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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 2 Aibreán 2015

Thursday, 2 April 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

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Moran has been very valuable and informative and has assisted the committee's understanding of factors leading up to the crisis. I also thank him for his co-operation and assistance with matters earlier this morning and for his flexibility in that regard. We are running late so we will suspend and return at 12.25 p.m.

Sitting suspended at 12.10 p.m. and resumed at 12.25 p.m.

Ms Marie Hunt

Chairman: We are now in public session. The second session of today's hearings is a discussion with Ms Marie Hunt of CBRE. We are focusing on issues related to the nature and functioning of the commercial real estate market in the period prior to 2008 in the context of the banking crisis in Ireland.

I welcome Ms Hunt. CBRE group is the world's largest commercial real estate service and investment firm, with more than 52,000 employees, and serves real estate owners, investors and occupiers through more than 370 offices worldwide. In Ireland, CBRE is the country's largest commercial real estate services company, employing over 140 employees with offices in Dublin and Belfast. CBRE Ireland is a multi-disciplinary property services company, offering a full range of property services including property sales and acquisitions, leasing and management, investment sales and acquisitions, corporate services, project management, consultancy, valuations and research on behalf of a range of different client types, including vendors, purchasers, landlords, tenants, developers and investors as well as third party service providers including banks, solicitors, receivers, planners, accountants, etc.

Ms Marie Hunt is a fellow of the Society of Chartered Surveyors in Ireland and a member of the European Society of Property Researchers. Almost 20 years ago, Ms Hunt established the research department of the Irish business of CBRE, which is now regarded as one of the most authoritative sources of commercial property information in the Irish market. A regular conference participant and commentator in the Irish media on property matters, Ms Hunt produces many property market publications on all sectors of the Irish commercial real estate market and carries out specialist consultancy work on behalf of a broad range of institutional, private and public sector clients.

Before we begin, I advise that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. If they are directed by the Chairman to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and, as they have been informed previously, the committee is asking them to refrain from discussing named individuals in this phase of the inquiry. Members are reminded of the long-standing ruling of the Chair to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official by name or in such a way as to make him or her identifiable. I invite Ms Hunt to make her opening comments.

Ms Marie Hunt: I thank the committee for inviting me to attend to put in context the nature and functioning of the commercial real estate market in the period up to 2008. Members have my submission so I will not read it verbatim but will highlight some of the key points.

Commercial real estate breaks down into a lot of markets and sub-markets such as office,

retail and industrial occupier markets, the investment market, the development land market and the hotel and licensed markets. All these different sub-markets operate independently of one another. Commercial real estate volumes are considerably lower than in the residential property sector but the value of commercial real estate transactions is considerably higher. In the absence of a national census or register of commercial property it is quite difficult to do as the committee asked and precisely quantify the size of the market, though some sectoral estimates on stock figures and transaction activity are collated by firms such as ourselves.

Commercial property tends to break down into three distinct elements, which are the development piece, the occupier piece and the investment piece. What happened in Ireland in the period up to 2008 is that the three distinct sectors effectively merged and real estate developers began to develop accommodation, let it out and hold onto the property for investment purposes. Invariably they then used it as collateral for other investments and developments.

Commercial property is, by its nature, a long-term investment. In general, commercial property is significantly more complex than other forms of investment and much less liquid. By virtue of the typical size of transactions it is not really a sector that is accessible to all - one needs a lot of money to be able to invest in commercial real estate. However, the emergence of the syndicate model in Ireland in the late 1990s did enable a larger cohort of investors to get into commercial property.

CBRE is a Fortune 500 and S&P 500 company with headquarters in Los Angeles. It has 52,000 employees and its Irish firm is the largest property firm in Ireland. CBRE Ireland is a multidisciplinary firm and is involved in everything to do with commercial property, be it property sales and acquisitions, leasing, investment sales, corporate services, project management, consultancy or anything else. In the same vein, we do not act for a particular type of client. We act for vendors, purchasers, landlords, tenants, developers, etc. In addition, under the property industry umbrella, we act for significant numbers of third-party providers, such as accountants, solicitors, banks, receivers and so on.

The research function at CBRE Ireland has the same platform as we have in every CBRE office across Europe, in that we have systems, databases and processes in place. Our main role is to track transactions and market information. We track transaction volume, land sales, hotel and pub sales, office and industrial leasing statistics and supply and demand to whatever degree we can. We also comment on issues such as rents, yields and capital values. All of this information is inputted into global databases and this enables us to produce pan-European publications and to compare Ireland with other jurisdictions. It is important to stress that the research function at CBRE operates independently of the rest of the business. Therefore, my team is not involved in transactional activity on a day-to-day basis. We observe what happens on the ground and we are charged with giving impartial and unbiased observations and commentary based on our interpretation of market trends from the perspective of property market specialists operating in the business.

I am not an economist. This is quite unusual because many of those on research teams working within property come from an economic background. I come from a surveying background. I am a chartered surveyor by profession and I am a full member of the Society of Chartered Surveyors Ireland, SCSI, I have completed all my postgraduate qualifications and I am a fellow of that society. Over the past 20 years, I have been a regular commentator on the commercial real estate sector in Ireland and I produce a range of publications on the market and across all of the sectors. We produce a significant number of statistical publications on the office, industrial and investment sectors, just as CBRE does worldwide. The publication we are best known for

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is our bimonthly report, which is more of a newsy report that provides an update or snapshot every two months in terms of trends and transactions happening on the ground.

The most significant challenge I have faced in my 20 years doing this job in trying to track the size and scale of activity is the scarcity of data. Unlike in many jurisdictions across Europe where I have colleagues working, we do not have a national property register. This has created huge issues, because it is down to private firms like ours to carry out research. Invariably, when we publish that research, it is claimed we have a vested interest. Therefore, our research has been a thankless job. I believe the Government should have established a national property register or system to enable us to track the market better. Perhaps we can discuss that later.

The understanding of risk is related to the issue of available data. Again, we do not have the luxury of a long-time series. The only independent source of data on the Irish market is produced by a private company, Investment Property Databank, IPD. I do not know whether members are familiar with the work of IPD, but since the mid-1970s, all institutionally owned properties in Ireland must value their assets quarterly. These quarterly valuations are what make up the IPD data. Therefore, the data are not representative of the entire market because the valuations relate purely to institutional assets. However, the data do give us a good barometer of trends in the market. As members can see from figure 1, the commercial real estate market in Ireland, for the period for which data are available, has demonstrated a highly cyclical pattern. This demonstrates the fact that commercial real estate is a long-term investment. According to this index, the average total return is 16.4% per annum which one would agree is a decent level of annual return. However, looking at it on an annualised basis, this is hugely cyclical. Figure 2 shows a table for the years from 2001 to 2008 where this cyclical pattern is clearly evident. In 2002, we had a total ungeared return of 2.2%. Four years later that was 24.4%.

Roughly, each cycle has tended to be of ten years duration. In the period up to 2007, considering the fact that interest rates were rising and we had built a significant amount of property in the preceding years, primarily as a result of the ready availability of cheap and plentiful debt and Government tax policy in place at the time, which incentivised real estate investment and development, it was predictable that the market would turn and we would enter the downward phase of the cycle.

If we look at what drives property, this can be broken down to four key drivers: the economic backdrop; the balance between supply and demand; funding; and sentiment. If the cycle had followed its normal or expected pattern, as we considered it would at the time, Irish commercial property values would have gradually fallen from peak levels, dipped close to or slightly into negative territory, plateaued and ultimately the cycle would have kick-started again. For the period from 1976 for which we had data, that was the pattern and what we anticipated would happen. We did not anticipate the extent of the crash that happened, and the extent to which Irish investors and developers were leveraged exacerbated their losses.

I will run through each of the four drivers individually, beginning with the economic backdrop. We are a real estate firm, not economists. Therefore, our economic projections and assumptions, both from a micro and macro level, came from outside the organisation. We would have paid huge credence to the ESRI, the ECB and the IMF. Also, as an S&P 500 company, we would have been very mindful of the ratings agencies, none of which downgraded their projections for Ireland until the third quarter of 2008.

In regard to the supply-demand balance, I know the committee had someone before it in recent weeks who said the supply-demand balance does not have a bearing. However, it is criti-

cal. Consider the double-digit house price rises we have seen in Dublin over recent times and the 50% increase in office rents in the past 18 months. This is due to the under-supply situation we are in. It was obvious to us in the period up to 2007 that an imbalance was starting to come through in supply and demand. Cheap and plentiful bank debt and Government tax policy fuelled a construction boom and encouraged the development of both residential and commercial property, much of which occurred in the wrong parts of the country. Extensive rezoning of land for development across many different local authority areas and the absence of a national planning strategy exacerbated this trend. In simple terms, we were building too much accommodation, much of which was in the wrong locations. The pace of development was unsustainable and needed to be curtailed.

As a firm, we began to warn in 2005 about the potential for oversupply and we welcomed signs that development was beginning to slow down. Against the backdrop of development continuing to slow down and domestic economic activity remaining strong, as we believed to be the case based on the commentary being provided by the IMF and the ESRI and so forth, a soft landing was plausible in our opinion. In fact, this was the most likely scenario according to a range of market advisers and participants at that time.

The third factor, one critical to the committee's deliberations, is funding. In the context of property, when we worried about funding, all we ever considered was whether interest rates were going up or down. The likelihood of a global banking crisis removing debt from the equation completely did not enter our thinking. We believed that the banks were stress-testing borrowers. A scenario where the global banking system would completely implode and where domestic debt funding would completely disappear, which exacerbated the pace and severity of collapse experienced in the Irish commercial property market, just was not envisaged.

The fourth influencer, probably the most difficult to measure, is sentiment. Herd instinct plays a part in the property market and the market is heavily influenced by sentiment. We took our role seriously and understood that commentary, positive or negative, can influence sentiment to a large degree and that this could influence activity levels and, ultimately, pricing. As an organisation, CBRE is very mindful of its role. Any commentary or observations made about the market were made objectively and without influence. Consider the client base we had and have today. Talking the market up or talking it down was not on our agenda, because we had clients on every side.

We believe our commentary always has been open, honest, based on the information available to us and based on our perspective as property specialists. From our perspective and as I stated, the information up to 2007 suggested that a soft landing was the most likely pattern. We found that a property market tends to follow the same pattern and we refer frequently to a chart, shown as figure 3 in our presentation, which comes from a book written more than 100 years ago by a man called Homer Hoyt. It follows a study of 100 years of land values in Chicago, in which eight different cycles were followed and monitored, including the gold rush, the arrival of trains and so on. Hoyt came to the conclusion that a property cycle always tends to follow the same pattern. CBRE used that graphic a lot in presentations to clients to demonstrate the cyclicity of the market and in turn, to demonstrate risk to some degree. As members can see, figure 3 typically follows the same pattern but what took everybody by surprise in the crash in 2008 is that it did not follow the normal pattern. Effectively, we jumped from stage 7, where the real estate market was peaking, to stage 12, where the banks reversed their boom policy on loans overnight. We skipped all the other stages and that led to the crash being significantly more severe. Certainly for the period for which data were available, we had never experienced

anything of that magnitude.

Moving on to some of the analysis we do locally, we maintain property databases and again, these follow the same definitions and methodologies as does CBRE worldwide. We have been tracking what Irish people were spending on investment property and we track every single transaction over €1 million in value. We can then put that into a global system and look at it on a pan-European basis. According to our research, Irish investors invested more than €46.35 billion in income-producing assets with a value of more than €1 million in the period between 2001 and 2008. Were one to add properties that were below €1 million in value, that figure would probably be closer to €50 billion. I should state that more than 50% of this investment during the aforementioned period occurred in the United Kingdom and 23% in Ireland. The volume increased year on year from 2003 to 2006, peaking at more than €11 billion in 2006. Unusually, 100% of investment expenditure in Ireland in the period between 2001 and 2008 was by domestic investors. At the peak in 2006, 30% of Irish investment occurred in Ireland, with 55% in that year occurring in the United Kingdom.

