Cross-border dimension threatens prices

Leading economist JOHN SIMPSON examines the possible impact of Irish property being sold on a large scale in Northern Ireland

THE credit crunch, the economic recession and the bailing out of the banks has tested the financial institutions across the UK and Ireland. Now, a north-south dimension has become clearer. The property price bubble was in evidence from North Antrim to Cork.

The main Irish-based commercial banks now face a crisis, north and south, as their outstanding lending has become more vulnerable to the inability of borrowers to keep up repayments and the added problem that the ratio of the value of the loans to the value of the assets, used as security for the loans, has deteriorated.

The Irish government is committed to an exceptional arrangement to keep the banks in business and create a method of keeping the 'bad' loans separately in the care of the National Assets Management Agency (NAMA), financed ultimately by the Central Bank and the government. The banks will sell their bad loans at a heavily discounted price to NAMA.

Current estimates suggest that NAMA may find itself responsible for up to €100bn with possibly over €15bn on loans outstanding to Northern Ireland customers.

The main objective in creating NAMA was, first, to restructure the balance sheets of the banks and give them a financial structure where they can rebuild their business. Secondly, to create a standalone institution, NAMA, responsible for collecting the repayments due from borrowers in an orderly manner.

NAMA has a complex managerial task. The core tension for it is to evaluate outstanding loans and arrange with the borrowers how the loans can be repaid and how quickly. As a last resort it will act to foreclose on non-performing loans. Will the worst case situation become the norm?

There is apprehension that the Irish government will push NAMA into a speedy recovery of the funds. If this happens, then the risk is that NAMA will take a more severe attitude to its clients, North or South.

In a further concern, is the impact of NAMA likely to be sharper in the North than the South? This risk might be sharper if the balance of lending has been riskier, if the ratio of lending to asset values has been higher and if the prospects of recovery from recession are poorer.

A safety valve on the possible actions of NAMA is that it is in no-one's interest to foreclose on loans and create a write-off if there is any possible repayment over time. The argument needs to be made that NAMA, as an agent of last resort, should be more reluctant to default a loan than the bank that made the loan in the first place.

NAMA is unique. The merits of establishing NAMA have been debated and some professional advice was that the banks should not be bailed out in this way.

Will the NAMA arrangements mean a further drop in house prices in Northern Ireland or (unintentionally) delay a house price recovery by extending the negative impact of uncertainty? These are possibilities but any short-term impact should give way in a stronger market.

Robinson raises fears over Irish property firesale

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THE likelihood that billions of pounds of Dublin-owned property in Northern Ireland might be sold off in a firesale remained unclear last night.

First Minister Peter Robinson expressed fears that land and buildings nationalised by the Irish Government could flood the market in Northern Ireland, and raised his concerns with Prime Minister Gordon Brown.

The property is owned by the Irish Government through the National Assets Management Agency (NAMA), which took ownership of Irish banks' bad debt.

But a financial expert who predicted the property crash yesterday urged politicians not to tinker with the property market but rather to let it undertake a "short, sharp shock" correction.

City of London financial planner Jonathan Davis said that prices would continue falling in Northern Ireland irrespective.

The Armstrong Davis managing director, whose forthright views have often been criticised by estate agents who accuse him of negativity, said: "They're going to put the properties on the market at some point so put them on now.

"Whatever happens to this NAMA, it doesn't change things, the market is still going down."

At Monday's meeting of the North-South Ministerial Council, First Minister Peter Robinson and Deputy First Minister Martin McGuinness said that they were concerned that an estimated £15-20 billion of property in Northern Ireland could be sold off in a firesale.

Mr Robinson yesterday raised the issue at Downing Street with the Prime Minister and, speaking after the meeting, he said that politicians on both sides of the border needed to jointly address the situation.

"The flooding of our markets by way of a firesale would depress the value of property still further," he said.

"We have made HM Treasury aware of our concerns over this matter. This is not only an issue affecting Northern Ireland.

"It would cause damage throughout the UK, where Irish banks have holdings on the mainland as well as in Northern Ireland.

"HM Treasury have outlined their concerns on the matter to the Department of Finance in the Republic of Ireland and we will continue to watch this issue very closely indeed in order to protect the property market in Northern Ireland."

The Executive is also understood to be concerned that swamping the market with properties at knock-down prices will damage its own plans to sell off swathes of publicly-owned property across the Province to raise money.

But Mr Davis warned against political intervention in the market.

"The politicians have been intervening all along – they created the bubble and they created the bust by borrowing so much money; printing so much money.

"The market should be allowed to find its own level. If that means that the housing market, the property market and the economy in general has a short, sharp shock – depression – so be it.

"Better for the depression to be short and very sharp as opposed to what they are doing, which is creating a long and extremely painful depression which will last far longer than if they just got out of there, stopped intervening and let the market decide."

Mr Davis said that public spending cuts imposed by the Treasury could hit Northern Ireland harder than anywhere else in the UK, further damaging the property market.

"The state sector is the sector of the economy which hasn't yet been hit hard, unlike construction and financial services.

"The state is the next to be hit hard and Northern Ireland is going to be hit the hardest."

There are fears that a large-scale sell-off of Irish Government-owned property will worsen Northern Ireland's house price crash
PICTURE: Chris Radburn PA