

## EXTRACT FROM THE PRESIDENTIAL SPEECH OF **EDWARD CAREY** FIAVI

*Delivered at the IAVI Annual General Meeting on 22nd April 2008*



### **Changing Times**

It is a terrific honour to be elected as President of this organisation, and I want to thank all of you for your support. I want to pay tribute to Robert Ganly who worked with an energy and drive one rarely sees, the bar has been set to a very high standard.

We certainly find ourselves in different times to that of just one year ago when Robert took the chain of office.

Nothing terrible has happened yet, but there's a lot of anxiety about the economy in general and property prices in particular. As we try to adjust to a radically different climate, auctioneers have had to get used to regular criticism over alleged rogue practices and the lack of State regulation in the profession.

To be honest, I'm not daunted by any of this. The property boom made a lot of money for a lot of people, but it had its dark side too. Big prices made millionaires of some and indentured slaves of others. In recent years the success of real estate attracted many hundreds of untrained newcomers into the industry. Competition is fine, but we weren't playing by the same rules. I for one did not enjoy having to take the flak for poor practices from people who decided to set up shop in auctioneering without familiarising themselves with even the basics of ethical practice.

So now we find ourselves in a more demanding market, which others may

fear, but in which I see opportunities. Vendors have had to reduce asking prices to succeed, but the market is still healthy. Charlatans can get away with sharp practice in a rising market, but will get burned when the going gets a little tougher. Meanwhile other aspects of the industry, such as the future of our commercial market, need attention.

### **Property Prices**

#### **First, what is happening with prices?**

As auctioneers, we've been accused of over-hyping the market in the boom years and understating the extent of the fall of house prices today.

Are we guilty? I don't think so. The IAVI's 2,000 plus members, when asked in our Annual Property Survey to forecast the market in residential property for the next twelve months, have invariably underestimated, rather than overestimated, future market performance. In other words, IAVI members collectively forecast to the public that increases would be less than those that actually occurred. Can such underestimation in any way amount to a collective hyping of the market?

The truth is that property is a sound long-term investment but is not suitable as a short-term investment due to the costs of buying and selling and, for many, illiquidity. However, taking a ten year view, property will always increase in value. That does not mean there won't be blips within such a term or that there will be real price growth year-on-year, every year.

### **Irish House Prices – The Facts**

Average house price statistics have been available in the Republic of Ireland since 1970 for new homes and 1974 for second hand homes from Department of the Environment and, since 1996, from Permanent TSB / ESRI. That covers a 38 year period for new homes and a 34 year period for second hand homes. What do these statistics tell us about the national experience of rises and falls in house prices?

Department of the Environment figures show that the average price of a **new home** in Ireland increased from the equivalent of just over **€6,500 in 1970** to about **€330,000 in the Q2 2007, (a 4,800% increase)**, before falling back to €319,000 (a 3.8% reduction) in Q3 2007, the latest quarter available from DoE.

**Second hand homes**, rose from just under **€12,000 in 1974** to **€387,000 (a 3,175% increase) in Q2 2007**, before falling back to €374,500 (a 3.25% reduction) in Q3 2007.

Prior to the recent market slowdown, year-on-year annual changes show that homes reduced in just one of the previous 38 years and that was in 1987 compared to 1986 when the reduction

was 0.22% for new homes and 1.6% for second hand homes. Prior to the recent reduction, with this single exception, new home values increased in every other year.

The latest Permanent TSB/ESRI figures show that recent declines in value commenced nationally in March 2007, with a total reduction in value of 7.3% recorded for 2007 compared to 2006.

It also shows the average house price in the country in February 2008 at roughly the same level as in March / April 2006. To quote Permanent TSB: "The drop in national growth brings house prices back to March 2006 levels".

So yes, prices have fallen but are still up on valuations of just two years ago.

Economists are often accused of creating elaborate euphemisms. We can have downturns, lulls or gradual declines – anything but a recession and auctioneers are frequently blamed for over hyping the market. However, I think it is genuinely fair to call the reduction in house prices in the past year or so a correction, without generating smirks from anyone other than cynics.

The market had gotten out of hand and houses had become unaffordable to first time buyers or, if they were affordable, it was because they were taking out 100% mortgages – a practice I observed with enormous trepidation. In my own view, house prices rise in accordance with the capital made available for purchase. The current drop in prices gives those new buyers a bit of breathing space and will actually serve to stimulate the market.

