

Ghost Estates — The Developer's Perspective THERE ARE NO EASY ANSWERS

**Paper by W.K. Nowlan to the Irish Planning Institute's Annual Conference
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1. INTRODUCTION

Much has been written about ghost estates by learned academics such as Dr Brendan McWilliams and his colleagues in UCD, Dr Loran Sire at DIT and Professor Rob Kitch of NIRSA in Maynooth. A useful contribution to the discussion was made last week in three articles in the *Irish Examiner* newspaper. Rather than cover this ground again today, I intend instead to build on it.

My brief today is to look at the situation from the developer's perspective, which is essentially a matter of following the money trail, since money drives the development equation.

Let me start by summarising the issues.

1. The banking situation and the state of the economy have led to a collapse of demand for both residential and commercial buildings.
2. The property market is in a state of oversupply, with at least 150,000 residential units vacant and 25% of Dublin office space unlet.
3. Much of this surplus will undoubtedly be absorbed in time — but not all.
4. Specific less favourable locations (counties Longford and Roscommon, for example) are more likely to see these problems continue in the longer term.
5. There are many cases of individual hardship in unfinished and unoccupied estates.
6. The supply-chain model has collapsed. Developers are insolvent, the banks are in crisis, property values have more or less halved.
7. Is Nama the answer?
8. Should planners intervene other than in enforcement cases?
9. Are there opportunities for urban and social enhancement?

It is not possible to deal with all these issues in the time available, so I am only going to focus on points 6 through to 9, beginning with point 6.



2. DEVELOPERS, AND THE COLLAPSE OF THE SUPPLY-CHAIN MODEL

Developers are almost all bankrupt because the supply chain model that they were working to suddenly disintegrated due to the fall in property values. That model was that the sale price of a unit was sufficient to pay for all development costs and to repay borrowings.

$$\text{Selling Price} - (\text{Land Cost} + \text{Construction Cost}) = \text{Profit}$$

During the boom, development profits were perceived as being so big and risks so low that anyone and everyone became a property developer. The industry grew exponentially. The proverbial butchers, bakers and candlestick makers became developers. This was fuelled by easy credit to developers and easy loans to house purchasers. While the music played a tune of rising demand and rising prices supported by a torrent of easy cash, all were riding high, cheered on by media and politicians and lots of big egos.

But now that music is playing a different tune. We now face the challenge of recovering from the biggest development party and the resulting worst property hangover ever, a hangover whose symptoms include problem banks, insolvent developers, a problem economy and a collection of ghost estates and other surplus buildings

Most developers have either gone out of business or are hanging on by their financial fingertips; many are either non-functional or semi-functional. Very Many do not have the resources to finish out ghost estates or other half-built commercial or residential schemes.

To emphasise this key point a look at the numbers for a typical housing development helps appreciation of the enormity of the problem. I am taking a typical three-bedroom house as an example, but the same principle applies for large estate or for smaller units/apartments.

Historic Costs

Typical Unit Sales Price 3-bed)	Land-cost inc Levies	VAT	Infrastructure inc levies	Finance	Construction	Profit/Loss
€330,000	100,000	40,000	20,000	15,000	110,000	€45,000
€190,000	100,000	20,000	20,000	15,000	110,000	-€55,000
€100,000	100,000	12,000	20,000	15,000	110,000	-€157,000

Source: Survey by W K Nowlan. These are averages and will change from case to case. Cost from Professional QS.

These numbers speak for themselves. Most developers have moved from making big profits up to 2007 to making huge losses as a result of the fall in house prices. In addition, cash has stopped coming to repay the bank loans as sales halt and inventory builds up.



Virtually all the money involved in speculative developments came from bank loans with little real equity. Accordingly most of these losses are feeding through to the banks. The developers are in default of their cash repayment schedules plus their interest payments and their security covenants. This default means that banks are controlling most developers and therefore controlling the empty buildings that are our concern today.

But the banks have their own problems, which is why Nama exists and why overseas banks are being re-capitalised by their parents.