To put into context how severe was the crash, at peak in 2006 there were more than 98 transactions of more than €1 million in the Irish market while two years later in 2008, there were only 26 transactions totalling less than €500 million. These data were publicly available and were produced in all CBRE research publications at the time. Anybody who went looking for it could have found it and I suppose it marries the data that were coming out in respect of the amount of lending that was going on. I have just looked at the peak of the market in the year 2006 to give members a flavour but according to this research, 36% of the investment spend in Ireland was attributable to developers, 26% to syndicates, 20% to private investors, 10% to institutions and the remainder to a combination of different investment funds, pension funds, occupiers, etc. Outside of Ireland, the proportions were quite similar. It also is important to note in respect of the types of assets people were buying that Irish investors tended to have a preference for office and retail properties.

As for development land, we also maintain a database tracking all development land in which we stripped out all agricultural sales and counted everything else. As members can see, according to that research, which is shown in figure 5, a total of almost €12.5 billion was invested in just shy of 1,000 individual development land transactions between 2001 and 2008. It is significant to point out that while much of the focus on commercial property tends to be on the land piece, four times that amount was being spent on investment property when one adds it up cumulatively. It also is important to note that while they will not be included in these numbers, members might remember that in the period between 2001 and 2008, there was a notable increase in the volume of hotel and pub sales in the Irish market, many of which effectively were land sales. One could also include petrol stations in that regard. The volume of expenditure is dramatic and increased more than ninefold between 2001 and 2006, according to our data, when more than €4 billion was invested in development land. In addition to the increases in land values in the period, there was a notable increase in transaction volumes recorded with 59 in 2001, rising to 260 individual transactions in 2006.

In both figure 4 and figure 5, I will point members to the year 2006 because that was the peak of the market based on transactional information. Towards the end of 2006 and early 2007, it was obvious that transactional activity had started to slow down. Members will have seen this in excerpts from various reports from that time. In respect of funding specifically in respect of the various transactions I have demonstrated to members on these charts, CBRE was involved in some capacity in many of these transactions, be they in Ireland or overseas. We

were also involved in many of the transactions involving Irish buyers overseas and we carried out valuations for lending purposes for many of the purchasers and indeed all the Irish lending institutions. However, we were not privy to detailed information on how these specific transactions were being funded. Anecdotally, we were aware that a large proportion of transactions were debt-funded compared with other countries. We knew that from talking to colleagues in other jurisdictions. We also were aware of commentary on increases in property lending by the Irish banks and individual financial institutions. However, we were not privy to the specifics of how particular transactions were being funded, how banks were financing themselves and we certainly were not aware of the extent of cross-collateralisation that was occurring. Perhaps naïvely, we presumed that a central register of commercial lending activity tracking borrowers' exposures across different lending institutions existed. We were not aware of particular banks' exposure to specific individual borrowers. As I stated at the outset, we are not banking experts and so we had regard to assertions from the Central Bank, the Financial Regulator and others that the banks were sufficiently well capitalised and robust. We were cognisant of ratings given to Ireland by ratings agencies such as Standard & Poor's, Fitch and Moody's. Based on this, we believed that the Irish banks were well funded and appropriately regulated and that the borrowers were being sufficiently stress-tested. We had no reason to suggest otherwise and we did not have specialist training or insight or any knowledge that would have enabled us to question this.

As for lessons for the future, in the period up to 2008, to my knowledge we were not contacted by the Government, the Central Bank, the Department of Finance or the Financial Regulator at any stage for our view on property market trends from our perspective or to ask us for any of the data we were collecting on transactional activity or property market performance. In general, Government intervention in the property market was largely done without any engagement whatsoever with the property industry and certainly not with firms such as ours. In the future, we recommend engagement with such organisations that have access to reliable information on trends and transactions, as well as the ability to cross reference this with other jurisdictions and geographies because we believe this would give a valuable perspective to decision-makers and those in authority. It is encouraging that in its recent Construction 2020 report, the Government has acknowledged the need to improve data collection and analysis to ensure that the real estate sector in the future is evidence-based and underpinned by the best available data. Had reliable, honest, timely and accurate data been collected historically and reviewed in the context of a national planning framework, the scale of the downturn in the most recent cycle may have been somewhat less severe. That is my submission in which I have made every effort to address the specific items the joint committee has asked me to address. I will be happy to take any specific questions.

Chairman: I thank Ms Hunt for her opening statement. I will get matters under way immediately and invite Deputy Pearse Doherty to lead off. The Deputy has 15 minutes.

Deputy Pearse Doherty: Cuirim fáilte roimh an tUasal Hunt chuig an coiste. I believe that at the previous meeting, I may have taken her name in vain when I was talking about the financial stability update in 2007. It was of course authored by Ms Maria Woods and not by Ms Hunt. In her statement, Ms Hunt mentions that 100% of the investment spending in Ireland in commercial property for the period between 2001 and 2008 was comprised of domestic investors. Would this be normal for a domestic market?

Ms Marie Hunt: In simple terms, no, because we have access to data for everywhere across Europe and right throughout that period, we would have seen that typically, 25% to 30% of investment in any jurisdiction came from outside. In the case of Ireland, there were probably

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several reasons for this, the main one being that many investors simply deemed Ireland to be too small, that the size of opportunities that were brought to the market were quite small. In the current market, we have lots of portfolios changing hands that are sizeable and this is attractive to investors. At that time, however, we were selling individual assets and they were just deemed to be too small.

We also had a much higher stamp duty regime in Ireland. For example, one could have invested in the United Kingdom and paid a stamp duty rate of 4% relative to 9% that had prevailed in Ireland, so that was off-putting. Also, pricing was more expensive so if we looked at yields or cap rates relative to other jurisdictions, Dublin stood out because it was more expensive so obviously investors were not going to invest on that basis.

Deputy Pearse Doherty: How many investors are we talking about over that period?

Ms Marie Hunt: In what sense?

Deputy Pearse Doherty: For example, information for 2006 was provided to the committee indicating that there were 121 transactions, which equated to €3.6 billion of investment. Some of those transactions may be the same individuals or they may be syndicates. Is any information available as to the number of investors? Would it be fair to assume that some who invested in 2004 are the same individuals who may have invested in 2006?

Ms Marie Hunt: I would say at a guess there were 50 to 60 different client types between syndicators, developers, etc. That would probably be a fair assumption.

Deputy Pearse Doherty: Over what period?

Ms Marie Hunt: In any of those given years that would have been the magnitude. It is a small market.

Deputy Pearse Doherty: It is a small market. For 2006, therefore, and this is Ms Hunt's guesstimate, of the 121 transactions we are talking about 50 or 60 individuals or syndicates.

Ms Marie Hunt: It is fair to say because typically, if a syndicate or an investor does a deal they will not do multiples of those in a particular calendar year, so that is-----

Deputy Pearse Doherty: In Ms Hunt's experience is the 50 or 60 investors in 2006 the same or what portion of them were the same investors in 2005 and 2004, for example?

Ms Marie Hunt: I would have to go back and check transitional activity to verify that. In some cases they would have been the same investors. It is fair to say they were using one investment to cross-collateralise against another. We would have data breaking that down year by year because we are tracking every single transaction and every single buyer, so it is possible to-----

Deputy Pearse Doherty: Can Ms Hunt provide that data to the committee?

Ms Marie Hunt: Absolutely.

Deputy Pearse Doherty: That would be appreciated. Ms Hunt mentioned there was a lack of knowledge on the part of her organisation of how they were funded. Were there any conversations or suggestions as to whether they were funded by equity, debt or cash?

Ms Marie Hunt: There were no conversations. As I said, we were never privy to the fund-

ing situation. We were there to buy or sell the assets. We were never involved. I suppose to some extent our valuations team would have been asked by various banks to fund and, anecdotally, we were hearing that there was a lot of debt funding, but we had no way of proving that.

Deputy Pearse Doherty: Ms Hunt mentioned leverage in her opening statement and stated that the ability to leverage is one of the key attractions of investment in the commercial real estate market. Will she explain the reason for that to the committee? Why is commercial property attractive to leverage?

Ms Marie Hunt: In terms of different forms of investment, if someone is buying stocks and shares, for example, they cannot go to the bank and borrow to buy whereas with commercial real estate they can do that. When someone is in the upward part of a cycle and using leverage, it enhances their returns but the opposite of that is also true. When the market crashes, they are severely exposed but unlike other forms of investment, they can borrow. That is what I am saying.

Deputy Pearse Doherty: What is Ms Hunt's understanding in regard to leverage? Is it 70% or 80% debt funded? What is her understanding in terms of the average?

Ms Marie Hunt: I think it is very difficult because every bank will have a different policy, and they will have different policies with regard to different sectors, so it is very difficult to come up with an average and as I said, we were never privy to that.

Deputy Pearse Doherty: Would Ms Hunt be surprised to learn that the leverage was in the region of 70% or 80%?

Ms Marie Hunt: I would have assumed it was around 70% or 80%, yes.

Deputy Pearse Doherty: That would mean that these investments could be debt funded up to that level.

Ms Marie Hunt: Yes.

Deputy Pearse Doherty: Half the Irish investment in commercial property in the period 2001 to 2008 was in UK property. What were the investments being made in the UK?

Ms Marie Hunt: The rationale for going to the UK in the first place is that it is quite a similar market to our own, so not only is it English speaking but the covenants and the lease structures are quite similar, unlike going to the rest of Europe where the lease structures are radically different. It was a market that was easy to understand and from a banking perspective also it was quite similar, so it was the natural progression for people to go into. Also, there was much more produce available compared to the small Irish market. If we consider the types of assets the Irish investors bought, as I said, they tended to buy office and retail properties in preference and they tended to buy very high quality so they bought Bond Street retail properties and West End offices. They did a little bit of investment in regional UK but most of it was focused in central London.

Deputy Pearse Doherty: In terms of how they were funded, is it Ms Hunt's view that they would fund them the same way they would fund Irish investment properties?

Ms Marie Hunt: I would not have been privy to that but I assume it would have been quite similar. There may have been an element of hedging involved in some of those transactions because of the currency risk but other than that I would have thought they were quite similar.

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Deputy Pearse Doherty: Ms Hunt stated in a paper that in 2006 there was €7.4 billion of investment in the UK by Irish investors and suggested that would be 158 transactions. Would that be correct?

Ms Marie Hunt: I do not know what report that quote is from.

Deputy Pearse Doherty: It is a quote from *The Irish Times* which states: “Figures compiled by Marie Hunt, director of research at CB Richard Ellis, show that the Irish were involved in 111 investment transactions and 47 sales”. That is in regard to €5.5 billion that was invested in 2006, and property sold at a further €1.89 billion. Would that figure be correct?

Ms Marie Hunt: I would have to check the numbers. The chart the Deputy has seen a figure for in my submission has the cumulative for every one of those years.

Deputy Pearse Doherty: Yes.

Ms Marie Hunt: Sometimes when it would have been quoted in the media it might have been on a rolling 12 month basis so the numbers might be slightly different to what the Deputy is seeing here, which are annualised figures.

Deputy Pearse Doherty: The figure of €7.4 billion correlates with the chart Ms Hunt has provided.

Ms Marie Hunt: Okay.

Deputy Pearse Doherty: In terms of the number of investors, if we take it that the figure of 158 transactions is accurate, how many individuals or syndicates would we be talking about for that number of transactions? Is it the same type of proportion?

Ms Marie Hunt: I would have to check the numbers. One huge deal can skew that number significantly, so I would rather check the numbers than guess.

Deputy Pearse Doherty: From Ms Hunt’s experience was there much crossover from the 50 or 60 Irish investors that year with the investors investing in the UK?

Ms Marie Hunt: There would have been some crossover but without checking the actual data, I cannot comment.

Deputy Pearse Doherty: That is fair enough. When did the downturn in the UK commercial property market begin?

Ms Marie Hunt: Again, I would have to check that. When we look at the market we are using IPD, which is the only source available for Ireland. We would tend to use IPD for the UK as well. Their index is on a monthly basis as opposed to our quarterly one. I seem to remember that it was six to eight months prior to our own downturn, but I would have to check that.

