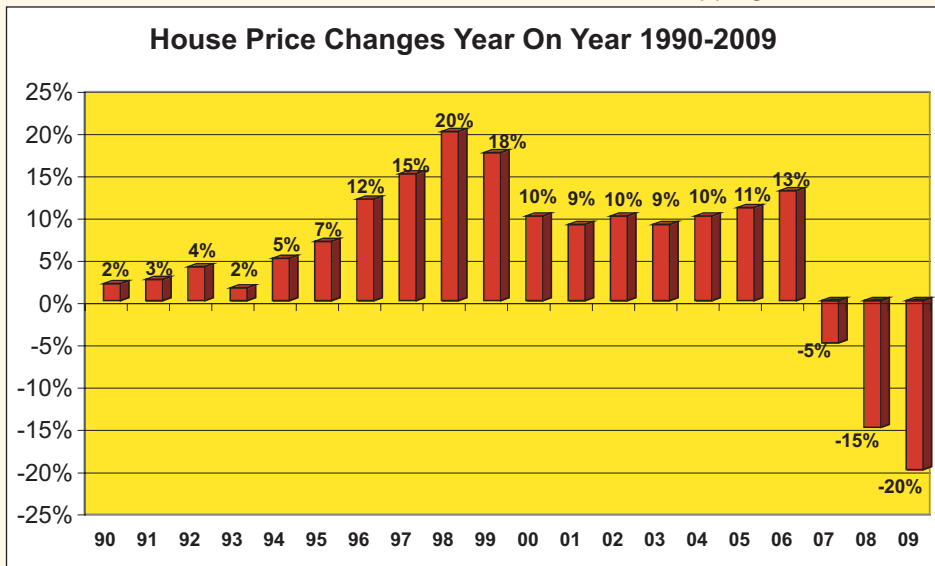
This is a necessary condition for Ireland to move on but it does not diminish our need to restore stability to the banking system so that banks can start lending in a responsible fashion to small and medium enterprises. Availability of finance was a major factor inhibiting transactions during 2009. If the banks start lending again confidence will return and a rising tide raises all boats. We believe that the Irish Economy is still 1 - 2 years away from its green shoots of recovery taking root.

The banking problems would have to be addressed before we see any great activity or recovery whether it be in residential, retail, commercial, industrial or agriculture.

There is no doubt but that there is an over supply of property on the market. This not only applies to the housing market but to offices, factories, warehouses, and retail units. This supply will have to be washed out of the market before recovery takes place and new developments get under way. This could possibly take three to four years.

## The Housing Market:

The key story in the Irish economy over the last two years has undoubtedly been the ending of the housing boom with its associated economic consequences. The sharp slowdown in house building was inevitable, as house building had reached unsustainable levels in the middle part of the decade. However, the adjustment to more normal market conditions is painful and exacting a heavy price and in particular is having a very negative impact on unemployment, tax revenues, consumer sentiment and economic activity in general. Strong growth and easy access to credit both for developers and householders alike in the Irish Economy



was the engine that fuelled the growth in house prices and encouraged demand. In reviewing the decade 2000-2009 it is important to look at what happened in the previous decade and in particular the mid '90's because it was during those years of house price inflation in our Company's view that the damage was really done. From 1996 to 1999 house prices rose by 65% or on average 16% per annum over that four-year period.

From the year 2000-2005 house prices went up year on year by an average of 10% per annum and in 2006 by 13% or a total of 72% over a seven-year period. From 2007 to 2009 the Cork Housing Market has dropped 40% bringing our prices back to the 2002/2003 level. We are now back to a more normal and stable market and prices are at a level that is more affordable both to the first time purchaser and to those trading up. Affordability in our house pricing is the order of the day.

Our charts and graphs will illustrate how the market has performed over the last twenty years. For those of us that have experienced recessions in the '70's and the '80's the current recession has rocked not only the property market but the country to the core.

## Commercial/Industrial

The face of Cork City and our City Centre has changed dramatically over the last ten years. Cork City Council are to be commended for the upgrading and renewal of our City Centre and with further improvements on the way our city is now both attractive to the business person, tourist and shopper alike. The growth in the retail sector combined with substantial investment in the pharmaceutical and technological sector and the increased ferry and air traffic through Ringaskiddy and Cork Airport has made Cork an attractive location both to live and do business in. Our city centre and suburban shopping centres have all the brand names that are

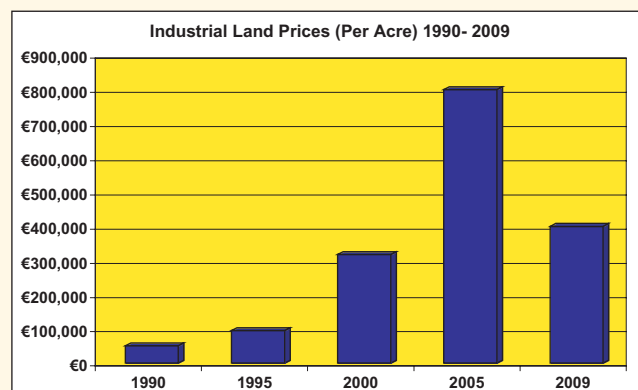
found in Dublin, London, New York etc. However, for the immediate future there would appear to be an over supply of retail units, office accommodation and industrial buildings.