This is what the development equation looks like from the bank's point of view:

Bank Position : Typical Housing Unit- Example

	2007	2010	Forced Sale
Expected sale price	330,000	190,000	100,000
Bank lending – Land	100,000	100,000	100,000
Bank lending – Construction	100,000	100,000	80,000
Profit/ Loss	100,000	-10,000	-80,000
Bank position	Happy	Default	Default

Today the banks are not happy campers and are saying this very clearly to their developer borrowers. They have moved from a 2007 mode of supporting developers to now 'wanting their money back' — ASAP.

When a developer client is in trouble the options to the bank are as follows:

- Pressurise the developer to realise cash from whatever source (other assets, savings etc). This has been happening quietly for the past 2 years.
- Support the developer to a greater or lesser degree
- Appoint a receiver
- Sell the loan to Nama with a significant 'haircut' (but there are limitations)
- Do nothing and write off the loan.

In making a decision on each of these options the banks will consider:

- The skills and capacity of the developer
- The likely timing of market recovery and sales
- The expected sale price of the units
- Their internal balance sheet situation.

The decision of the bank on which option to follow will be crucial to the future of a developer, his developments and the community.



If the banks have lost confidence in a likelihood of recovery in a reasonable time or have lost confidence in the developer, they may appoint a receiver. A receiver has a very clear mandate which is to turn the asset into cash as quickly as possible. This will usually be by what has become known as a 'fire sale'. We had a recent good example of a receiver being appointed to a project in Mullingar where units sold at a 'fire sale' price of about €70,000 each, a fraction of the figure originally expected by the developer and way below cost.

The overarching solution to both the problems facing developers and bankers and the problems of ghost estates and empty buildings would be for prices to rise and for demand for property to return. With poor economic prospects, high unemployment and shortage of credit, we are unlikely to see values rising or demand returning in the short or medium term (indeed, some commentators expect residential prices to fall even further). Accordingly, 'we are where we are', and no fairy godmother is about to wave her magic wand to make developers solvent again.

So much for the money side of the equation in all its starkness, but let us spare a thought for the individual developers who are caught between a rock and a hard place, and know all too well the financial figures which keep them awake at night.

It is easy for the media to brand developers as bad guys along with bankers and bishops. Certainly, some have made mistakes and have taken short cuts, but these represent only a small minority. There are a few really big developers in the housing business who will end up in Nama, but generally the ones that concern us are small or medium-sized operators. You and I know that these are just ordinary guys who got dazzled by the opportunities and the seemingly risk-free opportunity to get rich on the property Klondike, mostly with consciences and generally anxious to do what is right by their customers and suppliers, if only resources permitted. They live in small towns and are our neighbours. They have kids at school, wait in the doctor's surgery and go to the pub and church alongside the rest of us. Before they got the property 'bug' most were small builders, tradesmen, insurance agents, auctioneers and the like. Few have any personal savings now because they committed everything to the banks, or because they went for that 'double or quits' approach to property projects which was so prevalent. The Mercs and the trappings of wealth are gone or going — now it's back to the white van.

Because they often live in the communities where their projects are located it is almost impossible for them to hide from the many people baying for their blood: the unpaid suppliers, the house owners with defects undealt with, the planners seeking enforcement, the unpaid professionals, the banks. They are under pressure 'to do something' but know the reality is that there is nothing that can be done without cash. The lucky ones are the very few that 'saw it coming', but they are very few. The vast majority of developers that I know are caught right in the headlights in the middle of the road with nowhere to go. The wise ones have by now put their hands up and are admitting to their problems. Some are still in denial. Some have disappeared.

For many developers the situation is currently getting worse rather than better. There was a hiatus in the banking world during 2009 while the banks assessed their wounds and fought for their own survival, but the gloves are now coming off. The clearout process is starting in



earnest and receivers and liquidators are getting fresh instructions daily — and ‘you ain’t seen nothing yet’: far from being an isolated incident, what happened in Mullingar was an indication of what receivers do.

In this environment if a developer comes to his bank asking for more funds to complete an estate the bank will be very reluctant to comply, unless convinced that it is in their interest to do so. The point to realise is that in many cases the developer who is ‘out front’ in dealing with the problem of empty houses and unfinished estates is in reality a puppet of his bank.