Deputy Pearse Doherty: Was Ms Hunt concerned at all about the exposure of Irish commercial property speculators to a UK downturn?

Ms Marie Hunt: No.

Deputy Pearse Doherty: Is Ms Hunt aware of the UBS investment report in January 2008?

Ms Marie Hunt: The Deputy will have to remind me.

Deputy Pearse Doherty: The UBS investment report was the report that led to a 30% share price fall in some Irish banks overnight. The newspaper reports from that time indicated that the report issued warnings in regard to Ireland's commercial property sector. It states:

We believe that the risk to the value of retail shopping centre space in Ireland is on the down side in the near to medium term due to three factors. Firstly, rents are already the second highest in Europe. Secondly, available shopping centre space is the third highest in Europe and is forecast by the Bank of Ireland to increase by another 60% in the next five years. Finally, retail spend is likely to be falling due to commercial confidence.

Is Ms Hunt familiar with that report?

Ms Marie Hunt: When was it released?

Deputy Pearse Doherty: It was in January 2008.

Ms Marie Hunt: January 2008.

Deputy Pearse Doherty: To help Ms Hunt, the report put forward a sell recommendation for both AIB and Anglo Irish Bank to its investors. Obviously, that was to those who sign up to its reports, and it predicted a 30% fall in Irish commercial property prices.

Ms Marie Hunt: I am not familiar with the report.

Deputy Pearse Doherty: Okay. The report was rubbished by CBRE in its March 2008 bi-monthly report, which Ms Hunt said in her evidence is the best known report. It states:

... we fundamentally disagree with flawed analysis issued by UBS in recent weeks which suggested that total returns in the Irish commercial property market have the potential to decline by 30%.

Unlike the UK market, where institutions dominate, the bulk of investment property, in Ireland it is privately held and unlikely to be offered for sale unless market conditions improve.

Can Ms Hunt remember the bi-monthly report that rubbished the UBS report?

Ms Marie Hunt: I would have written the report so I am trying to think back. I have written lots of reports over the years. I would have to look back at my work from that time and read the UBS report and remember why we rubbished it at the time.

Deputy Pearse Doherty: Ms Hunt is also quoted as stating: "While economic and property market fundamentals are still basically sound, the big issue in most sectors is the scarcity and cost of debt-funding."

Ms Marie Hunt: It goes back to the four drivers of the market, the economic, the sentiment and, as I said, we firmly believed the fundamentals of the market were solid at that point. We believed the economy was growing and although we knew house prices were coming down, we did not expect they would crash significantly. We firmly believed that. If we were commenting on a particular report from someone such as UBS, we had firm reasons for doing that.

Deputy Pearse Doherty: Who does UBS issue its reports to? What type of individuals would be reading UBS reports?

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Ms Marie Hunt: I would imagine it would be people who are looking at the Stock Exchange, such as brokers. It certainly would not be sent down to agents such as ourselves.

Deputy Pearse Doherty: The UBS report suggested a 30% decline in property prices and CBRE claimed that was flawed and fundamentally disagreed with the analysis. What was the decline in Irish property prices from peak to trough?

Ms Marie Hunt: As I showed in my submission, the downturn was much more severe than that, but it was a totally unanticipated outcome because in every other cycle for which we had data, values fluctuated. They fell by up to 30% in some cycles and then went back up again. They actually fell by somewhere between 57% and 60% peak to trough according to the Investment Property Databank, IPD. The downturn experience was much more severe but no one could have anticipated that because based on the information we had at the time, it was just not on the horizon.

Deputy Pearse Doherty: When Ms Hunt says no one could have anticipated it, I put it to her that UBS issued a report to its investor clients to sell on AIB and Anglo Irish Bank because of the concentration of lending and because they believed commercial property prices were going to drop by 30%, which her firm said was fundamentally flawed. Is it not the case that UBS and others saw a decline in the commercial property market but CBRE dismissed that evidence publicly?

Ms Marie Hunt: I think a lot of the other contrarian views concerned the residential property market, which was not our area. We were commenting specifically on commercial property. As regards UBS, I would need to have a look at the report to remind myself why we came out with that conclusion at that point.

Deputy Pearse Doherty: The UBS report was based not on residential but on commercial property. The sell recommendation for AIB and Anglo Irish Bank was because of their exposure to that sector.

In March 2008 Fitch downgraded its ratings for Irish Nationwide Building Society, citing the bank's high exposure to a small number of commercial property developers. Did Ms Hunt take any cognisance of that report or change her opinion about the concentration of lending?

Ms Marie Hunt: Can the Deputy remind me of the date of that one?

Deputy Pearse Doherty: It was March 2008, at the same time as CBRE was saying that the economic and property market fundamentals were sound.

Ms Marie Hunt: And the Deputy's question was?

Deputy Pearse Doherty: Did CBRE pay any attention to the Fitch report? Did it take on board the fact that Fitch had said in the document: "International credit rating agency Fitch last month downgraded its rating of INBS, citing concerns over the outlook of property in Ireland and Britain and the society's high exposure to a small number of heavyweight lending customers."

Ms Marie Hunt: Again we would have had regard to it in the same way we read the newspapers and listened to what was out there. We would have been aware of it. We went back to the fundamentals of the market as we saw it, the economic drivers, the supply-demand balance, and based our views on what we were seeing on the ground and the data available to us at the

time.

Deputy Pearse Doherty: With the benefit of hindsight, does Ms Hunt believe that analysis was flawed?

Ms Marie Hunt: With hindsight, knowing what we know now, yes, but at that point we did not have the full picture. Based on what we were seeing on the ground we had a certain view. In retrospect-----

Deputy Pearse Doherty: Is CBRE not the expert on commercial property?

Ms Marie Hunt: We are experts on commercial property but we can only base our information on what is publicly available. We just did not have the data to enable us to come to that conclusion.

Senator Michael D'Arcy: Did Ms Hunt's company or industry contribute to the banking crisis?

Ms Marie Hunt: The property industry was, I suppose, contributing to the crisis that ultimately happened. Usually when real estate crashes happen, they happen as a consequence of an economic downturn, and this was an unusual one in that the real estate downturn was the cause of the crash to some degree, because of the over-lending that was going on prior to that period. So yes, along with a myriad of other different things, the property industry was complicit.

Senator Michael D'Arcy: Figure one in the paper Ms Hunt provided suggests that if it had been in keeping with a similar time schedule for cycles, shortly after 2006 there would have been a reversal. She has said in previous evidence that the expectation would be similar to previous reversals, with a reduction of perhaps a maximum of 30%.

Ms Marie Hunt: Yes.

Senator Michael D'Arcy: CBRE has data going back to the 1970s from IPD. At what stage did Ms Hunt change her view that a reverse was likely?

Ms Marie Hunt: When we look at reversals, we would be looking at two things. The first would be on the transactional side, and clearly the Senator can see from figures four and five that the transactional activity had begun to show signs of slowing down from late 2006. If one reads any report from that time, there was comment to suggest transactional activity was down year on year. The peak from a transactional point of view was 2006. Because of the way it is compiled, IPD does lag the market so it was some time later that it began to come through in those sorts of indices. Again, if the Senator reads all of our reports from 2007 onwards, in every single sector we were pointing out concerns that the market was in the downward phase of the cycle.

Senator Michael D'Arcy: The person who gave evidence just before Ms Hunt was from Jones Lang LaSalle and he provided us with information that the record €1.2 billion investment of 2005 was trebled in 2006. Would that be a normal data set for a record year, on the basis of an international remit allowing one to look at comparative jurisdictions?

Ms Marie Hunt: I know €3.6 billion is a huge amount of money, but----

Senator Michael D'Arcy: No, trebling, sorry, a trebling of the previous record.

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Ms Marie Hunt: A trebling of the previous record could, I suppose, be attributed to some extent to the single currency. We were in a new paradigm and suddenly had access to international credit which we had never had before.

Senator Michael D’Arcy: We had that going back to 2001, 2002 and 2003.

Ms Marie Hunt: The Senator is talking about trebling between what periods? I am not clear----

Senator Michael D’Arcy: In 2005 there was €1.2 billion invested. That was the record then. In 2006, year on year there was a trebling of that amount to €3.6 billion invested. What I am asking is, in other jurisdictions that Ms Hunt’s company would have had an opportunity to view, would it be unusual to have a record investment year trebled the following year?

Ms Marie Hunt: It would not be unusual. Again I would need to go back and check but we track right across Europe, every single capital city. We track a quarter-on-quarter increase and a year-on-year increase, so if there was something glaring, it would have stood out. When significant increases of that magnitude occur year on year, if one goes to other markets at the same point in time, there will probably be a similar trend because of capital flows.

Senator Michael D’Arcy: May I pursue a line that Deputy Pearse Doherty also pursued? When there is trebling from one year to another, Ms Hunt said IPD tends to have a lag. Surely the lag should have been obvious by the time the UBS report was produced 15 to 18 months later and surely it should have been available for CBRE as a research group?

Ms Marie Hunt: IPD does not track transactional activity, it is tracking performance, which is a radically different thing. A trebling of investment activity would not have come through in IPD data at all. IPD is just tracking institutionally owned property and the change in valuation quarter-on-quarter or year-on-year.

Senator Michael D’Arcy: Ms Hunt said that IPD requires a quarterly valuation. Does her company participate in those valuations?

Ms Marie Hunt: No, we do not.

Senator Michael D’Arcy: There are currently 140 staff at her company.

Ms Marie Hunt: Yes.

Senator Michael D’Arcy: How many staff were within the company at the peak of its performance?

Ms Marie Hunt: I think the 140 is between Dublin and Belfast. Our company at the peak would have been about 150 staff. We went all the way down to 115 staff. Our company turnover fell from €30 million to €8 million. We had significant pay cuts right across the company. In the same way as everybody in Ireland suffered to some degree, our firm went through the pain when the commercial property market crashed.

Senator Michael D’Arcy: Would the firm have been hired by property developers to perform for them?

Ms Marie Hunt: In what sense?

Senator Michael D’Arcy: For property-related matters.

Ms Marie Hunt: Yes.

Senator Michael D’Arcy: In terms of the valuations CBRE would have provided for developers, did the firm get sight of the actual price that was achieved? Did it get an opportunity to put that research together and examine its valuation versus the actual sale price achieved?

Ms Marie Hunt: They are two distinct functions. As I said, the research operates quite independently of the rest of the business. Our job in putting together charts such as chart 5 on land is tracking transactional activity across all agencies, tracking pricing and putting that into an index. Our valuers operate quite separate to that. However, in doing valuations they obviously have to adhere to the market value definition under the professional Red Book that they are working under and, in that, they would have had to have had regard to comparable evidence. They would be looking at the transaction data we were collating, and that was used as comparable evidence in order for them to arrive at market value.

Senator Michael D’Arcy: Is that a “Yes” or “No”?

Ms Marie Hunt: I do not-----

Senator Michael D’Arcy: I refer to the valuation provided by Ms Hunt’s company to a developer.

Ms Marie Hunt: Yes.

Senator Michael D’Arcy: When the actual deal was concluded and the price was concluded, did CBRE have analysis between the valuation provided - the professional valuation-----

Ms Marie Hunt: No. The professional valuation is done for a client and it is a private transaction with that client. That file is not shared with the research team. We are in the business of tracking transactional activity.

Senator Michael D’Arcy: Ms Hunt did not find out if CBRE’s valuation was underpriced or overpriced.

Ms Marie Hunt: The valuation is not relevant to research.

Senator Michael D’Arcy: So Ms Hunt is not aware of the difference in the price that was achieved potentially.

Ms Marie Hunt: I do not understand the question. Valuers are taken on by a client to produce a valuation for them, which they do.

Senator Michael D’Arcy: For an asset, yes.

Ms Marie Hunt: For lending purposes, or whatever the purpose of the valuation might be. However, that is not shared with the research team in the firm because it is irrelevant to me what somebody’s property has been valued at. I am simply tracking financial-----

Senator Michael D’Arcy: If X number of valuations were provided, did CBRE determine whether it was correct or incorrect by a percentage, or did its valuation overprice an asset or underprice an asset by comparison with what it actually traded at?