Allegations of a property crash must be taken in the context that we are looking

at a correction that stands at about 10% against cumulative increases of 4,800% and 3,175% for new and second hand homes respectively since 1970 & 1974. That is a correction from the market furore of 2006 and that level is sustainable going forward – a view supported by the governor of the Central Bank, John Hurley.

I believe then that this correction will prove a short-term blip on the upward graph of house prices and in saying that I am not hyping the market. I am merely putting recent events in context and that context demonstrates the fact that homes are an excellent long-term investment and long may that remain the case.

## ***Revenue and Overseas Property***

Many of you will be aware that for the past few years the IAVI, out of concern for its members, has engaged with the Revenue Commissioners in respect of Revenue's insistence that it had the right to trawl estate agents' records to identify the buyers of overseas properties.

The IAVI was advised that no such power exists and challenged the Revenue's position. Many members will remember our adviser, Julie Burke, the taxation solicitor, addressing our conference in 2007 on this issue.

IAVI concern related to its members being potentially exposed to civil actions for handing over information the Revenue was not legally entitled to receive in the manner sought. Banks have suffered for relying on similar assurances from Revenue in respect of its powers.

I am pleased to say that the IAVI stance has been vindicated and that moves by Revenue to carry out an inspection of a leading IAVI Member Firm's records in respect of overseas sales have been dropped.

We expect that legislative change, long recommended to Revenue by the IAVI, is likely to follow, which will give Revenue a legal basis to seek such information and give IAVI members and other agents the comfort of knowing that in complying with such future legislation they will not be left exposed to civil actions, which would have been the outcome had IAVI accepted Revenue's incorrect claims, which were much trumpeted in the media.

The IAVI encourages tax compliance but will always insist that the State, in seeking information, must itself act legally.

## ***Customer Service***

It is clear that as professionals we face a challenging market, with a greater responsibility to provide accurate advice to a more educated and demanding client base.

We face greater challenges as business people in running our own businesses, whether we are sole traders or the MD's of large firms employing many. It is no longer enough to say to our vendors "sure we'll put it on the books and see how it goes".

With changed market conditions, there is an even stronger onus on those who manage estate agencies to ensure that staff is imbued with a sense of customer service. This includes both client satisfaction and contented buyers.

This means we accurately advise our vendors and clients where the market is for their property and work to drive those sales and work for a fair fee. Those with grossly over inflated opinions of their property and overly ambitious expectations can waste the time of others.

Agents need to rediscover the win-win philosophy that brought success before the boom years and young agents need to be taught the art of selling, as opposed to the art of sale management, which was very much to the fore in recent years.

While in Ireland, unlike in some other countries, purchasers do not pay for the service provided by estate agents, they have come to expect the highest level of service. The fact that this service is delivered at one of the lowest costs internationally is not relevant to the buyer or indeed the seller.

Only properly qualified agents can offer a consistently high standard of service, which is why this market presents such an opportunity to IAVI members and why we chose to market members' services to the public at this time.

## **Commercial Property Investment**

While recognising the relief given to hard-pressed home buyers in the Budget last December, nevertheless Ireland remains at the high end of transfer taxes on both residential and commercial properties and these still represent a major impediment to mobility and the efficient use of our property stock.

A Stamp Duty rate of 9% on commercial property transactions merely drives investment abroad at a time when our economy might benefit from internal investment.

According to a recent Jones Lang LaSalle report, the market for commercial property investment in Ireland was worth €1.7 billion in 2007. In the same year, Irish investors spent over €10 billion on foreign property investment, with over 50% of this going to the United Kingdom, followed in popularity by Germany (14%), France (10%) and the United States (9%).

The scale of foreign investment is staggering, with 23% of all deals on behalf of Irish buyers being over €120 million, while 35% of Irish acquisitions in foreign office markets had a value between €30 million and €60 million.

36% of Irish deals in the UK and 38% of those in the United States were in the €10 million to €30 million price bracket.

Higher borrowing costs and a slowing international economic environment will no doubt result in less activity in 2008 but, nevertheless, the high acquisition costs associated with commercial property purchase in Ireland, in the form of stamp duty, is undoubtedly one of the contributory factors in any decision as to where to place investment money.

## **Development Contributions**

I am concerned to recently hear calls for more draconian contributions for services from developers, and the response from officialdom. In a market where development is more marginal

(witness the reduction in new home starts) the Minister responsible proposes a 'use it or lose it' solution whereby planning permissions not acted upon will wither.

