

# Irish Bankers Vow This Time It's Different After Bust: Mortgages

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About 6,000 homes were constructed in the first nine months of 2013, according to state records. Photographer: Simon Dawson/Bloomberg

John McKeon, an Irish real estate developer, stands in a half-finished penthouse apartment looking out to Dublin Bay. He raises his voice above the clanging of construction on the floors below.

“It’s great to be back building again,” said McKeon, 40.

Among his biggest challenges now is finding enough skilled workers after the collapse of a real estate bubble prompted a flight of plumbers, carpenters and electricians, he said.

McKeon’s family is building 59 apartments in Clontarf, north Dublin, on the former site of the Dollymount House, one of the city’s most prominent bars. The family bought it at the height of the nation’s boom in 2006 and knocked it down seven years later.

McKeon is being financed by Bank of Ireland Plc as Irish banks start to lend for real estate development again. Their message, after a credit and property frenzy in the last decade came close to destroying the country’s financial system: This time it’s different.



“We’re satisfied that the fundamentals are absolutely correct,” said Ken Burke, head of business banking at Allied Irish Banks Plc, which this month laid out a plan for a 350 million-euro (\$478 million) fund for developers to build new homes. “This is something that we absolutely need to do.”

Bank of Ireland and AIB, the country’s biggest lenders, have set aside a combined 600 million euros for new residential projects. While the funds are minuscule compared with seven years ago, when AIB alone increased Irish property loans by a third to 30 billion euros, it’s a toe back in the water.

## Prices Fall

After property prices fell by 50 percent, banks curtailed lending for property development. About 6,000 homes were constructed in the first nine months of 2013, according to state records. On average, 30,000 houses a year have been built since the 1970s. At the peak of the market, developers were creating about 90,000 homes a year.

That kind of statistic makes some in the financial industry, such as Jim Brown, head of Royal Bank of Scotland Group Plc’s Irish unit, Ulster Bank, reluctant to get back into the market.

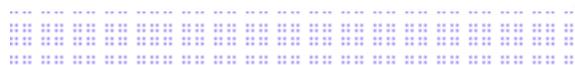
“Property, being blunt, is one that we’ve enough of,” Brown told U.K. lawmakers in January. “If it’s asking to go and do another property development somewhere, we don’t have any appetite for that.”



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Brown’s comments reflect the wounds left by the biggest real estate bust in Western Europe following a credit binge that ultimately crippled the banks. After prices plunged, British taxpayers, who bailed out RBS, pumped 14.3 billion pounds into Ulster Bank. Dublin-based rivals Bank of Ireland and AIB needed a combined 26 billion euro government bailout. RBS yesterday reported its biggest full-year loss since the 2008 bailout.

## Wrong Location

With limited supply of homes in the big cities amid tentative signs of an economic recovery in Dublin, home prices are rising. Prices in the Irish capital, a city of 1.2 million, increased 14 percent in January from a year earlier, according to the Central Statistics Office.

While empty houses abound, they're in the wrong places. About 1,300 unfinished housing developments still dot the landscape, mostly in rural counties at the opposite end of the country from Dublin, including Kerry and Donegal, according to government figures. Almost 300 of these estates were empty, according to a report last year.

Known as ghost estates, clusters of homes never occupied stand with stickers still on windows, driveways barely completed and protected by mesh security fences.

## Needing Homes

"We have a mismatch," said Rob Kitchin, a geography professor at the National University of Ireland in Maynooth, west of Dublin. "We might have all these unfinished estates but they're not where people want to move to and want to live. They're actually where people want to move out of."

Irish builders are starting to build again, mainly in cities, where homes are needed. Housing construction will rise 14 percent this year, gaining for the first time since 2006, the [Economic Social & Research Institute](#) said. It estimated that the Irish need 13,000 new houses each year through 2016.

"There just isn't available housing," Burke at AIB said in a telephone interview. "What we're doing with the fund is playing our part in unlocking the financing to complete that part of the jigsaw."

The banks are joining the state-owned National Asset Management Agency in [providing funds](#) for developers. The government set up NAMA in 2010 to purchase about 74 billion euros of property debts from lenders including AIB and Bank of Ireland.

## Debt Legacy

Along with seizing and selling assets, the agency also lends money to builders to finish other projects. NAMA said last month it's ready to invest 1.5 billion euros in property projects over the next three years, including 4,500 new homes in Dublin.

"This time last year, we sensed that the market was showing signs of resurgence," NAMA Chairman Frank Daly said in a speech in Dublin today. "Thankfully that resurgence gathered a strong momentum during the year."

Irish banks are returning to lending even as they continue to deal with the legacy of the crash. About 25 percent of mortgages by value are in arrears or have been restructured, according to central bank data. To make matters worse, home prices declined for the first time since March in January.

## Bad Loans

Allied Irish had about 20.7 billion euros of commercial property and construction loans outstanding at the end of June and about two-thirds of them are impaired, according to filings. Bank of Ireland had about 17.4 billion euros of similar debts outstanding, more than half of which were impaired, filings show.

“They’ve enormous overhangs from their previous rounds of lending,” Brendan Williams, who lectures on urban economics at University College Dublin, said. “You’d hope that proper regulation will be in place this time around.”

During the boom, much of the lending was hurried. When NAMA took over Irish bank loans, it found that some of the paperwork was so shoddy that it affected their legal security and title over collateral. The agency shaved about 500 million euros from the purchase price of the loans as a result.

Many of the board members and executives who presided over Irish banks before the crisis have since departed. The top layer of management at the regulator has been replaced.

Bankers in charge today are more stringent, said Brian O’Kelly, an AIB risk executive until 2007 who is now a finance professor at Dublin City University.

“They’re lending again, but are much more conservative now,” said O’Kelly. “The practices of the boom years have been discarded.”

## McKeon Survives

As many of his peers went bankrupt, Clontarf developer McKeon and his family were able to ride out the storm because they never borrowed more than 50 percent of the purchase cost of a site, he said. They paid close to 15 million euros for the Dollymount House site, he said.

Last year, Bank of Ireland agreed to provide 60 percent of development financing for McKeon's project. He plans to finish the apartments by the end of the year. He declined to say how much they might sell for. Comparable places, he said, fetch between 250,000 euros and 450,000 euros.

"We see double-digit growth this year and next year," McKeon said. "The market is starting to show demand again."