Ms Marie Hunt: No, our valuers, like valuers in any firm, are-----

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Senator Michael D’Arcy: Is it correct that CBRE did not have sight of the final price paid by the client?

Ms Marie Hunt: I do not understand the question.

Chairman: I will just reframe it. Ms Hunt was valuing assets with regard to prospective purchases. Those purchases had a final price afterwards. Was there a comparative analysis done between the valuation price of the asset and the sale price of the asset of property to determine the accuracy of the valuations?

Ms Marie Hunt: No, the valuer produces a valuation. The valuation is given to the client that has instructed that a valuation be made, and they move on to the next job. That is the end of that file.

Senator Michael D’Arcy: Is Ms Hunt’s firm currently retained by NAMA for works?

Ms Marie Hunt: I would not say “retained” by NAMA but we have done work for NAMA in the same way that all the major firms around town are taken on by NAMA to do particular jobs. We are not advisers to NAMA in that sense.

Senator Michael D’Arcy: Does the firm work for NAMA?

Ms Marie Hunt: We have done work for NAMA, yes.

Senator Michael D’Arcy: Could I ask Ms Hunt for her view on the private equity firms in Ireland that are trading at the moment? Are they a good thing or a bad thing?

Ms Marie Hunt: I believe it has been a very good thing for the market because the biggest lesson we have learned is that having a market that is wholly reliant on domestic bank funding and 100% domestic is clearly not sustainable and not a good model. Therefore, we have now created a market where over 50% of investment activity is coming from other jurisdictions, and that is a much healthier place to be. Equally, it is not all debt funded anymore. We have equity involved and that is a much more stable environment.

Senator Michael D’Arcy: Ms Hunt is quoted in an article in the *Financial Times* entitled “Buyout group picks up Irish bargains”.

Ms Marie Hunt: I may have been quoted but that headline would not have been written by myself.

Senator Michael D’Arcy: Is she aware of the article?

Ms Marie Hunt: The Senator will have to remind me because I am quoted in lots of articles.

Senator Michael D’Arcy: It was in November 2012. Are the bargains associated with the assets in question optimal or suboptimal in relation to the sale by NAMA to the private equity funds?

Ms Marie Hunt: Again, I do not understand what the Senator means by “suboptimal”.

Senator Michael D’Arcy: Are the bargains giveaways to the firms?

Chairman: Are they below value or above value, or on value?

Ms Marie Hunt: It depends on what one’s definition of “value” is. A lot of these funds

came into the market at the absolute lowest point when there were no other buyers there, and they paid a price. Going back to the whole issue of data, I think that had we access to reliable data, particularly on historical-----

Senator Michael D’Arcy: Time is very limited. I believe Ms Hunt has stressed that already. Could I ask her for her opinion-----

Ms Marie Hunt: I would like to pursue this.

Chairman: The Senator will have to allow the witness to answer.

Ms Marie Hunt: The reason I want to pursue it is that I believe the prices the funds have paid could well have been higher had we access to better data. They underwrite transactions based on the data available to them. If there are none, they will pay a lower price.

Senator Michael D’Arcy: The view of Dr. Peter Bacon in previous evidence was that NAMA had not acted as a professional property investment company but more like a debt collection agency. Could I ask Ms Hunt for her view on that considering that she conducts substantial market research?

Ms Marie Hunt: I would disagree with that. I think NAMA has done a very good job. It has a thankless task, to some degree, because no matter what it does, it is regarded as wrong. It had a huge amount of loans that it had to dispose of. It is in wind-down mode. It has been deleveraging at a very strong pace. It has attracted lots of new investors to the Irish market. It is doing quite a good job.

Senator Michael D’Arcy: What is the likely outcome of the activity of those new investors and private equity firms? Are they here for the long haul or short haul?

Ms Marie Hunt: It is hard to generalise. I think some of them are here for the long haul and some of them did not understand the Irish market, but now that they have come and seen it on the ground, they are much more comfortable and may well stay. Some of them are moving up the risk curve now. They are not investing in the types of assets they initially came to buy and are now moving into the development sphere. In some cases, they are providing development funding.

Senator Michael D’Arcy: And the short-haul investors?

Ms Marie Hunt: Some of them will leave the jurisdiction. Absolutely, they will, but thankfully a cohort of new institutional-type buyers seems to have been coming in recently to fill that space. Many German institutional buyers and buyers with US moneys have been coming in recently.

Senator Michael D’Arcy: For the bargains.

Ms Marie Hunt: I would not say “bargains” anymore. Perhaps three years ago, when pricing was at a very different level, there were bargains to be had because assets were available to be bought below replacement cost. That is not the case today, yet some of these buyers are still here.

Senator Michael D’Arcy: Ms Hunt was very critical of the change in the upward-only rent reviews. She denounced them. In February 2010, it was stated:

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According to Marie Hunt, Director of Research at CB Richard Ellis, “This has come as a huge surprise to the industry. We understood that the Government had decided not to implement this measure. While no one is disputing the fact that tenants in many sectors of the property market have come under huge pressure in recent months and many are struggling to meet rent payments, the reality is that this move will not do anything to improve the plight of retailers and office occupiers who are currently in such difficulties.

Could Ms. Hunt explain why she was so opposed to the change in the upward-only rent reviews?

Ms Marie Hunt: It is a very complex issue but if one buys an asset and buys it on the basis of a 20-year lease with upward-only rent reviews, that is a contract and one has an understanding of what is going to happen with the income. Therefore, if somebody comes in overnight and says the contract is to be torn up and one is no longer entitled to those upward-only rent reviews, it undermines confidence. In the period 2009 to 2012, we had a huge amount of uncertainty about this issue and on whether the reviews were going to be amended or not. If one looks at transactional activity, one sees virtually no transactions happened as a result. The minute it was announced in the budget in December 2011 that this was taken off the table for constitutional reasons, international investors began to engage and, indeed, NAMA began to release assets to the market. Nobody was going to buy anything in Ireland, regardless of what price it was, if there was uncertainty about the income flow or the potential of that income to grow over time.

Senator Michael D’Arcy: Ms Hunt has chosen to leave out the benefit, the tax break, that was available for commercial property if it was sold before a certain period.

Ms Marie Hunt: Which tax break?

Senator Michael D’Arcy: I will just finish up.

Chairman: I do not think Ms Hunt left out the information about tax breaks. If the Senator wants to ask her questions about tax breaks, he can do that.

Senator Michael D’Arcy: The tax break was in the same budget and was in respect of -----

Ms Marie Hunt: Capital gains tax.

Senator Michael D’Arcy: Was that not a contributing factor also?

Ms Marie Hunt: There were three things in that budget. There was the decision not to proceed with a change in upward-only rent reviews, a CGT change and a reduction in stamp duty. It was a combination of all three that ignited the market at that point in time. If I were to pick the factor which was most significant, it would be the clarity on the upward-only rent reviews.

Senator Michael D’Arcy: On talking up or talking down the market, given that she works in a section of the largest commercial real estate property firm in the country, is Ms Hunt satisfied that she is independently objective?

Ms Marie Hunt: Absolutely 100%. I cannot do my job unless I operate in that way. My personal credibility is at stake if I am talking up or down the market. I listen to all sides and I comment objectively, be that positive or negative.

Deputy Eoghan Murphy: I want to clarify something. We heard earlier that 90% of investment volumes in the period 2002 to 2007 were from Irish buyers. Do we know what the

percentage is today?

Ms Marie Hunt: We do. We now have a map of Europe with dots for every jurisdiction. I am trying to remember the numbers off the top of my head but, roughly speaking, it is about 50-50 at this point. Quite a bit of that is coming from the US because there are US firms which are now domiciled in Ireland. The Irish piece would also be split 50-50, between Irish REITs and Irish investors. For example, the money going into the REITs is invariably not Irish but they are Irish entities. They are listed on the Stock Exchange. We would tend to count them, but separate that figure out because it is Irish but the money is coming in internationally.

Deputy Eoghan Murphy: In terms of other countries, would it be normal to move from a figure of 10% to a figure around the 30% mark? Has the pendulum swung in the other direction?

Ms Marie Hunt: The pendulum has probably swung a little bit more because, as I said, if one looks right across Europe, it tends to be about 30%. It is probably 35% now. Something we have seen with global capital flows over the past 12 months is that there is money coming into European real estate from lots of different jurisdictions. Our sense is that, going forward, the jurisdictions might change and we might get more Asian money coming into the Irish market, particularly from Asian investors who are now familiar with London and are seeing good opportunities in the Irish market. We could attract some of that money to Ireland.

Deputy Eoghan Murphy: In what way is the money which is flowing into Europe at the moment and over the past 12 months qualitatively different to the money flowing in at the beginning of the last decade?

Ms Marie Hunt: It is radically different in that it is not debt-funded. It is primarily equity and it is coming from lots of different jurisdictions. Invariably it is coming from types of investors who have not historically invested in real estate. What is particularly attractive about real estate at the moment is the unique interest rate environment we are in. Ten-year bond rates have sub-1% rates and real estate is throwing off 5% or 6%. Comparatively, real estate looks attractive. There is then the ability to leverage on it. Real estate right across Europe is booming at the moment. We are at a unique juncture because of the low interest rate environment.

Deputy Eoghan Murphy: I want to move back to the period before 2008 and the CBRE reports. We have excerpts from those reports. Did Ms Hunt author those reports?

Ms Marie Hunt: Every one of them.

Deputy Eoghan Murphy: On page 5 of the document containing the excerpts from the reports, Ms Hunt states, under the November 2006 heading, "Sale and leaseback transactions including those by the country's two main banks which have dominated the headlines in recent weeks have between them totalled €1 billion, which is in excess of the total size of the Irish investment market only 3 years ago". What is Ms Hunt saying and to whom is she saying it?

Ms Marie Hunt: We are commenting because there would generally not have been quite a lot of sale and leaseback activity in the Irish market.

Deputy Eoghan Murphy: What does a sale and leaseback agreement indicate about the health of the market?

Ms Marie Hunt: I would not relate it to the health of the market. At that particular point

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in time, when we look at who was doing the sale and leasebacks, invariably some of it was coming from the domestic banks. I do not think it was a conscious decision to get out because the market looked like it was turning. I think it was simply an effort to generate more liquidity which, in turn, they rolled out into more lending. I do not think it was a conscious decision. Some people will speculate and say it was the banks getting out of the Irish market because they could see what was coming down the tracks. I think it is clear that that is not correct and that it was simply a decision to get out of real estate and to get equity in and to concentrate on their core business.

Deputy Eoghan Murphy: Is what Ms Hunt wrote a value-free statement? Is she writing a fact or is she sending a warning signal to people within her own company or to the market in general?

Ms Marie Hunt: We are commenting factually. We have access to all the transactional data. When the sale and lease backs were split out, they accounted for a big portion of the market at the time. It was a fact at that point in time. It was not a signal or anything of that nature.

Deputy Eoghan Murphy: Below it, under the January 2007 heading, it is stated, “It is now the duty of the development community in Ireland to adopt a realistic approach and put the brakes on the quantum of annual housing completions to avoid oversupply occurring in the medium term”. Ms Hunt refers to the duty of the development community. The development community is a series of individual actors acting in their own interests. However, Ms Hunt thought they had a duty to restrict what they were doing. What duties did her industry have at the time?

Ms Marie Hunt: We are a multidisciplinary firm. We are buying and selling property. We are acting for clients. It is not our duty to tell the market what to build or where to build it. From a research or commentary point of view, we were simply pointing out that we were building too much and that we needed to rein it in because, if we were to go into the normal cycle, there was potential to exacerbate the situation by continuing to build at the same pace. It was not sustainable.

Deputy Eoghan Murphy: Did Ms Hunt feel that developers had to rein themselves in rather than another actor?

Ms Marie Hunt: When we say “the development community”, we are talking about everyone within the property umbrella, be they developers or planners. It is not just developers *per se*.