3. IS NAMA THE ANSWER?

I mentioned earlier that ‘we are where we are’, and that no fairy godmother is about to wave her magic wand to make developers solvent again — and that brings me to Nama.

We have to realise that Nama is a vehicle to save the banks and not the construction industry. It is a bad bank — i.e., one that is not worried about anything other than getting its money back. I believe Nama’s impact on the residential ghost estates situation will be minimal, for the following reasons:

- Nama has no planning mandate in its legislation, a point ignored by many commentators. To adopt a planning mandate would be ultra vires.
- Nama has a threshold of €5m. Many small developers are below that level.
- Nama applies to only about 50% of our banks. Many provincial developers borrowed from non-Nama banks.
- Nama will act just like a bank and think like a bank. It may not be under quite the same pressure as normal banks, but its job is to recover its loans.
- Nama will decide to fund or not to fund a developer’s workout depending on the economics — just like any other bank
- Nama will appoint a receiver to sell or work out if they decide not to support a given developer
- Nama may decide to do nothing – just like any other bank
- Nama will take possession, but only as a very last resort (it does not have executive capacity to manage individual properties or estates)
- Nama will focus on larger commercial buildings such as shopping centres, industrial estates and office blocks.

4. WHAT’S HAPPENING ON THE GROUND

Turning to what is happening on the ground out in the estates the situation ranges from, on the one hand, half occupied houses in perfect tranquilly with trimmed hedges and lawns, to semi dereliction on the other. The vast majority of cases, however, where pragmatism prevails, lie in between. The developer is selling occasional houses and leasing others. The income from such sales and lettings may be sufficient to gradually finish infrastructure, maintain the estate and keep the bank from foreclosing. But it is a delicate balancing act



which could easily get upset. The developer is trying to serve many masters, probably with nothing or very little in it for himself.

In the really bad cases, where multiple problems prevail and the bank does not support the developer, the bank will appoint receivers (a situation with the unhelpful side-effect of severing access to all the local knowledge and information which the developer is party to). Here is a study of such a 'bad' case.

Case Study

Residential development within the Greater Dublin Area hinterland comprising approximately 50 residential units.

Developers gone into receivership.

Bank in control of 15 unsold houses within the development.

Outstanding issues in respect of the development

- Sewerage disposal – no connection had been made to the treatment plant
- Demolition and relocation of earlier houses within the site to facilitate access to the development (as in application drawings)
- Provision of adequate sight lines at access to the development
- A number of the residential units were not in accordance with the plans
- Landscaping and common areas unfinished
- Payment of financial contributions outstanding
- Legal financial agreement with developer and adjoining landowner for payment of connection to treatment plant.

Actions by the Local Authority

Warning letters and Enforcement Notices issued in respect of unauthorised development within the site including the implementation of pumping station and holding tank in the absence of connection to the treatment plant. The Council advised that they will not deliberate on any applications until the issues referred to in the warning notice have been fully addressed and complied with.

Strategy by Receiver:

- Discussion with planning Authority
- Request extension of time for the implementation of the application in order to address compliance with permission
- Topographical survey commissioned to determine route options for connection to Local Authority treatment plan
- Determine full extent of unauthorised development on site
- Prepare planning application for deviations from application drawings
- Appoint Architect, Engineer and Planning Consultant to carry out the above.

Overall Objectives of the Receiver

Facilitate sale of remaining units on site by securing compliance with planning permission.

I am sure that at this stage you are scratching your head and pondering the question of who is really in control of any given situation. In an effort to clarify things, I have come up with the



following motivation chart to help understand the different drivers of the ghost estate 'bus' in different circumstances.

