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Property Tax and Assessment News from Around the World

IRELAND – February 2020

Commercial property values are still 40pc below peak

Market watchers are "scratching their heads" following the sudden increase in the withdrawal of cash from some leading Irish property funds.

Aviva, and its subsidiary Friends First, have temporarily stopped investors withdrawing funds, and Zurich and Irish Life have reduced the value of assets being withdrawn or switched to other funds by 7pc.

It's even more baffling when one considers that, according to the MSCI/SCSI Ireland Quarterly Property Index, capital values at the end of Q3 2019 are still 40pc below the December 2007 peak.

It's interesting to note that capital values in the UK are fully back to that 2007 peak, and Spanish values have recovered to within 5pc of their 2007 high.

One could argue that those figures suggest that Irish values were particularly inflated in 2007. But we're the fastest growing economy in the eurozone, and with almost a decade of economic growth behind us, and positive forecasts, it seems odd that a cohort of investors should suddenly decide to take their profits now.

In hindsight, whilst values were too high in 2007, prices then were being driven by a mountain of cheap debt, and a dozen or so developers/investors. Today's market also has the benefit of very low interest rates, but most acquisitions are funded by overseas capital or investment funds like REIT's.

So there are far more players and much less debt.

The trigger for this run of withdrawals was the surprise increase in stamp duty, from 6pc to 7.5pc in the last Budget, which affected capital returns in Q4 2019. Presumably then, a significant number of investors, possibly on the advice of one or two investment brokers/advisers, were advised that the market had topped and that it was time to withdraw cash or switch into other funds.

It's worth noting that the values of the properties in the funds hasn't fallen.

It was the sudden spate of withdrawals that forced the funds to switch from what they call "acquisition pricing" to "disposal pricing", which revolves around the treatment of the costs involved in acquiring property. #

Investors buying units in these funds buy in at the "offer price," which is the full cost of the property, plus approximately 9.5pc, comprising the purchasers acquisition costs, mostly stamp duty, legal fees and estate agents fees.

The disposal price or "bid price" is the price of the property, less those acquisition costs.

The individual properties in the funds are valued by an independent professional valuer, usually on a quarterly basis.

The interesting thing is, it is quite likely that the values of the properties will increase at the next valuation, based on continually increasing rents and prices in the market.

Speaking with senior investment agents this week, the view is that, given the weight of capital seeking commercial property, we may well see further increases in the value of office investments, the PRS sector, and in logistics this year.

Agents are also reporting that mainstream investors are not being deterred by the jitters in some of the funds, and don't see those funds as reflecting professional investors, given that they are made up of large numbers of small investors, often investing sums from €1,000.

The next question is, having withdrawn your money, where do you invest it?

Cash and bonds are non-starters, so your next option is stock markets trading at historically high levels.

It's still hard to see a better investment than property, an asset class with reasonable security, a strong running yield, and capital appreciation prospects.

In absolute terms, it can be argued that Irish property looks cheap!

But who knows? Maybe all those small investors have called it correctly, and us experts have been dazzled by the "fundamentals" again.