Deputy Eoghan Murphy: Is Ms Hunt’s organisation not an integral part of that community?

Ms Marie Hunt: Not the development community. We do not develop.

Deputy Eoghan Murphy: Does it not value sites?

Ms Marie Hunt: A valuer values a piece of land. They are not giving advice to the client on whether or not to go on-site or on what volume to build. They are simply valuing the real estate.

Deputy Eoghan Murphy: Does Ms Hunt think her professional body had a duty to go to the Government and to inform it of the kinds of things that she and other companies in her industry were reporting?

Ms Marie Hunt: It would not have been down to individual firms such as ours to do it. People like the Society of Chartered Surveyors Ireland or other member firms may well have gone to Government. I would have thought Government should have gone to them. That possibly happened, but our firm was never asked for its opinion or view.

Deputy Eoghan Murphy: My final question relates to Ms Hunt's opening statement. On the first page, underneath "OVERVIEW OF THE IRISH CRE MARKET", Ms Hunt states, "In Ireland's case, in the period up to 2008, these three distinct elements effectively merged ...". I am wondering what the significance of the three pieces coming together means for the property market in terms of a change and the dangers associated with that.

Ms Marie Hunt: From an international perspective, there tend to be three very distinct sectors. There are developers who provide the product, occupiers who occupy it and professional investors who come in and buy the income-producing asset to throw off returns. In Ireland, because there was an availability of debt, many developers built the stock, got it let up, and then held onto it for their own personal investment. That would be quite unusual. We would have been asked consistently why there were not more shopping centres trading in Ireland given the amount we were building. In most other markets, they would be built, let up and then sold on. In Ireland, they were built, let up and then the developer held onto it as a personal investment and invariably used it to borrow and develop again. That was quite unusual and that was what I was pointing out.

Deputy Eoghan Murphy: When did the merging of those elements begin to take place?

Ms Marie Hunt: I could not point to a particular point in time but from 2002 or 2003 onwards it would have been quite evident.

Chairman: Is it a unique phenomenon that the developer of a shopping centre would then become the landlord as opposed to developing it and selling it on?

Ms Marie Hunt: It would be unusual across the rest of Europe.

Chairman: In the European context-----

Ms Marie Hunt: In the European context it would be unusual. The three elements are usually quite distinct. Here a person developed it, let it up and then held onto it for his or her own personal investment.

Deputy John Paul Phelan: I may have missed this point earlier. Was the fee structure which CBRE would have applied, in terms of its work for its clients whether from a buying or selling point of view, a percentage-based fee or a flat fee?

Ms Marie Hunt: It would have been a mixture of the two. I am not involved in day-to-day transaction activity but I think it would have been a mixture of the two. In many cases, it is a fixed fee. Certainly, that would be the case in valuations. Regardless of what the final valuation figure is, the fee is the same.

Deputy John Paul Phelan: Following on from that, were there any incentivised bonuses for staff, in particular, as was mentioned by a previous witness, with substantial sales? Was there an incentivised bonus scheme for employees, if those schemes came to fruition?

Ms Marie Hunt: No.

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Deputy John Paul Phelan: On page 6 of Ms Hunt's opening statement, she states: "Usually, 100% of investment spend in Ireland in the period 2001-2008 comprised domestic investors." Although she may not be able to provide us with the information, to the best of her knowledge was that a change from the figure pre-2001 or would the 100% figure stretch back further than that?

Ms Marie Hunt: We did not have the data.

Deputy John Paul Phelan: How would that figure of 100% have compared with other countries, for example, in the EU?

Ms Marie Hunt: As I said, from recollection, at that time in Europe about 30% in any of the European markets would have been international and we stood out because we were different in that respect. We were spending a huge amount of money in other jurisdictions but there was nobody investing here.

That is not to say we did not have firms looking at Ireland from time to time if a particularly attractive asset became available for sale but they were usually out-bid by the local buyer, who was invariably bank-funded or debt-funded. The pricing looked expensive relative to other cities. The stamp duty was more than twice what it was in the UK, for example. Invariably, they ruled it out and they went to other jurisdictions instead.

Deputy John Paul Phelan: In response to Senator Michael D'Arcy's questions, Ms Hunt stated that there was no analysis of valuations versus actual prices paid. I do not know how to ask this without appearing to be leading. Would it be part of the service provided by a company such as Ms Hunt's that there would be an ongoing analysis as to whether the valuations corresponded to the values that were paid?

Ms Marie Hunt: I misunderstood Senator Michael D'Arcy. When a valuation is instructed, a professional valuer, working under the red book, can only value using the market value definition so they have to have regard to comparable evidence. They would come to us to get the comparable evidence because we were tracking every single transaction. It worked in that way.

I understood the Deputy's question was, after the event, when the valuation is complete and submitted, did they then go back and cross-check and see, compared to subsequent transactions, whether that was fair. My answer is, when a valuation is done, it is done, it is submitted to the client, the file is closed and one moves on. One does not pick up the file and retrospectively check the valuations unless the client subsequently comes back and asks one to revisit that valuation for whatever purposes.

Deputy John Paul Phelan: If valuation is a significant part of Ms Hunt's business, is there not a necessity on her in that capacity that she would check to ensure that the valuation was reflected in the ultimate price? Is there not something of a contradiction?

Ms Marie Hunt: I think Deputy John Paul Phelan misunderstands. When we are asked to do the valuation, the price has already been paid. They have bought a piece of land and they need a valuation subsequently. Again, I am not a valuer. They go back and get a valuation instructed and that valuation is fed into the bank, and that is the end of that job. One does not retrospectively open the file and go back and check the valuations after the event based on transactions that happened subsequently. One's valuation is based on market evidence at that point in time based on recent historic comparables - transactions that have already happened.

Deputy John Paul Phelan: Furthermore, in response to Senator Michael D’Arcy’s question about the 2005 figures for commercial property in Ireland, how it was a record year and it trebled in 2006, Ms Hunt stated that “it would not be unusual” for such a trebling. Why would it not have been unusual? Surely, a record year such as 2005, and a trebling of that the following year, would have provoked some thought?

Ms Marie Hunt: Senator Michael D’Arcy’s questioning was in relation to Europe, if I picked it up correctly. I am saying, when one has a big jump in one country, invariably, if one looks across lots of different countries, it would not be unusual to see a similar pattern emerging because it is a global market. Capital flows are global. If it was a trebling in Ireland and that trend was not coming through in any other jurisdiction, it would have raised alarm bells, but if the entire market in lots of different countries was growing at a similar rate, it certainly would not have.

Deputy John Paul Phelan: Finally, I have a brief question. The previous witness was at pains on several occasions to point out that from the end of 2005 his company was recommending to some of its clients to disengage from the commercial property sector in Ireland. Was there any such efforts by CBRE in terms of its clients in the Irish commercial property market?

Ms Marie Hunt: I cannot comment for my colleagues; I can only comment for myself. It would not have been my job because I am not directly dealing with clients and not involved in transaction activity. My role would have been to comment objectively and, as the committee will see from the reports, to issue warnings or concerns if it was merited to do so. I cannot comment for what my colleagues were or were not telling their clients to do at that point in time.

Deputy John Paul Phelan: I thank Ms Hunt.

Chairman: I call Senator Marc MacSharry, who has six minutes.

Senator Marc MacSharry: I welcome Ms Hunt and thank her for taking the time to be here. With the benefit of hindsight, and given what Jones Lang LaSalle’s representative stated earlier and what Ms Hunt stated in her own testimony here in terms of relying on houses such as the IMF and ESRI, is there a need in the bigger firms, such as her own, Jones Lang LaSalle, DTZ, for more self-generated research as opposed to reliance on determining research from the average of all those houses that she and Mr. Moran mentioned earlier?

Ms Marie Hunt: As somebody involved in data analysis on a day-to-day basis, we just clearly do not have an independent source and with the best will in the world, private firms, such as ourselves, do it themselves. We all use different definitions. There is huge duplication of effort. We would love a central clearing system where we all supply our data into one source, it is cleansed and we get the aggregate back because it would avoid us engaging in a huge amount of duplication of effort. As I said, invariably, when we issue our research, regardless of what we say, we are deemed to have a vested interest and it is thrown back at us. It has been a completely thankless task.

The UK market is miles ahead of us, in terms of the amount and the quality of data available, yet their investment property forum recently stated that if they are to prepare for the next property slowdown, they need access to better quality data and that should go across the lending institutions, the regulations, etc. They say that, and they are light years ahead of us in terms of the quality and access to data that is available there.

Senator Marc MacSharry: Is it Ms Hunt’s belief that there needs to be a forum of data

sharing between various bodies of the State and the commercial world?

Ms Marie Hunt: I think that would be great. There have been, I suppose, some efforts to improve it recently. We have had provisions such as the property price register on the residential side which is hugely helpful. We have the residential property price index now. Both need some modifications to improve them even further, but they are a step in the right direction.

We have a commercial lease database, created by the Property Services Regulatory Authority, PSRA, but it is not really fit for purpose. It does not really help us, from a transactional point of view. What we need is a central clearing house where all the big firms supply their transactional information into one clearing house and the aggregate is brought back. There are models for that right across Europe. My colleagues in Paris tell me that they have a very good system working, for example, in the Paris region. It would be quite easy to do. It would avoid all of the major firms counting the same numbers and coming up with slightly different results because of definitions.

Senator Marc MacSharry: In terms of property syndicates, Ms Hunt had a table which showed that, in a large amount of the investment, they were the biggest players as the market developed. Is that correct?

Ms Marie Hunt: I would not say they were the biggest players but they certainly were one of the biggest players. Ironically, the syndicate model came out of Government tax policy. When the first tax schemes were developed in the late 1990s, the syndicate model emerged and we began to see wealth management firms putting the syndicate model in place. They were invariably to avail of tax reliefs in the first instance. What happened is that some of those tax reliefs were subsequently removed or ring-fenced. The syndicate model worked well because it was deemed that ordinary individuals who maybe did not have €1 million to buy a commercial property in their own right could put money into a fund and through a pooled fund of money could get access to commercial real estate. Otherwise it would have been too big a leap for them in their own personal capacity to get into commercial property.

Senator Marc MacSharry: As Ms Hunt is on the research side, in her objective view, did it add any element of recklessness to the market? Individuals could involve themselves at very minimal risk because of the numbers of people in a syndicate. They could get involved in a small way in what happened to be a big syndicate and were therefore driving a market without any identifiable direct impact on themselves.

Ms Marie Hunt: What I would say to that is if one thinks back to the 1970s and 1980s, the commercial real estate market was an institutional market. There was then a situation where lending became much more readily available and there was the emergence of the syndicate model. So it brought a whole new pool of investors into commercial property that did not really know a lot about property. It widened the cohort and it brought a lot of new players into the market. We are now back at a situation where we are a more institutional market again so it is almost as if the cycle is coming through but it was very much fuelled by the debt situation, the availability of debt, the cost of that debt and, I suppose, access to opportunities overseas as well.

Senator Marc MacSharry: Was its impact reckless or positive in Ms Hunt's view?

Ms Marie Hunt: I suppose it was positive from a liquidity point of view because it brought a whole new cohort of different types of investors in and it gave investors access to commercial real estate that they would not have had historically. There was no listed vehicle so if they

wanted to get into commercial property the only route they had was through an Irish Life fund or one of the various retail funds.

Senator Marc MacSharry: Were syndicates in other countries regulated?

Ms Marie Hunt: I am not familiar with the syndicate model in other countries. From my recollection, many of our European colleagues remarked on it because it was not really a model that one saw happening in many other markets.

Senator Marc MacSharry: Is there regulation of syndicates in Ireland today?

Ms Marie Hunt: I could not comment on that. It is outside my area of expertise.

Chairman: The next questioner is Deputy Michael McGrath. He has six minutes.

Deputy Michael McGrath: I welcome Ms Hunt and thank her for participating in the inquiry. She has spoken quite a bit about having accurate data and the amount of effort that she and others put into compiling data based on the sources they have. Does she think that having a national commercial property price register similar to the residential one that we have would be beneficial?