Summary of Motivation of Developers, Banks, House owners

Players	Original Motivation pre-2007	2010 Motivation	Forced Sale
Developers	Profit	Escape (with Reputation?) – zero profit	Disaster. Developer's control gone. Liquidator in charge.
Banks as financiers of Developer	Return of loan + Profit	Debt recovery 50%/100% of advance. Appoint liquidator or sell loan to Nama	Cut and run – take 30c in €
Banks as financier of house purchasers	Profit	Very Selective Job security required	Some funds available for low LTV mortgages = e.g. Mullingar
Planning Authority	Good planning	Good Planning/Enforcement	Disaster recovery
Existing home owners on estates	Home and investment	Home + Damage limitation	Frustrated acceptance
New home owners	Home/investment	Home/bargain/bottom fishing	Delighted with bargain

So what is to be done? The answer will vary from situation to situation, from estate to estate and from bank to bank. There will be good, middling and bad developers and good, middling and bad estates. There will also be the ever-watchful banks, who are more likely (albeit reluctantly) to support good developers with good schemes. They know that the market will eventually provide a solution and that they will get most of their money back. Appointing a receiver will only result in fire sales and massive immediate write-downs — they may get less than 30c in the €, which they will seek to avoid in the hope that they will get 70c in the € by patiently supporting developers.

The middling estates with middling developers will be under continuous watch by the banks. For as long as there is some positive cash flow and the prospect of a payoff sooner or later, the banks will probably stick with such developers. But Planning authorities pushing too hard with enforcement proceedings may compel the bank to act by appointing a receiver. The recent vox pop survey by the *Examiner* newspaper showed that this pushing and shoving process is well under way in most counties. You may well say that there are no funds available to do anything to deal with urgent situations. I know there are money shortages in



Local Authorities, but some funds will have to be found to lubricate the process and I think that this is currently being considered by Government.

But what about the 'hopeless' situations? What is to be done where circumstances are as follows? —

- The developer is at best ineffective, will probably disappear, or has already done so
- The bank has adopted a do-nothing policy so as to avoid the responsibility of taking possession, and has written off the loan because liquidation would be unproductive
- As a consequence of non-intervention, the built environment is deteriorating due to lack of maintenance, and total dereliction will result — an eyesore folly to the Noughties
- If there are existing owners and neighbours there may/will be hardship (they will be very vocal and generate political pressure 'to do something').

5. WHAT SHOULD WE, AS PLANNERS, BE TRYING TO DO?

Firstly the question has to be asked: Should the planning system intervene at all other than by normal enforcement of Permission conditions? To me the answer must be a resounding 'Yes'. I would advocate that it would be much better to recognise the really bad cases before they get to the 'disaster' stage and to act early. I believe that it is inevitable that these bad cases will end up sooner or later on the planning desk of the local authorities. Thus I would advocate that planners need to have a strategy to deal with the really bad cases. How is this to be done?

We need —

- Step 1** To know what we have, by way of a survey and analysis of the stock of empty buildings and the position and attitude of the bank and the developer on a case-by-case basis
- Step 2** To get into problem-solving mode including understanding the motivation of developers and bankers on an estate-by-estate basis
- Step 3** To look at creating urban/planning opportunities out of the oversupply in the short and long term.



Possible Survey Matrix

Estate Type (Mix and Match)

	Degree of Completion	Market/ Location	Infrastructure/ Planning	Estate Management	Need for new Investment	Developer attitude	Bank's Attitude	Suitability for Social Housing	Nos (from detailed survey)
A	100%	Excellent	Completed	Developer supporting	nil	Full support	Full support		xxx
B	80%	Good	Mainly complete	Developer supporting with Bank	Small	Developer supported by bank	Supporting developer		yy
C	60	Fair	Some works required	Bank ignoring issues	medium	Developer not supported by bank	Do nothing		xx
D	40	Doubtful	Significant work	Bank Supporting liquidator	Medium/high	Developer insolvent	Liquidator		xx
E	20	Poor	Incomplete	Bank not supporting	high	Developer gone	Do nothing		xx
F	10%	Bad	High risk	Liquidator without funds	high	Scheme abandoned	Do nothing		xx
G	Serviced land	?	Installed	Minor issue	none	Tomorrows problem	Written down +/- 90%		

With good survey information available and estates separated into the good the intermediate and the bad cases, planners need to move into problem solving mode for the worst cases. The way I would do it would be to prepare a business plan for each estate or situation that is rated 'bad'. Obviously the developers should be the ones to produce such a plan, but they may not have the skills, the resources or the imagination. They may even have disappeared or be obstructive. Look on it as a sort of Local Area Plan but with money issues attached. Planners do have the skills and should be able to arrange the resources either on their own or in cooperation with the developer/bank.