It will take two to three years for this current over supply to become occupied. Rents and capital values have dropped between 30-40% from their peak in 2006. This obviously is bad news for the investor and good news for the tenant occupier. The lowering of rents will help

our competitiveness and keep small and medium sized businesses from closing down.

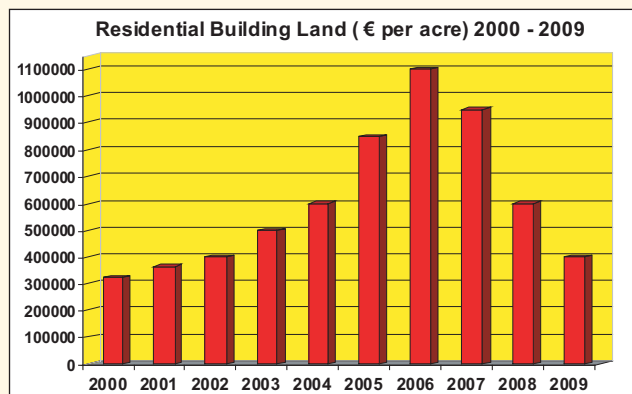
## Building Land

Building land values are back 50-60% from their peak of 2006. Residential Building Land was selling at €1.1 million to €1.5 million per acre at its peak in 2006. Some prime sites within the city boundary at €1.5 to €2 million per acre. Site costs were running at 30-35% of the new house price. Where as in the mid to the late '80's site costs were running at 10-12% of the house price.



There is now an oversupply of building land in many of our rural towns and villages. However, the next development plan by Cork County Council should concentrate its efforts on the Metropolitan Cork Area with regard to zoning and the provision of services and infrastructure.

During the late '90's and early '00's building land was driven up by speculators and the quick buck merchants. Our traditional builders/developers had to compete with these sometimes faceless people. The result being that land prices escalated and unfortunately was passed onto the house purchaser and in many cases the first time buyer.



There is no doubt but that the increase in building land prices contributed greatly to the increase in house prices during the boom years. The same criteria could be applied to industrial land, office sites, shopping centre sites etc.

## Agriculture:

Agricultural land and land prices have also taken a tumble over the last three to four years. Prices of €20-€25,000 and indeed some instances €30,000 per acre paid for agriculture land was both economic madness and unsustainable. Land prices were driven by landowners who had sold land around our major towns and cities at astronomical prices thereby pushing good agricultural holdings up to the price levels already mentioned. Land prices today are back to €12-€15,000 an acre for top class holdings to include good entitlements, good farmyards and dairy layouts and a good house. Secondary holdings are running at about €9000-€12,000 per acre with marginal land back to €5000-€7,000 an acre in places. The number of good holdings coming to the market is scarce but there are still buyers for viable agricultural holdings. A viable holding now has to be in excess of 150 acres and over 150,000 gallons of milk quota for dairy farmers and



150/200 acres for tillage farming. With profit margins tight and some uncertainty on the world market there is now more pressure for better husbandry and good farm management. For those who intend on staying in agriculture they would have to enlarge and expand if they are to compete in the world market. Emphasis is now very much on larger units, lower production costs and greater output. There is no doubt that the vibrancy of our agricultural industry is still very important to the Irish economy.

## Public Services:

The inadequacy of investment in our public transport system in Cork over the last 50 years is generating increasing problems for people working and living within our city. Apart from the opening of the Cork to Midleton rail line there has been very little improvement and our public transport system generally is light years behind that of Dublin and other European cities.

I have no doubt but that our city would benefit greatly from the early development of an accessible and speedy bus, monorail and rail line system linking city centre to outer suburbs and satellite towns. The long-term benefit of such a system would far outweigh its short-term costs. By and large our public transport system in Cork has been ignored and is dreadfully in need of investment.

The nation as a whole and the property market in particular are in turbulent and choppy waters. It will take us a while to recover but we are a resilient race of people and recover we will. It may take us 3 to 5 years to get back on an even keel and lets hope that not only our government and bankers but all of us will have learned from our experiences and our mistakes of the last few years.

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