Ms Marie Hunt: I think it would be excellent but I think quite a bit of collaboration with the industry would be needed first to make sure to get it right. The residential one is certainly a lot better than what went before but it could be a lot better. The commercial lease database shows what rent somebody paid but not what size building they have so it is meaningless in that respect. I think there are modifications that could be made.

I think the other-----

Deputy Michael McGrath: What would the benefits be of having such a centralised register of commercial property prices?

Ms Marie Hunt: We are now an international market-----

Deputy Michael McGrath: Apart from saving Ms Hunt a lot of work.

Ms Marie Hunt: Saving us a lot of work. We are now an international market. We have lots of international investors coming in. They are used to going to the US or the UK, wherever it is, pressing a button and getting decades of data. They come to Ireland and it is patchy, to say the least. It is quite good for Dublin but pretty much meaningless for the rest of the country.

Deputy Michael McGrath: So a reliable credible source of information is needed?

Ms Marie Hunt: We need a reliable and independent source because, as I said, with the best will in the world, no matter how good our data is we are deemed to have a vested interest. If there is an independent source it will always stand up to scrutiny much better and it could well lead to higher prices being paid by some of these entities because they can underwrite the decision much easier if they have good quality data.

Deputy Michael McGrath: On page 8 of Ms Hunt's opening remarks, she said, "In general, Government intervention in the property market was largely done in the absence of any engagement whatsoever with the property industry." Has that changed?

Ms Marie Hunt: Again, I am only speaking on behalf of our own firm. There could well

be engagement with some of the representative bodies but in terms of our firm, no, we are not asked. I would say, in the most recent Article 4 report that the IMF carried out, they did consult us and ask for our data and it is included in the report but I think that was the first time we have ever been asked for that.

Deputy Michael McGrath: From any body such as that-----

Ms Marie Hunt: From any body.

Deputy Michael McGrath: -----or any organisation?

Ms Marie Hunt: Yes, exactly.

Deputy Michael McGrath: Ms Hunt has also said that she and many others would have relied on the assertions of the authorities in terms of the health of the banking system. For example, she said, “we believed that the Irish banks were well funded and appropriately regulated and that borrowers were being sufficiently stress-tested”. Is that just a broad assumption that was made by perhaps Ms Hunt and many others at the time whose job was not to get into the details of those issues but to take note of what the authorities were saying. Is that what she means by that?

Ms Marie Hunt: That is exactly what I mean by that. We are a Fortune 500 company so when I am entering my data and forecast for Ireland, including GDP growth and other economic factors and I am quoting the ESRI, the OECD, or the IMF as my source, that is fine. I cannot come up with numbers myself. I am not an economist and even if I was, only internationally recognised data will be used.

Deputy Michael McGrath: Did the nature of lending to the commercial real estate sector during the boom years, and the emergence of non-recourse lending, which limited the risk of the borrower to the underlying security of the property itself, and then perhaps subsequently personal guarantees coming to the fore, fuel the demand for more credit, if it was being offered on those terms that no additional security was being required by the institutions?

Ms Marie Hunt: I do not know that I could comment on that to be honest. It is outside my area of expertise. I am not a banking or financial expert.

Deputy Michael McGrath: I asked Mr. Moran from Jones Lang LaSalle earlier on about the current state of the market in terms of commercial real estate in particular from the perspective of the availability of quality office accommodation in the areas where demand exists and I think it is fair to say that he painted a pretty sobering picture. I would be interested in Ms Hunt’s observations, as a major player in Ireland, on our ability to attract investment to the country, the issue of the availability of office accommodation, and the rent per square foot in Ireland *vis-à-vis* our competitors. Has Ms Hunt any observations to make on those issues now?

Ms Marie Hunt: The first thing I would say is that right throughout the downturn, if one looks at occupier activity office take-up in Dublin, one would not know there had been a recession in Ireland because it has held up consistently well right throughout. We have continued to see FDI flowing in largely because of our corporate tax rate but I suppose what is unusual about Ireland is that for five years we built nothing so we now have this scenario where we have a huge surge of FDI flowing in and effectively very little office stock for them to locate in. There is office availability but it is dotted in different places and most of these occupiers tend to want to be in Dublin 2 or Dublin 4 and the big issue is the scarcity of grade A stock, i.e., brand new

stock that could be physically moved into in the morning. The vacancy rate at the moment is about 2%. Rents troughed out at about €27.50 per square foot. They are at €47.50 or €50 per square foot today.

Chairman: Deputy McGrath has a final question.

Deputy Michael McGrath: I am okay with that.

Chairman: In her opening address, a number of times this morning, and again with Deputy McGrath, Ms Hunt spoke about an independent data source for the sale prices. Does she have a view as to who the independent agency should be? Should it be Government, an NGO or something set up by industry?

Ms Marie Hunt: I would think if it was Government it would have more credibility. I would like, if it is being set up by Government, that there be collaboration with the industry to get the ingredients right before it is rolled out.

Chairman: I understand the sentiments that Ms Hunt has expressed because even in the house price database at the moment it does not record whether it is an apartment or a house or whether it has two or three bedrooms.

Ms Marie Hunt: Which is exactly the issue with the commercial lease database.

Chairman: Does Ms Hunt see the industry as having a role in assisting the funding of this database, given that the industry would be a beneficiary of it in terms of having clear and transparent information for the customers that it works with?

Ms Marie Hunt: I am not sure how it is funded in other jurisdictions. I seem to recall that the Paris model that I have heard quite a bit about is solely funded by the Exchequer. I do not think there is independent influence at all. Everybody would have to agree to provide data to it and that could possibly be a challenge. I am sure that all of the major top five firms that are spending time and efforts collating data would be delighted to pool it into one central source.

Chairman: Does Ms Hunt have a view one way or another on the industry's contribution to that being put in place?

Ms Marie Hunt: I do not think that the industry would have an issue with contributing to it but I think it probably would be deemed to be more independent if it was solely funded by Government because if we are seen to be funding it, again we are back to the vested interest argument.

Chairman: Senator Barrett has six minutes.

Senator Sean D. Barrett: I welcome Ms Hunt and thank her for the material that she sent us. At the end of the first paragraph on page 3 she stated, "Irish CRE generated average ungeared total returns of over 16.4% per annum in the period 1976 to 2006 (proving that commercial real estate is a long-term investment)". A percentage of 16.4% was sustained for 30 years which leaves me wondering did we bailout the wrong sector. We had a hugely valuable commercial investment for 30 years.

Ms Marie Hunt: The point I was making is as follows. When one invests in commercial real estate one must be prepared for the long-haul. It is not something one invests in only to divest in two or three years but over the long-term property performs well. The difficulty we

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had in the Irish scenario is that the banks were funding on a short-term basis to effectively fund a long-term investment. Possibly that contributed to the issue that we had.

Senator Sean D. Barrett: Should we have been talking to pension funds and not banks? Is that the implication of what Ms Hunt has said?

Ms Marie Hunt: No. I am saying borrowing short-term on the wholesale markets to fund a long-term investment vehicle probably was not a good thing to do. From our perspective, we were not aware of how the banks were funding themselves but now that we know, in hindsight-----

Senator Sean D. Barrett: Yes.

Ms Marie Hunt: -----and that is the point I am making.

Senator Sean D. Barrett: Let us take a look at figure 2 in Ms Hunt's statement. One can see they doubled their money between 2001 and 2007 and then lost one third which meant they were still two thirds up. Should that have been pointed out to the sector when they sought a bailout?

Ms Marie Hunt: Sorry, figure 2?

Senator Sean D. Barrett: Yes, figure 2 of Ms. Hunt's presentation shows a gradual percentage increase of 8%, 2%, 12% and the remainder of increases. In the last year there was a loss of 34% but it had doubled its money in the previous spell.

Ms Marie Hunt: I am back to a data issue again. This is just IPD data so this is just a barometer of the market. It is a barometer only of institutionally-owned property and is not the market as a whole. The reason I included the table was to demonstrate that if one looks at property, on an annualised or quarterly basis, there are huge fluctuations.

Senator Sean D. Barrett: The information for figure 3 was sourced from Mr. Hoyt.

Ms Marie Hunt: Yes, Homer Hoyt.

Senator Sean D. Barrett: Ms Hunt mentioned how quickly the adjustment took place. Is the model, which has been built over 100 years, far too slow? Figure 3 shows that when real estate peaks at stage 7 it takes five more stages before the banks reverse their boom policy on loans. That means what happened in Ireland was a quicker reaction than the 100-year study.

Ms Marie Hunt: The way we would have used this particular chart was to demonstrate that its a cycle and what goes up will ultimately come back down again. What we always would have said, in presenting this, is what one never knows is how quickly one will move around that cycle or how long one will be at any particular stage because in real estate things happen. It could be a geopolitical issue or a financial issue that will trigger the crash or downturn in each case but it usually follows this pattern. I think what would normally happen is that the market would begin to slow down, business in general would start to decline which one would see in the stock market and then, in reaction to that, the banks would make a move.

Chairman: Like-----

Ms Marie Hunt: What was different here was the banks just completely removed credit overnight which led to the very severe correction and pace of decline.

Senator Sean D. Barrett: Figure 4 shows about a quarter of the investment took place in Ireland and three quarters overseas which means no assets were created, within the territory of this State, as a result of what happened in that peak year. Is my interpretation correct ?

Ms Marie Hunt: That is a correct interpretation. To some degree, one could say, the single currency aided this because all of a sudden one could compare pricing in other jurisdictions. People could see that there was better pricing to be had. Also, the stamp duty regime here was extremely expensive so it was cheaper to go to other locations. People like investing in property but there was very limited opportunity in Ireland to buy so by going to other jurisdictions they had access to product.

Senator Sean D. Barrett: On the last page of Ms Hunt's presentation she stated, "We believed that the Irish banks were well funded," a point which she has covered, "and that borrowers were being sufficiently stress-tested". What would she put into a stress test, by an Irish bank, of its borrowers?

Ms Marie Hunt: It would depend on the underlying real estate. If it was an income producing asset one would have to stress test to see, if rent falls by 15%, 20% or 50%, what is the likely impact on the value. One would take many different factors into account in the same way one does for an evaluation.

Senator Sean D. Barrett: The last section of Ms Hunt's presentation is entitled lessons for the future. She stated that government intervention in the property market was largely done in the absence of any engagement whatsoever with the property industry. Our evidence would be that the property industry never stops lobbying and tops the list seeking tax breaks, along with farmers. In fact, the property industry received three tax breaks in 2011. Let us remember the Galway tent and all of those kinds of things.

Chairman: I urged the Senator to hurry up. That is his last question which brings his contribution to an end.

Ms Marie Hunt: Invariably, when changes were brought in that affected the property industry, we found out about them on budget day when they were announced but prior to that we would have had no inkling. When some changes were brought in it was only after the event that it was realised they had unintended consequences and they were subsequently repealed. The point we are making is, had there been intervention with property experts, initially, we might have been able to point out that if one removes a mortgage interest rate the likely impact is that rents might start to go up. There was no engagement in testing the unintended consequences of some of these interventions. Some of them were brought in and subsequently brought back out again when it was found that they were not working.

Chairman: I call Deputy Kieran O'Donnell. He has six minutes.

Deputy Kieran O'Donnell: I thank the Chairman and welcome Ms Hunt. I wish to make a couple of points, having read her presentation. Does she believe the collapse was brought about by domestic or global factors?

Ms Marie Hunt: I think it was a myriad of lots of different things. The extent of lending in Ireland certainly exacerbated the Irish scenario. It was the global banking crisis that pulled the rug under, in terms of overnight funding disappearing so we could not get funding internationally but we could not get it domestically either and that was the position.

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Deputy Kieran O'Donnell: Does Ms Hunt believe, by extension, that if there was not a problem with securing international funding we would have had a soft landing?

Ms Marie Hunt: I think we would have had a normal market cycle - there was every possibility. I think the penny had dropped with developers that we were building too much. We were beginning to see that being reigned in. The economic backdrop was strong. We could well have had a normalised landing, be it plateauing, going possibly into negative territory and then starting again.