A viable business plan may awaken the developer and the bank to action, but, failing this, the planning authority has powers of acquisition and implementation of a viable plan either on their own or in partnership with a competent third-party developer. Look at what Dublin City Council are doing in Ballymun as a role model.

A framework for such a business plan, and significant points to consider, might be:

1. Accept that in most cases the value of the property will be very low. The bank and the developer will be very willing vendors and the prices will be at give-away levels, perhaps as low as €20,000 per unit and/or serviced land at €100,000 per acre or less.
2. Many of these units will be close to community facilities such as church, pub, shops, school, medical centre etc. There will be local attributes: river, scenery etc.
3. By analysis can we arrive at the identity of people who might want to live in this town (see case study of Dunmore in Galway).
4. Talk to the locals. They will have ideas.



5. Can we solve other planning problems in our area — by, for example, diverting demand for one-off houses out of rural areas?
6. Can we modify or adapt buildings for community use?
7. Can we build land banks now at knock-down prices?
8. Can we reconfigure development to offer a higher quality environment and so attract occupiers?

Case study of a town that did self help : Dunmore in North Galway

In 1986 Albert Comer of Dunmore set up a Housing Association ('Homes For Dunmore Ltd') aimed at providing sheltered accommodation for the elderly, the handicapped, the homeless. They bought derelict houses and refurbished them. Funds were raised under various schemes. They now have 26 residents (from the town, surrounding countryside and returned emigrants) in 23 mainly refurbished units. The project is self financing and is a major addition to the town and to the quality of lives of the residents.

My final message to Planners is to think creatively. You should think long term (no-one else is doing that thinking — all the other players are in 'fire brigade' mode). This crisis will pass and opportunities may have been missed unless someone identifies them and grasps them. That is what planning is all about. Think Partnership. Think Pump priming. Do brainstorming with specialised officials and experts. Take the Initiative — go for it — this is our gig!



6. OPPORTUNITIES FOR URBAN AND SOCIAL ENHANCEMENT

The Elephant in the Room — Ghost Estates and the shortage of Social Housing

Last week the Government announced that it was cutting by one third the allocation of funding to supported housing. This was not a surprise in the current financial environment, but a huge disappointment nonetheless. At the same time, the Housing List for subsidised housing, which was for 56,000 units in April, is probably approaching 100,000 today. This represents huge need and hardship across the community.

There is something incongruous and offensive about having a huge need for housing and simultaneously having a huge oversupply of empty houses. It is a bit like Ireland exporting grain to Britain during the Famine when starvation wracked most of the land! We look back at that and think of incompetence. If we do nothing now, will they be saying the same thing about us in future decades — that we missed out on a golden opportunity?

There is a huge disconnect. The buildings exist. They are financed, but by involuntary investors (the banks). Many of them, but not all, would be suitable for social housing provided care was taken in the allocation of such units to build communities and not create ghettos. Some Councils are trying to do something in their own areas (Meath and Dublin, for example), but funds are not being made available in any quantity. We need a 'Big Bang' approach. The Housing Associations have experience in how to do this effectively but they have no money either, as the Capital Loan and Subsidy Scheme has been withdrawn and they have to rely on Rental Assistance Scheme which has less flexibility. As chairman of a housing association, although a specialist one, I can say that my association is crying out for extra units but can't get them because we can't pay for them. Every other housing association is in a similar situation, and there are 600 housing associations in Ireland. The problem, of course, is money, just as it was during the Famine. The challenge is how to bridge the gap between the banks and developers, who control the assets, and the organisations that could manage the tenanting/sales process if these homes were delivered to them.