A Government enquiry failed to find evidence of land hoarding at the height of the market and, if it ever occurred, we are certainly no longer in an era of land hoarding. If development sites are dormant it is because the homes that could be built on them cannot currently be sold at prices that produce a reasonable return on investment.

Those who call for such measures would do well to explain exactly how it can benefit buyers, when the market goes back into a growth period, to have certain developable lands frozen because developers will not build when it is unprofitable to do so. What would this do other than artificially inflate prices by squeezing the supply of land capable of early development and thus squeezing the supply of new homes when demand increases?

Recent pronouncements by some politicians still demonstrate a fundamental misunderstanding of land development economics. Houses are not dear because land is dear. Land is dear because the houses and apartments that can be erected on them will fetch a certain price – the market price. The market value of the end product does not change if the builder gets the land for nothing and then sells at an artificially low price that reflects only development costs and his normal profit. If he is forced to do so, the land value is handed free of charge to every buyer. Some may argue that this is more equitable but it surely cannot be Constitutional and does not get away from the fact that land derives its value

as a residue of the development process. You can steal land or you can redistribute its value, but you do not reduce the value of homes built on it by doing so.

## **NPSRA**

I have found it deeply frustrating to watch our profession being denigrated by the outrageous practices of untrained professionals entering the industry. Though IAVI members are professionally qualified, are required to engage with Continuing Professional Development, hold licences from the courts and produce tax clearance certificates as well as maintain Professional Indemnity Insurance, we have had to compete with those who simply put a sign up outside a house and call themselves auctioneers.

While we must all accept losing sales here and there to this kind of competition, it is much more frustrating to have to pick up the pieces left behind when things go wrong. Principally, I am thinking of people who lose money and have no way of claiming compensation or recompense because the 'auctioneer' they dealt with is not bonded and there is no insurance that can be claimed against. While these instances are rare enough in a rising market, in a less frenetic market we can expect to see people being hurt financially, with little or no ability to seek redress.

Therefore I am extremely relieved to see that the Bill to establish the National Property Services Regulatory Authority is included in the legislation to be addressed by the Oireachtas in the current Dáil session. The IAVI has actively sought the establishment of such an authority since 1931, when we proposed in a Private Member's Bill that we would merge into a State Authority with

mandatory education and registration for all agents. It seems that 76 years later State thinking has caught up with that IAVI foresight and the establishment of the Authority will be welcomed by properly qualified estate agents.

The NPSRA has the power to protect the public by raising practice and regulatory benchmarks closer to those established by IAVI and we will do all we can to ensure it delivers on that promise.

## **Self-Regulation**

Of course the IAVI has a role to play in regulation and brought its procedures in line with modern jurisprudence in the area of self-regulation in late 2005 under the guidance of Gerard Hogan S.C.

With those procedures having been determined, they cannot be ignored or by-passed, for to do so would ensure that any decision made against a member could be overturned on Judicial Review in the High Court.

Therefore we have to tread carefully. This is particularly true where affected parties choose not to make a complaint. Even in such cases we can act, but we must do so properly and these things take time as justice, properly administered, usually does. No professional body can operate the law of the wild west, where people were lynched without a trial, and it would be a foolish body that allowed itself be brow beaten into ignoring due process and fairness.

The IAVI Disciplinary Procedures are effective and well managed, as the lay nominees from IBEC, the Consumer's Association of Ireland and the Law Society on our Disciplinary Committee and Appeal Boards will attest.

## **Continuing Professional Development (CPD)**

The IAVI is unique as an Irish property body in having verified the CPD participation of all of its members – with a 97% compliance rate. 50 or so suspensions, which in many cases will be followed by the termination of memberships, have been effected.

In keeping with the changing needs of our membership, we have changed the rollout of CPD to full-day seminars and courses running over several weeks, with a repeat of the more popular and over subscribed courses of the last few years.

## **Conclusion**

We are indeed in changing times, with a new set of challenges facing our profession and our institute. You can rest assured that the Board, Executive and National Council are only too well aware of these challenges, and the IAVI is geared up to address these. We are in the process of implementing a wide ranging set of structural changes in our National Council to make it a more streamlined body, able to make quicker decisions, more accurately reflective of the membership and its needs. These are set to be put before an EGM which, subject to National Council approval later today, will be held in June of this year and I urge you to accept these recommendations.

I hope that at the end of my year in office, I will have some positive input to the Institute. I urge you to contact me on any matter and I look forward to an exciting & challenging year ahead. ■