Deputy Kieran O'Donnell: Even with the level of debt from the Irish banks?

Ms Marie Hunt: I think it was still possible but what exacerbated that was the global financial crisis. I suppose we went into the single currency and were in a new paradigm where we now had the availability and access to this international credit. We presumed this was the new normal and never envisaged a scenario where funding would, overnight, disappear.

Deputy Kieran O'Donnell: Does Ms Hunt believe, in the current climate and with from her expertise, that we could have another property bubble?

Ms Marie Hunt: Of course we are going to have another property bubble because we are in a cyclical market. If we look at where we stand today, relative to other peaks, we are probably mid-cycle again and it will always, invariably, follow the same pattern.

Deputy Kieran O'Donnell: Does Ms Hunt believe nothing can be done to prevent a property bubble? Does she think it is a natural market cycle?

Ms Marie Hunt: I disagree. There are possibly interventions that could be made at Government level, be it tax policy or whatever, that might be able to ease the cyclicity. I think we will always follow a pattern because there will always be financial, political or geopolitical events that will shape cycles.

Deputy Kieran O'Donnell: Earlier Ms Hunt made reference to the lack of proper independent data. When she compiles reports and bulletins, does she consult her colleagues in the CBRE organisation?

Ms Marie Hunt: Yes.

Deputy Kieran O'Donnell: Does she consult them on how the property market operates and so forth?

Ms Marie Hunt: The methodology for compiling my bimonthly is I would sit down with every single division of the business. On a bi-monthly basis, I would listen to what they see happen on ground. As I said, we are a multidisciplinary firm so we have people acting for landlords and tenants. I feel, in talking to everybody, I would get an overriding sense of what is going on.

Deputy Kieran O'Donnell: From Ms Hunt compiling her reports, when did she feel that the market was in a downward trajectory?

Ms Marie Hunt: From late 2006 to early 2007. What I found at that point in time was that not every sector moves at the same pace and, invariably, one will see the downturn happening in some sectors before others. The office-occupier market did not really go through a downturn because FDI kept coming in. Retail, I suppose, experienced the slowdown later because, as a

result of the fiscal crash, there was rising unemployment and less consumer spending and so that suffers at a later degree. Investment and development land transactions are probably where one sees it first.

Deputy Kieran O'Donnell: Mr. John Moran of Jones Lang LaSalle spoke earlier about the Irish Glass Bottle Company site, which was one of the single largest transactions ever in this country, and development land at the time the sale was transacted. Ms Hunt's company was commissioned by the Dublin Docklands Development Authority in June 2005 to make an independent valuation of the site and the figure it came up with was €240 million. In 2006 a consortium came together under the name Becbay Limited and purchased the site for €412 million. When CBRE was commissioned to come up with a valuation report for the banks in respect of Becbay Limited's offer, the company came in with exactly the same valuation of €412 million for the site. This is part of the Comptroller and Auditor General's report. Ms Hunt is saying she would have seen the market as having peaked, yet here we have a transaction that was the mother of all transactions. Did it feed into her overview? She wrote in her review in January 2007, "It is now the duty of the development community in Ireland to adopt a realistic approach and put the brakes on the quantum of annual housing completions to avoid oversupply occurring in the medium term." Will she comment on that evaluation?

Ms Marie Hunt: I would not have been involved in either of those valuations. The valuer is duty bound to report market value in accordance with the Red Book. I will not go through the full definition of "market value"-----

Deputy Kieran O'Donnell: CBRE gave the exact same valuation as the sale price.

Chairman: The Deputy should allow Ms Hunt an opportunity to respond to the question.

Ms Marie Hunt: Market value is based on the market evidence available and comparable transactional information. As I said, as I was not involved in those valuations, I probably should not comment further.

Deputy Kieran O'Donnell: Did this not feed back at the time into Ms Hunt's bimonthly report?

Ms Marie Hunt: Is the Deputy referring to the valuation?

Deputy Kieran O'Donnell: Ms Hunt has said she consulted all of the divisions. I am asking whether that transaction fed into her reporting?

Ms Marie Hunt: I am not involved on the valuation side of the business. The valuers would have had regard to the market comment or house view at that point of time, but they make their valuations according to the definition of "market value"; therefore, they must have regard to comparable evidence. They obviously had comparables on the file which justified that pricing. I cannot comment further as I was not involved in the valuation.

Deputy Joe Higgins: On page 2 of Ms Hunt's written submission, she states:

The research function at CBRE Ireland that I head up is modelled on the research platform in CBRE offices worldwide ... Having access to accurate and timely market information on trends and transactions is vital to CBRE in being able to accurately assess the commercial real estate market and provide the best qualitative and quantitative information to our clients.

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On 31 July 2006 Ms Hunt was quoted on the *businessworld.ie* website as saying:

The second hand housing market is showing signs of price stabilisation but some new home buyers are getting nervous because of interest rate movements. This is more indicative of a steady transition to more stable conditions than a sign of a crash or bubble bursting.

On 17 April 2007 CBRE released a press statement that was highly critical of RTE's programme "Future Shock", calling it "irresponsible journalism" and stating we should not be entertaining "negative speculation and unfounded, worst-case doom and gloom scenarios when all that is being experienced is a levelling in the extraordinary pace of growth we previously experienced". It went on to state the programme "should be dismissed as fiction and a soft landing for the housing market is still possible and is the most likely scenario". Ms Hunt stated at the time:

It is simply technically incorrect to assume that Irish house prices will decline significantly simply on the basis that this has occurred in other economies where the fundamentals were so different. It is also irresponsible to suggest that the "negative equity" scenario that occurred in the late 1980s in the UK could occur in Ireland...

Did CBRE get it so wrong because the international research platform it had used was flawed? If there were other reasons, what were they?

Ms Marie Hunt: In my submission I mentioned how important sentiment was. We were not selling houses, but our reaction to "Future Shock" was as strong as it was because the tenor of the programme was based on a number of "What if?" hypothetical scenarios. We had already acknowledged in our reports that transactional activity had started to slow down, that development volumes were slowing down and that we were moving into the downward phase of the cycle, but we felt it was irresponsible to scaremonger, for want of a better word, by putting forth hypothetical scenarios.

Three individual scenarios were posited on the RTE programme. One was that Ireland was going to see a complete collapse of foreign direct investment, with no further multinational investment and many of the existing multinationals leaving. We were very active in that space - it was a core part of our business - and did not see that scenario playing out and it did not happen. The second scenario was that we were going to have a major collapse of construction activity in the economy. That did happen, but it happened as an outcome of the downturn that occurred; it was not the reason house prices fell. The third scenario was that there would be a very significant increase in interest rates. While I would say the "Future Shock" programme was right in that it predicted there would be a crash, it did not predict there would be a global financial crisis which would lead to a crash.

Deputy Joe Higgins: Was Professor Morgan Kelly also scaremongering, to use Ms Hunt's word, in December 2006 when he said in an article in *The Irish Times*, "If the experiences of economies similar to ours are anything to go by, we may be looking at large and prolonged falls in real house prices of the order of 40-50 per cent and a collapse of house-building activity"?

Ms Marie Hunt: Again, the assertions we made at the time were based on the data and information available to us.

Deputy Joe Higgins: Professor Kelly cited several historical examples, dating back to 1970, of cycles of housing booms and busts. Did Ms Hunt remark on the studies he had carried out such as the one for his report for the ESRI in 2007?

Ms Marie Hunt: We did remark on the basis that CBRE was a commercial property firm and, as I said, our reaction to the “Future Shock” programme specifically, as a commercial firm, was on the sentiment issue, that is, the nature and tenor of the programme as opposed to-----

Deputy Joe Higgins: If Professor Morgan Kelly could base his very accurate prediction on historical precedents and cycles, why did CBRE not get it?

Ms Marie Hunt: As an international firm, we must have regard to international, credible economic houses that presumably have access to larger research budgets than an academic sitting in one country. We would have been aware of these views, but, equally, there had been similar contrarian views issued in the late 1990s and early 2000s which had proved unfounded. That coloured our judgment to some extent.

Deputy Joe Higgins: In Ms Hunt’s research report of March 2005 on the development land market she said: “The landmark sale by CB Richard Ellis Gunne in late 2004 of the 11 acre Grange Castle site in Stillorgan for approximately €87 million ended what was a very busy year”. That site was bought by a syndicate of rich people and Ms Hunt’s company had organised the sale. After the syndicate had held on to the site for four years, CBRE sold it on its behalf for a speculative gain of €53 or €54 million. That speculative gain probably added €100,000 to the price of each of the apartments built on the site, which would have had serious implications for first-time buyers. It might well be the case that ten years of a 40 year mortgage will be spent paying for that speculative gain. Does CBRE have a moral criterion or compass as to the social or ill effects of that level of speculation and profit seeking during the bubble which was facilitated by the company in a professional sense, with the associated stresses for young people and so on? Did that enter into CBRE’s considerations?

Ms Marie Hunt: We are a property services firm. We are in the business of selling land. That is our job. We do not have a moral responsibility. Land speculation happens in every single boom. It is not down to firms such as ourselves to fix that because only government can do so. It has been an issue since 1972, when the Kenny report was published. We need to put a system in place that shares the benefit of rezoning decisions and speculation with the wider community and not just for the benefit of the owner of the land. It is about time such a structure was put in place. However, the political will has not been there to do so. The only time we saw one step towards that was in the early 2000s when the rate of capital gains tax on land was effectively halved and that brought a lot of supply of land onto the market. There was a threat that it was going to go up to 60% two or three years hence and that never happened. There was a step towards doing something about it and then it was reined in, for whatever reason. However, we are now at a critical juncture. We are in the midst of a public consultation about site value tax and I think the opportunity might be there to revisit this issue.

Chairman: Before I bring in the lead questioners for the final questions, I have some questions for Ms Hunt. I refer to several references in her submission to the necessity for a commercial property database. The committee will consider this proposal when we come to make our recommendations. I refer Ms Hunt to the commercial lease database which is in existence. I ask her to expand on how that informed her work in the periods before 2009 and post-2009. Has it made a difference to how she does her job? Does she think there are weaknesses in the current structure? For instance, we discussed the property database earlier.

Ms Marie Hunt: I do not use it because it is meaningless as far I am concerned in terms of what I am trying to do. I am trying to follow CBRE methodologies and definitions and that database does not give me the information I need. It is like the example of knowing that house

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X sold for whatever price but not knowing whether it is a three-bed, four-bed or whether it has a garden. On the commercial lease database it is completely irrelevant for me to know that CBRE are paying whatever rent if I do not know what size of a lease, what size of a take they have in terms of square foot, what is the length of the lease, the terms and conditions of that lease, if there is a user clause, etc. None of that detail is available. In some cases it might be. I think there is also a reluctance on the part of certain people with a remit to give information to provide it to the database. The form is cumbersome in that it needs three different entities, the actual landlord, the tenant and the solicitor, who all have to fill in a section of the report and nobody is quite sure who has the ultimate responsibility to send it in to the PSRA. There is a lot of uncertainty about it. It has not been user-friendly when I have logged on and tried to use it and it certainly has not given me results that I have been able to analyse in any meaningful way.

Chairman: Does Ms Hunt agree with the concept? Does she agree with the need for a more robust database?

Ms Marie Hunt: We need a robust system and it needs to be modelled on the residential one in that every single transaction is recorded. We cannot have a scenario where it is optional to provide data or if the penalties for not providing data are tiny because somebody will just pay that fine as opposed to having their data recorded. This has repercussions for things like rent reviews where one needs reliable comparable information.

Chairman: As I asked Mr. Moran this morning, is Ms Hunt familiar with side letters in rental agreements?

Ms Marie Hunt: It is not something in which I am involved. I am aware of what they are.

Chairman: Is CBRE involved in the arbitration process?

Ms Marie Hunt: We have professionals who are involved in arbitrations.

Chairman: CBRE is involved in the arbitration process which means that members of that organisation would----

Ms Marie Hunt: They would be aware of side letters.