A similar challenge was tackled late in the 19th Century, and was the solution to the 'land problem' which had tormented Ireland for generations. Gladstone's Land Commission of 1880 solved that problem in a relatively short period of time and transferred most of the ownership of rural land in Ireland from landlords to owner occupiers. The transfer was bloodless and was embraced enthusiastically by landlords and tenants alike. By a simple financial and administrative structure Gladstone solved a problem that had plagued British and Irish Governments and was the cause of rebellions and murder. Its key success ingredient was the issue by the Land Commission of interest-bearing Bonds to landowners who could either live on the interest (in lieu of rent) or sell the bonds on the stock exchange — a classic win-win situation. It worked, and worked well. The landlords embraced the bond issues and the tenants paid annuities. What was a huge problem became a social, political and administrative solution.



Coming back to present-day Ireland, the over-supply of houses, the drop in property values and the problems of the banking sector all combine to provide a similar once-off opportunity to that grasped by Gladstone in 1880 — an opportunity which could resolve a huge social issue in Ireland.

It would work like this:

Example

1000 units acquired by Housing Association at say €75,000 each.
Housing Agency issues 20-year Government- backed 'Land Bond' showing, say, 4.5%.
Cost to HA per house = €3,300 p.a. or €63 per week.
Add for HA admin + maintenance = €60 per week.
Overall cost to HA €120 per week.

Housing Association then:

- Lets units to tenants at €120 per week or
- Lets on RAS to subsidised tenants at €120 (i.e. slightly below the normal RAS rate of €150/200 per week) and/or
- Sells units sooner or later to occupiers at €75,000 — refunds Bonds
- HA manages estate to create sustainable communities

Bonds go to Banks to hold or sell on the Stock Exchange for +/- par.

The scheme is self-financing and SPV can be used to keep Bonds off the Government balance sheet (as for Nama).

Bonds would be issued and managed by NTMA or another similar organisation.

Outcome:

1. Low-cost houses added to the social housing stock at a fraction of normal cost
2. Houses occupied; overhang reduced in Ghost Estates
3. Communities created in managed structures via Housing Associations
4. Housing lists reduced
5. Potential Planning problem avoided.

Of course the mandarins in the Department of Finance will scream 'No, No, We can't afford it'. But they have always been saying that, even before the Banks forced them to find over €75bn of capital by using their imaginations. The way was devised by the NTMA and we came up with off-balance-sheet financing from Nama by use of an 'SPV'.

The numbers are not huge. 25,000 units at €75,000 each financed by Bonds at 4.5% would cost €84m per annum. Most of this annual cost would be recovered in rents. If tenants do need subsidised rents they would be under the RAS Scheme. With houses available to buy at a bargain 'wholesale price' of €75,000, most of the capital would be paid off as tenants bought out their freeholds at bargain prices when the market recovers.



The Government should think BIG and stop fiddling around with sticking plaster. Think like Gladstone did in 1880! Do I believe we could get 25,000 units at an average of €75,000? The answer is 'yes'. Just give me the job!

7. CONCLUSION

In Summary

- There is no easy answer; no one solution that fits all circumstances
- Developers are motivated by profit which has vanished in most cases and are hanging on by their fingertips
- Banks are the main drivers but are invisible and just want their money back
- It is critical to understand the complex mix of motivation and issues which affect developers, bankers and house owners
- It is vital to establish the precise scale and drivers on a case-by-case basis (survey)
- It will be sufficient to wait for the market to recover and to do nothing in most cases. Focus on the bad cases in the mean time.
- Think as asset managers, not policemen — these are national assets
- Encourage local housing organisations to acquire, manage and tenant units
- Understand/support developers who are struggling to complete estates. Remember that a liquidator might be worse.
- Support liquidations to facilitate good title and creation of homes expeditiously
- Before the State builds anything, think cheap house/land as value alternative use (schools, social centres etc.)
- Be imaginative. For example, redirect once-off housing to rural village clusters, buy or secure options on land, etc.
- Support private alternative uses: Diaspora repatriation, homes for the elderly, nursing/convalescence villages, tourism villages, health-care clusters. Think of Dunmore.
- If new legislation is required, shout now: there is a Bill in the Dáil
- Nama is only a bank, and will not be the fairy godmother. It has no Planning mandate under the Legislation.
- Think long term. Think outside the box (no-one else is).

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