Chairman: ----have an intimate familiarity with side letters.

Ms Marie Hunt: Yes.

Chairman: I ask Ms Hunt to explain to the committee what is a side letter.

Ms Marie Hunt: It is not something I am comfortable with explaining because it is completely outside my area of expertise. I know roughly what it is. A person doing an arbitration is aware of everything; one is aware of the actual lease and the side agreement. There is nothing hidden from one's view.

Chairman: I will refer to the crisis period. Prior to 2009, side letters were confidential. Is that correct?

Ms Marie Hunt: I could not comment as it is outside my area of expertise.

Chairman: I refer to the confidential nature of side letters. We have already discussed the inaccuracies or the deficiencies of a database. Would Ms Hunt agree that this can create a distortion or inaccuracy in terms of trying to read what is the market rate per square foot in County

Cork or County Dublin?

Ms Marie Hunt: Absolutely.

Chairman: Given that the side letters were confidential in general and were not in the public domain, does Ms Hunt think they gave a more accurate or a less accurate reading of the rental market?

Ms Marie Hunt: Again, it is completely outside my area.

Chairman: I will move on. Colm McCarthy carried out research in the period 2000 to 2007 on rental data. During that period the consumer price index rose by 13% while rental income rose by 240%. How would Ms Hunt regard this as an indicator to the market?

Ms Marie Hunt: The data Colm McCarthy used was actually CBRE data and he is quoting from our prime zone A rent series. A prime zone A rent on Grafton Street at that point in time went from €3,500 per square metre up to €10,000 at the absolute peak. That was exorbitant and the benefit-----

Chairman: It was prime in 2000 and it was still prime in 2007. It was always prime.

Ms Marie Hunt: Sorry, 2007. What I mean by prime is that we are comparing apples with apples. That was a prime unit on Grafton Street at that point in time and we tracked that headline rent over time. It was a period in time when a significant number of UK multiples were coming in to the Irish market and invariably they all wanted to be on Grafton Street so there was more demand than supply. It is a limited street so they were paying higher and higher rents. It got to the point when we were at €10,000 per square metre zone A we were not dissimilar to the Champs-Élysées. At that point we began to realise the benefit of being part of an organisation like CBRE is that one can compare and contrast apples with apples across different jurisdictions and it was obvious to us that this was overly expensive. However, people were willing to pay that. It is like the valuation argument in that once one or two tenants come in, they pay a very high rent and that becomes the new market rent for that street. It is self-perpetuating.

Chairman: Was there a concern in CBRE that rents were hitting a peak and may have been becoming unsustainable?

Ms Marie Hunt: We were very aware that there was very little room for further growth. If I remember correctly there was probably a two or three year period when they stayed quite flat at that level because that was obviously the peak. They then began to taper off and they came back towards €7,500, €8,000 zone A. Then they dropped like a stone and they fell all the way down to €4,000 again.

Chairman: Does CBRE operate on a percentage of the deal when it arranges a sale of a property or a rental agreement?

Ms Marie Hunt: Again that will vary from one case to another. It is not my area of expertise.

Chairman: Is it a flat fee or a percentage?

Ms Marie Hunt: It can vary. On agency it is typically a percentage. What has happened over the past few years because of the market is that it has become quite competitive and that percentage has shrunk right down. In terms of things like valuations they are always on a fixed

fee basis.

Chairman: Are bonus payments paid to staff if they deal in major projects or even minor projects?

Ms Marie Hunt: Not related to specific projects, no.

Chairman: Is there a performance bonus at the end of the year?

Ms Marie Hunt: I can only comment on our organisation. The performance bonus is related to the overall profitability of the business and then there is a bonus pool which is divvied out but it is not divvied out in relation to individual deals, *per se*, or individual transactions.

Deputy Pearse Doherty: I want to return to the “Future Shock” issue. Can we agree that the housing market and banking are not within Ms Hunt’s core areas of expertise? These are core areas. Ms Hunt mentioned that the programme covered three issues she disagreed with, foreign direct investment, FDI, the construction downturn and interest rates. Can we also agree that in her press release, which called this irresponsible journalism, Ms Hunt did not mention FDI or interest rates and focused on construction, the housing market which she said she has no expertise in?

Ms Marie Hunt: I said the three issues were not my concerns. They were the three hypotheses put up on the night of the programme.

Deputy Pearse Doherty: I understand that and Ms Hunt has made that clear. In her statement, which described the programme as irresponsible journalism, dramatic and incorrect predictions, technically incorrect and so on and so forth - there is quite a bit of interesting language in the statement - she addressed her concerns only to the housing market.

Ms Marie Hunt: That is correct and it is fair to say it was in reaction to the sentiment.

Deputy Pearse Doherty: Let me deal with the sentiment because Ms Hunt states that the sensationalist approach to the programme in CBRE’s view was irresponsible as property is a very important issue and ultimately the general public would take the sentiments expressed on board when deciding whether or not to make what is essentially the biggest financial decision of their lifetime. Would that first-time buyer in April 2007 have been better off taking on board the sentiment expressed by “Future Shock” or the sentiment expressed by CBRE in Ms Hunt’s press release?

Ms Marie Hunt: With the benefit of hindsight, “Future Shock” absolutely, but based on what we knew at that time we held the view we had. We based it on the fundamentals of the market and the economic backdrop as we understood them. We were also mindful of the huge cohort of people who had just bought a house. If one’s building is on fire, one needs to get everybody out in an orderly manner. One does not want everybody panicking. We had already said the market was beginning to slow down, things were levelling off.

Deputy Pearse Doherty: I appreciate that. Ms Hunt went on to say in her statement that would-be first-time buyers who had heeded equally dramatic and incorrect predictions in the past had lost out significantly, which would suggest she was saying they could lose out again. I am struggling to understand why, from the point of view of CBRE, which is not involved in the housing market and has no expertise in that area or in respect of the stress testing by the Central Bank for negative equity that the press release mentions, it came out as one of the most

vocal critics of “Future Shock”, which predicted correctly a property crash, negative equity and problems in the housing and banking sector. What was the driving force behind issuing such a strong press statement?

Ms Marie Hunt: The driving force was that even though we were not in the business of selling houses, we were in the business of commenting on what was happening with land and ultimately that is all related. We felt very strongly that affecting sentiment or panicking people based on hypothetical scenarios that might ultimately arise was irresponsible. That was the justification for our reaction. In retrospect, what we now know is that they were right in the programme but they were not predicting a crash on the back of a global banking crisis. They were predicting it for reasons that ultimately did not materialise.

Deputy Pearse Doherty: Was CBRE’s soft landing prediction also a hypothetical approach, like all predictions of that nature?

Ms Marie Hunt: My prediction of a normal landing was following the normal pattern based on the information available at that point in time. As I said, hindsight is a great thing and we now know that the programme was correct. The programme did not, however, say there is going to be a global financial crisis and debt funding in Ireland will disappear completely and as a result house prices will be halved.

Deputy Pearse Doherty: Evidence has been provided to this inquiry before, and we have met the authors of reports that were commissioned, which suggests that the global financial crisis only precipitated the crash. The crash was going to happen regardless because of the increased prices in commercial property and housing property and it was only a matter of time before the bubble burst. The drying up of debt brought that on and some suggest that was to the benefit of the Irish State because investors would have continued to invest if that did not happen. Ms Hunt seems to hold the contrary view that the reason for the crash was a global financial credit crunch.

Ms Marie Hunt: I believe there would have been a crash anyway because the market is cyclical. That is the point I am making. What exacerbated it was the global financial crisis because that was what completely removed debt from the market. In retrospect “Future Shock” was right but it did not identify what ultimately caused the crash.

Senator Michael D’Arcy: In doing property analysis, would Ms Hunt’s company also analyse a change of zoning on a particular site?

Ms Marie Hunt: No. We are not planning experts but if we were valuing a piece of land, we would have to have regard to a change in zoning.

Senator Michael D’Arcy: In the earlier presentation by Mr. Moran of Jones Lang LaSalle, the Irish Glass Bottle site came up. What was the largest site that CBRE participated in?

Ms Marie Hunt: I presume it was the Ballsbridge Jurys-Berkeley Court site.

Senator Michael D’Arcy: Did CBRE have an active or passive role in that development?

Ms Marie Hunt: It would have been an active role because we were selling the land on behalf of the vendor.

Senator Michael D’Arcy: Which particular sites in Ballsbridge were involved?

CONTEXT PHASE

Ms Marie Hunt: It was the entire Jurys and Berkeley Court site.

Senator Michael D’Arcy: Did it include Hume House?

Ms Marie Hunt: No. Hume House would not have been part of that. As far as I am aware, it was Jurys and the Berkeley Court as one site and subsequently the veterinary college was sold. We were not the selling agents for that. It sold separately.

Senator Michael D’Arcy: In his presentation this morning, Mr. Moran told us his company no longer has a fee structure based on the percentage of the valuation. CBRE does.

Ms Marie Hunt: As I have told the Chair already, for valuations the fee is always set on a fixed basis, so regardless of whether the valuation is high or low it is the same fee for valuations. For agency it would be different. Agency would be letting an office building or a retail unit.

Senator Michael D’Arcy: Would that be based upon percentage?

Ms Marie Hunt: In most cases but not always. There can be variations and combinations but invariably in agency it tends to be on that basis whereas in valuations it will almost always be on a fixed basis.

Senator Michael D’Arcy: Has CBRE taken on any staff from NAMA?

Ms Marie Hunt: Not to my recollection.

Chairman: I shall now bring matters to a conclusion. Is there any further information that Ms Hunt would like to put before the committee? This might include examples of good practice here in Ireland or international ones that could be developed here. The committee’s work is as much about looking into the future and coming up with recommendations as it is about examining the past.

Ms Marie Hunt: I have a couple of things to point out. The first lesson is that having a property market that is wholly dependent on domestic investors and developers and primarily debt-funded by a small cohort of domestic banks is not sustainable and I hope we have moved away from those days. In terms of Government intervention, there should be consultation with the industry before implementing policies to tease out the unintended consequences. We have mentioned data on numerous occasions. We need comprehensive data from an independent source and interaction with firms such as ours, which are tracking useful information because if we have that we might be able to spot trends and possible threats at an earlier juncture.

I have been watching closely work done by the Investment Property Forum in the United Kingdom, UK. It is a cohort of people involved in the property industry and they are doing a piece of research examining the next commercial real estate crash in the UK and how that might affect financial viability. It has come up with some very interesting suggestions which we could possibly adopt here, one of which is giving consideration to setting up a central lending register whereby if borrower A goes to bank A the bank knows that borrower is also exposed to other banks-----

Chairman: Cross-collateralisation and personal guarantees.

Ms Marie Hunt: Exactly. Having such a system in place might be quite useful. The final recommendation is to go back to having no property specialists or chartered surveyors working

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in the banking industry, and no qualification that crosses the divide. In my training as a chartered surveyor, I had no training whatsoever in banking and people doing banking and financial qualifications have no specialist training in commercial property. They could well end up in a bank where their primary business is lending into commercial real estate without really understanding it. As the committee will find from today, it is quite a complex area. That could be a recommendation for the future, namely, that we put some sort of banking qualification in place where one can get training if one will be working in purely the area of providing funding to commercial real estate, which is quite specialist.

Chairman: Thank you very much, Ms Hunt. I thank you for your participation with the inquiry today. It has added informative and valuable information to our meeting and has added to our understanding of the factors leading to the crisis in Ireland.

I would also like to note that today is the last of the Context Phase hearings, the objective of which were to frame the broad context for the inquiry, set out the background for the banking crisis and prepare the ground for the further public hearings after Easter. We will commence the Nexus Phase hearings starting with witnesses from NAMA and AIB on 22 and 23 April, respectively. I would like to thank Ms Hunt for her assistance today, and also Mr. Moran.

With that I would like to now suspend briefly so we can go into private session to deal with one matter, to excuse the witness and to clear the Gallery.

The joint committee went into private session at 2.41 p.m. and adjourned at 2.45 p.m. until 9.30 a.m. on Wednesday, 22 April 2015.